

## Chapter 16

### Saskatchewan Liquor and Gaming Authority— Regulating Locally Manufactured Craft Alcohol

#### 1.0 MAIN POINTS

Saskatchewan had 60 locally manufactured craft alcohol producers at February 2025.

By February 2025, the Saskatchewan Liquor and Gaming Authority strengthened some of its processes to regulate the production and sale of locally manufactured craft alcohol in Saskatchewan. It implemented three out of five recommendations we first made in 2022.

We found the Authority:

- Renewed locally manufactured craft alcohol producer permits prior to expiry by sending 30-day reminders and adequately followed up with producers during the permit renewal process
- Updated its craft alcohol inspection checklist to incorporate all key risks relating to craft alcohol manufacturing and used the checklist during inspections since September 2023
- Performed reasonability assessments of locally manufactured craft alcohol production and sales to help ensure proper collection of all production levies

The Authority also made progress by obtaining timely certificates of analysis from craft alcohol producers in accordance with its quality assurance policy. However, the Authority still needs to follow up with producers who submit certificates of analysis showing alcohol content outside approved thresholds (e.g., exceeding acceptable alcohol content by 1%). Not following up when certificates of analysis identify issues increases the risk of adverse impact on human health (e.g., illness, overconsumption).

The Authority also needs to develop a risk-informed plan for inspecting locally manufactured craft alcohol producers (e.g., facilities)—it has not inspected 28 of these producers since 2022. A risk-based inspection plan would help the Authority allocate its resources to the highest priority areas.

#### 2.0 INTRODUCTION

##### 2.1 Background

The Saskatchewan Liquor and Gaming Authority is responsible for regulating locally manufactured craft alcohol in Saskatchewan.<sup>1</sup> In February 2025, the province had 60 locally manufactured craft alcohol producers that held 91 permits (2021: 64 producers with 71 permits).<sup>2</sup>

<sup>1</sup> *The Alcohol and Gaming Regulation Act, 1997*, section 19(1).

<sup>2</sup> A producer may have more than one permit if they produce more than one type of alcohol product (e.g., production of craft beer and craft spirits requires two separate permits).



Locally manufactured craft alcohol refers to alcohol products (e.g., cider, beer, distilled alcohol, wine) produced and sold in the province. Craft alcohol means beverage alcohol manufactured by fermentation or distillation in accordance with policies outlined for craft breweries, craft distilleries, craft wineries, craft cideries, and craft refreshments; it does not include alcohol manufactured under a bottling-manufacturing permit (i.e., manufacturers who blend and repackage bulk alcohol purchased from elsewhere and do not ferment or distill their own products).<sup>3</sup>

## 2.2 Focus of Follow-Up Audit

This chapter describes our first follow-up audit of management's actions on the recommendations we made in 2022.

We concluded, for the 12-month period ended November 30, 2021, the Saskatchewan Liquor and Gaming Authority had, other than the areas reflected in our five recommendations, effective processes to regulate the production and sale of locally manufactured craft alcohol in Saskatchewan.<sup>4</sup>

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

To carry out our follow-up audit, we discussed actions taken with Authority management. We assessed timeliness of permit renewal reminders, checklists used in inspections, certificates of analysis, and the Authority's reasonability assessment of producers' monthly sales and production reporting.

## 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 February 4, 2025, and the Saskatchewan Liquor and Gaming Authority's actions up to that date.

### 3.1 Permits Renewed Timely

***We recommended the Saskatchewan Liquor and Gaming Authority renew locally manufactured craft alcohol producer permits prior to expiry as required by The Alcohol and Gaming Regulation Act, 1997. (2022 Report – Volume 1, p. 95, Recommendation 1; Public Accounts Committee agreement February 6, 2023)***

**Status**—Implemented

<sup>3</sup> Saskatchewan Liquor and Gaming Authority, *Saskatchewan Alcohol Manufacturing Policy Manual*, p. 19.

<sup>4</sup> *2022 Report – Volume 1, Chapter 6*, pp. 87–103.

The Saskatchewan Liquor and Gaming Authority renewed permits for locally manufactured craft alcohol producers prior to expiry as required by legislation. Permits expire every three years.

The Authority maintains a list of permit expiry dates, sends out 30-day expiration reminders, and adequately follows up with locally manufactured craft alcohol producers during the permit renewal process, as required by its *Saskatchewan Alcohol Manufacturing Policy Manual*.

We did not identify any craft alcohol producers on the permit renewal list with unexplained expired permits (e.g., producers who discontinued operations).

We tested 11 permit renewal applications and found the Authority sent timely reminders for all permits. The Authority:

- Renewed nine permits on time and the producers did not operate a single day without a permit.
- Renewed one permit three days after expiry because the producer did not provide required information timely. We saw evidence of the Authority appropriately informing the producer it could not operate for those three days.
- Did not renew one permit tested because the producer owed the Authority significant production levies, and informed the producer they could not continue to operate.

By sending out timely renewal letters, the Authority reminds craft alcohol producers to renew permits prior to expiration as required by legislation and reduces the risk of producers operating for an extended period without a permit.

### 3.2 Risk-Informed Inspection Plan Needed

***We recommended the Saskatchewan Liquor and Gaming Authority implement a risk-informed plan for inspecting locally manufactured craft alcohol producers.*** (2022 Report – Volume 1, p. 97, Recommendation 2; Public Accounts Committee agreement February 6, 2023)

**Status**—Not Implemented

At February 2025, the Saskatchewan Liquor and Gaming Authority has not yet developed a risk-informed plan for inspecting locally manufactured craft alcohol producers (e.g., facilities).

There are 60 craft alcohol producers in Saskatchewan as of February 2025.

Since the beginning of 2022 (timing of our original audit), the Authority inspected 41 locally manufactured craft alcohol producers. It is inspecting each craft alcohol producer in the province to better understand the businesses and facilities to prepare its risk-based plan. As of October 2024, the Authority had not inspected 28 producers since 2022. Having an inspection plan that states the required frequency of craft alcohol producer inspections will help reduce the risk of non-compliance going unnoticed for an extended period.



Authority management indicated it expects to complete its risk-based plan by mid-2026.

Having a written risk-informed inspection plan would help the Authority allocate its resources to high priority areas, which is important as inspectors are also responsible for inspecting all commercial liquor permittees including craft alcohol producers.

### 3.3 Inspection Checklist Includes Key Alcohol Manufacturing Risks

***We recommended the Saskatchewan Liquor and Gaming Authority utilize a locally manufactured craft alcohol inspection checklist addressing all key risks associated with alcohol manufacturing.*** (2022 Report – Volume 1, p. 99, Recommendation 3; Public Accounts Committee agreement February 6, 2023)

**Status**—Implemented

The Saskatchewan Liquor and Gaming Authority updated its craft alcohol inspection checklist in September 2023 with all key risks related to craft alcohol manufacturing. The Authority's inspectors use the updated checklist at craft alcohol producer inspections.

The updated inspection checklist includes key risks associated with manufacturing alcohol we found missing from the checklist in 2022. The checklist now includes:

- Use of food-grade chemicals to clean manufacturing equipment
- Processes for bottling/filling cans
- Processes for handling incidents of glass bottle damage during the bottling phase
- Processes for obtaining written authorization when purchasing bulk alcohol from outside the country
- Verification of requirements for collaborative manufacturing<sup>5</sup>

Since the Authority implemented its checklist in 2023, it inspected 16 craft alcohol producers. We tested inspections for 10 craft alcohol producers and found the Authority appropriately used the updated checklist for all 10 inspections.

Having inspection checklists that address all key risk areas associated with manufacturing alcohol, as well as include the Authority's policy requirements, helps its inspectors check whether craft alcohol producers comply with their permit's operating requirements. These checks also decrease the risk to public safety (e.g., consuming alcohol with a higher than labelled alcohol content).

<sup>5</sup> Collaborative manufacturing is when two or more craft alcohol producers work together to create a product at a single production facility. The Saskatchewan Liquor and Gaming Authority requires the host manufacturer not only to always be present during production, but also to report the production in its monthly production reporting and pay the production levy. *Saskatchewan Alcohol Manufacturing Policy Manual*, p. 58.

### 3.4 Insufficient Follow Up on Craft Alcohol Exceeding Thresholds

***We recommended the Saskatchewan Liquor and Gaming Authority obtain certificates of analysis from locally manufactured craft alcohol producers every two years as required by its quality assurance policy. (2022 Report – Volume 1, p. 99, Recommendation 4; Public Accounts Committee agreement February 6, 2023)***

**Status—Partially Implemented**

The Saskatchewan Liquor and Gaming Authority made progress by obtaining timely certificates of analysis from craft alcohol producers in accordance with its quality assurance policy. However, the Authority did not follow up with producers who submitted certificates of analysis with alcohol by volume outside approved thresholds, as required by its manual.

The Authority requires craft alcohol producers to submit laboratory reports (certificates of analysis) verifying products are safe for consumption. The Authority's quality assurance policy requires producers to submit certificates of analysis for a minimum of one active product from each alcohol product line every two years.

In January 2024, the Authority implemented an IT process directing staff to send renewal reminders to craft alcohol producers 90, 60, and 30 days prior to the two-year due date since receiving the last certificate of analysis.

We tested 11 craft alcohol producers and found the Authority obtained certificates of analysis timely for all of them within two years of the previous certificate.

However, we found the Authority did not follow up with two craft alcohol producers who provided certificates of analysis not adherent to the Canadian alcohol by volume standards.<sup>6</sup>

- One certificate of analysis from February 2023 exceeded the variance allowed by the standard by 0.2% (i.e., alcohol by volume over the threshold)
- One certificate of analysis from February 2023 exceeded the variance allowed by the standard by 1.0% (i.e., alcohol by volume under the threshold)

The Authority updated internal processes in August 2023 and requires staff to confirm compliance with the alcohol by volume standards. Where a craft alcohol producer exceeds the alcohol by volume standards, the Authority would require a producer to submit more products for analysis to a laboratory.

By not following up on non-compliant certificates of analysis, there is an increased risk of craft alcohol producers selling alcohol that does not meet quality assurance standards. This increases the risk of an adverse impact on human health (e.g., illness, overconsumption).

<sup>6</sup> Saskatchewan Liquor and Gaming Authority, *Saskatchewan Alcohol Manufacturing Policy Manual*, p. 22.



### 3.5 Reported Craft Alcohol Sales Adequately Assessed

***We recommended the Saskatchewan Liquor and Gaming Authority perform reasonability assessments of locally manufactured craft alcohol producers' monthly sales and production reporting to help ensure collection of all production levies.*** (2022 Report – Volume 1, p. 103, Recommendation 5; Public Accounts Committee agreement February 6, 2023)

**Status**—Implemented

The Saskatchewan Liquor and Gaming Authority performs reasonability assessments of locally manufactured craft alcohol production and sales, which it uses to determine production levies.

Craft alcohol producers pay the Authority a production levy on craft alcohol sold directly to consumers or retailers.<sup>7</sup> The Authority determines the amount to be paid by assessing monthly production and sales reports sent by producers.

In 2023–24, the Authority received \$5.5 million in production levies from craft alcohol producers.

The Authority continued to review locally manufactured craft alcohol producers' monthly reports. At February 2025, we found the Authority had an appropriate process to check for timeliness (received within 30 days of month end) and completeness of reports (all required fields completed), opening craft alcohol inventory (in litres) matches the closing inventory of the prior month, and to follow up with the producer on any issues.

We tested 31 monthly reports from producers and found the Authority assessed reports as expected, and received all reports timely.

Since August 2023, the Authority also holds internal meetings monthly to discuss locally manufactured craft alcohol producers' reporting and any other issues (e.g., overdue production levies, upcoming permit expirations). These meetings include staff from the Authority's Corporate Services Division and Regulatory Services Division. We attended one of the monthly meetings and confirmed relevant reporting discussions occurred as expected.

The Authority also uses its Audit Services Branch's audit reports on locally manufactured craft alcohol producers to monitor compliance with its *Saskatchewan Alcohol Manufacturing Policy Manual*. Since 2022, the Branch performs one or two audits on craft alcohol producers each year. We reviewed one of these reports from 2022–23 and found the Authority communicated the results to the producer who understated their production levy by less than \$100.

<sup>7</sup> The Saskatchewan Liquor and Gaming Authority charges craft alcohol producers a production levy (fee per litre sold) based on the type of alcohol produced (e.g., beer, wine, cider) and based on the type of producer (e.g., type 1 producers ferment 100% of their product on-site).

We also found the Authority has appropriate processes to follow up with locally manufactured craft alcohol producers when it identifies issues with production reporting. For example, in 2024, the Authority issued a warning to a producer related to issues found during an Audit Services Branch audit. The Authority put operating conditions on the producers' permit (e.g., must provide detailed production support with their monthly production reports submitted to the Authority).

Since 2022, the Authority also monitors each producers' annual production by product (e.g., beer, ciders) to assess whether producers met minimum production levels to qualify as a craft producer.<sup>8</sup> We assessed locally manufactured production for 2023 and found 25 producer permits who had less than the required minimum production level.<sup>9</sup> We found the Authority also identified these producers and documented appropriate reasons for allowing these producers to have less than the minimum production level (e.g., producers ceased operations, new producers).

Having effective processes to assess producer-prepared production and sales information helps the Authority receive accurate production levies and treat craft alcohol producers fairly.

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<sup>8</sup> *Saskatchewan Alcohol Manufacturing Policy Manual*, pp. 47–55. For example, craft wineries' minimum production is 2,000 litres per year.

<sup>9</sup> 2023 was the most recent calendar year of production available as of February 4, 2025.

