

# Chapter 1

## School Divisions

### 1.0 MAIN POINTS

This chapter summarizes the results of the 2022–23 annual audits of Saskatchewan’s 27 school divisions.

The 2022–23 financial statements of each school division are reliable, except for three school divisions did not follow Canadian public sector accounting standards when recording capital grant revenue.

For the year ended August 31, 2023, school divisions need to improve their rules and procedures to safeguard public resources as follows:

- Holy Family Roman Catholic Separate School Division No. 140 did not segregate incompatible duties in its IT system for several key financial functions such as approving payments and recording journal entries.
- Northwest School Division No. 203 did not complete key financial reconciliations timely. It also did not segregate incompatible duties in its IT system for several key financial functions such as approving payments and recording journal entries.
- Northern Lights School Division No. 113 did not segregate incompatible duties related to payment approval and cheque signing.

Regular reconciliations check the accuracy and reliability of accounting records. Not segregating incompatible duties between individuals increases the risk of fraud and not detecting errors.

- Saskatchewan Rivers School Division No. 119 did not follow its purchasing policy as it did not obtain the required three quotes for certain purchases. Following its purchasing policies for buying goods and services helps ensure staff treat suppliers fairly, and buy goods and services at a fair price.
- Sun West School Division No. 207 did not yet test its IT disaster recovery plan. Testing the recovery plan helps ensure they can restore critical IT systems timely.
- By August 2023, 16 school divisions across the province did not establish a process to sufficiently monitor a key financial IT system and its related IT service provider. The Ministry of Education needs to work with the impacted school divisions to reduce the risk of unauthorized access to, or unavailability issues with, the system.

For the year ended August 31, 2023, school divisions complied with authorities governing their activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.



## 2.0 INTRODUCTION

Over 189,000 students attend more than 770 provincially funded schools each day.<sup>1</sup> *The Education Act, 1995*, and related regulations set out the roles and responsibilities of the Ministry of Education and Saskatchewan’s 27 school divisions.

Elected Boards of Education (school boards), including the Conseil des Écoles Fransaskoises No. 310 (French language schools), are responsible for administering and managing provincially funded schools (i.e., public, separate, or French language). **Figure 1** provides the combined financial results of the 27 school divisions for 2021–22 and 2022–23.

**Figure 1—School Divisions’ Combined Financial Results**

	2022–23	2021–22
	(in billions)	
Grants from the Ministry of Education	\$ 2.1	\$ 1.9
Other Revenue (e.g., property taxes, school generated funds)	0.4	0.4
<b>Total Revenue</b>	<b>2.5</b>	<b>2.3</b>
<b>Total Expense</b>	<b>2.5</b>	<b>2.4</b>
<b>Annual Surplus (Deficit)</b>	<b>\$ ---</b>	<b>\$ (0.1)</b>
Net Financial Assets <sup>A</sup>	\$ 0.2	\$ 0.2
Non-financial Assets <sup>B</sup>	\$ 2.4	\$ 2.3

Source: Audited school division financial statements for years ending August 31.

<sup>A</sup> Net financial assets are financial assets (e.g., cash, receivables) less liabilities (e.g., accounts payable, debt).

<sup>B</sup> Non-financial assets include capital assets such as schools and busses.

## 3.0 AUDIT CONCLUSIONS

Our Office worked with appointed auditors to carry out the annual integrated audits of the school divisions. We followed the framework in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. See **Appendix 2** in this Report for the name of each school division and its appointed auditor.

**In our opinion, for the year ended August 31, 2023, we found, in all material respects:**

- **Two school divisions did not have effective rules and procedures to safeguard public resources—see Section 4.2 and 4.3. The remaining school divisions had effective rules and procedures to safeguard public resources except for the matters reported in Sections 4.4 to 4.7.**
- **Each school division complied with the following authorities governing its activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing:**

*The Education Act, 1995*  
*The Education Regulations, 2019*  
*The School Division Administration Regulations*  
*The Government Service Organizations*  
*(Provincial Sales Tax) Remission Regulations*  
*The Education Property Tax Act*

*The Financial Administration Act, 1993* (section 38)  
*The Pension Benefits Act, 1992* (section 44)  
*The Pension Benefits Regulations, 1993* (section 38)  
*Pension Benefit Standards Regulations, 1985*  
 (Canada) (sections 9[1], 11[1])

<sup>1</sup> [publications.saskatchewan.ca/#/products/83292](https://publications.saskatchewan.ca/#/products/83292) (21 February 2024); provincially funded schools do not include schools under the responsibility of First Nations or private schools.

- **The financial statements of each school division are reliable except for the matter reported in Section 4.1 related to proper recording of capital grant revenue.**

We used standards for assurance engagements published in the *CPA Canada Handbook—Assurance* (including CSAE 3001 and 3531) to conduct our audits. We used the control framework included in COSO's *Internal Control—Integrated Framework* to make our judgments about the effectiveness of each school division's controls. The control framework defines control as comprising elements of an organization that, taken together, support people in the achievement of an organization's objectives.

As school divisions' expenses consist primarily of payroll and other goods and services, each audit included examining processes for preparing and processing payroll, and ordering, paying for, and receiving goods and services. Also, as each school division uses IT systems to operate, audits included examining school divisions' processes to safeguard financial-related IT systems and data.

## 4.0 KEY FINDINGS AND RECOMMENDATIONS

### 4.1 Proper Recording of Capital Grant Revenue Needed

Three school divisions inappropriately recorded capital grant revenue and overstated accounts receivable and revenues in their 2023 financial statements.

During 2022–23, the Ministry of Education approved applications for capital funding through the Minor Capital Renewal Program to renovate schools. However, as at August 31, 2023, three school divisions had not met all eligibility criteria related to the Program (i.e., had not provided confirmation of a construction contracts as required by the Ministry). Therefore, these school divisions had not earned the overall \$5.25 million approved under the Program that they recorded.

Canadian public sector accounting standards require school divisions to recognize revenue related to government transfers when the transfer is authorized, and eligibility criteria have been met.

Incorrect application of Canadian public sector accounting standards can impact the relevance and reliability of financial reports and can decrease the public's confidence in the accuracy of school divisions' financial reports.

- 1. We recommend the impacted school divisions follow Canadian generally accepted accounting principles for the public sector when recording capital transfers in their financial records.**



## 4.2 Holy Family Roman Catholic Separate School Division No. 140—Segregation of Incompatible Duties Needed

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Holy Family Roman Catholic Separate School Division No. 140 did not adequately segregate incompatible duties related to setting up and updating employee payroll information; setting up and updating vendor information; creating and approving purchase orders; making and approving payments; and recording journal entries.

During 2022–23, Holy Family did not appropriately segregate staff duties in its financial IT system. This means it is possible for one individual to perform a key financial process from start to finish, without the involvement of another employee. Key financial functions were not segregated as follows:

- Setting up new employee payroll information and updating key employee payroll data (e.g., pay rates, banking information), as well as approving payroll.

Not segregating incompatible duties in the financial IT system increases the risk of entering a fictitious employee and processing fictitious payroll amounts, as well as paying inappropriate payroll amounts to employees. Audit work found the Division appropriately paid employees tested using authorized salary rates.

- Setting up new vendors in its financial IT system and updating vendor data (e.g., banking information), creating and approving purchase orders and making vendor payments, as well as approving and signing cheques.

Not segregating the ability to make changes to vendor information from approving vendor payments increases the risk of making payments to fictitious suppliers (e.g., through phishing scams) and not detecting errors.

- Preparing and posting journal entries.

Lack of independent electronic approval increases the risk of unauthorized or inaccurate entries to the accounting records resulting in financial information errors. Audit testing found the Division independently reviewed and approved journal entries manually.

Not segregating incompatible duties between different individuals in the IT system increases the risk of fraud and not detecting errors.

**2. We recommend Holy Family Roman Catholic Separate School Division No. 140 segregate duties of employees responsible for key financial functions.**

## 4.3 Northwest School Division No. 203—Timely Financial Reconciliations and Segregation of Incompatible Duties Needed

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Northwest School Division No. 203 did not complete key financial reconciliations timely. In addition, it did not segregate incompatible duties in its IT system related to setting up and updating employee payroll information; setting up and updating vendor information; approving payments; and recording journal entries.

### Key Financial Reconciliations Not Completed Timely

Northwest School Division No. 203 did not complete or review key reconciliations timely (i.e., within one month of month-end) such as bank reconciliations and reconciliations of subledgers (e.g., accounts receivable) to the general ledger. Audit work found Northwest completed its year-end bank reconciliation (e.g., August 31, 2023, bank reconciliation) timely.

Regular reconciliations check the accuracy and reliability of accounting records. For example, bank reconciliations confirm that all charges to bank accounts are proper and all money has been received and deposited into the correct accounts.

### 3. We recommend Northwest School Division No. 203 complete key financial reconciliations monthly and independently review and approve them in a timely manner.

### Segregation of Incompatible Duties Needed

Northwest School Division No. 203 did not segregate incompatible duties related to setting up and updating employee payroll information; setting up and updating vendor information; approving payments; and recording journal entries.

During 2022–23, Northwest implemented a new financial IT system, however, it did not appropriately segregate staff duties in the system. This means it is possible for one individual to perform a key financial process from start to finish, without the involvement of another employee. Key financial functions were not segregated as follows:

- Setting up new employee payroll information and updating employee payroll data (e.g., pay rates, banking information) from approving payroll.

Not segregating incompatible duties in the financial IT system increases the risk of entering a fictitious employee and processing fictitious payroll amounts, as well as paying inappropriate payroll amounts to employees. Audit work found the Division appropriately paid employees tested using authorized salary rates for approved time worked.

- Setting up new vendors in its financial IT system and updating vendor data (e.g., banking information) from approving vendor payments.

Not segregating the ability to make changes to vendor information from approving vendor payments increases the risk of making payments to fictitious suppliers (e.g., through phishing scams) and not detecting errors.

- Preparing and posting journal entries.

Lack of independent electronic approval increases the risk of unauthorized or inaccurate entries to the accounting records resulting in financial information errors. Audit testing found the Division independently reviewed and approved journal entries manually.



Not segregating incompatible duties between different individuals in the IT system increases the risk of fraud and not detecting errors.

**4. We recommend Northwest School Division No. 203 segregate duties of employees responsible for key financial functions.**

#### **4.4 Northern Lights School Division No. 113—Segregation of Incompatible Duties Related to Payments Needed**

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Northern Lights School Division No. 113 did not segregate incompatible duties related to payment approval and cheque signing.

Northern Lights uses electronic signatures on cheques; however, it does not have controls in place to restrict the same individual from approving invoices and authorizing release of payment (either through a cheque or electronic fund transfer). An authorized individual is to independently review and approve electronic fund transfers, but Northern Lights did not consistently do so during 2022–23.

Not segregating incompatible duties between different individuals for electronic fund transfers increases the risk of fraud (including making inappropriate electronic fund transfers through phishing scams), and not detecting errors.

**5. We recommend Northern Lights School Division No. 113 segregate incompatible duties for payment approvals and cheque signing.**

#### **4.5 Saskatchewan Rivers School Division No. 119—Need to Follow Purchasing Policy**

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Saskatchewan Rivers School Division No. 119 did not follow its purchasing policy as it did not obtain at least three quotes prior to making certain purchases.

Saskatchewan Rivers' purchasing policy requires staff to obtain written quotes from at least three suppliers for purchases over \$5,000 and up to \$20,000. Audit testing identified one purchase of a sound system for approximately \$9,000 where Saskatchewan Rivers did not obtain any quotes prior to procurement, and therefore may not have obtained best value.

Following its competitive procurement method policies for buying goods and services helps ensure staff treat suppliers equitably and fairly, and helps Saskatchewan Rivers buy goods and services at a fair price.

**6. We recommend Saskatchewan Rivers School Division No. 119 follow its purchasing policy and obtain the required quotes for its purchases.**

## 4.6 Sun West School Division No. 207—Disaster Recovery Plan Requires Testing

***We recommended Sun West School Division No. 207 formally document its IT disaster recovery plan.*** (2017 Report – Volume 1, p. 22, Recommendation 2; Public Accounts Committee agreement June 12, 2018)

**Status**—Partially Implemented

During 2021, Sun West School Division No. 207 contracted with a third party to provide Sun West with various IT infrastructure and services (e.g., servers, data back-up). In September 2022, Sun West finalized and approved a revised disaster recovery plan. By August 2023, the Division had yet to test its revised disaster recovery plan.

Without testing its disaster recovery plan, Sun West does not know whether it could continue to deliver its programs and services if disruption or damage occurred to its key IT systems (e.g., accounting, student data). Regular testing of its disaster recovery plan would confirm the plan's effectiveness, relevance, and identify necessary updates.

## 4.7 Sufficient Monitoring of IT Service Provider for Key Financial System Needed

***We recommended the Ministry of Education work with impacted school divisions to establish a process to monitor the key financial IT system and the IT service provider.*** (2022 Report – Volume 1, p. 17, Recommendation 1; Public Accounts Committee agreement February 7, 2024)

**Status**—Partially Implemented

During 2022–23, school divisions did not adequately monitor a key financial IT system and the related service provider. Sixteen school divisions across the province use this key financial IT system.

The Ministry of Education and impacted school divisions did not establish a process to monitor the key financial IT system and the IT service provider in 2022–23. For example, school divisions could obtain relevant information from the IT service provider on security measures in place (e.g., privileged user access, intrusion detection controls) and on system end-of-support dates.<sup>2</sup> School divisions remain responsible for managing risks associated with their IT systems and data even when using a service provider.

Improved monitoring of the IT system and the service provider would help school divisions identify risks (e.g., security vulnerabilities) and make decisions about mitigating identified risks.

<sup>2</sup> End-of-support is when a technology company stops actively developing or providing technical support for software products.

