

# Chapter 10

## Energy and Resources—Auditing Producer Returns

### 1.0 MAIN POINTS

The Ministry of Energy and Resources levies and collects revenue from the production and sale of Saskatchewan’s non-renewable resources (e.g., potash, uranium, coal, oil) on behalf of the Government. In 2024–25 the Ministry levied over \$800 million of non-renewable resources production taxes and royalties from resources requiring producers to submit returns.<sup>1</sup>

By February 2026, the Ministry implemented the five recommendations we first made in 2019 relating to audits of producer royalty and tax returns for non-renewable resources.

The Ministry:

- Developed a risk-based audit plan to prioritize audits of producer returns; using this new audit plan and contracting additional audit resources since 2022, it has reduced its backlog of audits
- Enhanced monitoring of ongoing audits
- Revised its audit manual and implemented a process for continuous review
- Improved documentation of key audit decisions, procedures, and findings of audit work in the audit files of producer returns
- Established expectations and is completing quality reviews of audit files as expected

To be effective, the Ministry’s audits of producer royalties and taxes must be timely and properly executed. In 2025–26, these audits resulted in reassessments of about \$8 million in additional production taxes and royalties, and \$3.2 million in refunds.

### 2.0 INTRODUCTION

#### 2.1 Background

The Ministry of Energy and Resources is responsible for the collection of revenue from the production and sale of Saskatchewan’s non-renewable resources on behalf of the Government. These resources primarily include oil, natural gas, potash, uranium, and coal.

<sup>1</sup> The Ministry of Energy and Resources also levied about \$1.2 billion in production taxes and royalties from oil and natural gas; the Ministry utilizes a different reporting mechanism that does not require it to audit producer returns.



Different provincial acts and regulations govern the royalty and tax structures for each resource.<sup>2</sup>

Laws require a 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, at the end of the calendar year, producers must submit returns based on actual results (e.g., returns for December 31 calendar year-end submitted by March 31). Producers must submit returns showing how they calculated their production taxes and royalties.

The Ministry's Audit Unit within the Revenue and Financial Services Branch is 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 employed 10 full-time equivalent staff with an \$896,000 budget in 2025–26. As shown in **Figure 1**, the Audit Unit completed 34 audits in 2024–25 and 20 audits in 2025–26.

**Figure 1—Ministry Audits Completed by Non-Renewable Resource Type in 2024–25 and 2025–26**

Non-Renewable Resource	Audits Completed in 2024–25	Audits Completed in 2025–26
Enhanced Oil Recovery	27	18
Uranium	1	0
Coal	3	0
Potash Profit Tax	3	2
<b>Total</b>	<b>34</b>	<b>20</b>

Source: Adapted from Ministry of Energy and Resources information.

## 2.2 Focus of Follow-Up Audit

This chapter describes our second follow-up audit of the Ministry's actions on the recommendations we first made in 2019.

We concluded, for the 12-month period ending December 31, 2018, the Ministry of Energy and Resources had effective processes to assess the completeness and accuracy of producer royalty and tax returns for potash, uranium, coal, and enhanced oil recovery except for areas in our five recommendations.<sup>3</sup> By December 2021, the Ministry still needed to implement all five recommendations.<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 Ministry's progress toward meeting our recommendations, we used the relevant criteria from the original audit. Ministry management agreed with the criteria in the original audit.

<sup>2</sup> The Minister of Energy and Resources is responsible for administering *The Crown Minerals Act* and *The Mineral Taxation Act, 1983*. These acts each authorize Cabinet 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.

<sup>3</sup> *2019 Report – Volume 1, Chapter 4*, pp. 43–59.

<sup>4</sup> *2022 Report – Volume 1, Chapter 10*, pp. 149–154.

To carry out our 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 February 19, 2026, and the Ministry of Energy and Resources' actions up to that date.

### 3.1 Audit Backlog Reduced

***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**—Implemented

The Ministry of Energy and Resources established a risk-based plan prioritizing audits to complete based on how likely the audit is to impact Ministry revenue; this helped focus audit work and reduce its audit backlog of returns. See **Section 3.2** about better estimating hours and costs to audit returns.

In 2023–24, the Ministry implemented a risk-based audit approach to improve its allocation of staff resources. We observed the Ministry used its risk-based plan to select which returns to audit for the years ended 2022, 2023, and 2024—the most recent returns available as of March 2026. Its plan prioritizes audits based on their potential impact on Ministry revenue (e.g., for a commodity type).

For instance, a single potash year-end return may account for about 50% of all potash-related revenue. Our analysis of the 77 returns for 2022 found that just 21 returns, or 27% of the total returns, accounted for 98% of the Ministry's total royalty revenue reported through the returns. The Ministry's risk-based audit plan for 2023–24 appropriately focused on these 21 returns.

The Ministry has a goal to conduct all audits within two years of the filing date (i.e., auditing returns filed in March 2025 by March 2027).

At March 2026, 69 audits for returns filed at March 2025 and earlier remained outstanding.

Of these, 34 related to returns filed at March 31, 2025, which the Ministry does not expect to complete these audits until March 31, 2027. This leaves 35 audits backlogged (2021: 101 audits were backlogged), of which 19 audits are in progress at March 2026. Using a risk-based plan and obtaining the assistance of contracted resources, the Ministry reduced its audit backlog by 66 audits since March 2021.



Completing audits in a more timely manner decreases the risk of more costly and time-consuming audits due to evolving complexities (e.g., changes in legislation or producer personnel).

## 3.2 Enhanced Monitoring of Audits Completed

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***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**—Implemented

The Ministry of Energy and Resources estimated staff hours and costs to audit returns and is monitoring actual-to-planned staff time and costs.

The Ministry's Audit Unit responsible for auditing returns employed 10 full-time equivalent staff in 2025–26. On average, each staff member completes about three audits per year.

The Ministry's audit time allocation process considers factors such as return priority, auditor experience, and file complexity. It clearly plans the amount of time each staff will dedicate to audits. The Ministry also monitors actual versus planned staff time and costs (i.e., total dollar value of resources used to complete audits). Management tracks the number of audits completed and total hours spent each year using an audit statistics spreadsheet.

We found Audit Unit management and senior management discuss status of audit completion weekly.

We reviewed three audits completed in 2025–26 that were significantly overbudget (i.e. by 50 hours or more) and observed the Ministry sufficiently explained variances in the audit report.

Routinely monitoring actual resources against those planned to complete audits helps the Audit Unit meet its objectives and make timely decisions on any required adjustments.

## 3.3 Audit Manual Updated

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***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**—Implemented

The Ministry of Energy and Resources updated its audit manual and implemented a process for continuous review.

The Ministry reviewed and updated its audit manual in November 2023 and added guidance to include:

- Expectations for audit completion timelines (e.g., number of days to complete audit plan and review audit report)
- Guidance for communicating audit results to producers (e.g., contents, communication timelines)
- Standards for audit timeliness and quality review (e.g., number of days to complete quality review)

The audit manual also outlines requirements for audit work documentation, including content of the audit package, as well as expectations for risk assessment, background information, materiality calculation, and determination of expected time and costs. While the manual does not cover assessing whether the underlying data used to prepare returns is reliable, we observed in practice, the Ministry usually obtained direct access to producer data (e.g., accounting system).

Ministry management also established a process to continuously review and update the audit manual. We found auditors' work plans included an expectation to continuously review procedures and propose possible changes to the manual. The Ministry last updated the manual in November 2023. We observed the Ministry drafted revisions it expects to include in the manual in 2026.

Having established expectations for timely completion of audit work, communication of audit results, and review of audit work reduces the risk of delays or problems in completing audits. Delays and problems can delay payments and impact reporting accuracy.

### 3.4 Consistent Documentation in Audit Files for Producer Returns

***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**—Implemented

The Ministry of Energy and Resources consistently documented key audit decisions, procedures, and findings of audit work in the audit files for producer returns from non-renewable resources.

The Ministry maintains an audit package with templates and tools (e.g., program checklists) to support auditors in documenting their work. Examples include:

- Audit program checklists outlining expected audit procedures for each resource audit
- Audit plan template for each non-renewable resource



➤ Audit report template

The Ministry consistently documented its audit expectations, procedures, and results within the audit files. We tested three audit files completed in 2025–26 and found:

- Reasonable background information (e.g., history, type of land, number of wells, audit period) documented
- Consideration of prior year audit results in the audit plan
- Audit plans that adequately set expected completion dates and budgets (cost and hours), clearly outlined risk assessment expectations, identified relevant legislation, clearly established materiality thresholds, and documented objectives for each testing procedure

We also found the Ministry sufficiently documented audit results in all three audit files tested, such that an auditor with no prior experience could understand the audit rationale including:

- Checklists and standardized forms as established in its audit manual
- Sample size selection methodology
- Evidence of auditor verifications (e.g., correct royalty rates)
- Results and conclusions documented on each file for each testing procedure
- Quality review checklist
- Documentation of how the auditor obtained data (i.e., direct access to producer accounting system)

Documenting key audit decisions and results demonstrates that audits are properly designed and executed. Maintaining thorough records also provides a clear and defensible basis for audit findings in the event of a disagreement with a producer.

### 3.5 Quality Reviews of Audits Completed

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***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**—Implemented

The Ministry of Energy and Resources performed quality reviews of audit files before finalizing audit results, consistent with its expectations.

The Ministry's audit manual establishes general expectations to review audit work (e.g., verifying audit scope, evidence gathered, revenue calculations), indicates what documents staff should review, and determines the expected time to complete reviews (e.g., 15 days to complete peer reviews of audit). It also requires management (e.g., director) to review audit work before communicating results to producers.

We found Ministry management completed reviews as expected. For all three audit files tested, we found:

- A reviewer signed off key audit documents, such as the audit plan, audit report, and audit review form.
- The Ministry completed its review before communicating with producers (e.g., audit plan sent to producer, notice of assessment). The review did not result in changes to the final assessment for any of these files.

Reviewing audit work timely helps ensure audit work is consistent with Ministry expectations, and staff identify errors promptly, if any (e.g., additional producer amounts owing identified by the audit). Timely review also supports accurate producer payments and refunds and enhances overall confidence in audit results.

