

Chapter 10

Energy and Resources—Auditing Producer Returns for Non-Renewable Resources

1.0 MAIN POINTS

By October 2021, the Ministry of Energy and Resources partially implemented three recommendations and did not implement two recommendations in relation to auditing producer royalty and tax returns.

Since our 2019 audit, the Ministry updated its audit manual to better align with current audit practice, allocated estimated hours for each audit it expects to complete, and estimated the number of audits it anticipated completing during the year.

The Ministry still needs to:

- Develop a plan to reduce the backlog of existing audits (e.g., six years behind on potash audits)
- Consistently document audit work in files in accordance with expectations established in its audit manual
- Further develop its audit manual to include other required key audit documentation (e.g., data reliability assessments)
- Establish what it defines as a timely and quality audit file review, and meet this expectation
- Periodically monitor the status of ongoing audits to identify audit delays or inefficiencies

To be effective, the Ministry's audits of producer royalties and taxes must be timely and executed properly. In 2019–20, the Ministry's audits resulted in reassessments of additional production taxes and royalties totalling about \$21.1 million, and refunds of \$8.3 million.

2.0 INTRODUCTION

The Ministry of Energy and Resources levies and collects revenue, on behalf of the Government, from the production and sale of Saskatchewan's non-renewable resources. In Saskatchewan, non-renewable resources primarily consist of oil, natural gas, potash, uranium, and coal. Different provincial acts and regulations govern the royalty and tax structures for each of the resources.¹

¹ The Ministry of Energy and Resources is responsible for administering the *Crown Minerals Act* and *The Mineral Taxation Act, 1983*. These acts each give Cabinet the authority to make regulations related to production tax on non-renewable resources (e.g., *The Potash Production Tax Regulations*) and levying royalties (e.g., *The Crown Mineral Royalty Regulations, The Subsurface Mineral Royalty Regulations*). Production taxes on non-renewable resources are based on produced volume of non-renewable resources. Royalties are payments in return for permission to use government lands. Royalties for non-renewable resources are based on the value of non-renewable resources produced on leased crown lands.



Laws require each producer’s individual mine/project to submit relevant production taxes and royalties to the Ministry each quarter. Initially, producers submit them based on estimations of their production activity. Then, for the end of the calendar year, producers must submit them based on actual results (e.g., for December 31 year-end, taxes and royalties submitted by March 31). Producers must submit returns showing the basis of their determination for production taxes and royalties.

The Ministry has an Audit Unit within the Revenue and Business Systems Branch responsible for determining whether producers comply with applicable royalty and tax legislation, and remit royalties and taxes in accordance with relevant legislation. The Audit Unit employs 11 full-time equivalent staff, and had a budget of \$805,488 in 2020–21. As shown in **Figure 1**, the Audit Unit completed 30 audits in 2020–21.

Figure 1—Audits Completed by the Ministry in 2020–21

Resource	Audits Completed	Number of Producers
Enhanced Oil Recovery	20	10
Uranium	1	1
Coal	0	0
Potash Profit Tax	1	1
Potash Crown Royalty	8	2
Total	30	14

Source: Ministry of Energy and Resources 2020–21 Audit Statistics.

2.1 Focus of Follow-Up Audit

This chapter describes our follow-up audit of management’s actions on five recommendations we first made in 2019.

Our *2019 Report – Volume 1*, Chapter 4, concluded that for the 12-month period ending December 31, 2018, the Ministry of Energy and Resources had, other than the matters reflected in our five recommendations, effective processes to assess the completeness and accuracy of producer royalty and tax returns for potash, uranium, coal, and enhanced oil recovery.²

To conduct this audit engagement, we followed the standards for assurance engagements published in the *CPA Canada Handbook—Assurance* (CSAE 3001). To evaluate the Ministry’s progress toward meeting our recommendations, we used the relevant criteria from the original audit. The Ministry agreed with the criteria in the original audit.

In this follow-up audit, we interviewed Ministry staff responsible for auditing producer returns; examined relevant documents including the Ministry’s audit plan and audit manual; and tested a sample of audit files.

3.0 STATUS OF RECOMMENDATIONS

This section sets out each recommendation including the date on which the Standing Committee on Public Accounts agreed to the recommendation, the status of the recommendation at October 15, 2021, and the Ministry’s actions up to that date.

² *2019 Report – Volume 1, Chapter 4*, pp. 43–59.

3.1 Clear, Long-Term Plan to Eliminate Audit Backlog Still Needed

We recommended the Ministry of Energy and Resources estimate staff time and costs required to audit producer returns for non-renewable resources production taxes and royalties. (2019 Report – Volume 1, p. 51, Recommendation 1; Public Accounts Committee agreement February 9, 2021)

Status—Partially Implemented

As of October 2021, the Ministry of Energy and Resources established a process to estimate staff time and costs required to complete planned audits during the year. However, the Ministry still needs to establish a long-term plan to eliminate the backlog of audits.

The Ministry has a goal to conduct all audits within two years of the filing date (i.e., auditing returns filed in March 2021 by March 2023).

The Ministry is currently up to six years behind on potash audits (i.e., outstanding audits exist for 2015), six years on enhanced oil recovery (EOR) audits (i.e., outstanding audits from 2015), four years on coal audits (i.e., outstanding audits from 2017) and five years on uranium audits (i.e., outstanding audits from 2016). At March 2021, the total number of audits outstanding from March 2020 and earlier is 101 audits. As noted in **Figure 1**, the Ministry completed 30 audits in 2020–21.

The Ministry's Audit Unit develops an annual audit plan, which now includes estimated audit hours (i.e., audit staff time) required to complete audits during the upcoming year. The Ministry uses past experience (i.e., audit staff hours used) to estimate the average audit time required for each future audit.

The Ministry also established a process to estimate the total available hours for each audit staff. We found that the Ministry reasonably estimated the number of audits it expects to complete with the current staff resources available. Although the Ministry focuses its resources on the oldest audits first, it does not have a plan to catch up on the existing audit backlog.

Not completing audits in a timely manner increases the risk of more costly and time-consuming audits resulting from potential changes to legislation, producer operations, or personnel, which increases audit complexity and time.

3.2 Maintaining an Updated Audit Manual in Progress

We recommended the Ministry of Energy and Resources maintain its audit manual used during audits of non-renewable resources production taxes and royalties. (2019 Report – Volume 1, p. 53, Recommendation 2; Public Accounts Committee agreement February 9, 2021)

Status—Partially Implemented



The Ministry of Energy and Resources reviewed and updated its audit manual at March 31, 2020, but further work is required to define audit processes and expectations for audit staff.

The Ministry revised the audit manual including documentation of some key audit information such as guidance to auditors when calculating materiality on audit files, as well as guidance to complete risk assessments when planning audits (e.g., considering prior audit results for higher risk areas).

Although the Ministry updated its manual, further revisions are required to reflect current practices of the Audit Unit and establish expectations for file documentation. We found:

- The manual does not include expectations for what the Ministry considers as timely audit work completion (e.g., audit completion compared to when the producer filed the return).
- The manual does not include guidance on communicating timely audit results. For example, it does not include timeframes for providing results to producers after completing field work (e.g., within 30 days).

In addition, the updated manual does not provide sufficient guidance on the documentation of several key audit areas. For example, it did not provide guidance on:

- Assessing whether the underlying data used to prepare returns is reliable
- Establishing what is a timely and quality review of an audit file (e.g., prior to issuing additional notice of assessments or refunds to a producer)

While the Ministry made some updates to its audit manual, it has not established a frequency policy or expectation for when it plans to review and update the audit manual to reflect current practice. Developing an expectation to periodically review the manual helps prevent the risk that the manual is outdated and auditors are not completing audits in accordance with Ministry expectations.

Not having established expectations for timely audit work completion, audit results communication, or audit work review increases the risk of delays or problems in completing audits (e.g., can increase interest expenses, delay payment, impact reporting accuracy). In addition, not having an established frequency for reviewing the audit manual increases the risk of outdated procedures.

3.3 Audit File Documentation Improving

We recommended the Ministry of Energy and Resources consistently document key audit decisions, audit procedures, and results of audit work in files of audits of producer returns for non-renewable resources production taxes and royalties. (2019 Report – Volume 1, p. 55, Recommendation 3; Public Accounts Committee agreement February 9, 2021)

Status—Partially Implemented

The Ministry of Energy and Resources developed tools (e.g., program checklists) to assist auditors in documenting audit work; however, we found staff inconsistently use these tools to document audit work.

Some template examples the Ministry developed include:

- Audit program checklists to guide the expected audit procedures for each resource audit
- Audit plan template for each non-renewable resource
- Audit report template

Of the 10 audit files we tested, we identified the following inconsistencies in documentation in the related audit file:

- Ten files did not document consideration of the reliability of data received from producers (i.e., assessing whether producer data was complete or accurate)
- Two audit files did not have the appropriate audit program checklist completed (i.e., the program checklist guides auditors through the expected audit procedures)
- Ten audit files did not include detailed evidence of the procedures the auditor performed (e.g., evidence of verifications the auditor completed)
- Six audit files did not have a completed post-audit verification checklist³

Inconsistent and incomplete documentation in audit files can result in having insufficient and inappropriate support for audit results. In addition, inconsistent and incomplete documentation may result in expending additional resources in the event of a disagreement with a producer on audit findings.

3.4 Quality Review Process Still Needed

We recommended the Ministry of Energy and Resources complete quality reviews of audit files of producer returns for non-renewable resources production taxes and royalties before finalizing audit results. (2019 Report – Volume 1, p. 56, Recommendation 4; Public Accounts Committee agreement February 9, 2021)

Status—Not Implemented

The Ministry of Energy and Resources still needs to define what a quality review should include and what it considers a timely review. Additionally, the Ministry needs to establish and follow expectations for completing reviews of audit files.

While the Ministry developed tools to assist in file reviews (e.g., audit review form), it has not formalized expectations in its audit manual for file reviews. The manual does not

³ The post-audit verification checklist is used by the Ministry as an additional audit file review tool to verify that all required documentation is included. Another auditor within the Unit will complete the checklist when they review the file.



indicate what documents the Ministry expects a reviewer to assess (e.g., audit plan, audit report) and what it considers as timely review (e.g., 30 days after file submitted for review).

In practice, the file should have evidence of sign-off on key audit documents such as the audit plan, audit report, and audit review form. Of the 10 audit files we tested, we found:

- Six audit files had evidence where the reviewer signed off on each of these documents. For the remaining files, the reviewer did not sign off on at least one of the documents.
- Eight audit files showed evidence that the Ministry completed the review after communication with producers (i.e., notice of assessment, audit proposal sent to producer). The review did not result in changes to the final assessment for any of these files.

Not having an established timely review process for quality increases the risk of Ministry staff identifying errors after a producer has already made payment or received a refund.

3.5 Further Improvements Needed to Monitor Audit Status

We recommended the Ministry of Energy and Resources routinely monitor actual-to-planned staff time and costs to audit producer returns for non-renewable resources production taxes and royalties. (2019 Report – Volume 1, p. 58, Recommendation 5; Public Accounts Committee agreement February 9, 2021)

Status—Not Implemented

The Ministry of Energy and Resources had not developed a process to monitor actual-to-planned staff time and costs or delays in ongoing audits.

The Ministry maintains an audit statistics spreadsheet that provides information on the number of, and total hours for, completed audits within a year. However, the Ministry does not routinely update this spreadsheet for costs or time incurred to date (i.e., staff only update the spreadsheet as they complete audits). There is no process established allowing management to identify potential issues earlier in the audit process or to identify audits that may be delayed or incurring additional costs (e.g., over budget).

Senior management does not receive information to enable monitoring whether the Audit Unit has completed audits when planned. The Ministry planned to complete 46 audits in 2020–21 and completed 30 audits. Although the Ministry implemented a budget and resource estimation process as noted in **Section 3.1** above, the Ministry does not formally document variance explanations or rationale for delays in completing an audit.

Routinely comparing actual resources used to date would help assess whether the Audit Unit achieves its plans and, if not, allow for timely decisions on required adjustments.