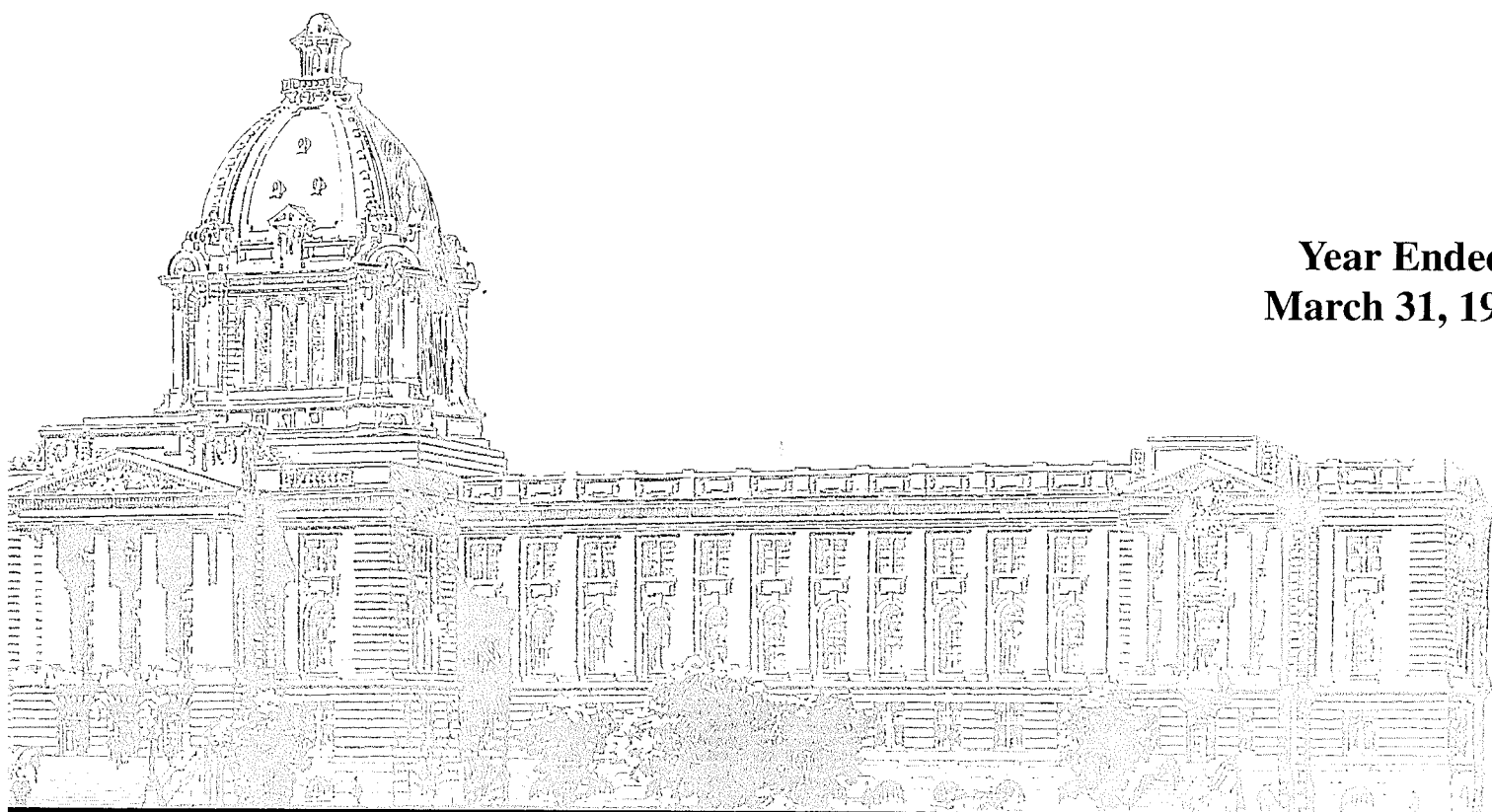




# Report of the Provincial Auditor

To The Legislative Assembly  
of Saskatchewan

Year Ended  
March 31, 1992



Additional copies of this report  
may be obtained from:

**Provincial Auditor Saskatchewan  
1500 Chateau Tower  
1920 Broad Street  
Regina, Saskatchewan  
S4P 3V7**

**Telephone: (306) 787-6398**

**Fax: (306) 787-6383**



Provincial Auditor Saskatchewan

---

1500 Chateau Tower  
1920 Broad Street  
Regina, Canada  
S4P 3V7

(306) 787-6360

March 30, 1993

The Honourable H. H. Rolfes  
Speaker of the Legislative Assembly  
of Saskatchewan

I have the honour to submit my Annual Report for the fiscal year ended March 31, 1992, to be laid before the Legislative Assembly in accordance with the provisions of Section 14 of *The Provincial Auditor Act*.

Respectfully submitted,

A handwritten signature in black ink that reads "W. K. Strelieff".

W. K. Strelieff, C.A.  
Provincial Auditor

/lk

## **Our Mission**

We serve the public through the Legislative Assembly.

We independently examine and report on the management of the public resources entrusted to the government.

We encourage accountability and effective management in government operations.

## Foreword

I am pleased to present my third Annual Report to the Legislative Assembly. My Report summarizes the results of the work done by my Office during the past year and comments on matters we think should be brought to the attention of Members of the Legislative Assembly.

I wish to thank the staff and officials of departments and other government organizations audited by my Office for their cooperation and assistance. Also, I acknowledge the dedicated efforts of the staff of my Office. Their contribution is essential for achieving our responsibilities.

Regina, Saskatchewan  
February 28, 1993



W. K. Strelieff, C.A.  
Provincial Auditor

---

---

# Report of the Provincial Auditor

## Table of Contents

---

---

Chapter	Topic	Page
1	Observations	1
2	Understanding the Finances of the Government	7
3	The Financial Management Review Commission	19
4	Ability to Fulfil Our Role	29
5	Standing Committees of the Legislative Assembly	39
6	Special Assignment	43
7	Board of Directors Pay and Expenses	49
8	Annual Reports of Government Departments	51
9	Department of Agriculture and Food	69
	<i>(including comments on the following agencies)</i>	
	Agricultural and Food Products Development and Marketing Council	
	Saskatchewan Canola Development Commission	
	SPI Marketing Group	
	Saskatchewan Sheep Development Board	
	Saskatchewan Vegetable Marketing and Development Board	
	Agricultural Credit Corporation of Saskatchewan	
	Cattle Marketing Deductions Fund	
	Saskatchewan Crop Insurance Corporation	
	South Saskatchewan River Irrigation District #1	
10	Department of Community Services	93
	<i>(including comments on the following agencies and funds)</i>	
	Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation	
	Saskatchewan Arts Board	
	Saskatchewan Centre of the Arts	
	Saskatchewan Housing Corporation	
	Saskatchewan Archives Board	

---

---

# Report of the Provincial Auditor

## Table of Contents

---

---

Chapter	Topic	Page
11	<b>Department of Economic Diversification and Trade</b> <i>(including comments on the following fund)</i>  Northern Saskatchewan Economic Development Revolving Fund	109
12	<b>Department of Education</b> <i>(including comments on the following agencies)</i>  Cumberland Regional College Northlands College Saskatchewan Indian Regional College South East Regional College Teachers' Superannuation Commission	115
13	<b>Department of Energy and Mines</b>	127
14	<b>Department of Executive Council</b>	131
15	<b>Department of Finance</b> <i>(including comments on the following agencies and funds)</i>  Members of the Legislative Assembly Superannuation Fund Public Employees Benefits Agency - Public Employees Group Life Insurance Fund Public Employees Benefits Agency - Public Service Superannuation Board Public Employees (Government Contributory) Superannuation Plan Supervisory Board Workmen's Compensation Board Superannuation Plan	133
16	<b>Department of Health</b> <i>(including comments on the following agencies)</i>  Saskatchewan Alcohol and Drug Abuse Commission Wascana Rehabilitation Centre	157

---

---

# Report of the Provincial Auditor

## Table of Contents

---

---

Chapter	Topic	Page
17	<b>Department of Highways and Transportation</b> <i>(including comments on the following fund)</i> Highways Revolving Fund	163
18	<b>Department of Justice</b>	191
19	<b>Department of Natural Resources</b> <i>(including comments on the following fund)</i> Commercial Revolving Fund	197
20	<b>Department of Social Services</b>	201
21	<b>Indian and Metis Affairs Secretariat</b>	203
22	<b>Investment Corporation of Saskatchewan</b>	207
23	<b>Legislation (The Board of Internal Economy)</b>	209
24	<b>Saskatchewan Auto Fund</b>	213
25	<b>Saskatchewan Forest Products Corporation</b>	215
26	<b>Saskatchewan Gaming Commission</b>	217
27	<b>Saskatchewan Power Corporation</b> <i>(including comments on the following agency)</i> Northern Enterprise Fund Inc.	219
28	<b>Saskatchewan Water Corporation</b>	231



---

---

## Report of the Provincial Auditor Table of Contents

---

---

<b>Appendices</b>	<b>Topic</b>	<b>Page</b>
<b>Appendix I</b>	Office of the Provincial Auditor	<b>235</b>
<b>Appendix II</b>	Reports of Appointed Auditors (Part I and II)	<b>261</b>
<b>Appendix III</b>	Audits Not Completed at February 28, 1993	<b>277</b>
<b>Appendix IV</b>	Examples of Opinions we Form on Departments, Crown Agencies and Crown-Controlled Corporations	<b>279</b>
<b>Appendix V</b>	Analysis of Recommendations of the Financial Management Review Commission and Actions Proposed or Taken by the Government	<b>283</b>
<b>Appendix VI</b>	Status Report on the Recommendations of the Public Accounts Committee	<b>295</b>

---

---

# Chapter 1

## Observations

---

---

**.01** In my last Annual Report, I argued that our system of public accountability needs strengthening. Members of the Legislative Assembly and the public require a system that provides the necessary information and opportunity to understand, assess and debate the revenue-raising and spending decisions of the Government.

**.02** A more rigorous system of accountability is particularly important at a time when the Government is faced with so many difficult decisions concerning affordability of programs, sources of revenues and maintenance of the Province's infrastructure of roads, schools and hospitals.

---

### Public Accountability is Strengthening

**.03** During the last year, I observed the Government making steady progress in improving our system of public accountability. Although many areas still require strengthening, I do believe, on the whole, our system of public accountability is improving.

### Summary Financial Statements

- The Government issued, for the first time, an audited summary financial statement showing the financial condition and results of the Government as a whole. The statement was for the period ended March 31, 1992 and was based upon the accounting principles recommended for governments by The Canadian Institute of Chartered Accountants. Chapter 2 of this Report provides an overview of the information contained in those statements.

However, the Government has not yet included, in the summary statements, its liability for unfunded pension obligations, estimated at \$3 billion. Including the pension liability would ensure decisions are made in the context of complete and reliable debt, deficit and expenditure information. The Government has indicated it intends to establish a pension commission to study this matter.

### Annual Financial Plan

- The Government announced it intends to prepare its financial plan, or budget, based on the principles of "accrual accounting" beginning in 1993-94. Financial information based on accrual accounting provides a more accurate description of the Government's financial position and enhances the Government's ability to make sound financial decisions. This information will also provide the

---

---

## Chapter 1 Observations

---

---

Assembly with more complete and reliable information to hold the Government accountable.

The next important step is to prepare a financial plan setting out the financial activities of the Government as a whole. Members of the Assembly require information about what programs are planned to be done through government corporations as well as through government departments. Chapter 2 of this Report explains in more detail, why this step is so important. Recently, the Standing Committee on Public Accounts asked my Office to work with officials of the Government to prepare a report on a complete, multi-year financial plan.

Annual Reports for all  
Government  
Organizations

- The Government plans to issue, to the Assembly, annual reports for each government organization including the subsidiary corporations of the Crown Investments Corporation.

Chapter 8 of my Report sets out the results of our examination of the information contained in government department annual reports. The chapter provides useful guidance on the type of annual report information members of the Assembly and the public require to assess the performance of government organizations. My Office will examine the information contained in annual reports of government corporations in the coming year.

The Financial  
Management Review  
Commission

- The Government has made steady progress in moving forward on the recommendations and advice of the Financial Management Review Commission. In November 1992, the Government released a progress report showing "actions taken" on each of the recommendations of the Commission. The release of the progress report is significant because it indicates the Government is holding itself accountable for implementing the reforms identified by the Commission.

One area requiring more specific attention by the Government is legislative scrutiny. Many of the concerns cited by the Commission relate to the ability of the Assembly and the public to participate in the decision-making process of the Government.

---

---

## Chapter 1 Observations

---

---

Chapter 3 of this Report describes what actions have been taken and our views on what actions are still required. Appendix V provides a more detailed review of the status of each of the Commission's recommendations.

**.04** I encourage continued efforts to strengthen the system of public accountability. The actions taken, and the ongoing and proposed studies on how to implement other reforms are important. The Legislative Assembly and the public are best served by a government committed to public accountability.

---

### **The Existing Audit System Needs to be Improved**

**.05** One important issue identified by my Office and by the Financial Management Review Commission is the existing audit system. It is often difficult, under the existing system, for my Office to carry out its responsibilities to the Assembly in a timely manner. In addition, we cannot assure the Assembly that all significant issues are brought to its attention. A further problem is that some officials appear to believe that when the Government appoints a second auditor to audit a government organization, my Office is no longer responsible to the Assembly for the overall audit of that organization.

**.06** I hold the view my Office remains ultimately responsible to the Assembly for the audit of all government organizations even when the Government appoints another auditor. I believe Members of the Assembly need to hold one auditor accountable for the audit of the Government as a whole. I also believe one auditor must maintain an overview of how the Government is managing the total public resources entrusted to it. Maintaining that overview is particularly important when viewed in the context of assisting Members in holding the Government accountable for managing over \$9 billion in expenditures, through a complex system of nearly 190 organizations.

**.07** Chapter 4 of this Report contains a more detailed discussion of why a more effective audit system is important to the Assembly and the public.

---

### **Complex Challenges, Limited Resources and Changing Priorities**

**.08** 1992-93 has been a challenging year for my Office. We handled many new complex challenges and priorities that continue into 1993-94. Those issues include:

- auditing the first-ever summary financial statement

---

---

## Chapter 1 Observations

---

---

issued by the Government. The statements aggregate the financial results of nearly 190 government organizations;

- completing our work on the Public Accounts several months earlier, thereby enabling the Government to issue the Accounts by the end of October;
- examining new agencies created by the Government, e.g., the Prince Albert, Regina and Saskatoon health boards;
- examining Crown corporations more directly and performing the direct audit of the Crown Investments Corporation of Saskatchewan and the Saskatchewan Liquor Board as well as carrying out additional work at SIAST;
- examining cross-government issues such as the usefulness of information provided in annual reports of government departments (see Chapter 8). The purpose of this audit is to ensure those reports provide the Assembly with the information needed to understand and assess the performance of government departments;
- auditing issues related to the systems and practices the Government uses to ensure economy, efficiency and effectiveness (see Chapter 17 on the Department of Highways and Transportation);
- performing special assignments requested by the Government or the Standing Committee on Public Accounts (see Chapter 6). Recently, the Standing Committee asked our Office to work with officials of the Crown Investments Corporation and the Department of Finance on a multi-year financial plan for the Government as a whole; and
- advising, at the Committee's request, the Standing Committee on Crown Corporations.

**.09** With so many important challenges and with limited resources, my Office identified alternative approaches for examining Crown agencies which have appointed auditors. Two

---

---

## Chapter 1 Observations

---

---

of the alternatives cost less and each of the alternatives would strengthen public accountability. I proposed the alternatives to the Minister of Finance who has not yet indicated whether any of the alternatives will be accepted (see Chapter 4).

.10 With the existing costly audit system still in place and with our increased workload, I proposed to the Board of Internal Economy an increase in our funding. While the Board approved less than my funding request, it stated my Office should use audit fee revenues to offset the costs of the increased workload expected in 1993-94. However, some senior officials in government incorrectly believe my Office cannot use such revenues. As a result, I do not now know whether the Government will pay my Office when we charge fees for our audit work at such organizations as CIC, the Saskatchewan Liquor Board and SIAST.

.11 With so many important challenges and with limited (and uncertain) resources, my Office reassessed our work priorities for 1993-94 and decided to:

- no longer examine every government organization each year;
- delay issuing this Annual Report until we completed more of our work and, therefore, are able to report more fully to the Assembly;
- continue to recommend changes to *The Provincial Auditor Act* so we can perform our work in a more effective manner;
- reduce our audit staff by four (we have a full-time audit staff of approximately fifty); and
- establish closer links with other legislative audit offices throughout Canada in order to access their methodology, training, experience and advice. These links will assist our Office in carrying out our responsibilities more effectively.

.12 The contents of this Annual Report reflect these decisions. In this Report, I note my Office has not completed some of our examinations and we are not examining every organizations each year (see Appendix III). When we make these decisions our key consideration is, with our limited resources, how can we best serve

---

---

## Chapter 1 Observations

---

---

the Members of the Legislative Assembly.

.13 My Office believes a strong system of auditing is important. The Legislative Assembly and the public are best served when a government is committed to being publicly accountable and is willing to be examined by the Assembly's auditor. Appendix I in this Report describes the role and work of my Office in more detail.

---

---

## Chapter 2

# Understanding the Finances of the Government

---

---

### Purpose

**.01** Our Office is often asked by Members of the Legislative Assembly and the public to explain the state of the Government's finances. Members of the Assembly and the public seek better information. They want to understand the finances of the Government more fully so they can assess and debate revenue-raising and spending proposals, and the alternatives.

**.02** This chapter provides an overview of the finances of the Government as a whole. The overview is based on the information provided in the summary financial statements of the Government.

**.03** In our recent Annual Reports, we advised the Assembly the Government provided incomplete proposals on revenue raising and spending, and incomplete statements of financial results. The proposals and financial results were incomplete because they reported those financial activities the Government carried out through the Consolidated Fund only. As a result, important financial information was not included about activities the Government carried out through other government organizations, e.g., the Crown Investments Corporation, SaskTel, SaskPower and the Saskatchewan Crop Insurance Corporation.

---

### An Important Step Forward

**.04** In 1991-92, the Government took an important step toward providing more complete and reliable financial information. In October, an audited summary financial statement was issued showing, for the first time, the financial condition and results of operations of the Government as a whole. The statement was for the period ended March 31, 1992 and was based upon the accounting principles recommended by The Canadian Institute of Chartered Accountants and now used by several senior governments in Canada. The Government moved from providing what the Financial Management Review Commission viewed as the weakest and least useful financial statements in Canada to providing one of the most useful financial statements issued by a senior government in Canada.

**.05** In this chapter, we condense the information contained in the summary financial statements and record the Government's unfunded pension obligation, estimated to be \$3 billion, which has not yet been recorded by the Government. We show the total revenue, expenditure, assets and liabilities of the Government's



---

---

## Chapter 2 Understanding the Finances of the Government

---

---

general programs together with the totals for the Government's user fee enterprises.

---

General Programs and  
User Fee Enterprises

---

**.06** The statement on Schedule 1 shows the revenue and expenditure of the Government as a whole, organized by two types of activities -- general programs and user fee enterprises.

**.07** The general programs of the Government are carried out through government departments, e.g., education and health, and organizations funded through government departments, e.g., regional colleges and hospitals. These programs are financed primarily through the Consolidated Fund, by an appropriation approved by the Legislative Assembly.

**.08** User fee enterprises of the Government include SaskPower, SaskEnergy, SaskTel and the Saskatchewan Liquor Board. These enterprises raise revenue through direct charges for goods and services. Some of these enterprises compete in the market place with private sector companies selling similar goods and services.

---

The Statement of  
Revenue and  
Expenditure

---

**.09** The information provided in the statement of revenue and expenditure (Schedule 1) helps Members of the Assembly and the public identify trends and key indicators.

**.10** For example, the statement shows during 1991-92:

- total revenue is \$ 7.888 billion compared to 1990-91 revenue of \$7.509 billion, an increase of 5%.
- total expenditure is \$9.452 billion compared to 1990-91 expenditure of \$8.214 billion, an increase of 15%.
- the annual deficit is \$1.564 billion compared to the 1990-91 deficit of \$705 million, an increase of 122%.

## Chapter 2 Understanding the Finances of the Government

	Schedule 1	
Revenue and Expenditure For the Year Ended March 31 (in \$ millions)	1991-1992	1990-1991 (unaudited *)
Revenue		
General programs	\$ 4,486	\$ 4,699
User fee enterprises	<u>3,402</u>	<u>2,810</u>
Total revenue	<u>7,888</u>	<u>7,509</u>
Expenditure **		
General programs	6,171	5,774
User fee enterprises	<u>3,281</u>	<u>2,440</u>
Total expenditure	<u>9,452</u>	<u>8,214</u>
Annual deficit	<u>\$ 1,564</u>	<u>\$ 705</u>

\* The unaudited information for 1990-91 is derived from an accounting prepared by the Government for the Financial Management Review Commission.

\*\* The expenditure on general programs does not include a full accounting of the cost of pension benefits. The Government does not have current actuarial valuations for one key pension plan and, thus, accurate pension cost information is not available.

Also, the cost of physical assets acquired for general programs is recorded as an expenditure in the year those assets are acquired. The cost of physical assets acquired for user fee enterprises are recorded as an expenditure over the useful economic life of those assets.

---

---

## Chapter 2 Understanding the Finances of the Government

---

---

### The Statement of Assets and Liabilities

**.11** The statement of assets and liabilities (Schedule 2) shows what the Government owes as a whole, i.e., its liabilities (debts), and what the Government has available to meet what it owes, i.e., its assets.

**.12** For example, the statement shows at March 31, 1992:

- total assets are \$10.220 billion.
- total liabilities are \$19.388 billion.
- the accumulated deficit is \$9.168 billion. The accumulated deficit equals the difference between total liabilities of \$19.388 billion and total assets of \$10.220 billion. During 1991-92, the accumulated deficit increased by \$1.564 billion.

---

### The Difference Between Debt and Deficit

**.13** Our Office is often asked to explain the difference between debt and deficit. The two terms are often confused.

**.14** Debt means "that which is owed or due". The total debt of the Government at March 31, 1992 is its total liabilities -- \$19.388 billion. The total liabilities of \$19.388 billion include borrowings, unfunded pension obligations, accrued interest and various accounts payable. The Government also has \$1.537 billion in loan guarantees outstanding at March 31, 1992.

**.15** There are two types of deficits -- an annual deficit and an accumulated deficit. The annual deficit shows the extent to which revenues raised during a period were not sufficient to meet expenditures of that period. The annual deficit for 1991-92 was \$1.564 billion and is shown on Schedule 1 in this chapter.

**.16** The accumulated deficit is the difference between the total assets and the total liabilities of the Government at a particular date. It is the sum of all annual deficits accumulated to the accounting date and measures the future revenue required by the Government to pay for past transactions. The accumulated deficit at March 31, 1992 was \$9.168 billion. Schedule 2 shows the accumulated deficit.

## Chapter 2 Understanding the Finances of the Government

	Assets and Liabilities As at March 31 (in \$ millions)		Schedule 2
	1992	1991 (unaudited)	
<b>Assets</b>			
General programs	\$ 3,286	\$ 3,647	
User fee enterprises	<u>6,934</u>	<u>6,559</u>	
Total assets	<u>10,220</u>	<u>10,206</u>	
<b>Liabilities (debt) *</b>			
General programs	13,752	12,488	
User fee enterprises	<u>5,636</u>	<u>5,322</u>	
Total liabilities	<u>19,388</u>	<u>17,810</u>	
Accumulated deficit	<u>\$ 9,168</u>	<u>\$ 7,604</u>	

\* The Government also has \$1.537 billion in loan guarantees outstanding at March 31, 1992.

---

---

## Chapter 2 Understanding the Finances of the Government

---

---

### The Main Sources of Revenue and Purposes of Expenditure

.17 Schedule 3 displays the revenue and expenditure of the Government as a whole in more detail. Significant changes can be identified. For example, during 1991-92 the schedule shows:

- general program revenue is \$4.486 billion compared to 1990-91 revenue of \$4.699 billion, a decrease of 5%.

The decrease of 5%, or \$213 million, is made up of two key components. Tax revenues increased \$175 million or 9%, whereas revenue from the federal government, natural resources and other sources decreased by \$388 million or 14%.

- general program expenditure is \$6.171 billion compared to 1990-91 expenditure of \$5.774 billion, an increase of 7%.

The increase of 7%, or \$397 million, relates primarily to increases in "other" expenditures. Those expenditures include a loss on the sale of Cameco shares (\$189 million), the costs of the NewGrade upgrader (\$70 million) and the Bi-provincial upgrader (\$64 million), and the write-off of the cost of the Rafferty and Alameda dams (\$182 million).

- user fee enterprise revenue is \$3.402 billion compared to 1990-91 revenue of \$2.810 billion, an increase of 21%.

The increase of 21%, or \$592 million, relates primarily to the Saskatchewan Crop Insurance Corporation which administers the gross revenue insurance plan.

- user fee enterprise expenditure is \$3.281 billion compared to 1990-91 expenditure of \$2.440 billion, an increase of 34%.

The increase of 34%, or \$841 million, also relates primarily to the Saskatchewan Crop Insurance Corporation.

.18 Schedule 3 shows the important effect user fee enterprises have on the finances of the Government as a whole.

## Chapter 2 Understanding the Finances of the Government

Schedule 3

Revenue and Expenditure  
For the Year Ended March 31  
(in \$ millions)

	<u>1991-1992</u>		<u>1990-1991</u>	
	<u>Revenue</u>	<u>Expenditure</u>	<u>Revenue</u>	<u>Expenditure</u>
			(unaudited)	
<b>General programs</b>				
Taxes	\$ 2,163		\$ 1,988	
Federal government transfers	1,302		1,547	
Natural resources	338		423	
Other	<u>683</u>		<u>741</u>	
	<u>4,486</u>		<u>4,699</u>	
Agriculture *		\$ 400		\$ 578
Education		922		970
Health		1,690		1,659
Natural resources and economic development		187		143
Protection of persons and property		195		180
Recreation and culture		137		150
Regional planning and development		242		265
Social services		400		373
Transportation		209		236
Interest costs		879		862
Other		<u>910</u>		<u>358</u>
		<u>6,171</u>		<u>5,774</u>
<b>User fee enterprise programs</b>				
Energy (SaskPower & SaskEnergy)	1,016	871	1,010	866
Insurance - Saskatchewan Crop Insurance Corporation *	871	1,021	319	316
Insurance - Other **	556	542	536	480
Telecommunications (SaskTel)	569	518	574	527
Other (Sedco, Liquor Board and others)	<u>390</u>	<u>329</u>	<u>371</u>	<u>251</u>
	<u>3,402</u>	<u>3,281</u>	<u>2,810</u>	<u>2,440</u>
Total revenue and expenditure	<u>7,888</u>	<u>9,452</u>	<u>7,509</u>	<u>8,214</u>
<b>Annual deficit</b>		<u>1,564</u>		<u>705</u>
Accumulated deficit, beginning of year		<u>7,604</u>		<u>6,899</u>
Accumulated deficit at March 31		<u>\$ 9,168</u>		<u>\$ 7,604</u>

\* Agriculture expenditures include amounts paid to Saskatchewan Crop Insurance Corporation (\$120 million in 1990-91 and \$245 million in 1991-92). The same amounts are included as revenue of Saskatchewan Crop Insurance Corporation.

\*\* User fee enterprises carrying out "other" insurance programs include Saskatchewan Government Insurance, Saskatchewan Auto Fund and the Workers' Compensation Board.

---

---

## Chapter 2 Understanding the Finances of the Government

---

---

### The Assets and Liabilities of the Government

**.19** Schedule 4 shows the assets and liabilities of the Government as a whole in more detail.

**.20** The assets include cash, loans and investments which can be used to provide resources to discharge existing liabilities or finance future programs. They also include investments in revenue-generating buildings and equipment, e.g., physical assets administered by user fee enterprises.

**.21** The liabilities (or debt) are those financial obligations that commit the Government to pay for goods and services acquired or provided prior to the end of the year, e.g., March 31. They include short-term accounts payable, long-term borrowings, as well as unfunded pension obligations.

**.22** Significant changes from March 31, 1991 to March 31, 1992 are:

- general program assets decreased nearly \$400 million. This decrease was primarily due to investment disposals and losses, and asset write-offs.
- user fee enterprise assets increased nearly \$400 million. This increase relates mainly to acquisition of energy producing assets.
- total liabilities increased \$1.578 billion. This increase relates mainly to the 1991-92 annual deficit of the Government which was \$1.564 billion.

**.23** One important general program investment not shown in the Schedule nor in the Government's summary financial statements is the Government's infrastructure of roads, buildings and dams. Information about such infrastructure would be useful in understanding and assessing the Government's management practices and the future expenditures required for maintenance and replacement.

### We Recommend

**.24** The Government should disclose, in the summary financial statements, information to describe its investment in infrastructure.

## Chapter 2 Understanding the Finances of the Government

### Schedule 4

Assets and Liabilities  
As at March 31  
(in \$ millions)

	<u>1992</u>		<u>1991</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
			(unaudited)	
<b>General programs *</b>				
Short-term financial assets	\$ 989		\$ 1,047	
Long-term financial assets	<u>2,297</u>		<u>2,600</u>	
	<u>3,286</u>		<u>3,647</u>	
Short-term liabilities		\$ 688		\$ 579
Long-term liabilities		10,064		8,909
Unfunded pension liabilities		<u>3,000</u>		<u>3,000</u>
		<u>13,752</u>		<u>12,488</u>
<b>User fee enterprise programs *</b>				
Short-term financial assets	1,129		984	
Long-term financial assets	1,284		1,302	
Physical assets	<u>4,521</u>		<u>4,273</u>	
	<u>6,934</u>		<u>6,559</u>	
Short-term liabilities		1,770		1,875
Long-term liabilities		<u>3,866</u>		<u>3,447</u>
		<u>5,636</u>		<u>5,322</u>
<b>Total assets and liabilities</b>	<u>10,220</u>	<u>19,388</u>	<u>10,206</u>	<u>17,810</u>
Accumulated deficit or amount owed by future taxpayers		<u>\$ 9,168</u>		<u>\$ 7,604</u>
Investment in infrastructure of roads, buildings and dams	???		???	

\* At March 31, 1992:

- General programs include assets receivable from user fee enterprises of approximately \$282 million and liabilities payable to user fee enterprises of approximately \$491 million; and
- User fee enterprises include assets receivable from general programs of approximately \$491 million and liabilities payable to general programs of approximately \$282 million.



---



---

## Chapter 2 Understanding the Finances of the Government

---



---

The Financial Plan of  
the Government

**.25** In our opinion, the financial plan (budget) the Government provides to the Legislative Assembly is incomplete. The plan focuses on general program activities only. The plan does not fully describe the activity to be carried out in user fee enterprises.

**.26** The plan (budget) provided to the Assembly is incomplete because it is based on historical practice. Many years ago, almost all government financial activity was carried out through one fund. When this was the case, a budget for that fund was complete. Currently, however, a significant amount of government financial activity is carried out through organizations outside of the Consolidated Fund.

**.27** The incompleteness of the plan is apparent when we compare the revenue and expenditure of the Government as set out in the 1990-91 budget to the actual results of the Government as a whole as set out in the 1990-91 summary financial statements. 1990-91 amounts are used because in 1991-92 the financial plan (budget) of the Government was not specifically approved by the Assembly.

			<b>Schedule 5</b>
1990-1991 (in \$ millions)			
	<u>Financial Plan</u>		<u>Government as a Whole</u>
	<u>Budget</u>	<u>Actual Results</u>	<u>Actual Results</u>
Revenue	\$ 4,278	\$ 4,658	\$ 7,509
Expenditure	<u>4,641</u>	<u>5,019</u>	<u>8,214</u>
Annual Deficit	<u>\$ 363</u>	<u>\$ 360</u>	<u>\$ 705</u>

**.28** Our Office and the Financial Management Review Commission hold the view Members of the Assembly and the public should be presented with a financial plan that shows the activities to be carried out by the Government as a whole. The decisions faced by the Assembly are too important to be made in the context of incomplete information.

---

---

## Chapter 2 Understanding the Finances of the Government

---

---

### We Recommend

**.29** The Government should present the Legislative Assembly with a financial plan for the activities of the Government as a whole. The plan should include a multi-year forecast.

**.30** In 1992, the Government announced it will be using more rigorous accounting principles, referred to as "accrual accounting", when preparing its budget for 1993-94. The principles of "accrual accounting" are generally consistent with those recommended for governments by the CICA.

**.31** In February 1993, the Standing Committee on Public Accounts asked our Office to work with officials of the Department of Finance and the Crown Investments Corporation to prepare a report on a complete financial plan for the whole Government, including a multi-year forecast.

**.32** A more complete financial plan and a multi-year forecast will be particularly important as the Government develops longer-term economic strategies. A financial plan that sets out such strategies can help legislators and the public more fully understand and assess key issues, including:

- can we afford existing programs or offer new programs? If change is required, which programs should be affected -- education, health, energy or insurance?
- do taxes and user fees need to be changed? If additional revenues are needed, where should the revenues come from -- sales taxes, income taxes or user fees for energy and telecommunications?
- where do we obtain the resources to maintain our infrastructure of roads, schools and hospitals so critical to our future?

---

---

## Chapter 3

### The Financial Management Review Commission

---

---

**.01** In our last Annual Report, we said we plan to monitor and report on the Government's implementation of the recommendations of the Financial Management Review Commission.

**.02** The Commission was established by the Government in November, 1991 to review the financial position of the Province, provide an overview of significant transactions and commitments entered into by the Government during the past several years, and offer advice on how to improve financial management and public accountability. As Provincial Auditor, I was asked to serve as special advisor to the Commission.

**.03** The Commission's forty-two recommendations and other guidance provide valuable advice on improving government financial management and public accountability practices. The advice focuses on accounting and disclosure practices as well as legislative scrutiny.

---

Progress

**.04** In general, the Government has made steady progress in moving forward on the recommendations and advice of the Commission.

**.05** Many of the recommendations dealing with accounting and disclosure practices are in place. In addition, the Government has said studies on how best to implement other important accounting and disclosure practices are underway or planned.

**.06** One area requiring more specific attention is legislative scrutiny. Many of the concerns cited by the Commission relate to the ability of the Legislative Assembly and the public to participate in the decision-making process of the Government. Legislators and the public require more useful information to better understand, assess and debate proposed actions of the Government.

---

An Ongoing Progress Report is Needed

**.07** Since the Report of the Commission was released, the Government has stated it completely endorses the spirit and intent of the Report and the recommendations within the Report. The Government also said it has taken or is examining action on every recommendation.

---

---

## Chapter 3 The Financial Management Review Commission

---

---

**.08** On November 10, 1992, the Minister responsible released a progress report showing "actions taken." The release of the progress report is significant because it indicates the Government is holding itself accountable for implementing the much needed reforms identified by the Commission. We believe ongoing progress reports are needed and should be provided. The Legislative Assembly and the public can then monitor future "actions taken" by the Government to improve financial management and public accountability.

### We Recommend

**.09 The Government should report annually on its progress in implementing the recommendations and guidance of the Financial Management Review Commission.**

**.10** The following sets out our views on the Government's progress in implementing the recommendations and advice of the Commission. Our views are organized into three subject areas e.g., accounting changes, disclosure practices and legislative scrutiny. (*Appendix V sets out each of the recommendations of the Commission and outlines our views on the actions proposed and taken by the Government*).

---

### Accounting Changes

**.11** The Commission examined the accounting practices and financial statements of the Government and concluded they were deficient. The Commission states the deficiencies "seriously jeopardize the effectiveness of the decision-making processes and public accountability of the affairs of the Government of Saskatchewan and its Crown corporations, boards, commissions, and other agencies".

**.12** The Commission recommends the Government, through legislation, adopt the accounting principles and reporting standards of the Public Sector Accounting and Auditing Committee (now Board) of the Canadian Institute of Chartered Accountants (CICA).

**.13** The Government took a significant step towards this recommendation by preparing a summary financial statement showing the financial condition and results of operations of the Government as a whole. The statement is for the period ended March 31, 1992. The statement is audited by our Office and was issued at the end of October, 1992. For the first time, legislators and the public are provided a nearly complete accounting. The Government moved from providing what the Commission viewed as the weakest and least useful financial statement in Canada to

---

---

## Chapter 3 The Financial Management Review Commission

---

---

providing one of the most useful financial statements issued by a senior government in Canada.

.14 Unfortunately, the Government chose not to implement the complete recommendation of the Commission. The Commission recommends the law be changed to require future governments to follow the CICA's standards. Without a legislative change, future governments might not continue to follow these independently-set standards. If that happens, legislators and the public will, once again, receive incomplete and noncomparable financial information.

### We Recommend

**.15 The Government should adopt, through legislation, the recommendations of the Public Sector Accounting and Auditing Board of The Canadian Institute of Chartered Accountants.**

.16 In addition, the Government chose not to record its liability for pensions earned by public sector employees, including teachers. This unrecorded liability is estimated to be \$3 billion.

.17 The Commission, the CICA and our Office recommend the Government record its pension liability. Because this liability is not recorded, the debt and deficit measures reported by the Government are incomplete. As a result, legislators and the public are not provided all of the information needed to understand and assess fully the resource allocation decisions of the Government.

### We Recommend

**.18 The Government should record its liability for pension obligations.**

.19 Last year, the Government said it plans to form a pension commission to study its pension plan obligations. To date, that commission has not been formed.

---

### Disclosure Practices

.20 The Commission concludes many changes are required to improve the quality and timeliness of information disclosed by the Government to the Legislative Assembly and the public. The Commission notes financial statements for some government corporations are not provided, other information is provided too late to be of much use, and descriptions of what is being undertaken by government programs are inadequate.

.21 In the past year, the Government improved disclosure practices. The most significant step is to require, by law, that the

---

---

## Chapter 3 The Financial Management Review Commission

---

---

public accounts be issued by the end of October. Last October, the public accounts including the summary financial statements, were released. Much good work and coordination by the staff of the Provincial Comptroller in the Department of Finance was required to make this happen. In previous years, not only did the public accounts not provide a summary financial statement, the accounts were often released as late as the following March, April or May.

**.22** In November, 1992, the Government released an interim financial report forecasting the financial results of the Consolidated Fund to the end of the year. Such a forecast is important because it helps legislators assess, in a timely manner, whether alternative actions are required. However, the Commission also recommends the report provide an accounting of the financial results, at the interim date (September 30), compared to what was planned to that date.

**.23** Currently, the interim report focuses on those financial activities the Government carries out through the Consolidated Fund. As a result, the report is incomplete. In future, the interim report should be based on the summary financial statements and, thus, show the financial results of the Government as a whole. Legislators and the public will then be better able to understand and assess the state of finances of the Government.

### We Recommend

**.24** The interim report issued by the Government should reflect the financial results of the Government as a whole, should show the financial results to the interim date compared to what was planned and should show the forecast to the end of the year.

**.25** The Commission states all government organizations should have the same public reporting responsibilities as government departments unless specifically exempted in their mandate. Government departments disclose payments made to individuals. Government corporations do not provide such disclosure. Such disclosure is important because it helps legislators and the public hold the Government accountable for spending public money. Such disclosure also enables comparisons of spending practices among government organizations.

### We Recommend

**.26** The Government should disclose, for each government organization, the payments made to employees and suppliers of goods and services.

---

---

## Chapter 3 The Financial Management Review Commission

---

---

**.27** The Government announced it is examining this important issue and has moved a step forward. The Government now provides details of payments made by the Saskatchewan Property Management Corporation in addition to those made by government departments.

**.28** Other important changes were initiated by the Government.

- A financial statement was issued showing how the Crown Investments Corporation (CIC) manages the assets entrusted to it by the Assembly. Although the statement needs improvement, it provides important information on how significant amounts of public money are spent.
- The Government has stated all financial statements of all government corporations, including the subsidiaries of CIC, will be issued. During the year, the statements for SaskEnergy were publicly issued for the first time.
- Mandate statements describing programs carried out by government departments are now included in the public accounts. In the future, mandate statements describing programs carried out by government corporations will be included in the annual reports of government corporations.

---

### Legislative Scrutiny

**.29** Many of the recommendations and the advice provided by the Commission focuses on improving the ability of legislators and the public to participate in the decision-making process of the Government.

**.30** Although the Government initiated some change in this area and announced it is examining how to move other issues forward, more specific actions are needed. Improving public accountability involves more than providing reports showing what has already happened. An effective system of public accountability should provide ample opportunity for discussion and debate of proposed actions, the alternatives considered and what is expected to be achieved.

**.31** Many of the transactions and commitments examined by the Commission were not specifically approved by the Assembly and

---

---

## Chapter 3 The Financial Management Review Commission

---

---

yet involved large amounts of public money. Several of the transactions and commitments have an ongoing, significant effect on the financial condition of the Government. The Crown Investments Corporation (CIC) was often the organization used by the Government to carry out those transactions.

**.32** The Commission recommends several changes be made to ensure such transactions be preceded by a more rigorous legislative scrutiny and public debate. Six of the proposed changes are particularly important. The Government states it is examining each of these changes. We look forward to future "action reports".

**.33** The first change would limit, by law, the amount of public money that can be committed by a government to a project or program without the prior approval of the Assembly. Such commitments include new spending programs, investments, loans and loan guarantees.

### We Recommend

**.34** The Government should propose legislation to limit the amount of public money that can be committed by a government to a new project or program without the specific prior approval of the Assembly.

**.35** The second change would ensure all dividends taken from government corporations be provided to the Consolidated Fund. If organizations, e.g., CIC, require monies, a proposal should be brought to the Assembly for debate and, if appropriate, approval during the annual estimates process.

**.36** An alternative is to present to the Assembly, during the annual estimates debate, the financial plans of government corporations, showing how expected earnings are to be used. The plans should indicate whether earnings of such corporations as SaskTel are to be reinvested in the corporation, provided to CIC or provided to the Consolidated Fund. Information about what is expected to be achieved with the earnings is needed so the Assembly can more fully understand and assess proposals.

### We Recommend

**.37** The Government should require all dividends taken from government corporations be provided to the Consolidated Fund. Alternatively, the Government should present to the Assembly the financial plans of corporations during the estimates approval process and request approval for the planned use of earnings.



---

---

## Chapter 3 The Financial Management Review Commission

---

---

.38 The third change would use the accounting policies recommended by the CICA as the basis for preparing the annual financial plan presented to the Assembly. Accordingly, the plan would show what the Government as a whole proposes to carry out. At the end of the year, the summary financial statements would report on the actual results of the activities carried out by the Government as a whole. Currently, the financial plan provided to the Assembly focuses on those financial activities the Government carries out through the Consolidated Fund only. Accordingly, the financial plan is incomplete.

.39 A more complete financial plan is particularly important as the Government moves to develop a longer-term economic strategy. Such a strategy needs to be developed in the context of the Government as a whole.

### We Recommend

**.40 The Government should use the accounting policies recommended by the CICA as the basis for preparing the annual financial plan presented to the Assembly.**

.41 The fourth change would have the Government provide the Assembly a mandate statement for each Government organization.

.42 Mandate statements should provide clear direction on the objectives of the organization, on what the organization is permitted to do, and on its accountability responsibilities to other government organizations and to the Assembly. The statements should be reviewed regularly by a standing committee of the Assembly, e.g., the Standing Committee on Public Accounts or the Standing Committee on Crown Corporations.

.43 Mandate statements for government corporations are particularly important because those corporations often carry out competing objectives. For example, a corporation might focus on providing reliable service at the lowest cost possible. At the same time, the corporation might be required to initiate a construction project which adds to the corporation's cost structure but not to its revenue structure. The objective of the project might relate to employment stability or economic development within a region of the Province. Mandate statements should state how such competing objectives are to be financed, e.g., by user fees or by general tax revenue.

.44 With the information in mandate statements, Members of the Assembly will be better able to understand and assess the

---

---

## Chapter 3 The Financial Management Review Commission

---

---

performance of government organizations because the objectives of those organizations will be defined more clearly.

### We Recommend

**.45 The Government should provide mandate statements to the Legislative Assembly for each government organization and those statements should be referred to a standing committee of the Assembly for regular review.**

**.46** The fifth change would have the Government provide the Assembly information for each significant transaction or commitment. The Commission provides a useful framework of essential information. The Commission recommends reporting:

- the specific business and public-policy objectives of the transaction or commitment (the criteria to be used to assess whether the objectives are being achieved is particularly important),
- the financial implications, including the impact on the Province's financial position and an analysis of associated risks (a multi-year analysis is needed),
- the process to be used to manage the transaction or commitment,
- the legislative authority under which the decision is made, if the Legislature did not specifically approve it in advance, and
- the organizational structure chosen for any ongoing participation by the Government, as well as the process by which the public will be regularly informed about the status and performance of the transaction or commitment.

### We Recommend

**.47 For each significant transaction or commitment, the Government should report to the Assembly, in a timely manner, the framework of information recommended by the Commission.**

**.48** The Government adopted the spirit of this recommendation when it set out the terms of reference for an inquiry into the NewGrade Upgrader. This indicates the framework recommended by the Commission can be useful for evaluating transactions and commitments previously made. The framework can help

---

---

## Chapter 3 The Financial Management Review Commission

---

---

determine what decisions are now appropriate regarding government financial involvement or the effectiveness of the investment management process. Such evaluations are particularly useful when new events have rendered original objectives unachievable or when original objectives are not clearly defined.

**.49** The Standing Committee on Public Accounts has also begun to use the framework when requesting information from officials. Officials of the Department of Health were asked to provide an analysis of recent changes in the health care system and be prepared to discuss their analysis at a future meeting of the Committee. The framework for the analysis requested is similar to that recommended by the Commission.

**.50** We look forward to the framework being used to provide the Assembly with timely, full and clear information about the significant transactions or commitments of the future. Members can then assess performance more easily.

**.51** The sixth change would have the Government propose to the Assembly, changes to *The Provincial Auditor Act*. The changes should confirm the principle that the Provincial Auditor is responsible for reporting to the Assembly on all government organizations. The Commission recommends:

*The Provincial Auditor Act should be reviewed and, where necessary, amended to reflect the principle that the Provincial Auditor is responsible for reporting to the Legislature on all government-owned entities, but that private-sector auditors can be appointed to review the financial affairs of such entities, as long as it is clear that the use of private-sector auditors is not intended to restrict the Provincial Auditor in meeting his/her responsibilities for public accountability to the Legislature.*

**.52** Our Office holds the view the existing audit system as set out in *The Provincial Auditor Act* needs to be changed. Under the existing system, it is often difficult for our Office to carry out our work and to report our findings and conclusions to the Assembly in a timely manner. Chapter 4 of this Annual Report sets out our concerns in more detail.

---

---

## Chapter 3 The Financial Management Review Commission

---

---

### We Recommend

**.53** *The Provincial Auditor Act* should be changed to confirm the principle that the Provincial Auditor is responsible for reporting to the Legislative Assembly on all government organizations.

**.54** We believe an effective audit system is important because it helps legislators and the public hold the Government accountable for managing and financing \$9 billion of expenditures. An effective audit system strengthens public confidence in the work of legislators and government.

---

---

## Chapter 4

### Ability to Fulfil Our Role

---

---

#### Our Role

**.01** The role of our Office is to assist the Legislative Assembly hold the Government accountable for how it manages public money. We audit all public money entrusted to the Government and report our findings annually to the Assembly. Our responsibilities are contained in *The Provincial Auditor Act*.

**.02** The Government consists of elected and appointed officials who are responsible to the Assembly. Together, these officials manage public money through a complex structure of nearly 190 organizations. These organizations include government departments, commissions, boards, health and education institutions and corporations.

**.03** We audit these organizations directly or work with other auditors. Our findings are reported in our Annual Report which is distributed to all Members of the Assembly. Our Report is available to the public upon request. We also provide separate reports to the Assembly on the reliability of financial statements of government organizations.

**.04** Two factors significantly affect our ability to fulfil our role -- the audit system set out in *The Provincial Auditor Act* and the resources made available to our Office.

**.05** We are continuing to experience difficulties in these two areas. As a result, Members of the Assembly and the public are not receiving the information and assurances we believe they expect and should receive from our Office. The ability of the Assembly to hold the Government accountable for administering public money needs strengthening.

---

#### The Legislative Assembly Requires an Effective Audit System

**.06** An effective audit system is important because it helps legislators and the public hold the Government accountable for managing and financing over \$9 billion of expenditures. An effective audit system strengthens public confidence in the work of legislators and government. An ineffective audit system weakens public confidence in the work of legislators and government.

**.07** The existing audit system was created in 1987 when the Government, without consulting our Office, introduced changes to *The Provincial Auditor Act*. Under the existing system, it is often difficult for our Office to carry out our work and to report our

---

---

## Chapter 4 Ability to Fulfil Our Role

---

---

findings and conclusions to the Assembly in a timely manner.

**.08** We carry out our examination and reporting responsibilities through two approaches allowed by *The Provincial Auditor Act*. The first approach is relatively simple and, we believe, is reasonably effective. When we follow the first approach, our Office examines a government organization directly and reports our findings to the Assembly.

**.09** The second approach is more complex and has been less effective because, when we follow this second approach, the Assembly does not receive our views in a timely manner. Also, we cannot assure the Assembly that all significant issues are brought to its attention. The second approach involves working with other auditors who are appointed by the Government or by its agencies. Currently, there are about 63 Crown corporations or agencies who have appointed auditors. (Appendix II and III lists those corporations or agencies).

**.10** *The Provincial Auditor Act* allows our Office to carry out our responsibilities to the Assembly by relying on reports of appointed auditors. Accordingly, we carry out our responsibilities as follows:

- we advise the appointed auditor that we plan to rely on their work and reports, and that we need their reports by a specified date;
- when we receive the reports, we assess whether the reports are reasonable, are supported by the auditor's working papers, and are consistent with other information that may have come to our attention; and
- we then report our views to the Assembly in a public report. When our views differ, we are required by the Act to state we are unable to rely on the appointed auditor. We explain our reasons, what additional work was performed and our findings.

**.11** When a government organization appoints another auditor, we hold the view we remain ultimately responsible to the Assembly for the audit of that organization. In 1987, when changes to *The Provincial Auditor Act* were being debated, we provided this view to the Assembly. This view was not disputed during the debate on the proposed changes and we have operated

---

---

## Chapter 4 Ability to Fulfil Our Role

---

---

under this view since the Act was passed.

**.12** We believe Members of the Assembly expect our Office to be responsible and accountable for the audits of all government organizations. We also believe the Assembly needs one auditor who can maintain the overview of how the Government as a whole manages the public resources entrusted to it. Maintaining that overview is particularly important when viewed in the context of assisting Members in holding the Government accountable for managing over \$9 billion of expenditures, through a complex system of nearly 190 organizations.

**.13** To maintain that overview, our Office requires direct knowledge of how individual government organizations manage public money. We need direct and timely knowledge to assist the Assembly and its Standing Committees on Public Accounts and Crown corporations in holding the Government accountable. When our Office is not able to provide effective assistance, the Assembly's ability to understand and assess key financial issues is weakened. As a result, the Assembly's ability to hold the Government accountable for managing public money is impaired.

**.14** We believe a strong system of accountability strengthens confidence in government and the Legislature. A weak system of accountability undermines confidence in government and the Legislature.

---

Our Responsibilities  
Need to be Confirmed

**.15** Some officials appear to believe that when a government organization appoints another auditor, our Office is no longer responsible to the Assembly for the overall audit of that organization. Accordingly, they seem to believe we do not need to assess the reliability of the reports of appointed auditors nor do we need to report our views to the Assembly.

**.16** Accordingly, those officials, who believe we are not responsible, are also reluctant to provide our Office with information we need to carry out our responsibilities to the Assembly. Some officials appear to believe we do not even have the right to discuss issues or obtain information from managers of government organizations directly. They hold the view we must obtain any required information from the appointed auditor unless we are prepared to state publicly we are unable to rely on the work of the appointed auditor.

---

---

## Chapter 4 Ability to Fulfil Our Role

---

---

.17 When this view is held and we do not receive information requested in a timely manner, our work and reports are late. As a result, the Legislative Assembly does not receive from its auditor, the Provincial Auditor, the assurances and other information required to assist the Assembly in holding the Government accountable for how it manages public money. Accordingly, the public accountability of the Government is weakened.

### We Recommend

**.18 *The Provincial Auditor Act should be changed to confirm the principle that the Provincial Auditor is responsible for reporting to the Assembly on all government organizations.***

.19 The Financial Management Review Commission recommends:

*The Provincial Auditor Act should be reviewed and, where necessary, amended to reflect the principle that the Provincial Auditor is responsible for reporting to the Legislature on all government-owned entities, but that private-sector auditors can be appointed to review the financial affairs of such entities, as long as it is clear that the use of private-sector auditors is not intended to restrict the Provincial Auditor in meeting his/her responsibilities for public accountability to the Legislature.*

---

### Our Audit System Needs Strengthening

.20 When another auditor is appointed by the Government, i.e., the second approach, we cannot easily identify issues or examine issues directly and our reports to the Assembly are often late. We cannot easily identify issues because our knowledge of the transactions of an organization depends largely on what another auditor documents in working paper files. We cannot examine issues in a timely manner and our reports are often late because we must wait to receive the reports and working papers of the auditor appointed by the Government.

.21 We are particularly concerned Members of the Assembly do not have our views at the time government financial statements are issued publicly. Members are making assessments and decisions without the benefit of the assurances and findings provided by our Office.



---

---

## Chapter 4 Ability to Fulfil Our Role

---

---

**.22** We believe the existing audit system needs to be changed to ensure the Assembly and the public have the assurances and findings of our Office in a more timely manner. We have reported this problem for several years. The problem continues and, as a result, the Government's public accountability continues to be impaired.

**.23** Recently, the Standing Committee on Public Accounts examined our concerns about the delay in receiving, on a timely basis, the reports and working papers of an appointed auditor, delays, which the Committee pointed out, ultimately affect public accountability.

**.24** The Members plan to recommend to the Assembly that the Government work co-operatively with our Office by involving us in choosing appointed auditors, establishing audit plans, maintaining solid communication through frequent updates, and ensuring our Office has sufficient time to comment on the final audit report prior to its public release.

**.25** Recently, the Standing Committee on Crown Corporations requested we attend their meetings and provide advice on the financial activities of Crown corporations. The Committee plans to recommend that we report to them more directly on our work in Crown corporations.

**.26** We hold the view the audit system needs strengthening so that our Office is better able to assist the important work of the Assembly and these two Standing Committees. (Chapter 5 explains the work of these committees).

---

The Audit System  
Can be Improved and  
the Cost Can be  
Reduced

---

**.27** We examined changes to the audit system to improve the ability of the Assembly to hold the Government accountable and, at the same time, provide a system that is less costly to taxpayers. After much discussion with many individuals and groups, we identified three alternative systems and proposed the alternatives to the Minister of Finance. We proposed the alternatives to the Minister because each alternative requires a change to *The Provincial Auditor Act*; the Minister is responsible for proposing changes to the Act to the Assembly.

**.28** In the first alternative, we advised the Minister if our Office did all the work directly we could better identify and examine issues and we would be better able to assist the Assembly

---

---

## Chapter 4 Ability to Fulfil Our Role

---

---

in holding the Government accountable. In late 1991, we estimated this system would save the taxpayers nearly \$1.0 million every year compared to the existing audit system.

**.29** In the second alternative, we advised the Minister, if our Office appoints the other auditors instead of the Government, we would be better able to assist the Assembly hold the Government accountable. We would be able to obtain required information in a timely manner and there would be a clear understanding of responsibilities. In late 1991, we estimated that, if the same proportion of audit work was performed by appointed auditors as was then performed, taxpayers would save nearly \$0.3 million every year.

**.30** In the third proposal, we advised the Minister how the system could be improved if the Government wishes to continue directly making the appointments. The terms of such appointments could require the appointed auditor to work closely with our Office and in a timely manner. The terms of the appointment would ensure there is a clear understanding of responsibilities, we jointly approve the audit workplans before work commences, we are advised of all key issues at regular meetings with the appointed auditor and management, and we jointly sign any public audit reports. This proposal would cost the same as the existing system.

**.31** The Minister does not appear to support the first two alternatives and has not advised us if the third alternative is acceptable.

---

### Resources Required by Our Office

**.32** As we state at the beginning of this chapter, two key factors affect our ability to fulfil our role. The first is the audit system; the second is the resources made available to our Office.

**.33** The Board of Internal Economy, an all-party standing committee of the Legislative Assembly, examines our funding requests and recommends an amount to the Assembly. For the fiscal years 1992-93 and 1993-94, the Board approved less funding than requested by our Office.

**.34** When we prepared our funding requests we were concerned about asking for an increase during a time of restraint. Accordingly, we identified alternatives that would cost less but would strengthen public accountability. As described above, the Minister of Finance has not yet accepted our alternatives.

---

---

## Chapter 4 Ability to Fulfil Our Role

---

---

.35 The following table sets out the amount of our requests and the amount approved by the Board.

<u>Fiscal Year</u>	<u>Request</u>	<u>Approved</u>
1992-93	\$4.4 million	\$3.8 million
1993-94	\$4.8 million	\$3.8 million

.36 Our funding request for 1992-93 is based on the more costly existing system. We have not yet been advised if there will be a change to the system. The increase in our 1993-94 request is due mainly to additional work resulting from our appointment as the sole auditor of the Crown Investments Corporation (CIC) and the Saskatchewan Liquor Board. In addition, the increase is due to work required to audit new agencies created by the Government, e.g., the Prince Albert, Regina and Saskatoon health boards.

.37 While the Board approved less than our request, it also stated we should use audit fee revenues, from our extra work, to offset the costs of increased workloads expected in 1993-94. Accordingly, we plan to bill certain existing government organizations and new government agencies such as the Prince Albert, Regina and Saskatoon health boards.

.38 Although we have the authority to bill government organizations for our work, we normally do not. When we do bill, we usually send any money we receive to the Consolidated Fund.

.39 We prefer not to fund our operations from billings to government organizations because our sources of funding then become dependent on what monies the Government provides our Office rather than what monies the Assembly provides our Office. Since we work for the Assembly, we believe it is important the Assembly provide our funding.

.40 The resources provided to our Office are insufficient at a time when we face additional, complex challenges and priorities that continue into 1993-94 and include:

- auditing the first-ever summary financial statement issued by the Government. The statements aggregate

---

---

## Chapter 4 Ability to Fulfil Our Role

---

---

the financial results of nearly 190 government organizations;

- completing our work on the Public Accounts several months earlier, thereby enabling the Government to issue the Accounts by the end of October;
- examining new agencies created by the Government, e.g., the Prince Albert, Regina and Saskatoon health boards;
- examining Crown corporations more directly and performing the direct audit of the Crown Investments Corporation of Saskatchewan and the Saskatchewan Liquor Board as well as carrying out additional work at SIAST;
- examining cross-government issues such as the usefulness of annual reports of government departments (see Chapter 8). The purpose of this audit is to ensure those reports provide the Assembly with the information needed to understand and assess the performance of government departments;
- auditing issues related to the systems and practices the Government uses to ensure economy, efficiency and effectiveness (see Chapter 17 on the Department of Highways and Transportation);
- performing special assignments requested by the Government or the Standing Committee on Public Accounts (see Chapter 6). Recently, the Standing Committee asked our Office to work with officials of the Crown Investments Corporation and the Department of Finance on a multi-year financial plan for the Government as a whole; and
- advising, at the Committee's request, the Standing Committee on Crown Corporations.

.41 With so many important challenges and with limited resources, we reassessed our work priorities and decided to:

- no longer examine every government organization each year;

---

---

## Chapter 4 Ability to Fulfil Our Role

---

---

- delay issuing this Annual Report until we completed more of our work and, therefore, are able to report more fully to the Assembly;
- continue to recommend changes to *The Provincial Auditor Act* so we can perform our work in a more effective manner;
- reduce our audit staff by four (we have a full-time audit staff of approximately fifty); and
- establish closer links with other legislative audit offices throughout Canada to access their methodology, training, experience and advice. These links will assist our Office carry out our responsibilities more effectively.

.42 The contents of this Annual Report reflect these decisions. In this Report, we note we have not completed some of our examinations and we are not examining every organizations each year (see Appendix III). When we make these decisions our key consideration is, with our limited resources, how can we best serve the Members of the Legislative Assembly.

.43 Our Office believes a strong system of auditing is important. The Legislative Assembly and the public are best served when a government is committed to being publicly accountable and is willing to be examined by the Assembly's auditor.

---

---

## Chapter 5

### Standing Committees of the Legislative Assembly

---

---

**.01** The process of revenue raising, spending and accounting for public money begins and ends in the Legislative Assembly. The final link in this process is provided by the Standing Committees on Public Accounts and Crown Corporations.

**.02** Together, these two committees provide opportunity for members to examine the performance of government departments, corporations and other agencies.

---

Effectiveness of  
Committees Improved

**.03** The effectiveness of these two committees is of strategic importance in closing the accountability loop and helping strengthen public confidence in the ability of elected members to serve the public interest. This latter objective was identified in the throne speeches of 1992 and 1993 as one of the Government's broad objectives. We are confident all Members of the Assembly share this objective.

**.04** Both committees took important steps to improve their effectiveness during the second session of the twenty-second Legislature, which began in April, 1992.

---

Public Accounts  
Committee  
Accomplishments

**.05** The Public Accounts Committee (PAC) adopted a mandate statement and a code of operating principles/practices, patterned after guidelines for a model committee published by the Canadian Council of Public Accounts Committees.

**.06** The PAC tabled its first report of the second session in May, 1992, concluding its work on the Public Accounts and on our Report for the 1989-90 fiscal year. Our status report contained in Appendix VI indicates an impressive number of recommendations have already been implemented by the Government.

**.07** The PAC completed work for its second report of the second session, dealing with a special review performed by our Office at the request of the PAC. Chapter 6 includes our comments on that review.

**.08** Finally, the PAC completed work for its third report of the second session, dealing with the Public Accounts and our Report for the fiscal year ended March 31, 1991. The second and third

---

---

## Chapter 5 Standing Committees of the Legislative Assembly

---

---

reports of the Committee are expected to be tabled early in the third session of the Legislature.

**.09** All reports prepared by the PAC contain valuable recommendations. In keeping with its operating principles and practices, the PAC has requested a comprehensive response by the Government within 120 days.

### We Recommend

**.10 The Government should comply with the request of the Public Accounts Committee for a comprehensive response to each report of the Committee.**

**.11** One of the operating principles worthy of special mention is the PAC will endeavour to obtain all necessary resources, including research support, to efficiently fulfil its role and responsibilities in an effective manner.

**.12** Research assistance would be valuable to Members because of the volume and complexity of work the PAC must undertake to be effective. The PAC is responsible for examining over \$9 billion of expenditures carried out through nearly 190 government organizations. At present, the PAC does not have any research assistance.

### We Recommend

**.13 The Legislative Assembly should consider providing research assistance to the Public Accounts Committee to help the Committee achieve greater effectiveness.**

**.14** During public hearings of the PAC, the Saskatchewan Transportation Company was asked to respond to the questions underlying the twelve attributes of effectiveness reporting developed by the Canadian Comprehensive Auditing Foundation. The twelve attributes deal with management direction, relevance, appropriateness, achievement of intended results, acceptance, secondary impacts, costs and productivity, responsiveness, financial results, working environment, protection of assets, monitoring and reporting. Chapter 8 describes the twelve attributes of effectiveness in more detail.

**.15** In another hearing, the Department of Health was advised it should, in future, be prepared to answer questions about objectives and performance related to significant transactions and commitments, patterned after the recommendations of the Financial Management Review Commission. Chapter 3 describes the questions set out by the Commission.

---

---

## Chapter 5 Standing Committees of the Legislative Assembly

---

---

### We Recommend

**.16** Members should continue to make use of analytical aids suggested by the Canadian Comprehensive Auditing Foundation and the Financial Management Review Commission. These aids will assist Members pursue more indepth examinations of administrative actions of government organizations.

**.17** Members of the Public Accounts Committee at the close of deliberations in February, 1993 were as follows:

- |                            |                                      |
|----------------------------|--------------------------------------|
| • R. J. Swenson<br>(Chair) | • H. H. Van Mulligen<br>(Vice-Chair) |
| • D. K. Anguish            | • E. Cline                           |
| • L. Haverstock            | • S. Kujawa                          |
| • E. F. Lautermilch        | • G. S. Muirhead                     |
| • C. J. Serby              | • M. Sonntag                         |

---

### Crown Corporations Committee - Change in Operating Procedures

**.18** The Crown Corporations Committee (CCC) began the practice of having our Office provide an overview of key issues arising from our audit activities and our analysis of the annual reports of Crown corporations.

**.19** In many cases, we had not completed our audits and were not in a position to comment from that perspective. With the co-operation of management officials of the Crown Investments Corporation, we plan to be in a position to provide more timely advice.

**.20** Another change in procedure made by the CCC was to allow members to ask questions, through the Minister, to officials directly. This makes questioning more efficient on matters which are administrative or financial in nature and non-policy oriented.

### We Recommend

**.21** The Crown Corporations Committee should continue the practice of questioning officials directly.

**.22** In the course of the last session, the CCC considered its mandate and the practices to be followed in dealing with issues. We encourage the Committee to examine its role and clarify its operating practices.

**.23** The CCC should provide effective legislative scrutiny to Crown corporation operations. In our opinion, the scrutiny should



---

---

## Chapter 5 Standing Committees of the Legislative Assembly

---

---

complement the work of the Public Accounts Committee. We note several suggestions made by the Financial Management Review Commission which should be reviewed when the CCC examines its role and operating practices. One particularly important suggestion of the Commission is that mandate statements of Crown corporations should be reviewed regularly by the Committee.

**.24** Past CCC reports include a list of organizations called before the Committee. However, the reports do not contain much information about the results of the meetings. If the Committee is to take on a legislative scrutiny role similar to the Public Accounts Committee, the CCC should prepare comprehensive reports of matters investigated and recommendations made.

**.25** Members of the Crown Corporations Committee at the close of deliberations in February, 1993 were as follows:

- |                            |                                 |
|----------------------------|---------------------------------|
| • J. L. Solomon<br>(Chair) | • L. A. Calvert<br>(Vice-Chair) |
| • J. Crofford              | • L. Haverstock                 |
| • L. E. Johnson            | • J. Langford                   |
| • P. Lorje                 | • H. A. Martens                 |
| • D. J. Toth               | • K. D. Trew                    |

---

---

## Chapter 6 Special Assignment

---

---

**.01** In January, 1992 the Standing Committee on Public Accounts asked our Office to perform a special assignment. Under *The Provincial Auditor Act* such a request can be accepted if, in the opinion of the Provincial Auditor, the special assignment will not unduly interfere with other duties prescribed in the Act.

**.02** We agreed to do this special assignment. A report on our findings was presented to the Standing Committee on Public Accounts in April, 1992.

### Purpose of Special Assignment

**.03** The Public Accounts Committee (PAC) asked our Office to review the following practices reported to the PAC by government officials:

- payments made to employees not working for employer organizations;
- payments made to advertising agencies for goods or services not received;
- goods or services provided without charge to ministers; and
- goods or services provided by one government organization to another without charge.

**.04** We performed this assignment for the years ending March 31, 1990 and 1991 and reported our findings to the PAC in April, 1992.

**.05** We considered this assignment a review and not an investigation. Accordingly, we decided the most effective way to complete the work was to ask each government organization to report to us all instances of the described practices. We then verified the information reported by inquiry, observation and discussion.

**.06** Our review procedures may not have found all instances that should be reported to the PAC. However, we believe our findings are sufficient to support our conclusions and recommendations.

---

---

## Chapter 6 Special Assignment

---

---

### Our Findings

**.07** Organizations reported there were 130 employees who, for extended periods of time, did not work for the organizations paying their salaries. Payments to these employees totalled \$5,166,000 in the two years under review.

**.08** Nine organizations reported they made payments to advertising agencies for goods or services not received. The total of these payments was \$439,000 in the two years under review.

**.09** Five organizations indicated they provided goods or services without charge to Ministers and others. The value of the goods or services totalled \$42,000 in the two years under review.

**.10** Eight organizations reported they provided goods or services without charge to other government organizations totalling \$1,755,000 in the two years under review.

**.11** We reported government organizations have many different policies regarding entertainment, employee recognition, advertising and donations.

---

### Recommendations

**.12** The PAC considered our Report, heard evidence from a number of individuals and organizations and addressed in writing a series of questions to certain organizations.

**.13** The PAC then prepared its second report. The report is to be tabled early in the third session of the Legislature. The Committee agreed to make several recommendations based largely on recommendations made in our Report, including the following.

- Ministers should ensure employees do not provide services to others, except by secondment.
- Before any employee is seconded for a period in excess of 60 days, proper documentation of the arrangements should be made including the amount of reimbursement to be paid by the recipient organization.
- Ministerial assistants should work only for the Executive Government (and be restricted from working in a constituency or caucus office).
- Contracts with Ministerial Assistants should show the appropriation to be charged, as required by

---

---

## Chapter 6 Special Assignment

---

---

regulations.

- Monthly time reports for Ministerial Assistants should be certified by Ministers and should show attendance and the Executive Government activity undertaken to support the payroll payments.
- Each payment voucher for advertising goods or services should include sufficient documentation to support the payment.
- The Office of Executive Council should be responsible for Ministers' salaries.
- Ministers should not accept goods or services without charge from Saskatchewan government organizations.
- Appropriate departments, agencies and Crown corporations which are legally permitted and which appear before the Committee of Finance should provide all furniture, support services, ministerial assistants and any other goods or services required for the operation of Ministers' offices.
- Ministerial salaries, travel and other expenses should be identified in the Public Accounts. Where goods and services provided to Ministers' offices do not appear in the Public Accounts documents, the expenses incurred should be disclosed in the annual report of the appropriate entity.
- The Office of the Executive Council should record all furniture and equipment for Ministers' offices and should account for the furniture and equipment when there are ministerial changes.
- Organizations should have clear mandates to ensure they know which goods or services may be provided to others without charge and which goods or services that must be billed.
- Organizations should have properly authorized contracts before providing goods or services to others and charges for those services should be made when required by the organization's mandate.

---

---

## Chapter 6 Special Assignment

---

---

- The Government should establish consistent policies for entertainment, employee recognition, advertising and donations for all organizations and the policies should be made public.
- The Legislative Secretary Expense Regulations should be changed to specify conditions for assigning vehicles.
- The appropriate departments should be responsible for travelling expenses of Legislative Secretaries and the Public Accounts should identify all such expenses, when they are incurred.

**.14** We are pleased to note the Government released a report in January, 1993, outlining actions taken to implement the recommendations of the PAC. This report was released even before the PAC's report was tabled in the Legislature.

**.15** One recommendation we made was not included in the PAC's report. We recommended the Office of the Executive Council provide all furniture and equipment, support services, ministerial assistants and any other goods/services required for the operation of ministers' offices. We also called for that Office to be responsible for ministerial travel expenses.

**.16** We are pleased the January, 1993 "action report" indicates the Government is examining the payment of ministerial travel and expenses by the Executive Council.

**.17** We urge the Government and all elected members to consider, once again, the merits of reporting all expenditures made on behalf of the Ministers of government in the expenditure reports of the Executive Council. Reporting all expenditures of Ministers in one place would strengthen public accountability. Currently, many government organizations pay ministerial costs and many of those organizations are not required to report individuals receiving the payments.

### We Recommend

**.18** **The Office of the Executive Council should provide and report the cost of all travel, furniture and equipment, support services, ministerial assistants and any other goods or services required for the operations of Ministers' offices.**

---

---

## Chapter 6 Special Assignment

---

---

### Actions Taken

.19 The January, 1993 "action report" indicates the Government has taken action on several of the Committee recommendations. We believe these are positive steps forward.

.20 Some examples are as follows:

- The Ministerial Assistants Employment Regulations are being amended to prohibit ministerial assistants from being posted to or headquartered in constituency or caucus offices.
- In the 1992-93 budget, the salaries of ministers were budgeted in the Office of the Executive Council and payments will be disclosed accordingly in the Public Accounts.
- In August 1992, cabinet approved a policy for acceptance of goods and services without charge by ministers. Gifts over \$200 in value are to be reported regularly to the Premier and a twelve month report for all ministers will be published each August in the Saskatchewan Gazette.
- In July, 1992, Executive Council initiated a system of logging and tracking the location of all equipment in ministers' offices.

.21 The "action report" indicates the Government agrees with nearly all of the Committee's recommendations. In some cases, however, the description of action taken is a general statement of intent while in other cases it is left to Ministers to ensure their officials are aware of and adhere to the existing policies and procedures. We believe better documentation and monitoring action is required.

### We Recommend

**.22 Policies established to deal with Committee recommendations should be documented in the Treasury Board Accounting and Reporting Manual or in a comprehensive manual with similar authority.**

**.23 The policies should apply to all government organizations (at present, much of the Treasury Board manual is considered to apply only to departments).**

---

---

## Chapter 6 Special Assignment

---

---

to all government organizations.

---

Our Recent Findings

**.25** As a follow up to our special report, we included review procedures similar to those described in paragraph .05 of this chapter as part of our 1991-92 audit activities. The review procedures consisted primarily of asking management to inform us the extent to which these practices continued in 1991-92.

**.26** Our findings are reported below.

- 16 organizations reported they paid \$1,473,000 to persons who, for extended periods of time, did not work for them.
- Three organizations reported they made payments to advertising agencies for goods or services not received. These payments totalled \$66,000.
- Three organizations reported they provided goods or services to other organizations without charge. The value of these goods or services totalled \$113,000.
- One organization reported it provided goods or services to ministers, without charge. The value of the goods or services was \$25,000.

**.27** These transactions were incurred before the release of our special report in April 1992.

---

---

## Chapter 7

### Board of Directors Pay and Expenses

---

---

#### Requirements

**.01** Section 16 of *The Interpretations Act* states the person who has the power to make an appointment also decides the pay and expenses of the person appointed. The Legislative Assembly gives the Executive Government authority to appoint boards of directors for crown agencies.

**.02** In some cases, the Assembly specifies board appointments must be made by the Lieutenant Governor in Council. In other cases, the Assembly specifies board appointments must be made by a Minister of the Crown. The Government uses Orders-in-Council and Ministers Orders to make appointments.

**.03** In our 1990 and 1991 Annual Reports, we reported on directors pay and expenses. In 1991, we reported that for 24 Crown agencies the Government did not specify directors pay and expenses in Orders-in-Council or Ministers Orders. These agencies made payments totalling \$849,569 to their directors. In our opinion, payments to these directors lacked proper authority.

**.04** In 1992, Orders-in-Council and Ministers Orders did not specify pay and expenses for the following 24 agencies. These agencies made payments totalling \$703,445 to their directors. In our opinion, these payments lacked proper authority.

Battlefords Regional Care Centre	\$ 11,832
Board of Governors, Lakeside Home	2,567
Board of Governors, Parkridge Centre	9,896
Crown Investments Corporation of Saskatchewan	49,498
Health Services Utilization and Research Commission	5,039
LaRonge Hospital Board	1,794
Municipal Tax Sharing Administration Board	1,884
Palliser Regional Care Centre	5,703
Parkland Regional Care Centre	7,013
Regina General Hospital	5,642
Regina Health Board	12,304
St. Louis Alcoholism and Rehabilitation Centre	2,645
Saskatchewan Crop Insurance Corporation	89,862
Saskatchewan Development Fund Corporation	1,138
Saskatchewan Economic Development Corporation	51,839
Saskatchewan Forest Products Corporation	20,816
Saskatchewan Government Insurance	80,309



---

---

## Chapter 7 Board of Directors Pay and Expenses

---

---

Saskatchewan Heritage Property Review Board	1,350
Saskatchewan Indian Regional College	67,000
Saskatchewan Power Corporation	108,087
Saskatchewan Telecommunications	121,769
Saskatoon Health Board	18,345
Souris Valley Regional Care Centre	12,423
Whitespruce Youth Treatment Centre	14,690

**We Recommend**                    **.05    Agencies should obtain proper authority for the pay and expenses of directors.**

---

---

## Chapter 8

# Annual Reports of Government Departments

---

---

### Introduction

**.01** In our last Annual Report, we note the annual reports of government organizations are one of the key accountability documents legislators and the public use to understand and assess the performance of the Government. Accordingly, the usefulness of the information in those reports is very important.

**.02** Also, in our last Annual Report, we state we plan to examine the annual reports prepared by government organizations. We have completed our examination of the 1990-91 annual reports of government departments. Our findings and conclusions are contained in this chapter. We also reviewed the 1991-92 annual reports to assess whether improvements were made as a result of our work. Our findings are set out in paragraphs .69 to .73. Next year, we plan to examine the annual reports of government corporations.

---

### **1990-91 ANNUAL REPORTS OF GOVERNMENT DEPARTMENTS**

**.03** The purpose of our audit is to determine whether annual reports of government departments provide Members of the Legislative Assembly (MLAs) and the public the information they need to assess the performance of government departments.

### Audit Purpose

**.04** At the time of our audit, the Government's departments had not yet published their 1991-92 annual reports. As a result, we examined the 1990-91 reports of eighteen government departments listed in Table 1 at the end of this chapter.

**.05** We performed our examination in accordance with recommendations of the Canadian Institute of Chartered Accountants for the public sector and accordingly included such tests and other procedures as we considered necessary in the circumstances.

---

### Overall Conclusion

**.06** We conclude the annual reports prepared by government departments need to be improved significantly. Currently, the reports do not provide MLAs and the public the information they need to assess the performance of government departments.

**.07** We note the Department of Finance, Provincial Secretary and Office of the Executive Council do not prepare annual reports. As a result, MLAs and the public may have difficulty in assessing the performance of these departments.

---

---

## Chapter 8 Annual Reports of Government Departments

---

---

**.08** We also note annual reports of government departments are not referred to a Standing Committee of the Assembly for review. As well, the 1990-91 reports were not issued on a timely basis. Referring reports to a Standing Committee of the Assembly and providing more timely information would improve the Government's public accountability for departmental operations.

### We Recommend

**.09** The Government's existing annual report guidelines should be strengthened to make annual reports a more useful accountability document.

**.10** All Government departments should be required to provide annual reports on their activities, and to do so in a timely manner.

**.11** All annual reports should be referred to a Standing Committee of the Assembly for review upon tabling in the Assembly.

**.12** We asked the Government to comment on our Recommendations. That response is set out in paragraph .66 of this chapter.

---

### The Purpose of Annual Reports

**.13** The Assembly, through *The Government Organization Act*, requires the Government to provide the Assembly an annual report for each department. The purpose of the annual report is to provide timely, reliable and relevant information on the administration of the department. It forms a basis for making public policy decisions. Accordingly, the reports should meet the information needs of MLAs, the public and special interest groups, and should reflect the messages management needs to convey. Accordingly, information in annual reports should help MLAs and the public understand, assess and debate the performance of government departments.

**.14** One of the most challenging tasks faced by department management when preparing annual reports is determining and balancing the information needs of the different readers. A balance must be struck among the needs of MLAs, the public and various special interest groups. A complicating factor is the objectives of management may not always be aligned with the information needs of MLAs and the public to whom they are accountable.

---

---

## Chapter 8 Annual Reports of Government Departments

---

---

### What Information Should be Contained in Annual Reports

**.15** The first task of our audit was to decide the kinds of information that should be provided in annual reports. We began this task by reviewing: related guidance issued by the Executive Government; information on accountability; studies on measuring and reporting on effectiveness; guidance available on clear writing; e.g., Clear Language booklet prepared by the Government; and similar studies done in other jurisdictions. We consulted with deputy ministers of Government departments, department officials responsible for preparing annual reports, central agency officials responsible for issuing guidance on annual reports, and our colleagues in other legislative audit offices in Canada.

**.16** We determined the publications of The Canadian Institute of Chartered Accountants (CICA) and the Canadian Comprehensive Auditing Foundation (CCAF) provide useful guidance on information to include in annual reports. The CICA's publication is "Information to be included in the Annual Report to Shareholders" (Table 2). The CCAF's publication is "Reporting on Effectiveness" (Table 3). The guidance in these two publications is consistent with the information needs of MLAs and the public.

**.17** The guidance in the two publications helped our Office develop six areas that annual reports should address. The areas are:

- What the department is all about,
- What the department has done,
- Where the department is now,
- What the department plans to do,
- How effectively is the information communicated, and
- When the information is available.

**.18** With these six areas as a framework, we developed detailed criteria to assess the usefulness of the information contained in the 1990-91 report of each government department. We provided the criteria to officials in each department and our colleagues in other legislative audit offices. They reviewed the criteria and suggested improvements. Using their suggestions, we changed the criteria, where necessary. Department officials and our colleagues said, in

---

---

## Chapter 8 Annual Reports of Government Departments

---

---

general, the project is useful and the criteria will be helpful in preparing future annual reports.

---

### Current Annual Report Guidelines

**.19** Currently, the Government has a Communication Guide which provides departments, agencies, commissions and Treasury Board corporations with brief and general guidelines on annual reports.

**.20** The Government issued the guidelines in 1977 because of a Treasury Board decision. The guidelines state annual reports should "*present in an easily read form an accurate account of the department's stewardship for the previous year*". Besides providing the structure and format of annual reports, the guidelines also state annual reports should contain:

- messages of transmittal from the minister and deputy minister;
- a table of contents;
- an outline of objectives of the department;
- descriptions of the programs and activities carried out during the year under review;
- when practical, a section describing briefly and in general, the plans for the coming year;
- required financial information; and
- an organizational chart.

**.21** Although the guidelines are useful, they do not address all the information needed by MLAs and the public to assess the performance of Government departments.

---

### What Information Reader's Expect

**.22** In January 1992, we surveyed MLAs and the public to determine what information they expect to find in annual reports. We surveyed 152 individuals including all then current MLAs, recent former MLAs and members of the public. We selected the members of the public by asking departments to provide names of four to six people or organizations interested in their department.

---

---

## Chapter 8 Annual Reports of Government Departments

---

---

**.23** We asked the individuals and organizations to indicate to what degree they reviewed the annual reports of Government departments. We also asked them to assess nineteen different types of information.

**.24** Overall the response to the survey was good. We received replies from 56% of the current MLAs, 19% of the recent former MLAs, and 65% of the various members of the public. Due to the low response from recent former MLAs, we are unable to draw conclusions from this group.

**.25** In summary, the current MLAs reviewed, in an in-depth or limited manner, 72% of the 1990-91 departmental annual reports. Our survey results show the current MLAs' needs and those of the public are generally the same. The information fundamental to MLAs and the public in assessing department's performance is consistent with the criteria used in our audit. Both MLAs and the public rate the following information as essential:

- a description of the organization's mission,
- an organizational chart,
- a description of the organization's goals and the programs established to accomplish those goals,
- a description of the major activities undertaken in each program,
- a comparison of budgeted revenues and expenditures to actual with an explanation of variances,
- the client groups or areas served by each program,
- the financial and other resources used in each program, and
- an indication of the organization's plans.

**.26** We compared the information MLAs and the public rate as essential to the framework of six areas we developed in our review of existing guidelines and relevant literature. We conclude the six areas provide an appropriate framework to assess the usefulness of information in annual reports.

---

---

## Chapter 8 Annual Reports of Government Departments

---

---

### Audit Findings and Results

.27 We assessed the 1990-91 annual reports of each department against the following key areas:

#### Audit Work

- What the department is all about,
- What the department has done,
- Where the department is now,
- What the department plans to do,
- How effectively is the information communicated, and
- When the information is available.

.28 Each department received our detailed assessment of its annual report. We discussed our assessment with appropriate officials of each department. We encourage departments to view our detailed assessments as an opportunity to evaluate the strengths and weaknesses of their reports and to improve their reports in the future.

.29 The following is a summary of our findings.

---

<b>What the department is all about</b>
---

---

#### What We Looked For

.30 We looked at how annual reports describe:

- the department's mission and business, significant legislation, broad objectives or measures of success and annual goals established to accomplish the department's objectives;
- the programs or lines of business the department administers and their related goals including their intended impact;
- how the department safeguards its key or critical assets such as its employees, important records or information, and equipment from losses that could threaten the department's success, credibility and, perhaps, its very existence; and
- the working environment within the department such as

---

---

## Chapter 8 Annual Reports of Government Departments

---

---

its human resource strategies, recruiting, training and staff development.

---

### What We Found

**.31** Overall, most departments could do a better job in describing what the department is all about. Two-thirds of the reports include a description of the department's mission and business. Sometimes these descriptions are lengthy. Two-thirds either list or refer to their significant legislation. Less than one-half set out the department's broad objectives or measures of success. The department's annual goals or priorities for the year under review are generally not provided.

**.32** In general, reports adequately describe the department's lines of business and major programs administered throughout the year. But, usually, their related goals are either not clearly provided or are provided within the broad objectives of the department's divisions and branches. This makes it difficult to assess if the department achieved its goals. Few reports provide short-term goals or priorities for the upcoming year.

**.33** Most departments identify, to some extent, which assets, such as employees, important records or information and equipment, are key or critical to the success of their operations. Few departments show how the department safeguards these key or critical assets from the danger or losses that could threaten the department's success, credibility and, perhaps, its very existence.

**.34** About one-third of the departments describe the working environment within their department such as human resource strategies, recruiting, training and staff development.

---

### Our Conclusion

**.35** Annual reports should provide a clearer and more concise description of *what the department is all about*.

---

<b>What the department has done</b>
-------------------------------------

---

### What We Looked For

**.36** We looked at how annual reports describe:

- the major activities undertaken to meet the department's long-term mission and goals; and
- the extent to which the department realizes its goals



---

---

## Chapter 8 Annual Reports of Government Departments

---

---

and objectives through various programs and activities.

---

### What We Found

**.37** In general, departments do a good job describing their major activities and programs. Yet, they are weak in telling why they undertake various activities and programs and in showing what they accomplish by these activities and programs.

**.38** Most departments structure their reports to describe the responsibilities and activities of their divisions and branches. Reporting by division or branch makes it difficult to determine the goals and objectives of a department's lines of business and programs. A department's lines of business and programs often extend beyond the operations of a particular division or branch.

**.39** Most departments clearly describe the major activities undertaken by divisions and branches to meet their long-term mission and goals. Some reports provide a considerable amount of detail on these activities. Still, the reports generally do not provide the results of these activities or link them to the department's long-term mission and goals or to the goals and objectives of the related line of business or program.

**.40** Reports rarely provide the extent to which the department realizes its goals and objectives through its programs and activities. Therefore, it is hard and, in some cases, impossible to assess what is achieved.

---

### Our Conclusion

**.41** Annual reports should provide better information on why activities and programs exist and on what the department accomplishes.

**Where the department is now**

---

### What We Looked For

**.42** We looked at how annual reports provide:

- financial information on significant revenues and expenditures, on trends, on variances between planned and actual results and on disclosure of significant assets, liabilities and financial commitments;
- financial information that can be reconciled to the Estimates and Public Accounts; and

---

---

## Chapter 8 Annual Reports of Government Departments

---

---

- the costs of the department's major programs or lines of business. Reports should show the relationships between these costs, resources used such as employees or equipment, and output produced such as services rendered or products made. This should provide an indication of what the department accomplishes through the program or lines of business and the associated cost to meet this accomplishment.

---

### What We Found

**.43** Annual reports generally do not provide sufficient financial information to allow MLAs and the public to decide if the department exercised proper stewardship over public money. Less than one third of the departments provide useful financial information in their annual reports. The reports rarely provide trends and variances of significant revenues and expenditures and disclosure of significant assets, liabilities and financial commitments.

**.44** We recognize the Public Accounts - Volume 2 contains considerable detail on the actual and budgeted expenditure by department. However, these amounts are frequently not presented on a line of business or program basis. Also, the Public Accounts do not provide reasons for differences between actual and budgeted expenditures and revenues or trends experienced over time. In addition, the Public Accounts do not provide revenues on a department basis.

**.45** Often, the financial information provided in annual reports is incomplete or presented in a way that is not consistent with other key financial accountability documents such as the Estimates and Public Accounts. This makes it difficult to link this information to the Estimates and to the Public Accounts.

**.46** Most reports do not show the costs of the department's major programs or lines of business. Also, most reports do not show the relationships between these costs, resources used and output produced, i.e., services rendered or product.

---

### Our Conclusion

**.47** Departments need to improve their financial reporting. Currently, annual reports of most departments do not show enough information for the reader to determine the costs of providing lines of businesses and programs. Also, most departments do not show what their lines of businesses and programs accomplish.

---

---

## Chapter 8 Annual Reports of Government Departments

---

---

---

### What the department plans to do

What We Looked For .48 We looked at how annual reports describe the department's future intentions regarding its lines of business, programs and related activities undertaken.

What We Found .49 Few reports suggest any future intentions or plans. This is contrary to the Government's current annual report guidelines. The guidelines state, when practical, the report should describe briefly and in general the plans for the coming year.

Our Conclusion .50 Most annual reports do not comply with existing annual report guidelines since they do not set out plans. Accordingly, readers are unable to assess the department's ability to adapt to changes in such factors as markets, the economy, available funding or technology.

---

### How effectively is the information communicated

What We Looked For .51 We looked at how annual reports communicate information to readers. We considered if:

- the level of detail and terminology used in the reports suits their readers;
- the reports use clear and understandable language;
- the reports' overall structure and lay-out enhance their general understandability;
- the reports present information in a fair and unbiased manner; and
- the reports contain only relevant information.

What We Found .52 Most reports are presented in an attractive and professional manner. Most contain a suitable level of detail and terminology. But, the level of detail and terminology used in the reports varies greatly from department to department and within the reports

---

---

## Chapter 8 Annual Reports of Government Departments

---

---

themselves. Some reports provide an overwhelming amount of detail while others are very brief. In a few cases, reports extensively use technical terms and acronyms without providing adequate explanations.

**.53** In most reports, the writing style is consistent and information follows a logical sequence. Usually, the language is clear and understandable.

**.54** Most reports provide limited or incomplete information. As a result, the reports do not present the information necessary to understand and assess the performance of departments.

---

### Our Conclusion

**.55** Departments should pay more attention to "what the report contains" than to "how the information is presented visually".

**.56** To be a good accountability document, annual reports should contain, as a minimum, the following fundamental information:

- a concise description of the department and the significant legislation governing the department;
- the client groups and areas served by the department;
- a description of the department's goals and the programs or lines of businesses established to accomplish those goals;
- a description of the major activities undertaken to accomplish the goals of each program or line of business;
- the financial and other resources, e.g., employees, used in each program or line of business;
- a description of the impact or the results of the department's programs and lines of business including the extent to which departments achieve their goals; and
- an indication of the department's plans.

---

---

## Chapter 8 Annual Reports of Government Departments

---

---

<b>When the information is available</b>
--

---

What We Looked For

---

**.57** We looked at when departments' annual reports are made available to MLAs and the public.

---

What We Found

**.58** *The Tabling of Documents Act, 1991* requires departments provide an annual report to the Minister responsible for the Department within 90 days after the end of the period for which the report is prepared. The Minister must lay the report before the Assembly within 15 sitting days after he or she receives the report. Most departments prepare their reports for their fiscal year end - March 31.

**.59** Currently, annual reports are released to MLAs and the public once Ministers table the reports in the Assembly. Departments usually prepare and submit the reports to the Minister responsible just in time for tabling in the Assembly. The reports are usually not prepared or submitted until the last possible date.

**.60** For the 1990-91 annual reports, all departments submitted reports to their Minister in either November or December, 1991. Ministers tabled these annual reports within 15 sitting days after the start of the December session of the Assembly. Consequently, these reports were not released to MLAs and the public until nine months after the Departments' fiscal year end.

**.61** Ministers of all departments, except the Department of Finance, the Provincial Secretary and the Office of the Executive Council, prepare and submit an annual report on their activities. The Department of Finance, the Provincial Secretary and the Office of the Executive Council have sought and received an exemption from the Lieutenant Governor-in-Council.

**.62** The Assembly refers the annual reports of only some Crown corporations to a Committee of the Legislative Assembly, the Crown Corporation Committee, for review upon tabling. There is no formal review of the annual reports of departments, agencies, commissions and other crown corporations by a committee of the Assembly.

---

---

## Chapter 8 Annual Reports of Government Departments

---

---

### Our Conclusion

.63 Annual reports need to be released to MLAs and the public on a timely basis to ensure the information provided is relevant.

.64 MLAs and the public need to receive reports on the work done by all departments to assess the performance of the departments. This should include reports from departments who currently do not provide annual reports.

.65 To improve public accountability of departmental operations the annual reports of Government departments should be referred to a Standing Committee of the Assembly for review.

---

### Government's Response

.66 We asked the Government to comment on our Recommendations and the findings contained in this chapter. Their comments are as follows.

*The Government of Saskatchewan is committed to effectiveness, efficiency and being accountable to the public.*

*The Government fully supports the Provincial Auditor's efforts to improve the readability and timeliness of annual reports as well as increase the accountability of Government through information included in the annual reports. The Department of Executive Council and all departments are committed to fully assist the Provincial Auditor achieve these objectives.*

*A special sub-committee of the Financial Management Council was established to review the Provincial Auditor's draft report and the existing annual report guidelines.*

*The sub-committee's review and proposed guidelines are completed, and have been presented to the Financial Management Council and will be presented to the Management Committee of Deputy Ministers in the near future.*

*Although there is full agreement on the importance of the three major issues of improved accountability, readability and timeliness, there are different opinions on how best to achieve these*

---

---

## Chapter 8 Annual Reports of Government Departments

---

---

*objectives.*

*The Government of Saskatchewan will continue to work towards enhancing the public's understanding of government operations.*

---

### WE REVIEWED THE 1991-92 ANNUAL REPORTS

**.67** The 1991-92 annual reports of government departments became available prior to writing this chapter.

**.68** As a result, we reviewed those reports to determine if any progress has been made. We analyzed the 1991-92 annual report of each department, listed in Table 1, against the same criteria we used for the 1990-91 annual reports. We focused on the changes made in the 1991-92 annual reports. The departments had access to the criteria used in our assessment when preparing their 1991-92 annual report.

---

### What We Found

**.69** Three quarters of the 1991-92 annual reports show moderate to significant improvement in describing *what the department is all about*. In general, the reports provide more information on the departments' priorities, key personnel, and number of employees. The reports describe human resource strategies, recruiting and training. Most reports now describe the missions.

**.70** In general, two-thirds of the 1991-92 annual reports did not improve their description of *what the department has done, where the department is now, or what the department plans to do*. The remaining one-third provide a better description of the major activities undertaken to meet the department's long-term mission and goals. They also now describe their future intentions and provide improved information on planned and actual revenues and expenditures.

**.71** Overall, the 1991-92 reports changed little in *how effectively is the information communicated*. Reports continue to lack the information necessary to understand and assess performance of departments.

**.72** Most 1991-92 reports showed a significant improvement related to *when the information is available*. Fifteen of the eighteen Departments had their 1991-92 annual reports available to the public by August 7, 1992 which is within five months of

---

---

## Chapter 8 Annual Reports of Government Departments

---

---

their year end. The remaining three department's 1991-92 annual reports are not yet tabled.

**Table 1**

**List of Departments**

.73 We assessed the 1990-91 and 1991-92 annual reports of the following departments, unless otherwise indicated:

Agriculture and Food<sup>1</sup>  
Community Services  
Education\*<sup>1</sup>  
Economic Diversification and Trade  
Energy and Mines  
Environment and Public Safety  
Family Foundation  
Health  
Highways and Transportation  
Human Resources and Labour  
Indian and Native Affairs Secretariat  
Justice<sup>1</sup>  
Parks and Renewable Resources  
Public Service Commission  
Rural Development  
Senior's Secretariat  
Social Services  
Women's Secretariat

\* report prepared for year ended June 30. All other reports prepared for year ended March 31.

<sup>1</sup> 1991-92 annual report was not assessed since it was not available at time of audit.



---

---

## Chapter 8 Annual Reports of Government Departments

---

---

**Table 2**

*Source: The Canadian Institute of Chartered Accountants (CICA) - Information to be Included in the Annual Report to Shareholders*

.74 Annual reports should provide information in the following four categories:

**Corporate Overview** conveys *what the organization is all about*. This includes information on corporate profile, organizational structure, products, services and markets, the industry and economy, outlook, human resources and environmental responsibilities. Also, an executive summary and management's statement of responsibility for the financial statements and for all other information in the annual report should be provided.

**Review of Operations** deals with *what the organization has done and plans to do* by discussing the overall management of the organization, its performance against objectives, its past record, where the company is going in the future and whether it has the necessary financial and other resources to do so.

**Financial Summary and Analysis** deals with *where the organization is now*. This includes audited financial statements and accompanying auditor's report, a discussion of proposed accounting policy changes, comparative financial highlights, and analyses of operating results, financial position and changes in financial condition. Also, historical summary, segment analysis, discussion of liquidity and capital resources, and a review of capital expenditures should be provided.

**Supplementary information** relates to matters not otherwise addressed such as table of contents, information on company ownership and control, key management committees and glossary of terms.

---

---

## Chapter 8 Annual Reports of Government Departments

---

---

**Table 3**

*Source: Canadian  
Comprehensive  
Auditing  
Foundation -  
Effectiveness  
Reporting and  
Auditing in the  
Public Sector*

**.75** Providing information on the following 12 attributes assist in describing effective performance.

**Management Direction:** the objectives of an organization, its component programs or lines of business, and its employees, are clear, well integrated and understood, and appropriately reflected in the organization's plans, structures, delegations of authority and decision-making process.

**Relevance:** a program or line of business continues to make sense in regard to the needs of the public and customers that it was intended to serve.

**Appropriateness:** the design of a program or its major components, and the level of effort being made are logical, given the specific objectives to be achieved.

**Achievement of Intended Results:** goals and objectives have been realized.

**Acceptance:** constituencies to whom a program or line of business is directed judge it to be satisfactory.

**Secondary Impacts:** other significant consequences, either intended or unintended and either positive or negative, have occurred.

**Costs and Productivity:** relationships exist among costs, inputs and outputs.

**Responsiveness:** an organization's ability to adapt to changes in such factors as markets, competition, available funding or technology.

**Financial Results:** revenues and costs are matched and accounted for and the accounting and valuations of assets, liabilities and equity.

**Working Environment:** an organization provides appropriate opportunities for development and achievement, and promotes commitment, initiative and safety.

**Protection of Assets:** important assets such as sources of supply, valuable property, key personnel, agreements and important records or information are safeguarded so that the organization is protected from the danger or losses that could threaten its success, credibility, continuity and perhaps, its very existence.

**Monitoring and Reporting:** key matters pertaining to performance and organizational strength are identified, reported, and carefully monitored.

---

---

## Chapter 8 Annual Reports of Government Departments

---

---

## Chapter 9

### Department of Agriculture and Food

Consolidated and  
Heritage Funds

.01 The Department managed Consolidated Fund appropriations of \$412 million and Consolidated Fund revenues of \$18 million in 1992. The Department also managed Heritage Fund appropriations of \$18 million and Heritage Fund revenues of \$20 million. Volume II of the Public Accounts reports information about the Department's Consolidated Fund revenues and appropriations at pages 9 and 34 respectively. Volume II of the Public Accounts also reports information about the Department's Heritage Fund revenues and appropriations at pages 279 and 281 respectively.

.02 The following is a list of major programs and spending on those programs.

Original Estimates      Actual  
(in millions of dollars)

Consolidated Fund

Payments for Gross Revenue		
Insurance Plan	\$107	\$158
Payments to Saskatchewan Crop		
Insurance Corporation	80	85
Payments for Net Income Stabilization		
Account	18	35
Payments to Agriculture Credit Corporation	29	29
Payments to Agriculture Development Fund	28	28
Payments for loan guarantees	19	21
Payments under Crop Drought		
Assistance Program	15	14
Payments to Agricultural Returns		
Stabilization Fund	8	8
Payments under the Feed Grains		
Adjustment Program	6	8
Other	<u>22</u>	<u>26</u>
	<u>\$332</u>	<u>\$412</u>

Heritage Fund

Payment to Farm Purchase Program Fund	\$14	\$13
Interest rebate grants to farmers	<u>5</u>	<u>5</u>
	<u>\$19</u>	<u>\$18</u>

---

---

## Chapter 9 Department of Agriculture and Food

---

---

### Special Purpose Funds and Crown Agencies

**.03** The Department was also responsible for the following crown agencies and special purpose funds:

Agricultural Credit Corporation of Saskatchewan  
Agriculture Development Fund  
Agricultural and Food Products Development and  
Marketing Council  
Cattle Marketing Deductions Fund  
Crop Reinsurance Fund for Saskatchewan  
Farm Purchase Program Fund  
Horned Cattle Fund  
Milk Control Board  
Prairie Agricultural Machinery Institute  
Saskatchewan Agricultural Returns Stabilization Fund  
Saskatchewan Beef Stabilization Board  
Saskatchewan Crop Insurance Corporation  
Saskatchewan Grain Car Corporation  
Saskatchewan Horse Racing Commission  
South Saskatchewan River Irrigation District #1  
Tripartite Beef Administration Board

### Our Audit Findings

**.04** In our opinion, the Department's rules and procedures to safeguard and control its Consolidated and Heritage Fund appropriations and revenues were adequate except for the significant deficiencies reported in paragraphs .16 to .23. The Department complied with the authorities governing its activities for Consolidated and Heritage Fund appropriations and revenues as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matters reported in paragraphs .07 to .15.

**.05** In our opinion, the financial statements for the agencies and special funds listed in paragraph .03 are reliable. The rules and procedures to safeguard and control the assets of the agencies and special funds listed in paragraph .03 were adequate except where we report otherwise in this chapter. The Department and its agencies complied with the authorities governing the activities of the agencies and special funds as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except where we report otherwise in this chapter.

**.06** Because of our limited resources and established priorities (see Chapter 4), we did not do sufficient audit work to report on

---

---

## Chapter 9 Department of Agriculture and Food

---

---

the adequacy of the Department's rules and procedures to safeguard and control the assets of the Cattle Marketing Deductions Fund, Farm Purchase Program Fund and Horned Cattle Fund.

---

Loan Guarantees  
Require Authority

---

**.07** *The Farm Financial Stability Act* permits the Department to authorize loan guarantees. However, *The Financial Administration Act* requires the Department to obtain the approval of the Minister of Finance before it authorizes loan guarantees.

**.08** We found the Department guaranteed 561 loans totalling \$30,198,000 (in 1991, there were 422 loans totalling \$26,629,000) under *The Farm Financial Stability Act*. The Department did not have any evidence the Minister of Finance approved these guarantees.

**.09** In our opinion, the Department lacked authority for these guarantees.

**We Recommend**

**.10** **The Department should obtain the approval of the Minister of Finance for its loan guarantees.**

---

Gross Revenue  
Insurance Fund

---

**.11** *The Agricultural Safety Net Act* requires all money appropriated for the Gross Revenue Insurance Fund to be deposited to the Fund.

**.12** The Department did not pay all money appropriated for the Gross Revenue Insurance Fund to the Fund. In 1992, the Legislative Assembly appropriated \$160,171,700 for the Fund. In 1992, the Department paid \$157,700,643 to the Fund.

**.13** Also, we found the Department of Finance transferred \$1,828,300 out of this appropriation to other appropriations for the Department.

**.14** In our opinion, the entire appropriation should have been paid to the Gross Revenue Insurance Fund. Also, in our opinion, the Department of Finance did not have authority to transfer money out of this appropriation.

**We Recommend**

**.15** **The Department should pay the entire amount of appropriations for the Gross Revenue Insurance Fund to the Fund.**

---

---

## Chapter 9 Department of Agriculture and Food

---

---

**AGRICULTURAL  
AND FOOD  
PRODUCTS  
DEVELOPMENT  
AND MARKETING  
COUNCIL**

**.16** The Council is responsible for the following development and marketing boards. Producers elect these boards.

Saskatchewan Broiler Hatching Egg Producers Marketing Board

Saskatchewan Canola Development Commission

Saskatchewan Commercial Egg Producers' Marketing Board

Saskatchewan Chicken Marketing Board

Saskatchewan Pulse Crop Development Board

Saskatchewan Sheep Development Board

Saskatchewan Turkey Producers' Marketing Board

Saskatchewan Vegetable Marketing and Development Board

SPI Marketing Group

Annual Report Needs  
Financial Statements

**.17** The Council prepares an annual report for the Assembly. *The Agri-Food Act* requires the Council to report on the activities of development and marketing boards in the Council's annual report. The Act does not require the Council to include the financial statements of these boards.

**.18** We believe accountability would be improved if the Council included the financial statements of the development and marketing boards in its annual report.

**We Recommend**

**.19** **The Council should include in its annual report the financial statements of the development and marketing boards.**

---

Council Needs to  
Monitor Development  
and Marketing Boards

**.20** *The Agri-Food Act* makes the Council responsible for the administration of the nine Boards listed above.

**.21** Because of our limited resources and established priorities (see Chapter 4), we did not audit five of the nine Boards. The five Boards are:

Saskatchewan Broiler Hatching Egg Producers' Marketing Board

Saskatchewan Commercial Egg Producers' Marketing Board

Saskatchewan Chicken Marketing Board

Saskatchewan Pulse Crop Development Board

Saskatchewan Turkey Producers' Marketing Board

---

---

## Chapter 9 Department of Agriculture and Food

---

---

.22 We did, however, examine four of the Boards. In our examinations, we found deficiencies in the rules and procedures to safeguard and control the assets of those Boards. Those Boards did not comply with authorities governing their activities. Information about these matters appears in paragraphs .24 to .113.

### We Recommend

**.23 The Council should monitor the activities of the Boards to ensure they comply with authorities and have adequate rules and procedures to safeguard and control their assets.**

### SASKATCHEWAN CANOLA DEVELOPMENT COMMISSION

.24 Order-in-Council 95/91 created the Saskatchewan Canola Development Commission on February 6, 1991. Its purpose is to improve and develop market opportunities for canola.

.25 The Commission had revenue of \$134,000 for the six months ended July 31, 1991 and had assets of \$122,000 at that date. The Agricultural and Food Products Development and Marketing Council did not include the Commission's financial statements in the Council's annual report.

### Our Audit Findings

.26 In our opinion, the Commission's financial statements are reliable. The Commission complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matters reported in paragraphs .39 to .47. The Commission's rules and procedures to safeguard and control its assets were adequate except for the following significant deficiencies.

---

### Written Policies and Procedures Required

.27 The Commission has not documented its rules and procedures to safeguard and control its assets and comply with the law. These rules and procedures should contain the broad objectives of internal control and policies established to attain the objectives.

.28 The objective of internal control is to ensure, as far as practical, the orderly and efficient conduct of the Commission's business. This includes the discharge of its statutory responsibilities, the prevention and detection of error or fraud, the safeguarding of assets, the reliability of accounting records, and the timely preparation of financial information.



---

---

## Chapter 9 Department of Agriculture and Food

---

---

<b>We Recommend</b>	<b>.29 The Commission should prepare written policies and procedures.</b>
Essential Records Required	<b>.30</b> The Commission did not keep essential accounting records required to ensure its financial activities are recorded and to safeguard and control its assets. The Commission did not keep a record of all receipts and a general ledger.
<b>We Recommend</b>	<b>.31 The Commission should keep adequate accounting records required to safeguard and control its assets.</b>
	<b>.32</b> This was the first year of operations for the Commission. The Commission told us it now keeps records of receipts and a general ledger.
Budgets Required	<b>.33</b> The Commission did not have a budget or systems to prepare budgets.
<b>We Recommend</b>	<b>.34 The Commission should prepare budgets and use the budget to monitor results.</b>
	<b>.35</b> The Commission told us it has now started a budgeting process.
Written Contract Required	<b>.36</b> The Commission appointed a company as its interim manager. However, the Commission does not have a written contract with the company.
	<b>.37</b> The lack of a written contract with the company exposes the Commission to risks. The Commission risks paying for services it does not require, not receiving services it does require, and paying incorrect amounts for services received.
<b>We Recommend</b>	<b>.38 The Commission should document its contract with its interim manager.</b>
Fees May Not be Collected	<b>.39</b> Sections 7(1)(d) and 16(1) of The Saskatchewan Canola Development Plan Regulations require the Commission to collect fees on all canola marketed in Saskatchewan.

---

---

## Chapter 9 Department of Agriculture and Food

---

---

.40 The Regulations allow the Commission to set and collect check-off fees from any person engaged in the marketing of canola. The regulations require every registered producer engaged in the marketing of canola to pay the check-off fee to the Commission. For the period, the check-off fee was \$0.50 per tonne of canola marketed.

.41 The Commission's rules and procedures do not ensure fees are collected for all canola marketed. Accordingly, the Commission does not know if it collected all revenue required by law.

.42 The Commission told us it is not practical to establish a system to comply fully with the law. The Commission does monitor receipts from registered buyers of canola to ensure these buyers remit fees monthly. The Commission states it cannot economically verify that buyers have collected and forwarded the correct amount of fees to the Commission.

### We Recommend

**.43 The Commission and the Agricultural and Food Products Development and Marketing Council should examine how best to collect fees on canola marketed in Saskatchewan. The Commission and the Council should propose changes to the Regulations that will enable the Commission to comply with the law.**

---

### Annual Report

.44 The Commission did not submit its 1991 annual report to the Agricultural and Food Products Development and Marketing Council by the required date. Section 8(4) of the Regulations required the Commission to submit its 1991 annual report to the Council by September 30, 1991.

.45 The Commission submitted its 1991 annual report to the Council on January 10, 1992. Therefore, the commission did not comply with section 8(4) of the Regulations.

### We Recommend

**.46 The Commission should submit its annual reports by the date required by law.**

.47 The Commission told us it is asking for a change to the Regulations. The Commission wants the Regulations to require it to submit an annual report within 120 days after its fiscal year end.

---

---

## Chapter 9 Department of Agriculture and Food

---

---

### **SPI MARKETING GROUP**

**.48** The Group markets, assembles and transports hogs for producers. It also has subsidiary companies in the meat packing and trucking industries.

**.49** The Group had revenues of \$5.3 million and held assets of \$9.8 million at December 31, 1991. The Group marketed \$115 million of hogs for producers in 1991. The Agricultural and Food Development and Marketing Council did not include the Group's financial statements in the Council's annual report.

---

#### Our Audit Findings

**.50** In our opinion, the Group's financial statements were reliable. The Group complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matter reported in paragraphs .55 to .58. The Group's rules and procedures to safeguard and control its assets were adequate except for the following significant deficiency.

---

#### Segregation of Duties

**.51** The Group's rules and procedures did not adequately segregate the duties of the person responsible for cheque signing. Segregation of duties is inadequate when one person can conceal an error or fraud.

**.52** One person had custody of blank cheques and the signature plate. Also, this person had authority to adjust accounting records.

**.53** This lack of segregation of duties could allow money to be misapplied without ready detection.

---

#### We Recommend

**.54** **The Group should segregate the duties of employees responsible for cheque signing.**

---

#### Authority for Subsidiary Company

**.55** In October, 1991, the Group bought all the shares of a company. The Agri-Food Act governs the activities of the Group. The Act does not provide authority for the Group to buy shares in any company.

**.56** In our opinion, the purchase of shares lacked proper authority.

---

---

## Chapter 9 Department of Agriculture and Food

---

---

### We Recommend

**.57** The Group should obtain proper authority to buy shares.

**.58** Recently, *The Agri-Food Act* was changed to allow for the purchase of shares.

### SASKATCHEWAN SHEEP DEVELOPMENT BOARD

**.59** The Saskatchewan Sheep Development Board (SSDB) finds markets for, assembles and transports sheep for producers. It also provides supplies for producers.

**.60** The SSDB had revenue of \$93,110 in 1991 and held assets of \$43,363 at December 31, 1991. The Agricultural and Food Development and Marketing Council did not include SSDB's financial statements in the Council's annual report.

### Our Audit Findings

**.61** In our opinion, the SSDB's financial statements were reliable. The SSDB complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matters reported in paragraphs .68 to .92. The SSDB's rules and procedures to safeguard and control its assets were adequate except for the following significant deficiencies.

---

### Written Policies and Procedures Required

**.62** The SSDB has not documented its rules and procedures to safeguard and control its assets and to comply with the law. These rules and procedures should contain the broad objectives of internal control and outline the policies to attain those objectives.

**.63** The objective of internal control is to ensure, as far as practical, the orderly and efficient conduct of the SSDB's business. This includes the discharge of its statutory responsibilities, the prevention and detection of error and fraud, the safeguarding of assets, the reliability of accounting records and the timely preparation of financial information.

**.64** The lack of written policies and procedures increases the risk of a breakdown in control. Staff and the Board lack direction on proper handling of transactions. The following matters are examples of control breakdowns.

**.65** One cheque signor signed several blank cheques. The SSDB did not record wool revenue and follow up collection of the

---

---

## Chapter 9 Department of Agriculture and Food

---

---

revenue. The SSDB made payments totalling \$2,908 that were not supported by proper vouchers. SSDB incorrectly determined the value of its inventory. Also, we found the SSDB had not adequately segregated duties. Segregation of duties is inadequate when one person can conceal an error or fraud.

**We Recommend**

**.66 The SSDB should prepare a written policy and procedures manual.**

**.67** The SSDB told us it has started to develop written policies and procedures and plans to be done by its next year end.

---

Annual General Meeting of Producers Required

**.68** The SSDB's Board of Directors did not call an annual general meeting of registered producers in 1991. Subsection 16(1) of The Sheep Development Plan Regulations requires the Board of SSDB to call an annual general meeting of registered producers each year. The registered producers are responsible for:

- 1) approving,
  - a) a budget outlining the collection and expenditures of funds and
  - b) programs and activities for the next fiscal year, and
- 2) setting the annual service fee to be paid to the Board for services provided by the Board.

**.69** In our opinion, registered producers could not carry out their assigned responsibilities because SSDB's Board of Directors did not call an annual general meeting.

**.70** The Board of Directors believes that five regional meetings are an annual general meeting. This interpretation differs from ours.

**We Recommend**

**.71 The SSDB should hold an annual general meeting of registered producers.**

**.72** The SSDB told us it is consulting with officials of the Department to develop proposals to change the Regulations to clarify what constitutes an annual general meeting.

---

---

## Chapter 9 Department of Agriculture and Food

---

---

Board Needs to Keep Minutes

.73 Section 24 of The Sheep Development Plan Regulations states the SSDB Board shall hold, in each fiscal year, five regional annual meetings. The Section also states the required meeting times, reports, elections and quorum.

.74 The SSDB told us the Board of Directors held five regional annual meetings. However, the Board did not always keep minutes of the meetings held.

.75 Since the SSDB did not always keep minutes of the Board of Directors meetings, there is no evidence of the business conducted or the decisions made.

**We Recommend**

**.76 The SSDB should keep minutes of the meetings of the Board of Directors.**

.77 The SSDB told us it is consulting with officials of the Department to develop proposals to change how the annual meetings should be organized and conducted.

---

Verification System Not Adequate

.78 Subsection 19(3) of The Sheep Development Plan Regulations requires the Board to establish and maintain a verification system:

- a) ensuring an accurate count of breeding ewes owned by registered producers, and
- b) identifying incomplete reports filed by registered producers.

.79 SSDB did not establish such a system. As a result, SSDB does not know if all producers with more than 10 breeding ewes:

- are registered,
- provide an accurate count of breeding ewes,
- have paid required service fees, and
- have filed the required reports.

**We Recommend**

**.80 SSDB should establish a system to comply with the Regulations or propose changes to the Regulations to officials of the Department.**

---

---

## Chapter 9 Department of Agriculture and Food

---

---

.81 The SSDB told us it is consulting with officials of the Department about the feasibility and integrity of the present service fee system.

---

Penalties Not Assessed

.82 SSDB did not assess penalties against producers who have outstanding fees. Marketing Order 8/89 states the SSDB shall assess a further penalty of 5% per month to producers who fail to remit service fees and charges within 30 days of billing.

**We Recommend**

**.83 The SSDB should comply with the Order or change the Order.**

---

Board Needs Insurance

.84 The SSDB quit carrying insurance on the sheep and lambs it markets. Marketing Order 10/89 states the Board shall carry insurance with an insurance company for all sheep and lambs it markets.

.85 The SSDB quit buying insurance in 1990 and now operates its own insurance scheme. As a result, the Board has not complied with this Order.

**We Recommend**

**.86 The SSDB should comply with the Order or change the Order.**

.87 The SSDB told us it plans to change this Marketing Order.

---

Handling Fees

.88 The SSDB assessed various handling fees that were not properly approved.

.89 Marketing Order 9/89 - Marketing Charges - authorizes the SSDB to levy a service fee for yardage and insurance. Section 18 of the Regulations requires the Board of Directors to authorize service fees at the Board's annual general meeting.

.90 We reported earlier that the SSDB did not always keep minutes of the meetings of the Board of Directors. We did not find any evidence the Board approved the service fees used by SSDB.

**We Recommend**

**.91 The SSDB should have service fees approved at the annual general meeting of the Board of Directors.**

---

---

## Chapter 9 Department of Agriculture and Food

---

---

.92 The SSDB told us it is consulting with officials of the Department to clarify the regulations regarding service fees.

### SASKATCHEWAN VEGETABLE MARKETING AND DEVELOPMENT BOARD

.93 The Board provides for the orderly and effective development of the Saskatchewan vegetable industry. Producers pay a fee when they market vegetables.

.94 The Board had revenue of \$67,654 for 1991 and had assets of \$249,073 at June 30, 1991. The Agricultural and Food Products Marketing and Development Council did not include the Board's financial statements in the Council's annual report.

#### Our Audit Findings

.95 In our opinion, the Board's financial statements were reliable. The Board complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matters reported in paragraphs .100 and .103 to .113. The Board's rules and procedures to safeguard and control its assets were adequate except for the following significant deficiencies.

---

#### Authority for Agreements Needed

.96 The Board has agreements relating to the Cash Flow Enhancement Program with the Federal Government. The agreements call for the Federal Government to reimburse the Board for interest costs not recovered from producers. The Board borrows money from a bank and lends the money to producers. Loans made to producers up to a limit of \$50,000 are made without interest.

.97 The producer loans are advance payments to producers for 1990 crops.

.98 The Board did not have signed agreements with the Federal Government for us to examine. Therefore, there is a possibility the agreements followed are different from the signed copy.

#### We Recommend

**.99 The Board should obtain signed agreements with the Federal Government for this program.**

.100 *The Agri-Food Act* requires the Board to obtain an Order-in-Council for any agreements with the Federal Government. The Board does not have an Order-in-Council for its agreements with



---

---

## Chapter 9 Department of Agriculture and Food

---

---

the Federal Government.

**We Recommend**

**.101 The Board should obtain an Order-in-Council for its agreements with the Federal Government.**

**.102** The agreement also requires the Board provide Agriculture Canada with an audited statement of all payments and recoveries made under the agreement by March 31, 1992. At the time of our audit in November 1992, the Board has not done this.

---

Interest System for  
Advance Payments for  
Crops Needed

**.103** The Board makes loans to producers under the Advance Payments for Crops Program. To make these loans, the Board borrows the money from a bank. The Board pays interest to the bank at the bank's interest rate. The Board charges producers interest on the portion of any loan in excess of \$50,000. The Federal Government reimburses the Board for the difference between the interest charged by the Bank and the interest paid by the producer.

**.104** The Board lacked procedures to properly calculate and record interest due and received from producers and the Federal Government. The Board also lacked procedures to properly calculate and record interest owed and paid to the bank.

**.105** In our opinion, the Board is responsible for administration of the Advance Payments for Crops Program. This includes the Cash Flow Enhancement Program where the Federal Government agrees to reimburse the Board for interest charged by the Bank on the portion of the loan up to \$50,000 interest free to the producer. The Board believed the Federal Government was solely responsible for this agreement.

**We Recommend**

**.106 The Board should establish rules and procedures to properly control interest under the Advance Payments for Crops Program.**

---

Check-Off Fees

**.107** The Board collects check-off fees from producers at the rate of 1.5% of the gross sales of vegetables. The Board lacks procedures to record check-off fees in the correct period.

**.108** The Board did not record all 1990/91 check-off fees in its 1990/91 records. We are concerned the Board might use reports prepared from these inaccurate records to make decisions.

---

---

## Chapter 9 Department of Agriculture and Food

---

---

**We Recommend**

**.109 The Board should establish procedures to record check-off fees in the correct period.**

---

**Public Accountability**

**.110** Section 9 of The Vegetable Marketing and Development Plan Regulations requires the Board to prepare an annual report. The report must include the audited financial statements of the Board. The Board is to submit the annual report to the Agricultural and Food Products Development and Marketing Council (Council) and to producers at the annual general meeting. The Board is to provide registered producers, on request, copies of the annual report.

**.111** The Board did not submit its 1990/91 annual report to the Council or to producers at the annual general meeting.

**.112** The Board could not prepare timely and accurate financial statements. As a result, it could not prepare a timely annual report. We reported in paragraphs .103 to .106 the Board lacked procedures to properly record interest income and expense from the Advance Payments for Crops Program.

**We Recommend**

**.113 The Board should prepare timely annual reports.**

**AGRICULTURAL  
CREDIT  
CORPORATION  
OF  
SASKATCHEWAN**

**.114** The Corporation (ACS) lends money to farmers. ACS has developed several lending programs to service specific financing needs.

**.115** ACS had revenue of \$87.2 million in 1992 and held assets of \$674.6 million at March 31, 1992. ACS's financial statements are included in the Public Accounts Compendium of Financial Statements at page B 1.

**Our Audit Findings**

**.116** In our opinion, ACS's financial statements included in the Compendium are reliable. ACS's rules and procedures to safeguard and control its assets were adequate except for the significant deficiencies reported in paragraphs .131 to .138. ACS complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matters.

---

---

## Chapter 9 Department of Agriculture and Food

---

---

### Fees Lack Authority

.117 In our opinion, the Legislative Assembly created ACS to reduce farmers' cost of borrowing to rates below those available from commercial sources. To give effect to the Assembly's intent, we believe ACS must interpret and administer *The Agricultural Credit Corporation of Saskatchewan Act* within that context.

.118 ACS began charging a "capital loss allowance fee" on all capital loans approved after October 1, 1987. ACS charges farmers a one-time fee of 2% of the sum borrowed for all capital loans. ACS charged \$682,000 in 1992 (\$782,000 in 1991) for capital loss allowance fees. To March 31, 1992 the accumulated charge for this fee was \$2,118,000.

.119 In our opinion, fees of this kind are part of the cost of the borrowing rate. Under *The Cost of Credit Disclosure Act* this kind of fee must be included in the cost of borrowing rate that lenders disclose to borrowers.

.120 In our opinion, because this fee increases the farmers' borrowing rates, the Lieutenant Governor in Council (Cabinet) must approve the rate. We also believe the Act limits the rates Cabinet can authorize to rates less than a commercial lender.

.121 In our opinion, ACS acted beyond its authority when it began charging borrowers a 2% fee on all capital loans approved after October 1987.

.122 ACS's management believes *The Agricultural Credit Corporation of Saskatchewan Act* gives ACS broad powers, and therefore it does not require further authority to charge this fee.

.123 Both ACS and our Office have legal advice supporting the respective positions. Since there are conflicting legal opinions the Act is unclear. Therefore, ACS's ability to retain this fee may be jeopardized by a future law suit.

### We Recommend

**.124 ACS should obtain an Order-in-Council to approve its cost of borrowing rates.**

---

### Production Loan Program

.125 The Agricultural Credit Corporation of Saskatchewan Regulations, 1989, govern the annual interest rate charged on production loans that are not repaid on the due date. The regulations state the annual interest rate is not to be:

---

---

## Chapter 9 Department of Agriculture and Food

---

---

- a) less than 9.75%; and
- b) greater than the bank's prime annual lending rate from time to time plus 2%.

**.126** For the period January 30, 1992 to March 10, 1992 the bank's prime annual lending rate plus 2% was less than 9.75%. In this situation, ACS cannot satisfy the regulations.

**.127** ACS charged farmers the prime annual lending rate plus 2%. This practice reflects ACS's loan agreements with farmers. The loan agreements with farmers do not state that the interest rate is not to be less than 9.75%.

### We Recommend

**.128 ACS should propose changes to the Regulations to take into account situations where the bank's prime annual lending rate plus 2 % is less than 9.75%.**

**.129 ACS should establish procedures to ensure future loan agreements reflect the terms set out in Regulations.**

**.130** ACS told us it has started a process to change the Regulations to take into account situations where the prime annual lending rate plus 2% is less than 9.75%.

---

### Contingency Plan

**.131** ACS should have a written and tested plan that ensures continued operations if a major loss of records occurs. A contingency plan is particularly important at ACS because its operations depend on the reliability of its information systems.

**.132** We found ACS does not have a written and tested plan to ensure it can recover in a timely and efficient manner in the event of a major loss or destruction of its records.

**.133** We reported this matter in our 1990 and 1991 Annual Reports.

### We Recommend

**.134 ACS should prepare a written contingency plan and test the plan.**

---

### Procedures to Change Interest Rates

**.135** ACS lacked procedures to ensure it charged farmers the rates set out in amended loan agreements on the effective date of the agreements.

---

---

## Chapter 9 Department of Agriculture and Food

---

---

.136 We found several instances in the capital loan program where farmers were charged the wrong rate.

### We Recommend

**.137 ACS should establish procedures to ensure it charges farmers the rates set out in loan agreements effective the date of the agreements.**

.138 ACS told us it will review previous loan transactions to correct any errors and change its procedures for future loans.

---

### Appointed Auditor

.139 We relied on the appointed auditor's reports on the financial statements and internal control.

.140 We relied on the appointed auditor's report on compliance with authorities except we disagree with the appointed auditor on the matter reported in paragraphs .117 to .124. The appointed auditor holds the view the "capital loss allowance fee" is not part of the borrowing rate. They hold the view the Corporation has the necessary authority to charge the fee. The reporting or non-reporting of this matter is subject to judgement.

.141 *The Provincial Auditor Act* requires us to conduct additional audit procedures when we cannot rely on the report of an appointed auditor. Since the issue is of a legal nature, our additional procedures consisted of obtaining legal advice and discussing the issue with the appointed auditor.

### CATTLE MARKETING DEDUCTIONS FUND

.142 The Department manages the Cattle Marketing Deductions Fund. This Fund receives levies charged to producers when cattle are sold. The Department uses the levies to develop, improve and promote the cattle industry.

.143 The Fund received \$1.2 million in revenue in 1992 and held assets of \$1.0 million at March 31, 1992. The financial statements for the Fund are included in the Public Accounts Compendium of Financial Statements at page B 159.

### Our Audit Findings

.144 In our opinion, the financial statements included in the Compendium are reliable. The Department complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matter reported in paragraphs .146 to .148.

---

---

## Chapter 9 Department of Agriculture and Food

---

---

.145 Because of our limited resources and established priorities (see Chapter 4), we did not do an audit to report on the Department's rules and procedures to safeguard and control the assets of the Fund.

---

Grant Requires  
Authority

.146 Subsection 6(2) of *The Cattle Marketing Act* requires the Minister to approve expenses incurred to develop, improve and promote the cattle industry. The Minister approved a grant of \$122,472 to an association. The Department paid the association \$170,634.

.147 In our opinion, the grant paid to the association lacked proper authority.

We Recommend

**.148 The Department should obtain proper authority for payments out of the Fund.**

**SASKATCHEWAN  
CROP  
INSURANCE  
CORPORATION**

.149 The Corporation (SCIC) provides crop insurance to Saskatchewan farmers for losses arising from natural disasters. SCIC also insures farmers against price fluctuations.

.150 SCIC had revenues of \$919.7 million in 1992 and held assets of \$288.7 million at March 31, 1992. The financial statements for SCIC appear in the Public Accounts Compendium of Financial Statements at page B 52.

Public Accountability

.151 In our 1991 Annual Report, we reported we had not completed our audit of SCIC for its year ended March 31, 1991. There were delays in receiving required information. We have now completed our audit of SCIC for its 1991 and 1992 years.

.152 In our opinion, late reports impair the Government's public accountability for its management of SCIC.

---

Our Audit Findings

.153 In our opinion, SCIC's financial statements included in the 1991 and 1992 Compendiums are reliable. SCIC complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matters reported in paragraphs .183 to .186. SCIC's rules and procedures were adequate to safeguard and control its assets except for the following significant deficiencies.

---

---

## Chapter 9 Department of Agriculture and Food

---

---

### Systems Development Controls Required

**.154** SCIC lacked proper systems development controls. Systems development controls are necessary to ensure computer systems achieve desired results.

**.155** Systems development controls include rules and procedures that:

- ensure new systems contain necessary internal controls;
- ensure the information needs of users are met;
- ensure computer programs are tested before they are used;
- ensure staff are adequately trained; and
- ensure information is properly transferred from an old system to a new system.

**.156** During the year ended March 31, 1991, SCIC developed and implemented a new computer system to pay insurance claims to farmers. SCIC paid claims totalling \$184.9 million in 1991 and \$968.9 million in 1992.

**.157** SCIC lacked adequate systems development controls.

### We Recommend

**.158** SCIC should establish proper systems development controls.

**.159** SCIC informed us it completed a broad study of financial information needs and required controls in 1992-93. SCIC implemented recommendations from this study to address the system development control matters reported.

---

### System to Pay Claims Needed

**.160** SCIC did not have an adequate system to pay insurance claims to farmers in the fall of 1990.

**.161** SCIC needed to pay claims in the fall of 1990. However, at that time SCIC had not completed and tested the new system for paying claims. To pay farmers, SCIC estimated the amounts owing and paid those amounts.

**.162** When SCIC implemented the new system in December, 1990, SCIC determined it overpaid farmers by approximately \$4

---

---

## Chapter 9 Department of Agriculture and Food

---

---

million. SCIC is trying to recover these overpayments.

**We Recommend**

**.163 SCIC should have system development controls to ensure user information needs are met on a timely basis.**

---

Staff Require Training

**.164** SCIC did not adequately train staff to use the new system for paying farmers' insurance claims.

**.165** SCIC needs to check the accuracy and reliability of its accounting records. SCIC should balance its bank account and its accounts receivable records to its general ledger.

**.166** SCIC developed a new system to balance its bank account and accounts receivable records to its general ledger. The new system requires staff to do transaction cut-off procedures at period end and to prepare month end reports after the transaction cut-off procedures are complete.

**.167** Staff did not do transaction cut-off procedures. Also, staff did not prepare month end reports or did not print them at the correct time.

**.168** As a result, in 1991 SCIC could not balance its bank account to its general ledger for the period November, 1990, to February, 1991. At March 31, 1991, there was a difference of \$145,521 between the balance in the bank account and the balance in the general ledger. In 1992, SCIC could not reconcile its bank account for July 1991 and reconciled its bank account late for the other months.

**.169** Further, the accounts receivable records could not be balanced to the general ledger at March 31, 1991. At March 31, 1991 there was a difference of \$117,134 between the accounts receivable records and the general ledger.

**We Recommend**

**.170 Staff should be properly trained to operate new systems.**

**.171** SCIC informed us it hired additional staff, undertook new staff training programs and implemented system improvements to address this issue.

---

Segregation of Duties

**.172** In 1991, SCIC did not adequately segregate the duties of persons using its computer systems. Segregation of duties is



---

---

## Chapter 9 Department of Agriculture and Food

---

---

inadequate when one person can conceal an error or fraud. With computer systems, persons who design computer programs should not be able to carry out changes to those programs or access data files.

**.173** SCIC hired a service organization to provide computer installation and maintenance services. The service organization made changes to SCIC's data files without SCIC's knowledge. These unauthorized changes to the records contributed to the bank account not balancing to the general ledger.

---

**We Recommend**

**.174** SCIC should segregate the duties of persons using its computer systems.

**.175** SCIC corrected this matter in 1992.

---

Claims System not Adequate

**.176** SCIC does not have an adequate system to know whether the insurance claims paid to farmers are complete, accurate, authorized and properly supported.

**.177** The new system to pay farmers is decentralized. It uses SCIC's 32 Customer Service Offices (CSOs) to process claims. The CSOs receive claims for loss, arrange for loss inspections and obtain inspection reports. The CSOs send claim information to SCIC's head office. Head office does not monitor the CSOs compliance with established procedures.

**.178** Therefore, head office does not know if the payment information it receives from the CSOs is complete, accurate, authorized and properly supported.

---

**We Recommend**

**.179** SCIC should monitor CSOs to ensure they follow prescribed policies and procedures.

---

Contingency Plan

**.180** SCIC should have a written and tested contingency plan that ensures continued operations if a major loss or destruction of records occurs. A contingency plan is particularly important to SCIC because its operations depend on the reliability of its information systems.

**.181** We found SCIC does not have a written and tested plan to ensure it can recover in a timely and efficient manner in the event of a major loss or destruction of its records.

---

---

## Chapter 9 Department of Agriculture and Food

---

---

**We Recommend**

---

**.182 SCIC should prepare a written contingency plan and test the plan.**

---

Authority to Transfer  
Money

**.183** In 1991, SCIC spent \$225,000 drawn from its Consolidated Fund appropriation for operations (vote 46 subvote 1) to make payments to the waterfowl crop damage compensation fund (vote 46 subvote 2).

**.184** In 1992, SCIC paid interest costs of \$1,734,336 out of money drawn from its Consolidated Fund appropriation for operations (vote 46 subvote 1). These costs should have been paid out of monies drawn from its Consolidated Fund appropriation for financing costs (vote 46 subvote 4).

**.185** In our opinion, in the two cases described above SCIC applied the amounts appropriated to purposes not authorized by the Legislature.

**We Recommend**

---

**.186 SCIC should obtain the necessary approval from the Minister of Finance before transferring money among appropriations.**

---

Appointed Auditor

**.187** We relied on the appointed auditor's reports on SCIC's 1991 and 1992 financial statements. We did not rely on the appointed auditor's reports on SCIC's rules and procedures to safeguard and control public money and SCIC's compliance with authorities.

**.188** The appointed auditor did not report most of the matters reported in paragraphs .154 to .186.

**.189** *The Provincial Auditor Act* requires us to conduct additional audit procedures when we cannot rely on the report of an appointed auditor. The appointed auditor's procedures were sufficient to allow us to form our opinions. Therefore, we did not have to conduct any additional procedures.

---

---

## Chapter 9 Department of Agriculture and Food

---

---

**SOUTH  
SASKATCHEWAN  
RIVER  
IRRIGATION  
DISTRICT #1**

**.190** The District manages an irrigation system for farmers near Outlook, Saskatchewan.

**.191** The District had revenues of \$.7 million in 1991 and held assets of \$2.7 million at December 31, 1991. The District's financial statements are included in the Public Accounts Compendium of Financial Statements at page B 143.

**Our Audit Findings**

**.192** In our opinion, the District's financial statements included in the Compendium are reliable. The District complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The District's rules and procedures to safeguard and control its assets were adequate except for the following significant deficiency.

---

**Payments Need to be  
Authorized**

**.193** The District has established procedures that require all cheques to have two signatures.

**.194** We found two cheques totalling \$73,319 that were not authorized by two cheque signors.

**.195** In our opinion, these payments were not properly authorized.

**We Recommend**

**.196** The District should comply with its established procedures.

## Chapter 10

### Department of Community Services

Consolidated Fund

**.01** In 1993, the Family Foundation became part of the Department of Community Services. In 1992, the Department managed Consolidated Fund appropriations of \$158.9 million and the Foundation managed Consolidated Fund appropriations of \$10.4 million; the Department and the Foundation also managed Consolidated Fund revenue of \$5.8 million and \$2.8 million. Information about the Department and Foundation's revenues and appropriations appears in Volume II of the Public Accounts at pages 9, 45 and 114.

**.02** The following is a list of major programs of the Department and the Foundation.

	<u>Original Estimates</u>	<u>Actual</u>
(in millions of dollars)		
<u>Department</u>		
Urban Revenue Sharing	\$ 62.5	\$ 62.5
Housing	60.0	58.3
Libraries	8.2	8.0
Payment to Saskatchewan Assessment Management Agency	7.0	7.0
Northern Revenue Sharing	5.1	4.9
Other	<u>18.8</u>	<u>18.2</u>
	<u>\$161.6</u>	<u>\$158.9</u>
<u>Foundation</u>		
Payments to Saskatchewan Property Management Corporation	\$ 2.9	\$ 2.9
Heritage programs	1.4	2.0
Payments to Saskatchewan Archives Board	1.2	1.4
Payments to Saskatchewan Centre of the Arts	.6	.6
Other	<u>3.5</u>	<u>3.5</u>
	<u>\$ 9.6</u>	<u>\$10.4</u>

---

---

## Chapter 10 Department of Community Services

---

---

Special Purpose  
Funds and Crown  
Agencies

**.03** The Department and the Foundation are also responsible for the following special purpose funds and crown agencies:

New Careers Corporation  
Northern Revenue Sharing Trust Account  
Saskatchewan Archives Board  
Saskatchewan Arts Board  
Saskatchewan Centre of the Arts  
Saskatchewan Heritage Foundation  
Saskatchewan Housing Corporation  
Saskatchewan Lotteries Trust Fund for Sports  
Recreation and Culture  
The Water Appeal Board  
Western Development Museums

Our Audit Findings

**.04** The Department's and the Foundation's rules and procedures to safeguard and control their Consolidated Fund appropriations and revenues were adequate. The Department and the Foundation complied with the authorities governing their Consolidated Fund appropriations and revenues as those activities relate to their financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matters reported in paragraphs .06 to .13.

**.05** In our opinion, the financial statements for the agencies and special funds listed in paragraph .03 are reliable except where we report otherwise in this chapter. The rules and procedures used by the Department and its agencies to safeguard and control the assets of the agencies and special funds were adequate except where we report otherwise in this chapter. The Department and its agencies complied with the authorities governing the activities of the agencies and special funds as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except where we report otherwise in this chapter.

---

*The Fire Prevention  
Act*

---

**.06** The Department did not comply with *The Fire Prevention Act*.

**.07** *The Fire Prevention Act*, 1980 states:

"22(1) As a contribution to the cost of the fire prevention services provided for in this Act, every

---

---

## Chapter 10 Department of Community Services

---

---

company...shall pay to the Minister of Revenue and Financial Services a fee...."

"(4) Any moneys paid pursuant to subsection (1) are to be deposited in the consolidated fund and dedicated to paying the expenses incidental to the administration of this Act and the Regulations".

**.08** The Department pays the cost of administering this Act out of a Consolidated Fund appropriation. It also deposits money received under this Act to the Consolidated Fund. However, when the money received is more than the cost of administration, the excess is not set aside to be used for the purposes of the Act in the future.

**.09** During 1992, revenue collected under section 22 of the Act was approximately \$1.8 million and the cost to administer the Act was approximately \$1.3 million.

**.10** The failure to set aside the excess of receipts over costs results in the use of this money for purposes other than those set out in the Act.

**.11** Our 1988, 1989, 1990 and 1991 Annual Reports also reported this matter.

### We Recommend

**.12** The Department should propose changes to the Act to end the need to set unspent revenue aside or the Department should set the unspent revenue aside.

**.13** The Department told us it has proposed changes to the Act to Cabinet for approval.

### SASKATCHEWAN LOTTERIES TRUST FUND FOR SPORT, CULTURE AND RECREATION

**.14** *The Interprovincial Lotteries Regulations* created the Saskatchewan Lotteries Trust Fund for Saskatchewan's net lottery proceeds received from the Western Canada Lottery Corporation. The Government designated Sask Sport Inc. as the marketing organization for a lottery scheme in Saskatchewan. The Regulations require Sask Sport Inc. to administer the Fund for the Minister.

**.15** The Minister managed approximately \$38 million of public money through the Trust Fund in 1992. The financial

---

---

## Chapter 10 Department of Community Services

---

---

statements for the Fund are not included in the Public Accounts Compendium of Financial Statements.

**.16** Sask Sport Inc. informed us, based on advice from its legal counsel, it does not view the money received and spent through the Trust Fund as public money as defined in *The Provincial Auditor Act*.

---

### Our Audit Findings

**.17** In our opinion, the financial statements for the Trust Fund are reliable except for the matters reported in paragraphs .21 to .30. The Department's rules and procedures to safeguard and control the assets of the Fund were inadequate for the reasons reported in paragraphs .21 to .37. The Department complied with the authorities governing the activities of the Fund as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matters reported in paragraphs .21 to .37.

---

### Public Accountability

**.18** The law does not require the Department to provide financial statements of the Trust Fund to the Assembly. Accordingly, the Department did not report the financial results of the Trust Fund to the Assembly.

**.19** We believe the Department should send the financial statements of the Fund to the Provincial Comptroller for inclusion in the Public Accounts Compendium of Financial Statements. The Assembly needs this information to understand and assess how the Minister spends this public money. The Provincial Comptroller also requires this information to ensure the Public Accounts are complete and accurate.

---

### We Recommend

**.20** **The Department should send the financial statements of the Trust Fund to the Provincial Comptroller for inclusion in the Public Accounts Compendium of Financial Statements.**

---

### Inadequate Annual Statement

**.21** The Regulations require Sask Sport Inc. to provide the Minister with an annual statement of the Trust Fund.

**.22** Sask Sport Inc. sends the Department audited financial statements of the Trust Fund as well as audited financial statements for Sask Sport Inc. The Department accepts these financial statements as fulfilling the requirements of the Regulations.

---

---

## Chapter 10 Department of Community Services

---

---

.23 We believe these financial statements do not fulfil the requirements of the Regulations. The statements received are inadequate for the following reasons.

.24 The financial statements of the Trust Fund do not show approximately \$8.5 million of revenue and spending belonging to the Fund. Under the Department's direction, Sask Sport Inc. administered and accounted for this \$8.5 million outside of the Trust Fund. We believe the Department provided incorrect direction to Sask Sport Inc. because the \$8.5 million belonged to the Trust Fund.

.25 Also, the Regulations require all the net lottery profits to be credited to the Trust Fund. Sask Sport Inc. did not credit \$8.7 million of net lottery profits received in prior years to the Fund until 1992. We believe all the net lottery profits from the Western Canada Lottery Corporation should be credited promptly to the Fund.

.26 We believe the Department should not accept the financial statements it received from Sask Sport Inc. as fulfilling the requirements of the Regulations.

**We Recommend**

**.27 The Minister should instruct Sask Sport Inc. to prepare financial statements for the Trust Fund that comply with the Regulations.**

**.28 The Minister should change the instructions to Sask Sport Inc. to confirm that Sask Sport Inc. is to receive and spend all Trust Fund money through the Fund.**

---

**Other Matters**

**.29** During our audit of the Trust Fund, we noticed Sask Sport Inc. reports in its consolidated statements the assets, revenues and expenses of the Trust Fund as assets, revenue and expenses of Sask Sport Inc. The Fund is public money. It does not belong to Sask Sport Inc. We believe Sask Sport Inc. should improve its financial statements to show clearly its activities separate from the Fund.

**We Recommend**

**.30 The Minister should instruct Sask Sport Inc. to improve its financial statements to show clearly its activities separate from the Trust Fund.**



---

---

## Chapter 10 Department of Community Services

---

---

Instructions to Sask Sport Inc.

.31 The Minister's instructions to Sask Sport Inc. for the administration of the Trust Fund are not adequate.

.32 The original instructions are contained in a letter to Sask Sport Inc. dated July 7, 1988. The letter describes the arrangement with Sask Sport Inc. as a "license". Subsequent letters from the Minister amend the instructions. (This arrangement should not be confused with the license issued to the Western Canada Lottery Corporation to conduct and manage, on behalf of the Government of Saskatchewan, a lottery scheme).

.33 We compared the instructions with the requirements of the Financial Administration Manual issued by the Department of Finance and found the instructions inadequate. They should include:

- a detailed description of the administrative services expected from Sask Sport Inc.,
- the cost of those services,
- the terms of payment,
- a requirement to comply with the Act and Regulations for the administration of the Trust Fund, and
- evidence of a review by legal counsel.

.34 Therefore, in our opinion, the Minister did not give adequate instructions to Sask Sport Inc. for the administration of the Trust Fund.

**We Recommend**

**.35 The Minister should give adequate instructions to Sask Sport Inc. for the administration of the Trust Fund.**

.36 The Department told us it intends to give adequate instructions to Sask Sport Inc.

.37 At the date of this Report, we have not completed our work on the Trust Fund.

---

---

## Chapter 10 Department of Community Services

---

---

### SASKATCHEWAN ARTS BOARD

**.38** The Board fosters the development of the professional arts and artistic pursuits that enrich the lives of the people of Saskatchewan.

**.39** The Board had revenue of \$3.6 million and held assets of \$1.9 million at March 31, 1992. The Board's financial statements are included in the Public Accounts Compendium of Financial Statements at page B251.

---

#### Our Audit Findings

**.40** In our opinion, the Board's financial statements included in the Compendium are reliable. The Board complied with the authorities that govern its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The Board's rules and procedures to safeguard and control its assets were reliable except for the following significant deficiencies.

---

#### Segregation of Duties

**.41** The Board did not adequately segregate the duties of employees responsible for payroll. Segregation of duties is inadequate when one employee can conceal an error or fraud.

**.42** During our audit, we noted one employee was responsible for preparing payroll cheques and for distributing payroll cheques to employees.

**.43** We also noted the Board signed payroll cheques in advance and dated the cheques the date the cheques were signed. The Board did not postdate these payroll cheques to the applicable pay period.

**.44** We found the employee responsible for distributing payroll cheques cashed his payroll cheques before his pay was earned. At March 31, 1992, the employee had cashed his payroll cheques for April, May and June, 1992. By June 1992, the employee had cashed his payroll cheques for July, August, September, October, November and December. This employee also prepared and cashed duplicate cheques for his July and August 1992 pay.

**.45** The Board suspended the employee on December 10, 1992.

#### We Recommend

**.46** The Board should adequately segregate the duties of employees responsible for payroll.

---

---

## Chapter 10 Department of Community Services

---

---

**.47 The Board should prepare payroll cheques in the applicable pay month.**

**.48 The Board should date payroll cheques for the applicable pay date.**

**.49 The Board should establish rules and procedures to ensure it only pays employees for services rendered.**

---

Expenses Require  
Scrutiny

**.50** As a result of our findings in the payroll records, we decided to review the employee's business expenses for the period April 1, 1991 to December 10, 1992. For the year ended March 31, 1992, we found some of the employee's business expenses did not have adequate support. There were no receipts to support a lodging expense claim of \$123.64.

**.51** Also, for the period ended December 10, 1992, we found the Board paid the employee for business expense claims of \$2,031 that the employee did not pay personally. The expense claims were paid by the Board. Bogus receipts supported the employee's expense claims. As a result, the Board paid these business expenses twice; first to the supplier and again to the employee.

**.52** In addition, for the period ended December 10, 1992, we found the employee did not pay the Board for what appears to be personal expenses charged to the Board's credit cards in the amount of \$1,376. There was no documentation to show these expenses were for business purposes.

**.53** We may not have identified all business expenses the employee incorrectly charged to the Board. Also, we may not have identified all cases where the employee did not pay the Board for what appears to be personal expenses charged to the Board's credit cards. We are unable to identify these matters because we do not have all credit card statements.

**.54** We also found the employee had an outstanding travel advance of \$1,525 as at December 10, 1992.

We Recommend

**.55 The Board should document its policies and procedures for expense reimbursement.**

**.56 The Board should establish rules and procedures that require proper receipts for expense claims.**

---

---

## Chapter 10 Department of Community Services

---

---

**.57** The Board should establish rules and procedures that require employees to submit original receipts for purchases on the Board's credit card. These rules and procedures also should ensure the Board recovers all personal charges on a timely basis.

**.58** The Board should establish rules and procedures to recover travel advances in a timely manner.

**.59** The Board should establish rules and procedures to control employees long-distance telephone calls.

---

Systems Development  
Controls

---

**.60** During 1991-92, the Board purchased \$28,252 of computer equipment, software and services.

**.61** We did not find a current documented computer systems development plan. Therefore, we are unable to determine if computer equipment and software purchased during the year met the Board's present or future requirements. Also, we could not find documentation of other suppliers' quotations. Therefore, we are unable to determine if the Board obtained the best price.

**.62** The Board uses the new computer system to keep its accounting records. We were unable to find documentation of the operating procedures for the computer system. The operating procedures would normally include operating manuals, backup and recovery procedures and a disaster recovery plan.

**We Recommend**

**.63** The Board should prepare rules and procedures for computer systems development.

**.64** The Board should document its computer operating procedures.

**.65** The Board should establish rules and procedures requiring quotations from different suppliers before approving large or ongoing purchases.

---

---

## Chapter 10 Department of Community Services

---

---

### SASKATCHEWAN CENTRE OF THE ARTS

**.66** The Centre is a multi-purpose facility used to enhance the quality of life of the people of Saskatchewan.

**.67** The Centre had revenue of \$2.5 million in 1992 and had assets of \$1.0 million at March 31, 1992. Management did not complete the financial statements for the Centre in time to be included in the Public Accounts Compendium of Financial Statements.

---

#### Our Audit Findings

**.68** In our opinion, the Centre's financial statements are reliable. The Centre complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matter reported in paragraphs .92 to .96. The Centre established rules and procedures to safeguard and control its assets. However, the Centre did not follow its established rules and procedures. This resulted in the following control deficiencies.

---

#### Board of Directors Needs to Oversee Management

**.69** A good system of internal control creates an environment where errors or fraud are either less likely to occur, or if they occur, are more likely to be detected. To create this environment the Board of Directors needs to oversee management. Through planning and overseeing management's activities, a Board of Directors reduces the risk of errors or fraud.

**.70** Section 8 of *The Saskatchewan Centre of the Arts Act* states:

"This Act shall be administered by the board and in the performance of the duties and exercise of the powers imposed or conferred upon the board by or pursuant to this Act the board shall be responsible to the minister".

**.71** The Board of Directors must discharge its duties by exercising the care, diligence and skills that prudent persons would exercise in comparable circumstances.

**.72** Members of the Board told us they have not been given clear guidance on their roles and responsibilities, and how to achieve them.

---

---

## Chapter 10 Department of Community Services

---

---

.73 Also, management told us the Board did not meet after their January, 1992 meeting because they understood a new Board would be appointed shortly. However, the new Board was not appointed until May 12, 1992.

.74 The Board did not adequately oversee management's activities. This lack of oversight allowed errors to occur and go undetected. Also, this lack of oversight contributed to the Centre being unable to prepare accurate and reliable accounting records and financial reports.

**We Recommend**

---

**.75 The Board should properly oversee management's activities.**

---

Timely and Accurate  
Financial Reports  
Needed

.76 Management is responsible for providing the Board with timely and accurate financial reports. We found the Board received late and inaccurate financial reports.

.77 Management provided a financial report to the Board, for the period April to June 1991, on September 25, 1991. Management gave the Board a second financial report, for the period July to October 1991, on January 22, 1992. At October 29, 1992, management had not given a financial report to the Board for the period November, 1991 to March, 1992.

.78 Also, we found the reports given to the Board were not accurate. Paragraphs .82 to .84 describes these inaccuracies.

.79 Late and inaccurate reports restrict the Board's ability to take corrective action for any errors or problems that might be identified in financial reports.

**We Recommend**

---

**.80 Management of the Centre should provide the Board of Directors with timely and accurate financial reports.**

---

Staff Training and  
Supervision Needed

.81 To ensure management can prepare timely and accurate financial reports, management needs to train and supervise staff properly. Proper training and supervision help to avoid errors caused by misunderstanding.

.82 We found many errors and omissions in the accounting records. Also, staff made changes to accounting records without adequate supporting documents or management approval.

---

---

## Chapter 10 Department of Community Services

---

---

**.83** For example, we found staff made over 170 adjustments to the accounting records totalling \$1.1 million. Many of these adjustments were unauthorized, incorrect and were not properly documented. When we informed staff about the errors we found in the adjustments, they prepared further adjustments that were not properly documented and often did not correct the original error.

**.84** The extent of errors and the lack of an adequate control environment created a situation where we could not find sufficient audit evidence to form an opinion on the Centre's financial statements. This caused the Centre to arrange for reconstruction of the accounting records and for the preparation of revised financial statements.

**.85** In our opinion, management did not properly train and supervise staff.

---

**We Recommend**

**.86 Management should properly train and supervise staff.**

---

Ticket Prices

**.87** The Centre is responsible for printing tickets. The promoter of a show notifies the Centre of the ticket price. The Centre records the information and prepares the tickets.

**.88** The Centre does not confirm the ticket price in writing with the promoter. The lack of a written confirmation could result in misunderstandings with the promoter on agreed prices. This situation could result in losses to the Centre.

---

**We Recommend**

**.89 The Centre should confirm ticket prices in writing.**

---

Written Contract  
Needed

**.90** The Centre has a verbal contract with a company to help keep the Centre's box office computer system operating. Verbal contracts can lead to misunderstandings about services and prices.

---

**We Recommend**

**.91 The Centre should obtain a written contract with the company.**

---

Public Accountability

**.92** The Centre did not complete its financial statements in time to be included in the Public Accounts Compendium of Financial Statements. Accordingly, the Centre has not complied with *The Financial Administration Act*.

---

---

## Chapter 10 Department of Community Services

---

---

**.93** In our opinion, the delay in making its financial statements public impairs the Centre's public accountability for its operations.

---

Payments Lack  
Authority

**.94** The Board established the following cheque signing authorities in 1989. The Executive Director and the Business Manager must sign all cheques. The Board requires the Chair or Vice-chair to counter-sign cheques of over \$75,000 for box office settlements.

**.95** We found two box office settlement cheques for more than \$75,000 that the Chair or Vice-Chair did not sign. In our opinion, these payments lacked proper authority.

**We Recommend**

**.96 Management should comply with the Board's directives.**

**SASKATCHEWAN  
HOUSING  
CORPORATION**

**.97** The Corporation (SHC) promotes, carries out construction and provides improved housing for disadvantaged persons. It also improves the quality of housing and the quality of amenities related to housing for disadvantaged persons.

**.98** SHC had revenues of \$79.4 million and held assets of \$364.5 million at December 31, 1991. SHC's financial statements are included in the Public Accounts Compendium of Financial Statements at page B107.

Our Audit Findings

**.99** In our opinion, SHC's financial statements included in the Compendium are reliable. SHC's rules and procedures to safeguard and control its assets were adequate. SHC complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matter.

---

Lack of Authority for  
Home Improvement  
Plan

**.100** In 1986, SHC started the Home Improvement Plan. The plan gives financial assistance to homeowners for improving their properties. Homeowners could receive a grant and a loan guarantee with an interest subsidy.

**.101** In 1990, SHC quit making loan guarantees. SHC had guaranteed loans, to a maximum of \$10,000, with repayment terms over 10 years. At December 31, 1991 SHC had 67,404 loan guarantees in effect. The outstanding balance on loans guaranteed was \$296.3 million.



---

---

## Chapter 10 Department of Community Services

---

---

**.102** During the year 1991-92, the Department started making the payments for the interest subsidies and paid \$16.0 million. In addition, SHC paid \$6.8 million for expenses of this Plan for the period January 1, 1991 to March 31, 1991.

**.103** Section 13 of *The Saskatchewan Housing Corporation Act* states:

"The objects of the corporation are:

- a) to promote and carry out the construction and provision of more adequate and improved housing:
  - i) for low income families and individuals;
  - ii) for students;
  - iii) for such elderly person or class or classes of elderly persons as may be designated by the corporation;
  - iv) for families and individuals receiving social allowances or social assistance; and
  - v) generally, for persons or groups which in the opinion of the corporation require assistance;
- b) to improve the quality of housing; and
- c) to improve the quality of amenities related to housing".

**.104** In our opinion, Section 13 of the Act does not provide SHC the authority to improve the quality of housing and the quality of amenities related to housing generally. The Act restricts SHC's authority to housing for those disadvantaged groups or persons described in subsection 13(a). Accordingly, in our opinion, payments made and loans guaranteed under the Plan lack authority.

**.105** SHC believes it has authority to operate the Plan to improve housing generally.

**.106** Both SHC and our Office have legal advice supporting the respective positions.

---

---

## Chapter 10 Department of Community Services

---

---

**.107** We also reported this matter in our 1990 and 1991 Annual Reports.

**We Recommend**

---

**.108** SHC should propose a change to the Act to clarify this matter.

---

Appointed Auditor's Reports

**.109** We relied on the appointed auditor's report on SHC's financial statements. We also relied on the appointed auditor's report on SHC's internal controls.

**.110** We relied on the appointed auditor's report on compliance with authorities except for the matter described in paragraphs .100 to .108.

**.111** *The Provincial Auditor Act* requires us to conduct additional procedures when we do not rely on an appointed auditor. The appointed auditor's procedures were sufficient to allow us to form our opinions. Therefore, we did not have to conduct additional audit procedures to discharge our audit responsibilities. The reporting or non-reporting of the matters in paragraphs .100 to .108 are subject to judgement.

**SASKATCHEWAN  
ARCHIVES  
BOARD**

**.112** The Board acquires and preserves historical documents related to the history of Saskatchewan. It makes these documents available to the public for research purposes.

**.113** The Board had revenues of \$1.7 million for 1992 and had assets of \$.6 million at March 31, 1992. The Board's financial statements are not included in the Public Accounts Compendium of Financial Statements.

Our Audit Findings

**.114** In our opinion, the Board's financial statements are reliable. The Board's rules and procedures to safeguard its assets were adequate except for the significant deficiency reported at paragraphs .118 to .122. The Board complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matter.

---

Public Accountability

**.115** The law required the Department of Finance to prepare the Public Accounts by October 31, 1992. The Board did not prepare and submit its financial statements to the Department of Finance

---

---

## Chapter 10 Department of Community Services

---

---

in time to be included in the Public Accounts Compendium of Financial Statements.

**.116** In our opinion, late financial statements impair public accountability.

**We Recommend**

---

**.117 The Board should prepare and submit its financial statements to the Department of Finance by the required date.**

---

Equipment Records  
Required

**.118** The Board did not keep adequate records to know what equipment it owned. The Board has equipment in Regina and Saskatoon. The Board did not keep records of the equipment at its Regina office.

**.119** The Board needs to keep records for all its equipment. Also, the Board should examine the equipment periodically and compare these assets to the records to ensure their continued existence and use.

**.120** In our opinion, the failure to keep records of the equipment could result in a loss of these assets without detection.

**We Recommend**

**.121 The Board should keep records of all its equipment.**

**.122 The Board should periodically count its equipment and compare the count to the records.**

## Chapter 11

### Department of Economic Diversification and Trade

**Consolidated Fund**

**.01** The Department works with business, communities and people to expand and diversify the Saskatchewan economy.

**.02** The Department managed Consolidated Fund appropriations of \$22.5 million in 1992. Information about the Department's appropriations appears in Volume II of the Public Accounts at page 72.

**.03** The following is a list of the Department's major programs and spending.

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Communications	\$ 5.5	\$ 5.2
Tourism	3.2	3.2
Business Services and Co-operatives	3.4	3.1
Payments to Saskatchewan Property Management Corporation	3.7	3.1
Trade	3.7	3.0
Other	6.8	4.9
	<u>\$26.3</u>	<u>\$22.5</u>

**Special Purpose Funds**

**.04** The Department is also responsible for managing the Northern Saskatchewan Economic Development Revolving Fund.

**Our Audit Findings**

**.05** In our opinion, the Department's rules and procedures to safeguard and control its Consolidated Fund appropriations and revenues were adequate. The Department complied with the authorities governing its activities for the Consolidated Fund appropriations and revenue as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. However, we report a perceived conflict of interest related to Community Bonds in paragraphs .26 to .29.

---

---

## Chapter 11 Department of Economic Diversification and Trade

---

---

### NORTHERN SASKATCHEWAN ECONOMIC DEVELOPMENT REVOLVING FUND

**.06** The Department uses the Fund to finance loans to northern residents.

**.07** The Department prepared financial statements for the Fund. These financial statements reported revenues of \$1.3 million in 1992 and loans receivable of \$12 million at March 31, 1992. On October 22, 1992, we submitted these financial statements to the Provincial Comptroller for format approval. We also submitted our draft auditor's report on these financial statements. Our draft report states we could not find enough information to know if loans receivable were valued properly. These financial statements are not included in the Public Accounts Compendium of Financial Statements.

#### Our Audit Findings

**.08** We were not able to find enough information to know if the Fund's financial statements are reliable. The Department complied with the authorities governing the activities of the Fund as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matter reported in paragraphs .23 to .25. The Department's rules and procedures to safeguard and control the assets of the Fund were inadequate because of the following significant deficiencies.

---

#### Evidence to Value Loans Receivable Required

**.09** The Department did not have adequate rules and procedures to prepare timely and accurate financial statements. To prepare timely and accurate financial statements, the Department needs rules and procedures to determine the net recoverable value of its loans receivable.

**.10** The net recoverable value of a loan should reflect management's plan to recover that loan. If the Department plans to foreclose on a loan and realize on collateral the net recoverable amount is the market value of the assets seized, net of disposal costs. If the Department plans to restructure a loan, the net realizable value of the loan is the amount to be received after renegotiating the loan.

**.11** The Department did not have rules and procedures to determine the net realizable value of its loans receivable. Therefore, we were unable to obtain sufficient evidence to form an opinion on the value of the loans receivable.

**.12** As a result, we cannot determine if the financial statements

---

---

## Chapter 11 Department of Economic Diversification and Trade

---

---

for the Fund are reliable.

**We Recommend**

---

**.13 The Department should establish rules and procedures to value its loans receivable at their net recoverable value.**

---

Interest Income Not Properly Recorded

**.14** Generally accepted accounting principles require the Department to record interest income on loans in the period it earns the interest. However, the Department should not record interest income when the collection of either the principal or interest is not reasonably assured.

**.15** The Department recorded interest income on several loans when the collection of loan principal or interest was not reasonably assured.

**We Recommend**

---

**.16 The Department should record interest income only when the collection of loan principal or interest is reasonably assured.**

---

Collection Procedures Required

**.17** The Department does not have adequate rules and procedures to collect loans in arrears. We found loans that were several years in arrears.

**We Recommend**

---

**.18 The Department should prepare written rules and procedures for the collection of loans in arrears. The rules and procedures should address what to do with loans more than three months in arrears.**

---

Loan Collateral Policies Needed

**.19** The Department did not have adequate rules and procedures to obtain sufficient collateral to safeguard the value of its loans. Also, the Department did not monitor the value of its collateral over the terms of its loans.

**.20** The value of collateral held on many loans was not sufficient to recover the loans.

**We Recommend**

**.21 The Department should establish rules and procedures to obtain sufficient collateral when it makes a loan.**

**.22** The Department should establish rules and procedures to monitor the value of the collateral over the terms of its loans.

---

---

## Chapter 11 Department of Economic Diversification and Trade

---

---

Public Accountability .23 The law required the Public Accounts to be prepared by October 31, 1992. The Department could not prepare accurate financial statements in time to be included in the Public Accounts Compendium of Financial Statements. We report in paragraphs .09 to .13 the Department lacked rules and procedures to prepare accurate financial statements.

.24 The Department's delay in making the Fund's financial statements public impairs its public accountability for activities carried out through the Fund.

We Recommend .25 **The Department should submit accurate financial statements for the Fund to the Provincial Comptroller by the required date.**

---

Perceived Conflict of Interest

.26 Section 27 of *The Community Bond Act* states:

*The Securities Act, 1988 does not apply to:*

- a) *The distribution, offering, promotion, advertising, sale, disposition or transfer of:*
  - i) *a community bond; or*
  - ii) *a security that, on compliance with this Act and the regulations, will be a community bond;*
- b) *the exchange, of a project bond for securities of the eligible business in which moneys from the project bond were invested or the conversion of those securities to equity shares of the eligible business in accordance with any terms or conditions of the securities;*
- c) *any trade of securities from an eligible business to the community bond corporation which has invested its moneys in the eligible business; or*
- d) *the deemed conversion in accordance with this Act of a community bond into voting shares of a community bond corporation at the full term maturity date of the community bond.*

.27 Community Bond Corporations issue community bonds under *The Community Bond Act*. The Government guarantees the principal amount of these community bonds. Under the Act, the Government approves a Community Bond Corporation's disclosure document. This document is given to community bondholders when the Corporation wants investors to exchange their guaranteed bonds for shares in a Project company. A disclosure document may include information such as a business plan, and the size and terms of the investment. It also may include a description of the securities to be issued and the redemption and exchange provisions relating to the securities.

.28 In our opinion, there is a perceived conflict of interest. The Government approves a Bond Corporation's disclosure document. The Government also has a direct interest in having guaranteed bonds converted to shares to relieve the Government of its guarantee. Accordingly, it is important that required disclosure is adequate and is perceived to be adequate.

### We Recommend

**.29 The Government should consider whether it continues to be appropriate to exempt Community Bond Corporations from *The Securities Act, 1988*.**

.30 If the Community Bond Program was subject to *The Securities Act*, the Saskatchewan Securities Commission would review and approve disclosures contained within documents proposing conversions of guaranteed bonds to shares.



## Chapter 12

### Department of Education

**Consolidated Fund**

**.01** The Department managed Consolidated Fund revenues of \$19 million and Consolidated Fund appropriations of \$901 million in 1992. Information about the Department's revenues and appropriations appears in Volume II of the Public Accounts at pages 9 and 79 respectively.

**.02** The following is a list of the Department's major programs and spending.

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Grants to operate schools	\$373	\$374
Grants to Universities	193	196
Payments to Saskatchewan Institute of Applied Science and Technology (SIAST)	73	73
Grants to construct schools	70	70
Teachers pensions and benefits	60	60
Student Aid Fund operations	40	38
Training Programs	18	18
Advanced Education Enhancement Fund	17	17
Grants for other education agencies	11	11
Official minority language office	1	10
Payments to regional colleges	6	6
Other	<u>35</u>	<u>28</u>
	<u>\$897</u>	<u>\$901</u>

**Special Purpose  
Funds and Crown  
Agencies**

**.03** The Department is also responsible for the operation of several crown agencies and special purpose funds. These are:

- Carlton Trail Regional College
- Correspondence School Revolving Fund
- Cumberland Regional College
- Cypress Hills Regional College
- North West Regional College
- Northlands College
- Parkland Regional College
- Prairie West Regional College
- Saskatchewan Book Bureau Revolving Fund
- Saskatchewan Indian Regional College
- SIAST

---

---

## Chapter 12 Department of Education

---

---

South East Regional College  
Student Aid Fund  
Teachers Superannuation Commission

Our Audit Findings

**.04** We have not completed our examination of the Department's administration of public money. In addition, because of resource constraints, we chose not to examine the Department's rules and procedures to safeguard and control the assets of the Correspondence School Revolving Fund, Saskatchewan Book Bureau Revolving Fund and the Saskatchewan Student Aid Fund. We did, however, examine the financial statements of these Funds and their compliance with authorities.

**.05** In our opinion, the financial statements for the agencies and special funds listed in paragraph .03 are reliable. The rules and procedures to safeguard and control the assets of the agencies and special funds were adequate except where we report otherwise in this chapter. The Department and its agencies complied with the authorities governing the activities of the agencies and special funds listed in paragraph .03 as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except where we report otherwise in this chapter.

**CUMBERLAND  
REGIONAL  
COLLEGE**

**.06** The Cumberland Regional College operates under *The Regional Colleges Act*. It provides learning opportunities in the regional community it serves.

**.07** The College had revenues of \$2.2 million in 1991 and held assets of \$.8 million at June 30, 1991. The financial statements for the College are included in the Public Accounts Compendium of Financial Statements at page A 155.

Our Audit Findings

**.08** The financial statements included in the Compendium are reliable. The College complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The College's rules and procedures to safeguard and control its assets were adequate except for the following significant deficiencies.

---

Segregation of Duties

**.09** The College did not adequately segregate the duties of

---

---

## Chapter 12 Department of Education

---

---

employees responsible for payroll. Segregation of duties is inadequate when one person can conceal an error or fraud.

**.10** During the year the College changed the way it pays employees. The College now uses a direct deposit to employees' bank accounts to pay employees.

**.11** One person had the authority to transfer money from the College's bank account to the employees' bank accounts. This person also balanced the College's bank account. No person in authority checked that the College's records balanced to its bank account.

**.12** In our opinion, this system could lead to irregularities or errors in the College's bank account without timely detection.

### We Recommend

**.13** The College should properly segregate the duties of employees responsible for payroll.

### NORTHLANDS COLLEGE

**.14** Northlands College operates under *The Regional Colleges Act*. It provides learning opportunities in the regional community it serves.

**.15** The College had revenues of \$9.0 million in 1991 and held assets of \$5.6 million at June 30, 1991. The College's financial statements are included in the Public Accounts Compendium of Financial Statements at page A 185.

### Our Audit Findings

**.16** The College's financial statements included in the Compendium are reliable. The College complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The College had adequate rules and procedures to safeguard and control its assets except for the following significant deficiency.

---

### Timely and Accurate Records Required

**.17** The Board needs timely and accurate financial statements to hold management accountable. Management should have rules and procedures that ensure the timely and accurate preparation of financial statements. We found these rules and procedures were inadequate.

**.18** The College contracts with its funding agencies to offer

---

---

## Chapter 12 Department of Education

---

---

specific courses on a cost recovery basis. However, the College does not systematically compare the money it receives from funding agencies to the account used to record the money owing from these agencies. This results in unexplained differences remaining in the account.

**.19** At year end, this account required significant adjustments to make it accurate. Because this account was inaccurate, interim financial statements prepared from these records were not reliable.

**.20** We also found other accounts of the College were not properly kept. Management has established procedures that require the timely balancing of its bank accounts. We found management was not following its own procedures. The bank accounts were not being balanced on a timely basis. The delays in balancing the bank accounts also affects the accuracy of the financial statements.

**.21** In our opinion, the lack of control procedures to ensure accurate financial statements could result in incorrect decisions by the Board. The lack of control procedures also allows overdue accounts receivable to escape the attention of senior management and the Board.

### We Recommend

**.22 The College should establish rules and procedures to control cost recoveries.**

**.23 The College should follow its established procedures.**

### SASKATCHEWAN INDIAN REGIONAL COLLEGE

**.24** The Saskatchewan Indian Regional College Board is accountable to the Minister of Education for the management of the College.

**.25** The College had revenues of \$5.4 million in 1991 and held assets of \$1.5 million at June 30, 1991. The College's financial statements are included in the Public Accounts Compendium of Financial Statements at page A 216.

### Our Audit Findings

**.26** In our opinion, the College's financial statements included in the Compendium are reliable. The College had adequate rules and procedures to safeguard and control its assets. The College complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matters.

---

---

## Chapter 12 Department of Education

---

---

### *The Regional Colleges Act*

.27 The College is subject to *The Regional Colleges Act*. The Act requires the members of the Board to be appointed by the Lieutenant Governor-in-Council. The Lieutenant Governor-in-Council had not appointed three persons regularly taking part in Board meetings.

.28 We found the College paid these three persons per diems and expenses. In addition, the College paid the other members of the Board at rates more than the rates approved by Order-in-Council. In 1991, the total amount paid to the members of the Board was approximately \$67,000. The College lacked proper authority to make these payments.

.29 The Act requires the Minister of Education to approve the budget for the College before the Board adopts it. The Minister did not approve the budget before adoption by the Board.

.30 We also reported this matter in our 1989, 1990 and 1991 Annual Reports. The Standing Committee on Public Accounts considered this matter on January 7, 1992 and again on February 4, 1993.

.31 On February 4, 1993, the Deputy Minister reported to the Committee the College was reluctant to be governed by some controls in the Act because the College is funded by the Federal Government. The Deputy Minister also reported the Department started a review of all regional colleges. Once the review is complete the Department will take this concern into account when proposing changes to *The Regional Colleges Act*.

### We Recommend

**.32 The College should comply with *The Regional Colleges Act*. Alternatively, the Department should propose changes to the Act to exempt the College from the financial requirements of the Act.**

.33 During the year, the College made several payments totalling \$38,000. We are unable to determine whether the monies were used for educational purposes.

---

---

## Chapter 12 Department of Education

---

---

### SOUTH EAST REGIONAL COLLEGE

.34 The South East Regional College Board operates under *The Regional Colleges Act*. It provides learning opportunities in the regional community it serves.

.35 The College had revenues of \$4.1 million in 1991 and held assets of \$1.9 million at June 30, 1991. The College's financial statements are included in the Public Accounts Compendium of Financial Statements at page A 251.

---

#### Our Audit Findings

.36 In our opinion, the College's financial statements included in the Compendium are reliable. The College complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The College had adequate rules and procedures to safeguard and control its assets except for the following significant deficiency.

---

#### Timely and Accurate Records Required

.37 The College has established procedures that require the timely reconciliation of its bank accounts. We found the College was not reconciling its bank accounts on a timely basis.

.38 The delay in reconciling bank accounts can affect the accuracy of the accounting records. If accounting records are inaccurate, reports prepared from them also will be inaccurate. Inaccurate financial reports can result in incorrect decisions.

.39 We also found the College lacked rules and procedures to stop payment on original cheques when the College reissues a cheque. This deficiency in control procedures allows the possibility for a payee to cash both the original and the reissued cheque.

#### We Recommend

**.40 The College should follow its established bank reconciliation procedures.**

**.41 The College should establish rules and procedures to prevent duplicate payments.**

---

---

## Chapter 12 Department of Education

---

---

### TEACHERS' SUPERANNUATION COMMISSION

**.42** The Commission manages the Teachers' Superannuation Fund (Fund), Teachers' Annuity Fund (Annuity Fund), and the Teachers' Voluntary Contributions Fund (Voluntary Fund). The Fund is a defined benefit final average pension plan. The Annuity Fund is a defined contribution pension plan. The Commission also uses the Annuity Fund to underwrite annuities for retiring teachers in the defined contribution pension plan. The Commission uses the Voluntary Fund to receive voluntary contributions from teachers and to invest those contributions on behalf of the teachers.

**.43** The Fund received contributions from teachers of \$28.0 million and from the Minister of Finance of \$37.9 million in 1991. The Fund held assets of \$804.7 million at June 30, 1991. The financial statements for the Fund are included in the Public Accounts Compendium of Financial Statements at page A 78.

**.44** In 1991, the Annuity Fund received contributions of \$10.8 million from teachers, \$20.6 million from the Minister of Finance and transfers of \$9.3 million from the Fund. The Annuity Fund held assets of \$206.3 million at June 30, 1991. The financial statements for the Annuity Fund are included in the Public Accounts Compendium of Financial Statements at page A 70.

**.45** The Voluntary Fund did not receive contributions in 1991 and held assets of \$1.6 million at June 30, 1991. The financial statements for the Voluntary Fund are included in the Public Accounts Compendium of Financial Statements at page A 87.

### Our Audit Findings

**.46** In our opinion, the financial statements for all three funds are reliable. The Commission had adequate rules and procedures to safeguard and control the assets of the three funds. The Commission complied with the authorities governing the activities of the three funds as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matter.

---

### Uncertainty Regarding the Minister of Finance's Contributions

**.47** *The Teachers' Superannuation Act* does not clearly state the amount the Minister of Finance must pay to the Fund. Accordingly, we are unable to form an opinion that the amount paid by the Minister is the amount required by law.

---

---

## Chapter 12 Department of Education

---

---

**.48** Our uncertainty relates to Section 18 of the Act. This section governs the payments the Minister must make to the Fund. Under this section the Minister must pay the Fund an amount equal to the amount contributed by teachers. The Minister also must pay additional amounts to the Fund under this section. The additional amounts the Minister must pay are described in subclause 18(1)(a)(i):

*"The Minister of Finance shall cause to be paid into the Teachers' Superannuation Fund sufficient money, as may be required from time to time, to make it possible at all times to pay the allowances granted under this Act or a former Act; ..."*

**.49** This subclause is subject to interpretation. It could mean the Minister can pay the exact amount of allowances paid in a year. It also could mean the Minister could pay another amount if the Fund could meet allowances currently due to pensioners. The amount to be paid is also affected by the requirement to maintain a minimum balance of assets in the Fund.

**.50** Subclause 18(1)(a)(iii) requires the Minister to pay additional money into the Fund when the assets of the Fund are less than the amount set out in subsection 14(1) of the Act. The assets cannot be less than the accumulated contributions and interest for teachers who have not yet retired. The assets in the Fund were \$132 million more than required under this subsection at June 30, 1991 (\$160 million in 1990 and \$177 million in 1989). Also, see Table 3 for a historical comparison of contributions from the Minister of Finance.

**.51** The Commission obtained legal advice on this matter in 1986 to ensure it was operating within the law. The Commission's lawyer stated the Act was unclear and should be changed to reflect clearly the intentions of the Legislature.

**.52** The Government owes \$2.588 billion to teachers for pension benefits earned to June 30, 1991. The Government has \$798 million in assets in the Fund at June 30, 1991 to pay these pension benefits. At June 30, 1991 the Fund had an unfunded actuarial liability of \$1.790 billion.



---

---

## Chapter 12 Department of Education

---

---

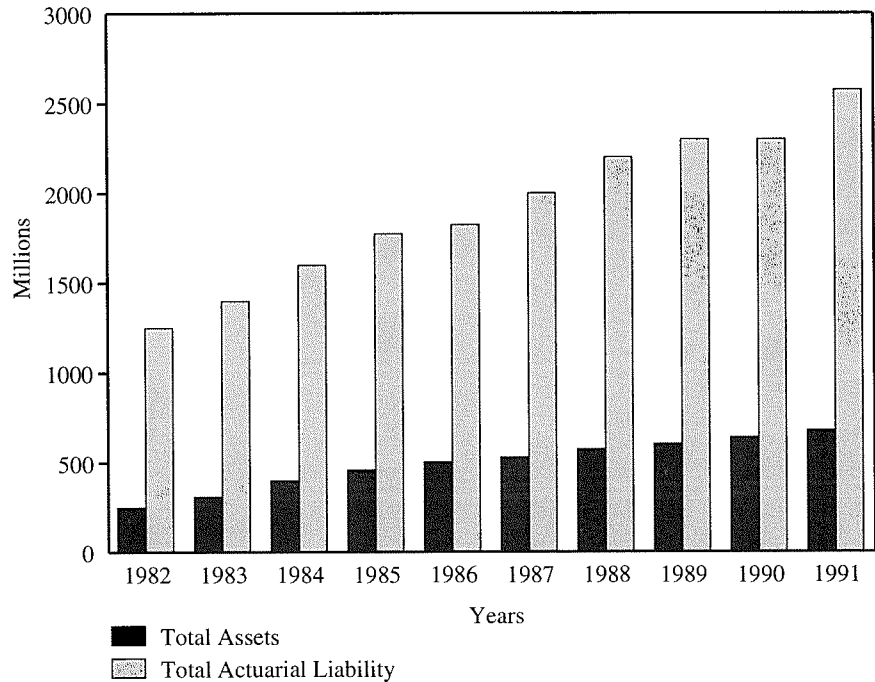
**.53** We prepared four tables showing a 10 year analysis of the factors that affected the Fund's \$1.790 billion unfunded actuarial liability at June 30, 1991.

**.54** The information shown in the tables is based on the Commission's annual financial statements and actuarial reports. We extrapolated earned benefits and interest expense on the actuarial liability using the assumptions shown in the reports.

**.55** Table 1 shows the liability for the earned pension benefits has increased from \$1.251 billion in 1982 to \$2.588 billion in 1991, an increase of \$1.337 billion. The table also shows assets in the Fund to pay for the pensions have increased from \$263 million in 1982 to \$798 million in 1991, an increase of \$535 million. The gap between the amount owed to pay pensions (liability) and the amount available (assets) is growing rapidly.

**Table 1**

This table compares the total actuarial liability of the Fund to the total assets of the Fund.



---

---

## Chapter 12 Department of Education

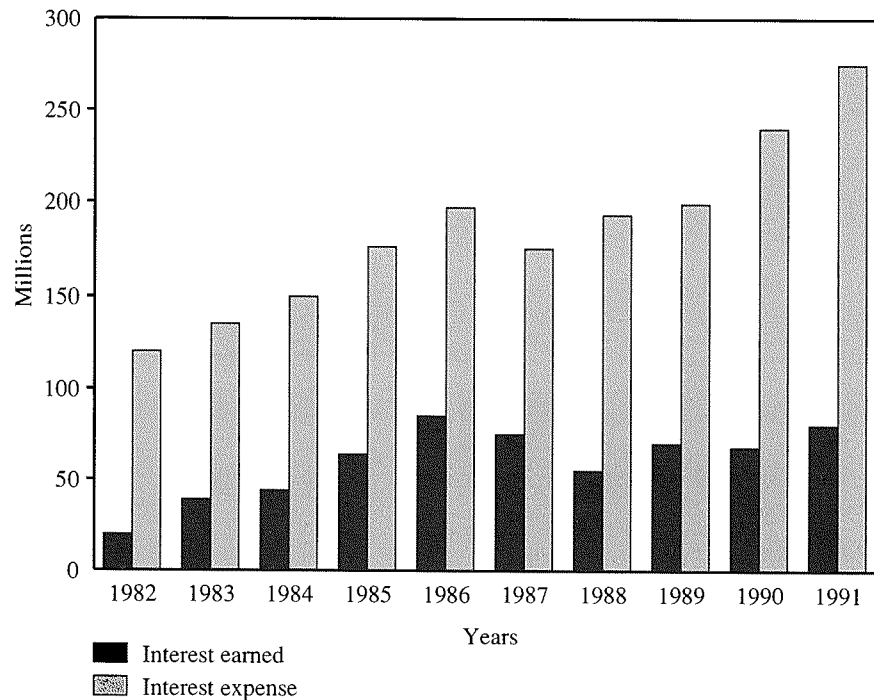
---

---

.56 Table 2 shows the annual interest expense on the liability for teachers' pensions has increased from \$117 million in 1982 to \$277 million in 1991. The table also shows interest earned from the assets available to pay pension benefits has increased from \$19 million in 1982 to \$78 million in 1991. The gap between interest earnings and interest expense has grown significantly. This gap increases the unfunded liability.

**Table 2**

This table compares interest expense to interest earned.

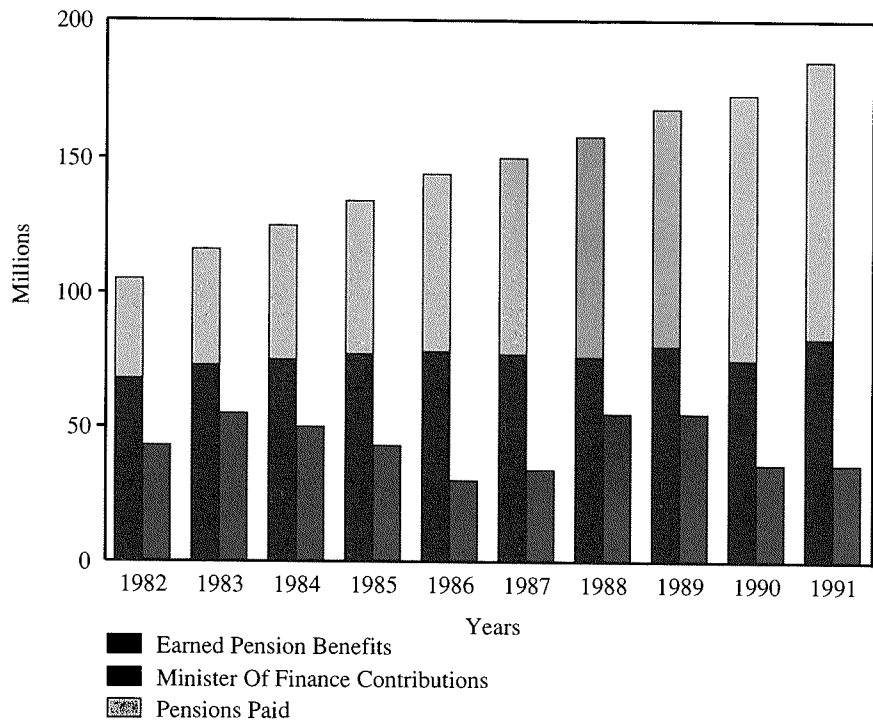


## Chapter 12 Department of Education

.57 Table 3 shows what the Minister of Finance paid to the Fund over the last 10 years. The table shows annual payments fluctuate significantly. The table also shows the total of teachers' annual earned benefits for teachers who have not yet retired and pension payments to teachers who have retired. The table shows allowances paid increased from \$37 million in 1982 to \$102 million in 1991. Also, teachers annual earned benefits increased from \$68 million in 1982 to \$84 million in 1991. The gap between the Minister's contribution and the combined benefits and pensions is increasing rapidly. This increases the unfunded liability.

**Table 3**

This table compares Minister of Finance contributions made to the Fund to earned pension benefits and pensions paid.



---

---

## Chapter 12 Department of Education

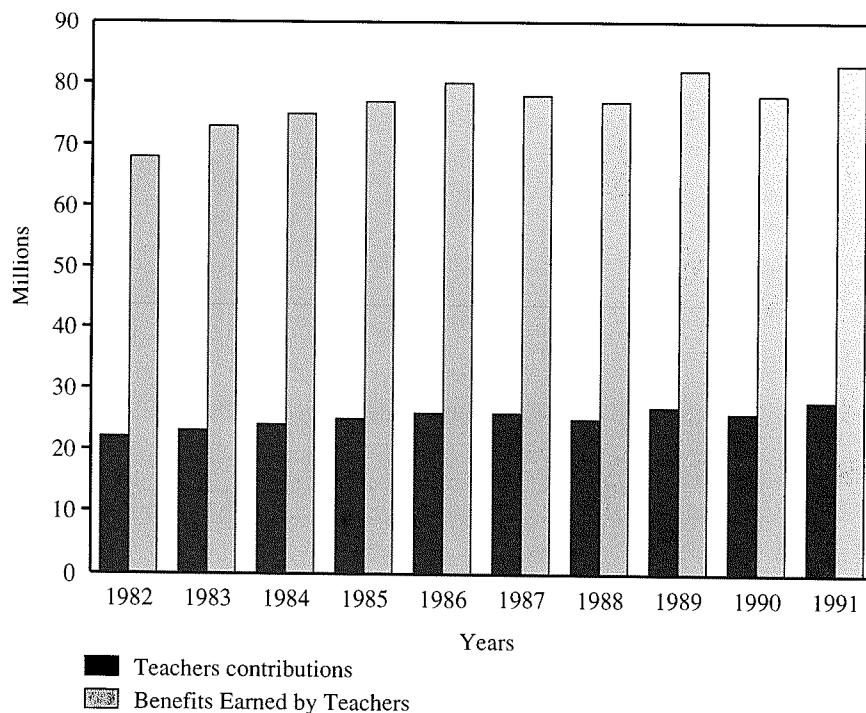
---

---

**.58** Table 4 shows teachers' contributions to the Fund and teachers earned pension benefits. The table shows benefits earned increased from \$68 million in 1982 to \$84 million in 1991. Also, teachers contributions increased from \$22 million in 1982 to \$28 million in 1991.

**Table 4**

This table compares Teachers' contributions to earned pension benefits.



**We Recommend**

**.59** The Government should propose changes to *The Teachers' Superannuation Act* to set out clearly the amount the Minister must pay to the Fund.

**.60** We also reported this matter in our 1987, 1990 and 1991 Annual Reports.

## Chapter 13

### Department of Energy and Mines

**.01** The Department is responsible for promoting and developing opportunities for petroleum and mineral industries in the Province. The Department is also responsible for petroleum and mineral taxes.

Consolidated and Heritage Fund

**.02** The Department managed Consolidated and Heritage Fund appropriations of \$11 million and \$1 million respectively. The Department managed Consolidated and Heritage Fund revenues of \$6 million and \$325 million respectively. Information about the appropriations and revenues appears in Volume II of the Public Accounts at pages 9, 99, 279 and 280. The Department also managed a Heritage Fund Investment appropriation of \$99 million. Information about this appropriation appears at page 56 of Volume I of the Public Accounts.

**.03** The Department's major tax and royalty revenues follow.

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Oil	\$252	\$198
Natural Gas	60	43
Potash	58	51
Uranium	25	14
Coal	15	16
Mineral acreage	6	6
Other	<u>3</u>	<u>3</u>
	<u>\$419</u>	<u>\$331</u>

Special Purpose Funds

**.04** The Department also operates two special purpose funds. These are:

- Oil and Gas Environmental Fund
- Oil and Gas Revolving Fund

Our Audit Findings

**.05** In our opinion, the Department's rules and procedures to safeguard and control its Consolidated Fund and Heritage Fund appropriations and revenues were adequate. The Department complied with the authorities governing its activities for

---

---

## Chapter 13 Department of Energy and Mines

---

---

Consolidated Fund and Heritage Fund appropriations and revenues as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matters reported in paragraphs .08 to .17.

**.06** In our opinion, the financial statements for the special purpose funds listed above are reliable. The Department complied with the authorities governing the activities of the special purpose funds as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except where reported in this chapter.

**.07** Because of limited resources and established priorities (see Chapter 4), we did not do an audit to form an opinion on the Department's rules and procedures to safeguard and control the assets of the special purpose funds.

---

NewGrade Payments  
Require Authority

**.08** The Department paid \$1,428,781 to NewGrade Energy Inc. (NewGrade). The Department called this payment "NewGrade Royalty Rebate". The Department used Order-in-Council 7/89 as its authority for the payment. The stated authority to issue this Order is Section 60 of *The Financial Administration Act*.

**.09** Section 60 of the Act allows the Lieutenant Governor-in-Council (Cabinet) to remit (forgive) or exempt any person from liability to pay any tax, royalty, rental or fee to the Crown.

**.10** The Order authorized the remission (forgiveness) of certain natural gas royalties required by law. The remission was for natural gas supplied to NewGrade and used directly for NewGrade's benefit in the heavy oil upgrader at Regina, subject to the following conditions.

**.11** Producers of the gas must pay the Department the full amount of royalties due under the law. They must also assign to NewGrade their right to the remissions under this Order. The Department must pay the amount of the remissions to NewGrade for a minimum of fifteen years or until the NewGrade's debt, guaranteed by the Government in December 1986, is paid.

**.12** In our opinion, the producers' liabilities to pay royalties were not forgiven because they had to pay the full amount of royalties due under the law. Therefore, the effect of the Order was not a remission to producers, but a grant to NewGrade.

---

---

## Chapter 13 Department of Energy and Mines

---

---

**.13** In our opinion, Section 60 of the Act gives Cabinet the power to remit royalties but not the power to make grants. Accordingly, the payment of \$1,428,781 to NewGrade does not have legislative authority.

**.14** The Department believes it has authority to make the payment under Section 60 of the Act.

**.15** We also reported this matter in our 1990 and 1991 Annual Reports.

### We Recommend

**.16** The Estimates should present future payments to NewGrade under this agreement as expenditures.

**.17** The Standing Committee on Public Accounts considered this matter. On May 25, 1992 the Committee recommended "if the remission of natural gas royalties is to continue to be paid to NewGrade Energy Inc. the amount to be provided should be included in the Estimates and presented to the Legislative Assembly for their consideration".

---

---

## Chapter 14

### Department of Executive Council

---

---

**.01** The Department provides organization and record keeping services to the Premier and the Government. It also provides support to the Premier in his roles as Head of Government, Chair of Cabinet, Minister of Intergovernmental Affairs, and Head of the political party with the mandate to govern.

**.02** The Department managed Consolidated Fund appropriations of \$12.7 million in 1992. \$6.6 million of the Department's appropriations were for expenses under *The Elections Act*. Information about the Department's appropriations appears in Volume II of the Public Accounts at page 107.

Our Audit Findings

**.03** In our opinion, the Department's rules and procedures to safeguard and control its assets were adequate. The Department complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing, except for the following matters.

---

Election Expenses  
Require Authority

**.04** The Department reimbursed election candidates for payments made to registered political parties. Section 214 of *The Election Act* states money paid to registered political parties by election candidates is not eligible for reimbursement.

**.05** In our opinion, the Department did not comply with *The Election Act*.

We Recommend

**.06** **The Department should comply with *The Election Act*. Alternatively, the Department should propose changes to the Act that allow reimbursement for payments to registered political parties.**

**.07** The Department informed us registered political parties incurred expenses because of group purchases for media coverage, visual displays and other election supplies. These group purchases were then divided among party candidates.



---

---

## Chapter 14 Department of Executive Council

---

---

Election Expenses  
Require Support  
Documents

**.08** The Department made payments to election candidates that lacked bills, vouchers and proof of payment. Section 218 of *The Election Act* requires bills, vouchers and proof of payment to accompany claims for election expenses.

**.09** During 1992, the Department paid 172 candidates \$2,079,036 which is 50% of the candidates' election expenses. We audited the claims of 17 candidates with total expenses of \$245,423. We found these claims lacked bills, vouchers and proof of payment totalling \$7,887.

**.10** Based on the claims we audited, we estimate \$80,000 of claims may lack bills, vouchers and proof of payment. Since the Department reimburses fifty percent of a candidate's expenses we estimate the Department might have paid \$40,000 without proper bills, vouchers and proof of payment.

**We Recommend**

**.11 The Department should obtain proper bills, vouchers and proof of payment to support claims for election expenses.**

## Chapter 15

### Department of Finance

Consolidated and  
Heritage Funds

.01 The Department is responsible for the operations of Treasury Board and the management and control of the revenues, expenses and borrowings of the Province. It prepares the Estimates, financial statements of the Government, financial statements for the Consolidated and Heritage Funds and a financial statement combining the Consolidated and Heritage Funds. The Department also manages most employee benefit programs and provides services to all other government departments.

.02 The Department is responsible for controlling appropriations from the Consolidated and Heritage Funds and for ensuring the receipt of all revenue from these Funds. In addition, the Department manages specific Consolidated Fund appropriations of \$159 million and public debt expenses of \$1,293 million in 1992. The Department also manages Consolidated Fund revenues of \$4,434 million including monies received from crown agencies related to public debt costs of \$791 million in 1992. Information about these Consolidated Fund revenues and appropriations appears in Volume II of the Public Accounts at pages 9, 121 and 133 and Volume I of the Public accounts at pages 10 and 14.

.03 The following is a list of major programs and spending on those programs.

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Interest - General Programs	\$ 500	\$ 502
Interest - User Fee Enterprises	<u>820</u>	<u>791</u>
Total Interest on the Public Debt	1320	1,293
Employee Benefits	114	112
Saskatchewan Pension Plan	13	10
Family Tax Credit Assistance	9	6
Tax Collection Expenses	6	6
Provincial Comptroller	6	5
Mortgage Protection Plan	5	2
Other	<u>15</u>	<u>18</u>
	<u>\$1,488</u>	<u>\$1,452</u>

## Chapter 15 Department of Finance

**.04** The Department's major revenue sources are:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Individual Income Taxes	\$ 966	\$1,023
Interest - User Fee Enterprises	820	791
Transfers from Government of Canada		
• Equalization	655	620
• Established Program Financing	362	370
Sales Taxes	673	578
Corporation Capital and Income Tax	205	193
Fuel Taxes	202	226
Tobacco Taxes	<u>108</u>	<u>105</u>
	<u>\$3,991</u>	<u>\$3,906</u>

Pension Plans and  
Special Purpose  
Funds

**.05** The Department is also responsible for the operation of the following pension plans and special purpose funds.

- Anti-Tuberculosis League Employees Superannuation Fund
- Members of the Legislative Assembly Superannuation Fund
- Public Employees Disability Income Fund
- Public Employees Benefits Agency Revolving Fund
- Public Employees Dental Fund
- Public Employees (Government Contributory) Annuity Fund
- Public Employees (Government Contributory) Superannuation Fund
- Public Employees Group Life Insurance Fund
- Public Service Superannuation Plan
- Saskatchewan Pension Plan
- Saskatchewan Transportation Company Employees Superannuation Plan
- Sinking Funds

Our Audit Findings

**.06** In our opinion, the Government's summary financial statements included in Volume I of the Public Accounts are reliable except for the matter reported in paragraphs .10 to .12. The Consolidated Fund financial statements included in Volume I of the Public Accounts are reliable except for the matters reported

---

---

## Chapter 15 Department of Finance

---

---

in paragraphs .13 to .15. The Heritage Fund financial statements included in Volume I of the Public Accounts are reliable except for the matters reported in paragraphs .16 to .18. The financial statements combining the Consolidated and Heritage Funds reported in Volume I of the Public Accounts are reliable except for the matters reported in paragraphs .19 to .21.

**.07** At the date of this Report, we have not completed our examination of the Department. As a result, we are not able to report on the Department's rules and procedures to safeguard and control Consolidated Fund and Heritage Fund revenues and appropriations. Also, we are unable to report if the Department complied with the authorities governing Consolidated and Heritage Fund revenues and appropriations as its activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. We plan to report our findings and conclusion in our next Report.

**.08** In our opinion, the financial statements for the pension plans and special funds listed in paragraph .05 are reliable. The rules and procedures to safeguard and control the assets of the pension plans and special funds listed in paragraph .05 were adequate except where we report otherwise in this chapter. The Department and its agencies complied with the authorities governing the activities of the pension plans and special funds as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except where we report otherwise in this chapter.

**.09** Because of our limited resources and established priorities (see Chapter 4), we did not do sufficient work to report on the adequacy of the Department's rules and procedures to safeguard and control the assets of the Members of the Legislative Assembly Superannuation Fund and the Public Employees Benefits Agency Revolving Fund.

---

Reservation of  
Opinion on the  
Summary Financial  
Statements

---

**.10** *The Provincial Auditor Act* requires us to give details of any reservation in our auditor's report.

**.11** Our audit report on the Government's summary financial statements contains a reservation of opinion because the Department did not properly account for and report the Government's pension liabilities.

---

---

## Chapter 15 Department of Finance

---

---

.12 Our opinion on the Government's summary financial statements follows:

*I have audited the statement of financial position of the Government of the Province of Saskatchewan as at March 31, 1992 and the statements of operations and accumulated deficit and changes in financial position for the year then ended. These summary financial statements are the responsibility of Treasury Board. My responsibility is to express an opinion on these financial statements based on my audit.*

*I did my audit following generally accepted auditing standards. Those standards require that I plan and do an audit to obtain reasonable assurance the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. My assessment and evaluation was based on the recommendations of the Canadian Institute of Chartered Accountants.*

### **Reservation**

*The Government is responsible for the liabilities of several pension plans. Those liabilities are not recorded in these financial statements. In my view, those pension liabilities should be recorded to present the financial position and results of operations of the Government.*

*Note 4 to the financial statements advises that, if pension liabilities are recorded, liabilities and accumulated deficit would be increased by approximately \$3 billion. Because management does not have a current actuarial valuation for a pension plan, I am unable to determine the effect of not recording the pension liabilities on liabilities, loss for the year and accumulated deficit.*

---

---

## Chapter 15 Department of Finance

---

---

### *Opinion*

*In my opinion, except for the failure to record pensions as described in the preceding paragraphs, these financial statements present fairly, in all material respects, the financial position of the Government of the Province of Saskatchewan as at March 31, 1992 and the results of its operations and the changes in its financial position for the year then ended following accounting principles for governments recommended by the Canadian Institute of Chartered Accountants.*

---

Reservation of  
Opinion on the  
Consolidated Fund  
Financial Statements

---

**.13** Our audit report on the Consolidated Fund Financial Statements contains a reservation of opinion for the following reasons:

- The Department prepared the financial statements using the modified cash basis of accounting. This basis of accounting is inappropriate because, when used, the financial statements are incomplete.
- The Department did not properly report the pension liabilities of the Fund.
- The Department charged loan and investment losses of the Fund directly to equity. The Department should have recorded these losses as expenditures.

**.14** Our audit report also contains a notice to the Members of the Legislative Assembly informing them these financial statements do not include all the financial activities of the Government. We also inform Members they should refer to the Government's summary financial statements to understand and assess the Government's management of public financial affairs and resources as a whole.

**.15** Our opinion on the Consolidated Fund financial statements follows:

*I have audited the statement of financial position of the Consolidated Fund as at March 31, 1992 and the statements of revenue and expenditure, accumulated deficit and changes in financial*

---

---

## Chapter 15 Department of Finance

---

---

*position for the year then ended. These financial statements are the responsibility of Treasury Board. My responsibility is to express an opinion on these financial statements based on my audit.*

*I did my audit following generally accepted auditing standards. Those standards require that I plan and do an audit to obtain reasonable assurance the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. My assessment and evaluation was based on the recommendations of the Canadian Institute of Chartered Accountants.*

### ***Reservations***

*These financial statements should follow accounting principles that result in fair disclosure of financial information. They should include information to provide a clear understanding of the Fund's financial condition and its use of financial resources during the year. The accounting principles used to prepare these financial statements are inadequate as follows.*

- a) The financial statements are prepared using a modified cash basis of accounting. This basis of accounting is not appropriate. It does not properly account for all amounts due (assets) to the Fund and all amounts owed (liabilities) by the Fund.*
- b) Write-offs and provisions for losses on loans and investments are charged directly to equity. In my view, such write-offs and provisions for losses are uses of resources during the period and should be included as expenditures.*

*If the errors described in a) and b) above were*

---

---

## Chapter 15 Department of Finance

---

---

*corrected, the financial statements of the Fund would change as follows:*

- *cash and short term investments would increase by \$53 million;*
  - *receivables of \$393 million would be recorded;*
  - *payables of \$666 million would be recorded;*
  - *deficit for the year would increase by \$192 million; and*
  - *accumulated deficit would increase by \$220 million.*
- c) *The Consolidated Fund is responsible for the liabilities of several pension plans. Those liabilities are not recorded in these financial statements. In my view, those pension liabilities should be recorded to present the financial position and results of operations of the Consolidated Fund.*

*Note 2 to the financial statements advises that, if pension liabilities are recorded, liabilities and accumulated deficit would be increased by approximately \$3 billion. Because management does not have a current actuarial valuation for a pension plan, I am unable to determine the effect of not recording the pension liabilities on liabilities, deficit for the year and accumulated deficit.*

### **Opinion**

*In my opinion, except for the failure to use appropriate accounting principles referred to in the preceding paragraphs, these financial statements present fairly, in all material respects, the financial position of the Consolidated Fund as at March 31, 1992 and the results of its operations and the*



---

---

## Chapter 15 Department of Finance

---

---

*changes in its financial position for the year then ended following the accounting policies disclosed in Note 1 to the financial statements.*

### *Additional Comments*

*These financial statements report transactions and events of the Consolidated Fund only. Significant financial activities of the Government occur outside this Fund. Volume 1 of the Public Accounts includes a more complete set of financial statements. Those statements are called the Government of the Province of Saskatchewan Summary Financial Statements. Their purpose is to report the full nature and extent of the financial affairs and resources for which the Government is responsible. Please refer to those summary statements to understand and assess the Government's management of public financial affairs and resources as a whole.*

---

Reservation of  
Opinion on the  
Heritage Fund  
Financial Statements

**.16** Our audit report on the Heritage Fund financial statements contains a reservation of opinion for the following reasons:

- The Department used the modified cash basis of accounting to prepare the Fund's financial statements. This basis of accounting is inappropriate because, when used, the financial statements are incomplete.
- The Department charged losses on loans and investments of the Fund directly to equity. These losses should be recorded as expenditures.

**.17** Our audit report also contains a notice to Members of the Legislative Assembly informing them these financial statements do not include all the financial activities of the Government. We also inform Members they should refer to the Government's summary financial statements to understand and assess the Government's management of public financial affairs and resources as a whole.

**.18** Our audit report on the Heritage Fund financial statements follows:

*I have audited the statement of financial position of the Saskatchewan Heritage Fund as at March 31, 1992 and the statements of revenue and expenditure, equity and changes in financial position for the year then ended. These financial statements are the responsibility of Treasury Board. My responsibility is to express an opinion on these financial statements based on my audit.*

*I did my audit following generally accepted auditing standards. Those standards require that I plan and do an audit to obtain reasonable assurance the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. My assessment and evaluation was based on the recommendations of the Canadian Institute of Chartered Accountants.*

### **Reservations**

*These financial statements should follow accounting principles that result in fair disclosure of financial information. They should include information to provide a clear understanding of the Fund's financial condition and its use of financial resources during the year. The accounting principles used to prepare these financial statements are inadequate as follows:*

- a) The financial statements are prepared using a modified cash basis of accounting. This basis of accounting is not appropriate. It does not properly account for all amounts due (assets) to the Fund and all amounts owed (liabilities) by the Fund.*
- b) Write-offs and provisions for losses on loans and investments are charged directly to equity. In my view, such write-offs and provisions for losses are uses of resources*

---

---

## Chapter 15 Department of Finance

---

---

*during the period and should be included as expenditures.*

*If the errors described in a) and b) above were corrected, the financial statements of the Fund would change as follows:*

- receivables of \$41 million would be recorded;*
- payables of \$7 million would be recorded;*
- surplus for the year would decrease by \$615 million; and*
- equity would increase by \$34 million.*

### ***Opinion***

*In my opinion, except for the failure to use appropriate accounting principles as described in the preceding paragraphs, these financial statements present fairly, in all material respects, the financial position of the Saskatchewan Heritage Fund as at March 31, 1992 and the results of its operations and the changes in its financial position for the year then ended following the accounting policies disclosed in Note 1 to the financial statements.*

### ***Additional Comments***

*These financial statements report transactions and events of the Saskatchewan Heritage Fund only. Significant financial activities of the Government occur outside this Fund. Volume 1 of the Public Accounts includes a more complete set of financial statements. Those summary statements are called the Government of the Province of Saskatchewan Summary Financial Statements. Their purpose is to report the full nature and extent of the financial affairs and resources for which the Government is responsible. Please refer to those summary statements to understand and assess the Government's management of public financial affairs and resources as a whole.*

---

---

## Chapter 15 Department of Finance

---

---

Reservation of  
Opinion on the  
Combined Funds  
Financial Statements

**.19** Our audit report on the financial statements for the Combined Funds contains a reservation of opinion for the following reasons:

- The Department used the modified cash basis of accounting to prepare the financial statements. This basis of accounting is not appropriate because, when used, the financial statements are incomplete.
- The Department did not properly report the pension plan liabilities of the Fund's combined in the financial statements.
- The Department charged losses on loans and investments directly to equity. These losses should be recorded as expenditures.

**.20** Our audit report also contains a notice to the Members of the Legislative Assembly informing them they should not use these financial statements to understand and assess the Government's management of public financial affairs and resources as a whole. We also inform Members they should refer to the Government's summary financial statements to understand and assess the Government's management of public financial affairs and resources as a whole.

**.21** Our opinion on the Combined Funds' financial statements follows:

*These financial statements report transactions and events of the Combined Funds only. Treasury Board creates the Combined Funds by adding the Consolidated Fund and the Saskatchewan Heritage Fund together. Significant financial activities of the Government occur outside these Funds. Therefore, readers should not use the Combined Funds' financial statements to understand and assess the Government's management of public financial affairs and resources as a whole.*

*Volume 1 of the Public Accounts includes a more complete set of financial statements. Those statements are called the Government of the Province of Saskatchewan Summary Financial Statements. Their purpose is to report the full*

---

---

## Chapter 15 Department of Finance

---

---

*nature and extent of the financial affairs and resources for which the Government is responsible. Please refer to those summary statements to understand and assess the Government's management of public financial affairs and resources as a whole.*

*I have audited the statement of financial position of the Combined Funds as at March 31, 1992 and the statements of revenue and expenditure, accumulated deficit and changes in financial position for the year then ended. These financial statements are the responsibility of Treasury Board. My responsibility is to express an opinion on these financial statements based on my audit.*

*I did my audit following generally accepted auditing standards. Those standards require that I plan and do an audit to obtain reasonable assurance the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. My assessment and evaluation was based on the recommendations of the Canadian Institute of Chartered Accountants.*

### **Reservations**

*These financial statements should follow accounting principles that result in fair disclosure of financial information. They should include information to provide a clear understanding of the Funds' financial condition and its use of financial resources during the year. The accounting principles used to prepare these financial statements are inadequate as follows:*

- a) *The financial statements are prepared using a modified cash basis of accounting. This basis of accounting is not appropriate. It does not properly account for all*

---

---

## Chapter 15 Department of Finance

---

---

*amounts due (assets) to the Funds and all amounts owed (liabilities) by the Funds.*

- b) *Write-offs and provisions for losses on loans and investments are charged directly to equity. In my view, such write-offs and provisions for losses are uses of resources during the period and should be included as expenditures.*

*If the errors described in a) and b) above were corrected, the financial statements of the Funds would change as follows:*

- *cash and short term investments would increase by \$53 million;*
  - *receivables of \$428 million would be recorded;*
  - *payables of \$667 million would be recorded;*
  - *deficit for the year would increase by \$807 million; and*
  - *accumulated deficit would increase by \$186 million.*
- c) *The Consolidated Fund is responsible for the liabilities of several pension plans. Those liabilities are not recorded in these financial statements. In my view, those pension liabilities should be recorded to present the financial position and results of operations of the Consolidated Fund.*

*Note 2 to the financial statements advises that, if pension liabilities are recorded, liabilities and accumulated deficit would be increased by approximately \$3 billion. Because management does not have a current actuarial valuation for a pension plan, I am unable to determine the effect of not recording the pension liabilities on*

---

---

## Chapter 15 Department of Finance

---

---

*liabilities, deficit for the year and accumulated deficit.*

### *Opinion*

*In my opinion, except for the failure to use appropriate accounting principles referred to in the preceding paragraphs, these financial statements present fairly, in all material respects, the financial position of the Combined Funds as at March 31, 1992 and the results of its operations and the changes in its financial position for the year then ended following the accounting policies disclosed in Note 1 to the financial statements.*

#### **MEMBERS OF THE LEGISLATIVE ASSEMBLY SUPERANNUATION FUND**

**.22** The Department manages the Members of the Legislative Assembly Superannuation Fund. The Fund receives contributions from Members and the Consolidated Fund and receives investment income. The Department uses the money to pay pensions, annuities and administration costs.

**.23** In 1992, the Fund had investment income of \$.5 million and the Department paid pensions of \$1.7 million from the Fund. The Fund held assets of \$8.4 million at March 31, 1992. The financial statements of the Fund are included in the Public Accounts Compendium of Financial Statements at page A 15.

---

#### Our Audit Findings

**.24** In our opinion, the financial statements of the Fund included in the Compendium are reliable. The Department had adequate rules and procedures to safeguard the assets of the Fund. The Department complied with the authorities governing the activities of the Fund as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matter.

---

#### Payments Require Authority

**.25** Section 26.1 of *The Members of the Legislative Assembly Superannuation Act, 1979* states:

*Where a person who was a member and:*

- a) *is entitled to or in receipt of a supplementary monthly allowance pursuant to Section 25, 25.1 or 26; or*

---

---

## Chapter 15 Department of Finance

---

---

*b) was entitled to a supplementary monthly allowance pursuant to Section 25, 25.1 or 26 that has been discontinued under Section 37.1;*

*dies leaving a spouse, 60% of the supplementary monthly allowances that he was receiving or that he was or would have been entitled to pursuant to Sections 25, 25.1 and 26 shall be paid to his spouse for life.*

**.26** At present, when a member dies while receiving an annual allowance and the supplementary allowance, the spouse's pension is 60% of both the annual allowance (Section 19) and the supplementary allowance (Section 26.1). In the years following the death of a member, the spouse receives 100% of any new annual supplementary allowances granted.

**.27** In our opinion, the amounts in excess of the 60% rule paid to surviving spouses is contrary to the law.

**.28** We also reported this matter in previous Annual Reports.

### We Recommend

**.29** **The Department should comply with this law. Alternatively, the Department should propose changes to this law to allow these payments.**

**.30** In 1989, the Minister responsible for the Fund told us the Department of Finance would seek a change to the law for this matter.

---

### Annuity Underwriting

**.31** The current Act does not set out how the Department should administer profits or losses from underwriting annuities.

**.32** The Department underwrites annuities for Members and pays these annuities out of the Fund. When annuity contracts are written, money should be set aside to make future payments. Due to uncertainties related to future trends and events, such as investment earnings and changes in mortality rates, the amount set aside may be insufficient to make future payments.

**.33** The law does not specify the source of funding for any future losses.



---

---

## Chapter 15 Department of Finance

---

---

**.34** We have reported this matter in past years. We report this matter again as the number of annuities paid out of the Fund is increasing.

### We Recommend

**.35** The Department should propose changes to the law to specify the handling of profits and losses on annuity underwriting.

**.36** In 1989, the Minister responsible for the Act informed us the Department of Finance would seek a change to the law concerning this matter.

**PUBLIC  
EMPLOYEES  
BENEFITS  
AGENCY -  
PUBLIC  
EMPLOYEES  
GROUP LIFE  
INSURANCE  
FUND**

**.37** The Department manages the Fund. The Department uses the Fund to account for the premiums, claims, investments and administrative expenses of the Public Employees Group Life Insurance Plan. The Plan provides life insurance to certain employees in the public service.

**.38** The Fund had revenues of \$9.1 million in 1991 and had assets of \$13.3 million at December 31, 1991. The Fund's financial statements are included in the Public Accounts Compendium of Financial Statements at page B 236.

### Our Audit Findings

**.39** In our opinion, the Fund's financial statements included in the Compendium are reliable. The Department complied with the authorities governing the Fund's activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The Department's rules and procedures to safeguard and control the assets of the Fund were adequate except for the following significant deficiency.

---

### Plan Document Required

**.40** The Department does not have a complete document outlining the benefits and costs to employees and employers included in the Plan. This document should include the following matters:

- the coverage provided to employees and how coverage may be changed,
- the premiums payable by employees and employers and how these premiums may be changed,
- who is eligible to participate in the Plan,

---

---

## Chapter 15 Department of Finance

---

---

- agreement by both the employees and employers on Plan costs and benefits, and
- the frequency of actuarial valuations of the Plan.

**.41** A complete Plan document is necessary to ensure all employees and employers have a clear understanding of the benefits and costs of the plan. Also, the document is necessary to guide the Department.

**.42** Currently, an information document describes the general terms and conditions of the Plan. However, this document is not complete. The document does not include how premiums and coverage may be changed. It also does not specify who is responsible for losses if premiums are not adequate to provide current coverage.

### We Recommend

**.43** The Department should prepare a complete document for the Public Employees Group Life Insurance Plan.

**PUBLIC  
EMPLOYEES  
BENEFITS  
AGENCY -  
PUBLIC SERVICE  
SUPERANNUATION  
BOARD**

**.44** The Department manages the Public Service Superannuation Plan for the Public Service Superannuation Board. The Board has three funds, the Saskatchewan Transportation Company Employees Superannuation Fund, the Anti-Tuberculosis League Employees Superannuation Fund and the Public Service Superannuation Fund. The Plan is a defined benefit pension plan.

**.45** The revenues and expenses of the Public Service Superannuation Fund are revenues and expenses of the Consolidated Fund. However, the law requires the Board to handle contributions and pensions of STC and Anti-Tuberculosis employees through separate funds.

**.46** The Board had employee contributions of \$10 million and paid pensions of \$73 million in 1992. The Board had assets of \$21.9 million at March 31, 1992. The Board's financial statements are included in the Public Accounts Compendium of Financial Statements at page A 47.

### Our Audit Findings

**.47** In our opinion, the Board's financial statements included in the Compendium are reliable except for the matter reported in paragraphs .49 to .55. The Board complied with the authorities governing its activities as those activities relate to financial

---

---

## Chapter 15 Department of Finance

---

---

reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The Board's rules and procedures to safeguard and control its assets were adequate except for the following significant deficiency.

---

### Current Actuarial Valuations Needed

.48 Our audit report on the Board's financial statements contains a reservation of opinion. We could not obtain sufficient information to determine if the Board properly reported its past service pension liability in the financial statements.

.49 Generally accepted accounting principles (GAAP) requires financial statements show past service pension liabilities. To comply with GAAP, the Board needs current actuarial valuations of the liability. The period between valuations should not normally exceed three years.

.50 Note 4 to the Board's financial statements describes the unfunded past service pension liability of the Public Service Superannuation Fund. The Board had a complete actuarial valuation of this liability done as at March 31, 1988. However, the 1988 assumptions are no longer valid. Therefore, the Board should not have used these assumptions to determine its past service pension liability at March 31, 1992.

.51 Further, without a current valuation of the unfunded pension liability, the Board and senior management are unable to understand and assess fully the future funding requirements of the Plan. Also, since the Consolidated Fund is responsible for the liabilities of the Plan, the Department needs this information to report properly in the Consolidated Fund financial statements.

.52 Our opinion on the Board's financial statements follows:

*I have audited the statement of net assets available for benefits of the Public Service Superannuation Plan as at March 31, 1992 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.*

*Except as explained in the following paragraph, I conducted my audit in accordance with generally*

*accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.*

*Note 4 to the financial statements describes the unfunded past service pension liability of the Public Service Superannuation Fund. The valuation of the liability was done as at March 31, 1988. An extrapolation of this liability was done as at March 31, 1992 using the same assumptions as at March 31, 1988. The Board is in the process of obtaining a current valuation as at March 31, 1992. At the date of my audit report this valuation has not been completed. Therefore, I am unable to determine the accuracy of the unfunded pension liability disclosed in Note 4.*

*In my opinion, except for the effect of adjustments to the information in Note 4, if any, which I might have determined to be necessary had I been able to satisfy myself as to the valuation of the unfunded pension liability referred to in the preceding paragraph, these financial statements present fairly in all material respects, the financial position of the plan as at March 31, 1992 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.*

**We Recommend**

**.53 The Department should obtain actuarial valuations of the plan at least every two years.**

**.54 The Department told us it is obtaining a current valuation as at March 31, 1992.**

---

---

## Chapter 15 Department of Finance

---

---

### **PUBLIC EMPLOYEES (Government Contributory) SUPERANNUATION PLAN SUPERVISORY BOARD**

**.55** The Supervisory Board is responsible for the Public Employees (Government Contributory) Superannuation Fund. The Board uses this Fund for a money accumulation pension plan. The Board receives employee and employer contributions and invests the contributions. Retiring employees use the money accumulated for them to purchase an annuity from the Board or elsewhere. The Board also manages the Public Employees (Government Contributory) Annuity Fund. The Board uses this Fund to underwrite the annuities for retiring employees. The Department manages the day to day affairs of the Funds.

**.56** The Superannuation Fund received \$53.3 million in contributions in 1992 and held assets of \$777.2 million at March 31, 1992. The Annuity Fund did \$4.8 million in new annuity business in 1992 and held assets of \$18.9 million at March 31, 1992. At March 31, 1992 the Annuity Fund had accumulated losses of \$1.8 million from annuity underwriting. The financial statements of the Funds are included in the Public Accounts Compendium of Financial Statements at pages A 35 and A 40.

#### **Our Audit Findings**

**.57** In our opinion, the Funds' financial statements included in the Compendium are reliable. The Department complied with the rules and procedures governing the Funds' activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The Department's rules and procedures to safeguard and control the assets of the Funds were adequate except for the following significant deficiencies.

---

#### **Timely Financial Statements Required**

**.58** The Department did not keep its records current in 1992 and, thus, could not prepare timely monthly financial statements. As a result, the Board and senior management were unable to review and approve monthly financial statements.

**.59** This deficiency impairs the ability of the Board or the Department to correct errors or problems that might be found from a review of the monthly reports.

#### **We Recommend**

**.60** **The Department should keep the records for the Funds current.**

**.61** We also reported this matter in our 1991 Annual Report.

---

---

## Chapter 15 Department of Finance

---

---

During 1992, the Department improved the timeliness of the records and financial reports. By year end, monthly financial statements were timely.

---

### Current Policy and Procedures Manuals

**.62** The Department should have a complete and current policies and procedures manual for the operation of these Funds. A manual ensures all employees have a clear understanding of their duties.

**.63** There is no complete and current policy and procedures manual. A procedures manual was prepared several years ago but this manual is now incomplete. It does not address all important internal control objectives. It also does not reflect recent changes in staff responsibilities and changes in activities of the Board.

**.64** This deficiency allows errors to occur because employees may not be aware of their duties.

### We Recommend

**.65** **The Department should complete its policy and procedures manual for the operation of these Funds.**

**.66** We also reported this matter in our 1990 and 1991 Annual Reports. The Department told us it plans to have a new policy and procedures manual completed by March 31, 1993.

### WORKMEN'S COMPENSATION BOARD SUPERANNUATION PLAN

**.67** The Department manages the Workmen's Compensation Board Superannuation Plan. The Workmen's Compensation Superannuation Board receives contributions from employees of the Workers' Compensation Board and investment income. The Superannuation Board uses the money to pay pensions and refunds. The Plan is a defined benefit pension plan.

**.68** The Board had revenue of \$2.1 million in 1991 and held assets of \$15.0 million at December 31, 1991. The Board's financial statements are included in the Public Accounts Compendium of Financial Statements at page A 93.

### Our Audit Findings

**.69** In our opinion, the Board's financial statements included in the Compendium are reliable. The Board's rules and procedures to safeguard and control its assets were adequate. The Board complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the

---

---

## Chapter 15 Department of Finance

---

---

following matters.

---

Transactions Not  
Authorized by the  
Board

**.70** *The Workmen's Compensation Board Superannuation Act* requires the Superannuation Board to authorize the following transactions.

- Subsection 42(1) requires the Board to authorize investment purchases.
- Subsection 42(2) requires the Board to authorize investment sales.
- Subsection 41(1) requires the Board to approve payment of any pensions.

**.71** We did not find evidence of meetings held or decisions taken by the Board during the year ended December 31, 1991. The Department told us the Board held semi-annual meetings to discuss investment strategies, but it did not keep minutes of the meetings.

**.72** Accordingly, there is no evidence the Board:

- authorized the continued use of the 1989 investment policies followed during the year; or
- monitored investment purchases of \$22 million and sales of \$21.3 million for compliance with authorized policies as required by the Act.

Also, there is no evidence the Board authorized pensions of \$58,000 paid to four new pensioners as required by the Act.

**We Recommend**

**.73** **The Board should keep minutes of its meetings.**

**.74** The Board told us it now has documented approval of the pensions paid to the new pensioners.

**.75** The Board told us it includes a list of investment sales and purchases in its annual report. The Board believes it authorized the sales and purchases of investments when it approved its annual report.

---

---

## Chapter 15 Department of Finance

---

---

### Appointed Auditor's Reports

**.76** We relied on the appointed auditor's report on the Board's financial statements. We relied on the appointed auditor's report on internal control.

**.77** We relied on the appointed auditor's report on compliance with authorities except for the matters in paragraphs .71 to .73.

**.78** *The Provincial Auditor Act* requires us to conduct additional procedures when we cannot rely on an appointed auditor. The appointed auditor's procedures were sufficient to allow us to form our opinions. Therefore, we did not have to do additional audit procedures to discharge our responsibilities.



## Chapter 16 Department of Health

### Consolidated Fund

**.01** The Department managed Consolidated Fund appropriations of \$1,581 million and Consolidated Fund revenues of \$36 million in 1992. Information about the Department's appropriations and revenues appears in Volume II of the Public Accounts at pages 136 and 9 respectively. The following is a list of major programs and spending on those programs.

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Hospital Services	\$ 726	\$ 717
Doctors Services	296	291
Home and Special Care Services	267	266
Prescription Drugs	95	93
Mental Health Services	37	37
Payments to Cancer Foundation	25	26
Payments to Saskatchewan Property Management Corporation	19	18
Community Health Services	17	17
Payments to Saskatchewan Alcohol & Drug Abuse Commission	16	16
Grants to the Medical Education System	15	15
Other	<u>85</u>	<u>85</u>
	<u>\$1,598</u>	<u>\$1,581</u>

### Special Purpose Funds and Crown Agencies

**.02** The Department is also responsible for the operations of several crown agencies and special purpose funds. These are:

- Battlefords Regional Care Centre
- Board of Governors, Lakeside Home
- Board of Governors, Parkridge Centre
- Health Services Utilization and Research Commission
- Hospital Laundry Services of Regina
- La Ronge Hospital Board
- Palliser Regional Care Centre
- Parkland Regional Care Centre
- Regina General Hospital
- Regina Health Board
- Royal University Hospital
- Saskatchewan Alcohol and Drug Abuse Commission
- Saskatchewan Cancer Foundation

---

---

## Chapter 16 Department of Health

---

---

Saskatchewan Health Research Board  
Saskatchewan Prescription Drug Fund  
Saskatoon Health Board  
Saskatoon Health Services Authority  
Souris Valley Regional Care Centre  
South Saskatchewan Hospital Centre  
St. Louis Alcoholism Rehabilitation Centre  
Wascana Rehabilitation Centre  
Whitespruce Youth Treatment Centre

### Our Audit Findings

**.03** In our opinion, the Department's rules and procedures to safeguard and control its Consolidated Fund and Heritage Fund appropriations and revenues were adequate. The Department complied with the authorities governing its activities for Consolidated Fund and Heritage Fund appropriations and revenues as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing.

**.04** In our opinion, the financial statements for the special purpose funds and crown agencies listed above are reliable except where reported in this chapter. The Department and its crown agencies complied with the authorities governing the activities of those agencies and special purpose funds as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except where reported in this chapter. The Department's crown agencies had adequate rules and procedures to safeguard and control the assets of these agencies except where reported in this chapter.

**.05** Because of our limited resources and established priorities (see Chapter 4), we did not do sufficient work to form an opinion on the Department's rules and procedures to safeguard and control the assets of the Saskatchewan Prescription Drug Fund.

---

### Pay and Expenses of Boards of Directors

**.06** The Department prepared Orders-in-Council that did not specify the pay and expenses for the Boards of Directors of some agencies set out at paragraph .02. These agencies paid their Directors for pay and expenses. In our opinion, pay and expenses must be specified in the Orders-in-Council. Therefore, the amounts paid do not have adequate authority. Chapter 7 of this Report provides more information about this matter.

---

---

## Chapter 16 Department of Health

---

---

**We Recommend**

**.07 The Department should specify the pay and expenses of Boards of Directors in Orders-in-Council.**

**SASKATCHEWAN  
ALCOHOL AND  
DRUG ABUSE  
COMMISSION**

**.08** The Commission's mission is to reduce alcohol and other drug problems.

**.09** Management was late in preparing financial statements for the Commission. Therefore, the statements could not be included in the Public Accounts Compendium of Financial Statements.

**Our Audit Findings**

**.10** In our opinion, the Commission's financial statements are reliable. The Commission complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matter reported in paragraph .15. The Commission's rules and procedures to safeguard and control its assets were adequate except for the following significant deficiency.

---

**Ability to Prepare  
Financial Statements**

---

**.11** The Commission funds other agencies. These agencies must account to the Commission for the money they receive. Any money not spent at the year end belongs to the Commission.

**.12** The Commission lacks rules and procedures to determine the amount of unspent money recoverable from funded agencies. The Commission must determine this amount to prepare accurate financial statements.

**.13** Lack of accurate and timely financial information can result in incorrect decision making.

---

**We Recommend**

---

**.14 The Commission should establish rules and procedures to prepare timely and accurate financial statements.**

---

**Public Accountability**

---

**.15** The Commission's financial statements are not included in the Public Accounts Compendium of Financial Statements. In our opinion, the delay in making its financial statements public impaired the Commission's public accountability for its operations.

---

---

## Chapter 16 Department of Health

---

---

### WASCANA REHABILITATION CENTRE

.16 The Centre delivers health care programs for persons with physical or mental disabilities. The Centre provides intensive rehabilitation and extended care services.

.17 The Centre had revenue of \$32.1 million in 1992 and held assets of \$61.6 million at March 31, 1992. The financial statements for the Centre are included in the Public Accounts Compendium of Financial Statements at page A 482.

---

#### Our Audit Findings

.18 In our opinion, the Centre's financial statements included in the Compendium are reliable. The Centre complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The Centre's rules and procedures to safeguard and control its assets were adequate except for the following significant deficiencies.

---

#### Lack of Written Policies and Procedures

.19 The Centre has not documented its rules and procedures to safeguard and control its assets and comply with the law. These rules and procedures should contain the broad objectives of internal control and outline the policies to attain the objectives.

.20 An objective of internal control is to ensure, as far as practical, the orderly and efficient conduct of the Centre's business. This objective includes the discharge of statutory responsibilities, the prevention and detection of error and fraud, the safeguarding of assets, the reliability of accounting records and the timely preparation of financial information. The rules and procedures to achieve this objective should be documented in the Centre's rules and procedures manual.

.21 The lack of written policies and procedures increases the risk of a breakdown in control if changes in staff and staff duties occur.

---

#### We Recommend

**.22 The Centre should prepare a written policies and procedures manual.**

---

#### Inadequate Segregation of Duties

.23 The Centre did not adequately segregate the duties of employees handling cash receipts. Segregation of duties is inadequate when one employee can conceal an error or fraud.

---

---

## Chapter 16 Department of Health

---

---

**.24** We found the employee responsible for recording receipts in the receipts ledger also receives cash and prepares the daily deposit. In addition, this employee ensures the amount deposited agrees to the receipt ledger. Thus, the total daily cash receipts are not independently reconciled to the total daily deposit. In our opinion, without this independent daily reconciliation, funds may be misapplied without ready detection and records may be inaccurate.

**We Recommend**

**.25** The Centre should adequately segregate the duties of employees handling cash receipts.

## Chapter 17

### Department of Highways and Transportation

	<p><b>.01</b> The Department (DHT) builds, maintains and regulates the Province's transportation systems. Those systems include public highways, winter roads, bridges, provincial airports, and short-line railways.</p>																					
<p>Consolidated Fund</p>	<p><b>.02</b> DHT manages Consolidated Fund appropriations and revenues of \$197.6 million and \$2.7 million respectively. Information about DHT's appropriations and revenues appears in Volume II of the Public Accounts at pages 9 and 160.</p> <p><b>.03</b> The following is a list of major programs and spending:</p> <table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"></th> <th style="text-align: right;"><u>Original Estimates</u></th> <th style="text-align: right;"><u>Actual</u></th> </tr> <tr> <th style="text-align: left;"></th> <th colspan="2" style="text-align: center;">(in millions of dollars)</th> </tr> </thead> <tbody> <tr> <td>Maintenance of Highways and Transportation Facilities</td> <td style="text-align: right;">\$ 91.7</td> <td style="text-align: right;">\$ 83.6</td> </tr> <tr> <td>Construction and Rehabilitation of Provincial Highways</td> <td style="text-align: right;">83.8</td> <td style="text-align: right;">77.7</td> </tr> <tr> <td>Payments to Saskatchewan Property Management Corporation</td> <td style="text-align: right;">9.6</td> <td style="text-align: right;">9.5</td> </tr> <tr> <td>Other</td> <td style="text-align: right;"><u>25.3</u></td> <td style="text-align: right;"><u>26.8</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>\$210.4</u></td> <td style="text-align: right;"><u>\$197.6</u></td> </tr> </tbody> </table>		<u>Original Estimates</u>	<u>Actual</u>		(in millions of dollars)		Maintenance of Highways and Transportation Facilities	\$ 91.7	\$ 83.6	Construction and Rehabilitation of Provincial Highways	83.8	77.7	Payments to Saskatchewan Property Management Corporation	9.6	9.5	Other	<u>25.3</u>	<u>26.8</u>		<u>\$210.4</u>	<u>\$197.6</u>
	<u>Original Estimates</u>	<u>Actual</u>																				
	(in millions of dollars)																					
Maintenance of Highways and Transportation Facilities	\$ 91.7	\$ 83.6																				
Construction and Rehabilitation of Provincial Highways	83.8	77.7																				
Payments to Saskatchewan Property Management Corporation	9.6	9.5																				
Other	<u>25.3</u>	<u>26.8</u>																				
	<u>\$210.4</u>	<u>\$197.6</u>																				
<p>Highways Revolving Fund</p>	<p><b>.04</b> DHT also manages the Highways Revolving Fund. DHT uses the Fund to finance and account for equipment, materials and labour acquired for certain departmental programs and for custom work projects.</p> <p><b>.05</b> The Fund had revenues of \$28.9 million in 1992 and held assets of \$46.4 million at March 31, 1992. The financial statements for the Fund are included in the Public Accounts Compendium of Financial Statements at page A 305.</p>																					

**.06** This chapter reports the results of four audits. Our findings for our audit of DHT's Consolidated Fund appropriations and revenues and for our audit of the Revolving Fund are at the end of this chapter beginning with paragraph .120. The results of our two pilot value-for-money audits begin at paragraph .21. The two pilot audits examine DHT's procedures for meeting the goals

---

---

## Chapter 17 Department of Highways and Transportation

---

---

of its surface repair maintenance plan and DHT's procedures for managing its contracts with private sector highway builders.

.07 This chapter also contains DHT's response to our conclusions and recommendations for each of our two pilot value-for-money audits. DHT's comments relating to our audit of surface repair maintenance plan are at paragraph .68. DHT's comments relating to our audit of its contract management are at paragraph .119.

---

### Value-for-Money Audits

.08 In our last Annual Report, we state our Office is beginning to examine the Government's systems and practices for ensuring resources are obtained economically and are used efficiently and effectively. Such examinations are called value-for-money audits.

.09 During the year, we initiated and completed two pilot value-for-money audits at DHT. As stated above, the results of these audits are included in this chapter. These audits provided us an opportunity to test and evaluate methodology for future value-for-money audits. They also provided us with an opportunity to examine significant activities managed by DHT.

.10 These two audits examine significant activities carried out by DHT -- surface repair maintenance and contract management.

.11 **Surface Repair Maintenance.** Of the \$83.6 million spent by DHT in 1991/92 on maintenance, \$34 million was for surface repair. When less money is available for building and reconstructing highways, more money needs to be spent on maintenance. DHT must ensure highways are properly maintained to provide a sound highway system to the public. Poor highways affect the convenience, safety and cost of travel.

.12 **Contract Management.** In 1991/92, DHT paid \$54.1 million to private sector highway builders for construction and maintenance services. DHT must ensure it is getting value out of each contracting dollar spent. It must ensure highways are soundly constructed to achieve their anticipated lives and to minimize future maintenance needs.

.13 We received excellent co-operation from DHT throughout these audits. Based upon the results of these two pilot audits, we plan to carry out more value-for-money audits in other government organizations.

### Background

.14 DHT builds, maintains and regulates the Province's transportation systems. Those systems include public highways, winter roads, bridges, provincial airports, and short-line railways.

.15 DHT operates throughout the province. Its head office is in Regina; its six district offices are in urban centres; and its 185 field locations are in numerous towns and villages. DHT devotes most of its time and resources to the province's highway system.

.16 Our provincial highway system contains 25,715 kilometres of highway. It is the largest per capita highway system in North America. The number of kilometres within the system has remained relatively stable over the past five years. Small increases in the number of kilometres are a result of highways taken over from rural municipalities.

.17 DHT faces several critical issues which impact the province's highway system. How DHT manages those issues will affect the province's economy and the safety of the driving public. The issues are:

- Increased use of highways

Grain and railway companies are changing their operations. They are closing grain elevators and abandoning branch rail lines. This is causing a shift in the main mode of commercial transportation from rail to highway. Fewer rail lines and delivery points mean products must travel greater distances by highway.

The amount of allowable weight carried by trucks on Saskatchewan's major highways doubled in the last decade and overall traffic volume increased by 17%. To minimize the commercial cost of transportation, DHT, as a part of a national initiative, has allowed larger trucks to haul heavier loads.

Increases in both the use and the weight of loads places more demands and strains on highways. Accordingly, sound construction and timely maintenance is needed to ensure highways last their anticipated lives. The anticipated life of a highway is based on how it is built, what type of soil it is built on, how much it is used and what the normal weather conditions are.



---

---

## Chapter 17 Department of Highways and Transportation

---

---

Higher traffic volumes, heavier loads, and wetter weather than expected will shorten the remaining service life of a highway. The remaining service life of a highway is, given the highway's current condition, how long the highway will continue to provide an acceptable level of service with a reasonable level of maintenance.

- Continuing decreases in available funding

DHT's funding for building and maintaining highways has decreased 7%, i.e., 23% decrease in building or reconstructing and 16% increase in maintaining, over the last five years.

- An aging highway system

The provincial highway system is mature. A significant number of highways have reached their anticipated lives. Careful planning is necessary to determine and undertake the appropriate mix of maintenance and rebuilding activities to maximize the remaining service lives of highways.

**.18** As stated in our 1991 Annual Report, one of the reasons we selected DHT for a value for money audit was its reputation of being well run. Good retention of management and staff enhance DHT's ability to be effective and efficient.

**.19** Experienced staff often require less formal training and less extensive or detailed written directives and communications. Management, in turn, often requires less formal and frequent reporting from experienced staff. However, the average age of DHT's staff is increasing and DHT must plan for inevitable staff retirements.

### We Recommend

**.20** DHT should document the knowledge possessed by its senior staff and address the future need for more formal communications and reporting strategies before these retirements occur.

---

---

## Chapter 17 Department of Highways and Transportation

---

---

### **SURFACE REPAIR MAINTENANCE AUDIT**

#### Audit Purpose and Standards

.21 As stated, we conducted two value-for-money audits at DHT. As described in paragraph .11, the first audit relates to the Department's surface repair highway maintenance plan.

.22 We did this audit to determine if DHT has adequate procedures to meet the goals of its surface repair maintenance plan for pavements and thin membrane (oil treated) highways in a cost effective manner. We did not assess if the goals within the plan are appropriate. Our audit covered the period April 1, 1991 to August 31, 1992.

.23 We used the recommendations of The Canadian Institute of Chartered Accountants to do our audit. Our audit included the tests and procedures we considered necessary in the circumstances.

---

#### **Overall Conclusion**

.24 DHT needs to improve its procedures to ensure it meets the goals of its surface repair maintenance plan in a cost effective manner. DHT does not have adequate procedures to ensure it meets all planned goals.

.25 DHT can show it meets its planned goals of:

- achieving a target level of ride quality,
- delivering its maintenance program within budget, and
- maintaining safety for the travelling public.

.26 However, DHT can not show it meets its planned goals of:

- slowing down the deterioration of highways, and
- performing maintenance activities in a cost effective manner.

.27 DHT operates within a highway maintenance industry which has not, as yet, established rigorous industry standards for highway maintenance. This industry lacks standards to indicate the optimal level and types of maintenance activities required to maximize the service life of highways. The development of these standards is evolving through various efforts under way in the industry.

---

---

## Chapter 17 Department of Highways and Transportation

---

---

**.28** As stated above, DHT has delivered its maintenance program within its budget. However, it can not show if it carried out its surface repair maintenance plan cost effectively because of budget preparation problems. DHT's maintenance budget is not based on current highway conditions, technologies used and related highway construction activities. DHT bases its maintenance budget primarily upon past costs adjusted for inflation.

### We Recommend

**.29** DHT should assess, over the next few years, the effect of its maintenance activities on maximizing the remaining service lives of highways.

**.30** DHT should set performance bench marks for maintenance activities and compare those bench marks to actual results.

**.31** DHT should prepare its maintenance budget based on current highway conditions, technologies used and related highway construction activities.

---

### Maintaining Our Highway System

#### Protecting our Investment

**.32** Paragraphs .33 to .67 of this chapter explains DHT's surface repair maintenance plan, how we developed detailed criteria to audit the plan and our audit findings and results.

**.33** DHT estimates it would cost approximately \$6.0 billion to replace the province's current transportation system. This significant investment must be protected. The province's economic and social well being is influenced by a safe and reliable system. Without such a system, goods, services and people cannot travel in an economical and efficient manner. A good surface repair maintenance program protects the province's investment in highways, and ensures the safety and reliability of the highway system.

**.34** Each year DHT prepares a maintenance plan based on its priorities and available funding. This plan sets out what maintenance activities must be done to meet planned goals. The planned goals are to:

- *achieve a targeted level of ride quality.* Ride quality refers to the smoothness of a highway. A smoother ride is more comfortable and reduces vehicle wear.

- *slow down the deterioration of the province's highways.* Slowing the rate of highway deterioration ensures the anticipated life of a highway is met or exceeded. DHT slows deterioration by identifying weaknesses in the highways, e.g., cracking, and by taking appropriate action to correct weaknesses on a timely basis. Without proper maintenance, the anticipated life of a highway may not be achieved and its remaining service life may not be maximized resulting in premature expenditures to rebuild the highway.
- *maintain safety for the travelling public.* An unsafe highway system can have a negative impact on the economic and social well being of the province by increasing the incidence of accidents resulting in costly vehicle repairs, serious injury and loss of life. Also, unsafe highways may make highway travel less desirable, resulting in less travel and the movement of fewer goods, services and people within the province.
- *perform maintenance activities in a cost effective manner.* DHT must carry out its plan in a way that ensures tax dollars are spent wisely and prudently.
- *deliver its maintenance program within budget.* DHT annually budgets for the costs that will be incurred to meet its plan. The Legislative Assembly approves these budgets in the Estimates process. DHT must budget prudently and then operate within the approved budget.

.35 Our audit focuses on what the department does to meet these planned goals. We did not assess if the planned maintenance goals are appropriate.

---

### Criteria

#### Developing Criteria

.36 We developed criteria or bench marks to reflect reasonable systems and practices an organization should use to ensure its maintenance plan is met in a cost effective manner. To develop our criteria we reviewed guidance issued by DHT, related current publications, industry circulars and literature, pertinent legislation, and studies issued by other legislative audit offices in Canada. We also consulted with representatives from other audit offices and a recognized expert in the field.

---

---

## Chapter 17 Department of Highways and Transportation

---

---

### Criteria Used

Our criteria cover three key areas. DHT should:

- set relevant, economic, and efficient maintenance standards and procedures
- monitor the use of standards and procedures to ensure its maintenance plan has been met in a cost effective manner
- take corrective action when its maintenance plan is not being met in a cost effective manner

.37 We developed detailed criteria to evaluate procedures DHT uses in these key areas. These criteria were provided to DHT officials, other legislative auditors and a recognized expert in the industry. They reviewed the criteria and assessed its reasonableness. Using their suggestions, we changed the criteria, where necessary. All parties felt the revised criteria were fair and reasonable.

---

### Audit Findings and Results

#### Audit Work

.38 The following procedures describe our audit work. We:

- interviewed key DHT staff at Head Office and at three of its six districts,
- requested information from randomly selected staff in various field offices and observed the procedures used,
- reviewed and analyzed maintenance manuals, reports and minutes of maintenance meetings, and
- tested major maintenance information reporting systems.

.39 The following sets out what we looked for and found under each of our three criteria.

**DHT should set relevant, economic, and efficient maintenance standards and procedures.**

---

#### What We Looked For

.40 We looked for DHT to:

- maintain its surface repair maintenance standards and

procedures for activities associated with maintenance and to ensure standards and procedures are relevant, economical, and efficient;

- communicate its plan, standards and procedures to its staff and to ensure they are applied consistently; and
- provide guidance to staff and ensure guidance helps staff to identify highway weaknesses and to determine the most appropriate way to correct those weaknesses.

**.41** Standards and procedures should indicate what data to collect and what analyses to do and when. Standards and procedures should provide bench marks which allow comparison to actual performance.

---

### What We Found

**.42 Lack of documented evidence to support the relevance of standards and procedures.** DHT lacks adequate procedures to document reviews of its standards and procedures. As a result, DHT can not be sure its standards and procedures are relevant, economic and efficient.

**.43** DHT fosters an environment that encourages innovation and change. In such an environment, it is important to ensure standards and procedures are relevant, economic, and efficient. DHT encourages the review and challenge of existing standards and procedures by head office and field office staff. However, DHT does not have a complete list of standards, procedures and new developments reviewed during the past year. Also, we noted reviews undertaken are not always fully documented.

**.44** Documentation of reviews helps management decide, on a timely basis, if the present maintenance standards and procedures require change. Documentation would also help avoid any duplication of review efforts, since reviews are carried out at various locations.

**.45 Effective communication.** DHT effectively communicates its plan, standards and procedures to its staff through various maintenance manuals, on-the-job training, some formal training programs, and by holding regular meetings with staff. Communication is effective since most staff have been with the DHT for many years and are familiar with its standards and procedures.

---

---

## Chapter 17 Department of Highways and Transportation

---

---

**.46 Adequate guidance.** DHT adequately guides staff through the use of department manuals. The guidance is also provided by experienced supervisory personnel.

**.47** DHT manuals provide adequate guidance on how to identify highway weaknesses and how to correct these weaknesses. Recommendations include suggested repair methods, types of material and equipment to use. Manuals give some guidance on what data to collect, but give limited guidance on how to analyze the data. They also indicate standard ranges of normal output for a given activity. For example, for spot sealing activities, the manual sets out the number of litres of asphalt to use in a typical day by a crew.

**.48** Various levels of supervision exist at districts and field offices. This supervision ensures staff understand their responsibilities and how to carry them out.

**DHT should monitor the use of its standards and procedures to ensure its maintenance plan has been met in a cost effective manner.**

---

What We Looked For

**.49** We looked for:

- collection of data on the planned goals;
- accurate, complete and timely processing of information;
- timely comparisons of actual performance to planned performance and analyses of significant variances; and
- timely reporting of the results of comparisons and analyses to senior management.

---

What We Found

**.50 Inconsistent monitoring and reporting.** DHT does not monitor maintenance activities consistently and does not have a reasonable reporting system for all maintenance activities.

**.51** DHT does not explicitly rank the importance of its planned goals. However, management closely monitors staff performance for goals that relate to the quality of ride, safety for the travelling public and meeting the budget. Staff provide regular reports on the results of activities related to these goals. Goals relating to

slowing the deterioration of highways, and the cost effectiveness of its maintenance activities are monitored less closely. Staff do not provide regular reports on the results of activities related to these goals.

**.52** *Inadequate determination of the extent maintenance activities slow down highway deterioration.* DHT does not determine the extent maintenance activities assisted in ensuring the anticipated lives of highways are met or exceeded, or the extent these activities maximize the remaining service lives of highways.

- DHT does not collect adequate data to assess the effect maintenance activities have on achieving or exceeding the anticipated lives of highways or on maximizing the remaining service lives of highways. DHT does not collect adequate information on types and numbers of weaknesses or the current status of the condition of the highways.
- DHT does not require visual inspections or supervisory activities be documented. Field staff conduct most visual inspections. These staff supervise work on highways and inspect highways regularly. They review the condition of the highways and ensure adherence to department standards and procedures. They report inspection results verbally, on an exception basis, and bring significant problems to management's attention. This verbal form of reporting may result in information being misunderstood, misinterpreted, or incomplete. As the results of highway inspections and compliance with department standards are usually not documented, management can not be sure of actual highway conditions.

**.53** Management relies on the combined effect of a number of factors to assess the impact of its maintenance activities. These factors are: the actual level of ride quality achieved, trends in the amount of various types of maintenance activities undertaken, judgement of experienced field workers and known highway conditions and problems.

**.54** Management needs to improve its collection, reporting and analysis of information to determine if it is doing the right maintenance activities at the appropriate level. We recognize making appropriate improvements, such as possible information



system changes, developing and setting of bench marks through research efforts and coordination with other highway jurisdictions, will take time.

*.55 Inadequate determination of cost effectiveness of maintenance activities.* DHT does not determine if its maintenance activities are carried out in a cost effective manner.

- DHT does not collect appropriate information to determine if its maintenance activities are carried out in a cost effective manner. DHT collects and records the cost of its maintenance activities on a measurement unit that does not correspond to the measurement unit (normal output) provided in its maintenance manuals. For example, DHT collects and records information on asphalt usage by litres per control section. Its manual provides the recommended asphalt usage by tonnes per day basis for spot sealing activities. This difference makes comparison of actual material usage and performance to recommended guidelines impossible.
- DHT does not know what causes variances in maintenance costs. Currently, DHT calculates the average costs of its maintenance activities allowing certain comparisons. For example, average costs are calculated based on the number of kilometres within the Province. Average costs are also calculated based on the number of kilometres within a district of the Province. However, variances in average maintenance costs might relate to other factors such as: how much maintenance activity is performed in a given period; the extent to which maintenance activity must be repeated due to problems; or, differences in the costs of carrying out similar maintenance activities from crew to crew, from district to district or from highway to highway. As a result, DHT's current method for calculating average costs cannot be used to assess the effectiveness of its maintenance work.
- DHT does not receive all the information necessary to assess the cost effectiveness of its activities. As noted previously, only significant problems noted as a result of visual inspections and supervision are reported to management. The absence of reported problems does not necessarily mean good performance.

**.56** *Adequate determination of achievement of ride quality.* DHT does determine the level of ride quality achieved.

- DHT uses a mechanical device that measures the smoothness of the highway ride. These measurements are entered into a computer and processed. The resulting reports provide useful, accurate, and complete levels of ride quality achieved on all provincial highways on a timely basis. DHT compares these levels to the targeted levels.

**.57** *Sufficient maintenance to ensure safety for the travelling public.* DHT does ensure safety for the travelling public.

- DHT collects and analyses information on accidents, traffic volume and public complaints. DHT uses this information as indicators of how planned maintenance activities affect safety for the travelling public. DHT changes planned maintenance activities when necessary.

**.58** *Reasonable achievement of maintenance budgets.* DHT does ensure its maintenance programs are delivered within its budget.

- DHT allocates its budget among its districts. DHT has a reasonable process to document and approve any changes or transfers of funds. DHT collects and reports complete and accurate cost information on its maintenance activities. Monthly, officials in head office and the districts analyze budgeted and actual costs. Senior management reviews a summary analysis to determine if the department is operating within its budget.

**.59** **Documentation of analysis needed.** DHT needs to improve its documentation of explanations of variances from its maintenance plan.

**.60** Management relies on verbal reports from experienced, well-trained staff to bring variances to their attention and to understand why variances occur. In many cases senior management performs its own analysis. Instead, senior management should review analysis prepared by lower level staff.

---

---

## Chapter 17 Department of Highways and Transportation

---

---

**.61** Appropriate officials within DHT should document and explain variances from the plan. This would ensure more complete and reliable reporting and result in a better use of resources. Unlike verbal reports, written analysis and explanations are less likely to be overlooked, misunderstood or improperly communicated. Also, documentation will minimize the effect of changes to or retirements of key staff.

**DHT should take corrective action when its maintenance plan is not being met in a cost effective manner.**

---

What We Looked For

**.62** We looked for DHT to:

- take corrective action when its plan is not met in a cost effective manner; and
- use information received on current maintenance activities to improve future maintenance plans.

---

What We Found

**.63 Additional information needed.** DHT needs additional information to determine if its maintenance program is cost effective and has slowed down highway deterioration. Without this information DHT does not know if changes are needed to current and future maintenance plans.

---

### Other Audit Findings

Maintenance Budget Preparation

**.64 Improvements needed.** DHT needs to improve how its maintenance budget is prepared. DHT relies primarily on past cost information to determine its budget for surface repair maintenance. Generally, when preparing its budget, DHT does not request or use information from field offices on their estimate of resources needed to meet its planned goals. As well, there is little evidence DHT adjusts its budget to reflect cost savings due to new technologies and methods.

**.65** We recognize environmental factors, such as moisture conditions, affect the level and type of surface repair maintenance necessary. But, an uncontrollable environment makes sound planning and management even more important. While past cost information serves as a reference point, we believe the maintenance budget should reflect current highway conditions, technologies used, staffing, and related highway construction activities.

---

---

## Chapter 17 Department of Highways and Transportation

---

---

*The Department of  
Highways and  
Transportation Act*

**.66** DHT can not show it fully complies with *The Department of Highways and Transportation Act (Act)*. The Act states

*8(b) The minister ... is responsible for determining the most feasible and economic methods for constructing and improving and maintaining public highways.*

**.67** Since DHT has not assessed the effect of its maintenance activities on maximizing the remaining service life of highways nor set performance bench marks for these activities, it can not show it has determined the most economic methods for maintaining highways.

---

### DHT's Response

**.68** The Management's response is as follows:

**"General Comments:**

*Saskatchewan's highway system consists of three distinctly different roadway surface types, each with their own unique maintenance requirements. The highway system consists of 11,362 km of engineered heavy pavements, 8,596 km of non-engineered light thin membrane surfaces (TMS) and 5,685 km of gravel roads. Thin membrane surfaced roads were pioneered in Saskatchewan in the early 1960's as a low cost alternative for providing dust free surfaces on the lower volume rural roads for which economics did not justify the construction of heavy pavements. It was known that these thin surfaced roads would require a large annual expenditure of maintenance funds.*

*Saskatchewan Highways and Transportation, like most highway agencies in North America, prepares and manages its maintenance budget and programs along the lines of the model described by the American Association of State Highway and Transportation Officials (AASHTO) in the AASHTO Maintenance Manual. A Canadian equivalent to the AASHTO Manual does not exist; however, most Canadian jurisdictions generally follow the AASHTO model which is adapted to their specific needs. This method calls for the development of maintenance budgets and programs for roadway surfaces based on actual needs as determined from the highway system inventory. The highway system inventory provides the details of the surface structure for each highway section and is updated on an annual basis. Budgets are*

*adjusted by the experience of previous years with respect to changes in the base costs brought about by technological advancements and adjustments for inflation.*

*The long term benefits realized from pursuing the department's surface maintenance programs are difficult to qualify given the many and often uncontrollable variables that can affect the life of a roadway surface. This statement is particularly true for the programming of maintenance activities for engineered pavements. The long term effects of surface maintenance activities on these pavements are not immediately obvious and difficult to predict with any level of certainty. The effects of surface maintenance activities on gravel and TMS roads are typically more immediately visible to the road user, but are very sensitive to changes in hauling patterns and changes in weather, both of which tend to make predictions equally as difficult.*

***Overall Conclusion:***

*The department agrees that it is unable to quantify that it is meeting its goals of slowing the deterioration of highways and performing maintenance activities in a cost effective manner. However, the department is not aware of research anywhere in the world that has been able to precisely quantify the long term benefits of routine surface maintenance.*

*The department has however pioneered many of the techniques used in the maintenance of thin membrane surfaces. The ability of the department to perpetuate the service provided by TMS highways is testimony to its ability to extend the service lives of these structures. In general, more research is required to quantify the long term benefits of routine surface maintenance.*

***Response to Auditors Recommendations: (at paragraph .29)***

- ***Recommendation:***

*Assess, over the next few years, the effect of department maintenance activities on maximizing the remaining service lives of highways.*

*Response:*

*To assess the effects of maintenance activities on maximizing the remaining service lives of highways will take several years. Research is on-going and the department is actively participating in the Canadian Strategic Highway Research Program initiatives to evaluate the cost effectiveness of alternative methods, materials and equipment for preventative payment maintenance.*

- *Recommendation:*

*Set performance bench marks for maintenance activities and compare those bench marks to actual results.*

*Response:*

*The department has established performance standards in its maintenance practice and procedures manuals. The required information is collected through the departments maintenance management information system. A methodology of comparing bench marks to actual results will be developed.*

- *Recommendation:*

*Prepare its maintenance budget based on current highway conditions, technologies used and related highway construction activities.*

*Response:*

*The department is currently developing a new methodology to establish its maintenance budget and manage its maintenance program. This new methodology will quantify discrete levels of service and assess the requirements to provide a targeted level of service on each road segment based upon an assessment of its surface condition. These levels of service will be articulated through documented quality, quantity and performance standards.*

---

---

## Chapter 17 Department of Highways and Transportation

---

---

*Summary Comments:*

*The department found the value for money audit to be a worthwhile process. An outside perspective has helped the department to focus on areas where changes and improvements can be made. This will help to manage the department more effectively in the future."*

---

### CONTRACT MANAGEMENT AUDIT

#### Audit Purpose and Standards

**.69** As described in paragraph .12, the second value-for-money audit we conducted relates to the Department's procedures for managing contracts with private sector highway builders.

**.70** We did this audit to determine if DHT has adequate procedures in place to manage, at a reasonable cost, its contracts with private sector highway builders (contractors). Our audit relates to construction and major maintenance contracts completed in the 1991/92 fiscal year.

**.71** We used the recommendations of the Canadian Institute of Chartered Accountants to do our audit. Our audit included the tests and procedures we considered necessary in the circumstances.

---

#### Overall Conclusion

**.72 DHT has adequate procedures to manage its contracts with contractors at a reasonable cost.**

---

#### Importance of Good Contract Management

**.73** Paragraphs .74 to .118 explains DHT's contract management procedures, how we developed detailed criteria to audit these procedures and our audit findings and results.

#### Capital Works Plan

**.74** *The Department of Highways and Transportation Act* (Act) makes the Minister of Highways and Transportation responsible for controlling and managing work done by the Department. The Act also requires the Minister to determine the most feasible and economic methods for constructing, improving and maintaining public highways.

**.75** Each year DHT updates its five year capital works plan to determine what construction, rehabilitation and major maintenance work needs to be done. DHT also determines when work should be carried out by the private sector. The Legislative Assembly approves this plan as part of the annual Estimates process. Using this approved plan, DHT annually develops three major tender

---

---

## Chapter 17 Department of Highways and Transportation

---

---

schedules.

---

### Use of Contractors

**.76** In 1991/92 DHT paid contractors \$54.1 million to construct and, in part, to maintain our highway system. DHT is responsible for all of this work. It must ensure the contractor's work is done appropriately and at a reasonable cost. DHT uses written contracts to manage the work of contractors.

**.77** DHT is one of the few departments permitted to tender and manage its contracts. Most departments are required to use Saskatchewan Property Management Corporation to let their contracts.

**.78** Head office handles all large contracts through public tender. Depending on the circumstances of the work to be done, either head office or a district office handles other contracts through public tender, invited bid, or negotiation with a single supplier.

---

### Criteria

#### Developing Criteria

**.79** We developed criteria or bench marks to reflect reasonable systems and practices an organization should use to manage contracts. To develop our criteria, we reviewed: guidance issued by DHT, Treasury Board and Saskatchewan Property Management Corporation; other relevant current publications, industry circulars and literature; pertinent legislation; and, guidance provided by other legislative audit offices in Canada. We also consulted with government officials responsible for contract management, representatives from other legislative audit offices and a recognized expert.

---

#### Criteria Used

Our criteria cover five key areas:

- Buying the right services to fit DHT's capital works plan
- Obtaining a competitive price for services
- Receiving all services ordered
- Paying only for services received
- Determining if the capital works plan is met at a reasonable cost



---

---

## Chapter 17 Department of Highways and Transportation

---

---

**.80** We developed detailed criteria to evaluate systems and practices DHT uses in these key areas. We provided the criteria to DHT officials, representatives from other legislative audit offices and a recognized expert. We asked them to review and assess the reasonableness of the criteria. Based on their advice, we changed the criteria, where necessary. All parties said the revised criteria were fair and reasonable.

**.81** In addition, we made the criteria available, upon request, throughout government. To date, we have responded to 44 requests for the criteria.

---

### Audit Findings and Results

#### Audit Work

**.82** The following procedures describe our audit work. We interviewed key DHT staff and observed their procedures. We reviewed and analyzed DHT's contract management manuals and evidence of supervision of contractor work. We compared a random number of construction and maintenance contracts to supporting documents, and surveyed a random number of highway builders who operate in Saskatchewan.

**.83** The following briefly sets out what we looked for and found under each of the five criteria.

---

<b>Buying the right services to fit DHT's capital works plan</b>
--

---

#### What We Looked For

**.84** We looked for DHT to:

- communicate its contracting policies and practices; and
- ensure its contracting policies and practices reflect current industry standards and legal requirements.

---

#### What We Found

**.85 Effective communication.** DHT effectively communicates its contracting policies and practices (policies) because of its low staff turnover, the extensive experience of its staff and the small size of the highway building industry. It communicates through manuals, verbal communication and standard tender packages.

**.86** DHT formally approves contracting policies. These policies are set out in manuals issued to all key staff. DHT informs staff of changes to policies through periodic manual updates and informal training sessions. Most staff have worked at DHT for many years and are familiar with its policies.

---

---

## Chapter 17 Department of Highways and Transportation

---

---

.87 The Minister of DHT annually tables DHT's construction projects plan in the Assembly. The plan is then publicly available. Copies of its plan and tender schedules are provided to key staff.

.88 DHT has developed and made available standard tender and contract information packages in order to communicate relevant policies to potential contractors. These packages appropriately reflect DHT's policies and legal requirements. The highway building industry within Saskatchewan is relatively small and its contractors are familiar with DHT's policies.

.89 **Relevant policies and practices.** DHT's policies and practices reasonably reflect industry practice and legal requirements. DHT holds regular meetings with contractors in the highway building industry. DHT uses these meetings to obtain valuable feedback on the adequacy and continuing relevance of its policies, and make any necessary changes.

---

<b>Obtaining a competitive price for services</b>
---

---

What We Looked For

.90 We looked for DHT to:

- select the most appropriate purchasing method to use for a given contract, i.e., public tender, invited tenders or negotiation with a single supplier;
- ensure all qualified firms receive a fair and equal opportunity to compete for a contract;
- select the successful bidder and award the contract,
- ensure contracts clearly describe the responsibilities of all parties involved; and
- ensure contracts awarded are appropriately approved.

---

What We Found

.91 **Appropriate selection of purchasing method.** DHT selects the most appropriate method to award contracts. When selecting the purchase method, DHT considers the estimated cost of work to be included in the contract, location of the work, availability of suppliers, and other work currently under way or planned in the same or adjacent areas. Most contracts are publicly tendered. Some are invited bids and others are negotiated with a single contractor. Our survey results indicate contractors in the

---

---

## Chapter 17 Department of Highways and Transportation

---

---

highway building industry perceive this process to be fair.

**.92 Fair and equitable chance to compete.** DHT has a good system to ensure all prospective bidders have a fair and equitable chance to compete. DHT advertises fairly and issues tender packages to all prospective bidders.

**.93** DHT's system encourages competitive bidding on all tendered contracts. Bids are treated equally by DHT. Only sealed bids are accepted on public tenders. Bids are opened on the stated date and time in a public forum. DHT reviews bids to ensure all applicable tender items are included.

**.94 Selection policies may not be cost effective.** DHT's policies for selecting the successful bidder may not be cost effective.

**.95** Section 13 of *The Highways and Transportation Act* requires DHT to award the contract to the lowest bidder unless the Minister deems it inexpedient to do so. Currently, for all tendered contracts, DHT awards the contract to the lowest bidder. It does not use past contractor performance to decide if a bid should be accepted even though the Financial Administration Manual issued by the Department of Finance recommends considering the reputation of, and experience with, the contractor. However, when DHT thinks there is a risk the lowest bidder may not successfully fulfil all provisions of the contract, it supervises the contractor more closely. When this happens, the total cost to complete the work may exceed the cost of accepting the next lowest bidder with better capabilities. Currently, this is not a significant problem because this situation occurs infrequently and mostly on smaller contracts. However, the significance of this problem would increase if this situation occurred more often or on larger contracts.

**.96 Clear and well-written contracts.** DHT's standard construction and maintenance contracts are clear and well-written. They adequately explain relevant legal requirements and department specifications.

**.97** Contracts clearly describe the responsibilities of all parties. When necessary, DHT revises their contracts to reflect any unique specifications.

**.98 Proper contract approval.** DHT has a good system for

---

---

## Chapter 17 Department of Highways and Transportation

---

---

approving contracts.

**.99** DHT's Financial Administration manual sets out procedures that ensure contracts are approved by appropriate individuals. The manual includes procedures for revising and approving contracts. The guidance in the manual is consistent with relevant legislation.

### Receiving all services ordered

What We Looked For

**.100** We looked for DHT to:

- monitor the contractors' work, on a timely basis, to ensure all provisions of the contract are fulfilled;
- document the results of its monitoring and to report these results to management on a timely basis;
- make timely changes to contracts, as necessary, or take other necessary action; and
- have an appeal process to resolve disagreements with the contractor.

---

What We Found

**.101 Timely monitoring.** DHT uses field offices to monitor, on a timely basis, contract activities at the work site.

**.102** Staff who monitor activities are qualified, experienced and demonstrate knowledge of DHT's specifications and contract requirements.

**.103 Reasonable documentation.** Documentation of monitoring is reasonable because of the extensive experience of staff doing the monitoring.

**.104** Generally, DHT relies upon the judgement of experienced staff to monitor the work of contractors. These individuals approve reports that permit payments to contractors. This approval indicates provisions of the contract have been appropriately fulfilled by the contractor. Documentation of daily work site monitoring varies from individual to individual, and could be improved.

**.105 Timely and necessary contract changes.** Timely and necessary contract changes are made because the people

---

---

## Chapter 17 Department of Highways and Transportation

---

---

recommending changes have extensive experience.

**.106** DHT relies upon experienced staff to monitor the work of contractors and make recommendations on contract changes. Also, these staff decide if the provisions of the contract are fulfilled in the required time, and if not, the amount of damages to be levied. Reasons for these recommendations and resulting decisions should be more clearly documented.

**.107 Satisfactory appeal process.** DHT has a fair and reasonable appeal process that is clearly described in every publicly tendered contract and in its manuals. Our survey results indicate contractors in the highway building industry perceive this process as fair.

---

---

**Paying only for services received**

---

---

What We Looked For

**.108** We looked for DHT to ensure it pays:

- only for services received; and
  - only in accordance with its financial policies and procedures.
- 

What We Found

**.109 Supported payments.** DHT's policies and procedures are reasonable to ensure payments are made only for services received.

**.110** At the end of each contract, DHT uses a formal letter of acceptance to indicate the receipt of the contractor's services. Progress payments made to contractors are based upon a report of the amount of work completed on the contract. These reports are approved by the individual responsible for monitoring the work of the contractor.

**.111 Properly approved and authorized payments.** DHT has an adequate system to ensure payments are properly authorized.

---

---

**Determining if the capital works plan is met at a reasonable cost.**

---

---

What We Looked For

**.112** We looked for:

- accurate, complete and timely processing of

---

---

## Chapter 17 Department of Highways and Transportation

---

---

information;

- timely comparisons of actual contracting activities to the capital works plan, and analyses of significant variances;
- timely reporting of comparisons and variance analyses to senior management; and
- adequate reporting of information to the public.

---

### What We Found

---

**.113 Adequate processing.** DHT's contract management systems provide accurate, complete and timely information.

**.114 Regular comparisons and analyses.** DHT regularly compares and analyses actual contracting activity to its capital works plan.

**.115** DHT revises its capital works plan and its contracting policies and practices when necessary. DHT ensures contracting policies and practices are followed by monitoring contractor's work. It relies on the adherence to its contracting policies and practices to ensure its capital works plan is met at a reasonable cost.

**.116 Timely reporting.** Senior management receives regular progress reports on contracting activities. These reports provide information needed by management to make informed decisions.

**.117 Adequate public reporting.** DHT provides the public with adequate information on its planned and actual capital construction activities.

**.118** In its annual report, DHT provides a summary of the number of kilometres of capital work completed each year. In the public accounts, DHT also reports the cost of capital work undertaken. The public has the necessary information to compare the department's actual activity to its publicly available construction projects plan.

---

---

## Chapter 17 Department of Highways and Transportation

---

---

### DHT's Response

.119 The Management's response is as follows:

*"General Comments:*

*The department is in agreement with the conclusions reached and is appreciative of the remarks and suggestions made to improve contract management.*

*Summary Comments:*

*The department found the value for money audit to be a worthwhile process. An outside perspective has helped the department to focus on areas where changes and improvements can be made. This will help to manage the department more effectively in the future."*

---

### DEPARTMENT OF HIGHWAYS AND TRANSPORTATION AUDIT

#### Our Audit Findings

.120 As stated in paragraph .06, we also examined DHT's rules and procedures to safeguard and control its Consolidated Fund appropriations and revenues, and DHT's compliance with legislative authorities. The scope of this examination is set out in the illustrative reports contained in Appendix IV. In our opinion, DHT's rules and procedures to safeguard and control its Consolidated Fund appropriations and revenues were adequate. DHT complied with the authorities governing its Consolidated Fund appropriations and revenues as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matter previously discussed in paragraph .66.

---

### HIGHWAYS REVOLVING FUND AUDIT

#### Our Audit Findings

.121 Also, as stated in paragraph .06, we examined the financial statements for the Highways Revolving Fund, DHT's rules and procedures to safeguard and control the Fund and DHT's compliance with legislative authorities. In our opinion, the Fund's financial statements included in the Compendium are reliable. DHT's rules and procedures with respect to financial reporting and accounting controls to safeguard and control the assets of the Fund were adequate. DHT complied with the authorities governing the activities of the Fund as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matter.

---

---

## Chapter 17 Department of Highways and Transportation

---

---

Recovery Rates  
Require Approval

**.122** Treasury Board is responsible for approving recovery rates for revolving funds. DHT submitted rates to Treasury Board as part of its 1991/92 budget submission. However, DHT later changed certain rates without Treasury Board approval.

**.123** In our opinion, DHT did not comply with Treasury Board's policy for recovery rates.

**We Recommend**

**.124 DHT should obtain Treasury Board approval for recovery rates.**



## Chapter 18 Department of Justice

**.01** The Department is responsible for the administration of justice, police services and adult corrections in the Province. The Department is also responsible for registry systems for corporations, and for real and personal property in the Province.

---

Consolidated Fund

**.02** The Department managed Consolidated Fund appropriations and revenues of \$169.3 million and \$50 million respectively. Information about these revenues and appropriations appears in Volume II of Public Accounts at pages 9 and 188 respectively.

**.03** The following is a list of major programs and spending.

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Police services	\$ 61.7	\$ 56.3
Corrections	38.6	40.4
Courts	21.4	22.1
Payments to Saskatchewan Property Management Corporation	19.2	19.1
Registry Services	6.8	6.7
Other	<u>17.0</u>	<u>24.7</u>
	<u>\$164.7</u>	<u>\$169.3</u>

---

Special Purpose  
Funds and Crown  
Agencies

**.04** The Department is also responsible for the operations of several trust and special purpose funds and crown agencies. These are:

- Assurance Fund
- Correctional Facilities Industries Revolving Fund
- Judges of the Provincial Court Superannuation Plan
- Law Reform Commission of Saskatchewan
- Office of the Rentalsman Trust Account
- Provincial Mediation Board Trust Account
- Public Trustee for Saskatchewan
- Queen's Printer Revolving Fund
- Saskatchewan Communications Network Corporation
- Trust accounts for courts, local registrars and sheriffs
- Victims' Fund

---

---

## Chapter 18 Department of Justice

---

---

### Our Audit Findings

**.05** In our opinion, the Department's rules and procedures to safeguard and control its Consolidated Fund appropriations and revenues were adequate except for the significant deficiencies reported in paragraphs .10 to .26. The Department complied with the authorities governing its Consolidated Fund appropriations and revenues except for the matters reported in paragraphs .27 to .29.

**.06** In our opinion, the financial statements for the funds and agencies listed in paragraph .04 are reliable.

**.07** In our opinion, the Department and its crown agencies listed in paragraph .04 complied with the authorities governing these funds and agencies as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except where we report otherwise in this chapter.

**.08** The Department's rules and procedures to safeguard and control the assets of the Saskatchewan Communications Network Corporation, Public Trustee and the Law Reform Commission were adequate.

**.09** Because of our limited resources and established priorities (see Chapter 4), we did not do sufficient work to report on the adequacy of the Department's rules and procedures to safeguard and control the assets of the following funds:

Assurance Fund  
Correctional Facilities Industries Revolving Fund  
Judges of the Provincial Court Superannuation Fund  
Office of the Rentalsman Trust Account  
Provincial Mediation Board Trust Account  
Queen's Printer Revolving Fund  
Victim's Fund

---

### Internal Audit

**.10** The Department is decentralized. Regional offices are responsible for collecting revenue and complying with both the law and the Department's rules and procedures. Regional offices include Correction Centres, Provincial Courts, Land Title Offices, Sheriff Offices and Local Registrar Offices.

**.11** The Department has an internal auditor who examines regional offices and reports the results to management.

---

---

## Chapter 18 Department of Justice

---

---

.12 In our 1991 Annual Report, we state the Department did not have an approved operating and reporting policy for its internal auditor. During 1992, the Department established such a policy.

.13 However, the operating and reporting policy has not functioned long enough for us to decide if management will take timely action on significant issues raised by the internal auditor.

.14 Our review of the internal auditor's reports show many instances where regional offices did not follow established procedures for handling and depositing money.

### We Recommend

---

**.15 The Department should take timely action on significant matters raised by the internal auditor.**

---

### Revenue Monitoring

.16 The Department's rules and procedures for assessing and collecting revenue were not adequate. The Department did not detect a shortfall in revenue from the Saskatchewan Liquor Board.

.17 The Department annually makes a claim on the Saskatchewan Liquor Board for part of the cost of RCMP enforcement of *The Alcohol Control Act*.

.18 One component of the claim is the number of cases involving RCMP enforcement of the Act. The Department prepared the claim for the 1990/91 fiscal year based on the enforcement of 11,667 cases as reported by the Saskatchewan Police Commission (Commission). This claim was \$500,000 less than the Department's budgeted revenue from this source.

.19 The Department prepares a revenue forecast to compare actual revenues to its budget. The Forecast explained the revenue variance as "reduced offenses under the Act".

.20 We questioned the Department's reason for the revenue shortfall of \$500,000 or 20%. We found the claim reported a 46% decrease in alcohol enforcement cases from the previous year's claim.

.21 The Department investigated the matter and found the RCMP changed the basis of determining which cases involved enforcement of the Act. The Department asked the Commission to recalculate the number of cases using the former method. The Department prepared a revised claim and collected a further

---

---

## Chapter 18 Department of Justice

---

---

\$407,000 from the Saskatchewan Liquor Board.

---

**We Recommend**

**.22 The Department should monitor revenue more closely.**

---

Segregation of Duties

**.23** The Department did not adequately segregate the duties of employees in the larger Provincial Court Offices and in the Provincial Court Payment Information Centre. Segregation of duties is inadequate when one person can conceal errors or fraud.

**.24** In Provincial Court Offices and in the Provincial Court Payment Information Centre, employees receive money, prepare the receipt and record the receipt in the records. This lack of segregation of duties could allow money to be misapplied without timely detection.

**.25** The Department of Finance requires government agencies to segregate duties of employees so persons that keep accounting records do not handle money.

---

**We Recommend**

**.26 The Department should segregate the duties of employees in the larger Provincial Court Offices and in the Provincial Court Payment Information Centre.**

---

Write-Offs of Fines  
Require Authority

**.27** Treasury Board requires the Board of Revenue Commissioners to authorize the write-off of unpaid fines.

**.28** We found the Department regularly writes off fines it cannot collect without obtaining approval from the Board of Revenue Commissioners.

---

**We Recommend**

**.29 The Department should obtain the Board of Revenue Commissioners' authority to write-off unpaid fines.**

---

Loss of Public Money

**.30** An employee defrauded the Department of \$458,870 over a five year period.

**.31** The Department sends tapes of court proceedings to transcript firms. The firms transcribe the tapes into typewritten form and bill the Department for their services.

**.32** In December 1991, the Department found it paid an employee for false invoices for transcript services, totalling

---

---

## Chapter 18 Department of Justice

---

---

\$455,870. The employee held a position of trust in the Department. The employee forged required approval signatures to authorize payment of the false invoices. This employee was also responsible for comparing actual costs for transcript services to budget.

**.33** A police investigation also revealed the employee had stolen audio and video equipment valued at \$3,000. A provincial court found the employee guilty of fraud over \$1,000.

## Chapter 19

### Department of Natural Resources

**Consolidated Fund**

**.01** The Department managed Consolidated Fund revenues and appropriations of \$19.9 million and \$84.0 million in 1992. Information about the Department's revenues and appropriations appears in Volume II of the Public Accounts at pages 9 and 218 respectively.

**.02** The following is a list of the Department's major programs and spending on those programs.

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Forest Fire Operations	\$30.9	\$29.9
Operations	14.1	14.2
Payments to Saskatchewan Property Management Corporation	7.9	7.5
Forestry	7.1	7.2
Management Services	4.4	4.2
Operating Subsidy for the Commercial Revolving Fund	2.6	4.0
Other	<u>17.6</u>	<u>17.0</u>
	<u>\$84.6</u>	<u>\$84.0</u>

**Special Purpose Funds and Crown Agencies**

**.03** The Department is also responsible for the operation of several special purpose funds and a crown agency. These are:

- Commercial Revolving Fund
- Fish and Wildlife Development Fund
- Forest Renewal and Development Fund
- Resource Protection and Development Revolving Fund
- Saskatchewan Wetland Conservation Corporation

**Our Audit Findings**

**.04** In our opinion, for the Consolidated Fund revenues and appropriations, the Department complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matters reported in paragraphs .11 to .14. The Department's rules and procedures to safeguard and control its Consolidated Fund revenues and appropriations were adequate except for the significant deficiencies reported in paragraphs .07 to .10.

---

---

## Chapter 19 Department of Natural Resources

---

---

**.05** In our opinion, the financial statements for the crown agency and special purpose funds listed in paragraph .03 are reliable. The Department and its crown agency complied with the authorities governing the activities of the agency and special purpose funds as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except where we report otherwise in this chapter. The Department's crown agency had adequate rules and procedures to safeguard and control the assets of the agency. The Department had adequate rules and procedures to safeguard and control the assets of the Forest Renewal and Development Fund.

**.06** Because of our limited resources and established priorities (see Chapter 4), we did not do sufficient audit work to report on the adequacy of the Department's rules and procedures to safeguard and control the assets of the Commercial Revolving Fund, Fish and Wildlife Development Fund and the Resource Protection and Development Revolving Fund.

---

### Segregation of Duties

**.07** The Department did not adequately segregate the duties of its employees. Segregation of duties is inadequate when one person can conceal errors or fraud.

**.08** We found, in several of the Department's branch offices, one employee was responsible for receiving cash, issuing receipts, depositing cash and recording the transactions. In addition, the Department did not check the serial continuity of licenses and permits sent to the branch offices. Also, the Department's rules and procedures to account for unused licenses and permits were not timely.

**.09** In our opinion, this deficiency in the Department's rules and procedures allows money to be misapplied without timely detection. The Department found an employee misapplied \$4,000 at one of its branch offices. The Department later recovered this money through legal action.

### We Recommend

**.10** The Department should adequately segregate the duties of its employees.

---

### Compliance With Treasury Board Directives

**.11** The Provincial Comptroller issued a Financial Administration Manual (FAM). The FAM contains detailed procedures for departments and agencies to follow in complying

---

---

## Chapter 19 Department of Natural Resources

---

---

with Treasury Board policies.

**.12** Section 1210 of the FAM sets out procedures for departments and agencies to follow when dealing with employee theft or dishonesty. Departments and agencies must notify Saskatchewan Government Insurance (SGI) and the Provincial Comptroller.

**.13** We reported in paragraph .09 an employee misapplied \$4,000 at a Department branch office. The Department did not notify SGI or the Provincial Comptroller about this loss. Accordingly, the Department did not comply with the FAM.

### We Recommend

**.14 The Department should comply with the Financial Administration Manual.**

### COMMERCIAL REVOLVING FUND

**.15** The Department manages the Commercial Revolving Fund. The Department uses this Fund to finance and account for the commercial operation of government-owned parks and renewable resources.

**.16** The Fund had revenue of \$6.9 million in 1992 and had assets of \$2.0 million at March 31, 1992. The financial statements for the Fund are included in the Public Accounts Compendium of Financial Statements at page A 283.

### Our Audit Findings

**.17** In our opinion, the financial statements included in the Compendium are reliable. The Department complied with the authorities governing the activities of the Fund as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matter reported in paragraphs .19 to .24.

**.18** Because of limited resources and established priorities (see Chapter 4), we did not do an audit to report on the Department's rules and procedures to safeguard and control the assets of the Fund.

---

### Authority to Receive Commercial Lease Revenue

**.19** *The Renewable Resources Recreation and Culture Act* governs what revenues belong to the Fund. Subsection 14(7) of the Act states:

*"...the Minister may sell, rent, lease or otherwise*



---

---

## Chapter 19 Department of Natural Resources

---

---

*dispose of property and assets acquired by him through the revolving fund".*

.20 The Department received \$387,299 in revenue from leased park land. The Department records this lease revenue as revenue of the Fund. However, the Department did not acquire the assets that earn the revenue through the Fund.

.21 Therefore, in our opinion, the Department does not have the authority to record commercial lease revenue as revenue of the Fund. The Department should record this lease revenue as revenue of the Consolidated Fund.

.22 The Department believes it has authority to record the revenue as revenue of the Fund under Section 14 of the Act.

.23 Both the Department and our Office have legal opinions supporting the respective positions.

### We Recommend

**.24 The Department should record commercial lease revenue as revenue of the Consolidated Fund. Alternatively, the Department should propose changes to *The Renewable Resources Recreation and Culture Act* to say clearly commercial lease revenue belongs to the Fund.**

## Chapter 20

### Department of Social Services

**.01** The Department's mandate is to foster independence of people in need through competent and caring service.

Consolidated Fund

**.02** The Department managed Consolidated Fund appropriations of \$390 million and Consolidated Fund revenues from the Federal Government of \$176 million in 1992. Information about the Department's Consolidated Fund revenues and appropriations appears in Volume II of the Public Accounts at pages 9 and 258 respectively.

**.03** The following is a list of the Department's major programs and spending.

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Saskatchewan Assistance Plan	\$192	\$209
Community Living	40	41
Child Care & Children Services	41	38
Regional Operations	29	29
Payments to Saskatchewan Property Management Corporation	14	14
Young Offenders	11	12
Family Services	11	11
Other	<u>41</u>	<u>36</u>
	<u>\$379</u>	<u>\$390</u>

Special Purpose Fund and Crown Agency

**.04** The Department is also responsible for the operation of a special purpose fund and a crown agency. These are:

Saskatchewan Legal Aid Commission  
Social Services Central Trust Account

Our Audit Findings

**.05** In our opinion, for the Consolidated Fund's revenues and appropriations, the Department complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The Department's rules and procedures were adequate to safeguard and control its Consolidated Fund appropriations and revenues except for the significant deficiency

---

---

## Chapter 20 Department of Social Services

---

---

reported in paragraphs .07 to .11.

**.06** In our opinion, the financial statements for the crown agency and special purpose fund listed in paragraph .04 are reliable. The Department and its crown agency complied with the authorities governing the activities of that agency and special purpose fund as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The Department and its crown agency had adequate rules and procedures to safeguard and control the assets of that agency and special purpose fund.

---

### Contingency Plan

**.07** The Department uses computers to keep most of its records. The Department should have a written and tested contingency plan that ensures it can operate if a major loss or destruction of computer processing capability occurs. The Department must be able to recover and reconstruct critical records.

**.08** The Department does not have a written and tested plan to ensure continued operation if a major loss or destruction of computer processing capability occurs.

**.09** The Department may not be able to continue to operate in a timely and effective manner if a major loss or destruction occurs.

**.10** We also reported this matter in our 1990 and 1991 Annual Reports.

### We Recommend

**.11** The Department should prepare a written contingency plan and test the plan.

---

---

## Chapter 21

### Indian and Metis Affairs Secretariat

---

---

#### Consolidated Fund

**.01** The Secretariat managed Consolidated Fund appropriations of \$4 million in 1992. Information about the Secretariat's spending appears in Volume II of the Public Accounts at page 183.

#### Our Audit Findings

**.02** The Secretariat's rules and procedures to safeguard and control its Consolidated Fund appropriations were adequate except for the significant deficiencies reported in paragraphs .03 to .12. The Secretariat complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matters reported in paragraphs .09 to .18.

---

#### Verification Procedures

**.03** The Secretariat manages two major conditional grant programs. These are the Native Business Development Program (NBDP) and the Indian Economic Development Program (IEDP). The Secretariat spent \$1.5 million on these programs in 1992.

**.04** The Secretariat needs rules and procedures to ensure only those eligible receive grants and the grants are the correct amount. The Secretariat also needs to ensure recipients use grants for the approved purposes.

**.05** The Secretariat's rules and procedures should require staff to document what they did to verify an applicant's eligibility and a grant recipient's use of grant money. Accordingly, there is a lack of evidence for us to know if only eligible applicants received NBDP and IEDP grants. Also, there is a lack of evidence for us to know if grant recipients used the money they received for approved purposes.

**.06** In paragraphs .13 to .16 we report an employee defrauded the Secretariat. Because of that fraud the Secretariat decided to do a special audit of its grant programs. The Secretariat wanted to know if only eligible applicants received grants and if grant recipients used the money for approved purposes.

**.07** The special audit found eight grant recipients used \$87,000 for purposes not approved by the Secretariat. (See paragraph .17).

---

---

## Chapter 21 Indian and Metis Affairs Secretariat

---

---

**We Recommend**                      **.08**    **The Secretariat should establish rules and procedures to ensure staff document how they:**

- **verify eligibility for grants, and**
- **verify that grant recipients use their money for approved purposes.**

---

**Policy Guidelines Should Be Followed**                      **.09**    **The Secretariat sets policy guidelines and procedures for IEDP grants. The Guidelines set a maximum of \$50,000 for a single grant payment and a maximum yearly limit of \$100,000 for a project.**

**.10**    **The Secretariat did not have rules and procedures requiring staff to document what they did to comply with the guidelines. Also, the guidelines do not say who must authorize grants beyond the maximum.**

**.11**    **We found the Secretariat paid two organizations \$25,000 each more than the maximum set in the Guidelines.**

**We Recommend**                      **.12**    **The Secretariat should establish rules and procedures requiring staff to document what they do to comply with policy guidelines. Also, the guidelines should state who approves grants over the maximum set in the guidelines.**

---

**Loss to the Crown**                      **.13**    **In 1990, the Secretariat found an employee had forwarded false business plans and applications to the Minister for approval. The Secretariat issued cheques based on this approval. The employee deposited these cheques to personal bank accounts.**

**.14**    **The employee held a position of trust in the Secretariat. His responsibilities included final approval and authorization of grant applications sent to the Minister. The employee involved persons outside the Secretariat to defraud the Secretariat.**

**.15**    **The employee approved false grant applications totalling \$33,000. The Secretariat paid these grants during the year ended March 31, 1990.**

**.16**    **The employee was found guilty of fraud and forgery in provincial court in May, 1992. Also, in a related case an individual was found guilty in provincial court in December 1991**

---

---

## Chapter 21 Indian and Metis Affairs Secretariat

---

---

of making a fraudulent application for a \$10,000 grant. This grant is part of the \$33,000 of grants described in the previous paragraph.

.17 The Secretariat reviewed other grant payments made during the year ended March 31, 1990, after becoming aware of the fraud. The Secretariat engaged Saskatchewan Property Management Corporation (SPMC) staff to do a special audit on other grant payments that concerned the Secretariat. The general objectives of the special audit were:

- to verify information provided by grant recipients in the grant application process or in their business plan; and
- to confirm recipients used grants for the approved purpose.

.18 We reported in paragraph .07 eight grant recipients used \$87,000 for purposes not approved by the Secretariat.

---

---

## Chapter 22

### Investment Corporation of Saskatchewan

---

---

**.01** The Investment Corporation of Saskatchewan (ICS) acts as the investment manager for several Government agencies.

**.02** *The Investments Provisions Act* came into force June 1, 1988. It permits certain government agencies to contract for investment management services.

**.03** ICS was incorporated under *The Business Corporations Act* of Saskatchewan to provide investment management services. Government agencies hold the majority of voting shares of ICS.

Ability to Discharge  
our Duties

**.04** ICS has not permitted us to audit its accounts since it was formed. ICS's actions result in a lack of public accountability to the Legislative Assembly for its activities.

**.05** Our lawyer has advised ICS is a crown controlled corporation because the majority of its shares are held by Government agencies. Therefore, it is subject to an audit under *The Provincial Auditor Act*.

**.06** ICS has legal advice it is not subject to an audit by the Provincial Auditor. ICS believes it is an independent competitive investment counsel, not a crown controlled corporation.

**.07** We think the Government should be accountable to the Assembly for the activities carried out in all corporations owned or controlled by the Government. For the Assembly to be effective in this role, we believe the Legislature, when it enacted *The Provincial Auditor Act*, wanted the Provincial Auditor to audit all corporations owned or controlled by the Government. When the Government interprets the Act otherwise and denies the Provincial Auditor access to a corporation, the Government impairs its public accountability.

**.08** The Government must decide if it will be publicly accountable for ICS's activities. We referred the matter to the Secretary of Treasury Board, as the Premier requested, in his June 6, 1989 memorandum. This matter has been with the Secretary of Treasury Board or the Minister of Finance awaiting a decision since July 26, 1990.

---

---

## Chapter 22 Investment Corporation of Saskatchewan

---

---

**.09** If the Government decides it will be publicly accountable for ICS's activities, it could resolve this matter by appointing the Provincial Auditor as the auditor of ICS. Under *The Business Corporations Act* shareholders are responsible to appoint an auditor. The shareholders of ICS are government agencies responsible to a Minister of the Crown for the management of these agencies.

**.10** The following Government agencies hold the majority of ICS shares:

Saskatchewan Government Insurance  
Workers Compensation Board  
Power Corporation Superannuation Board  
SaskTel Superannuation Board  
Minister of Finance for the Teachers Superannuation  
Commission

**.11** If the Government decides it will not be publicly accountable for the activities of ICS, we think it should introduce legislation to exempt ICS from being subject to *The Provincial Auditor Act*.

### We Recommend

**.12** The Government should ask its officials who vote ICS shares to advise ICS to allow the Provincial Auditor to audit ICS. Alternatively, the Government should introduce legislation to exempt ICS from being subject to *The Provincial Auditor Act*.



## Chapter 23

### Legislation (The Board of Internal Economy)

**.01** The department's mandate is to provide support services to the Province's elected representatives, the Legislative Assembly and its Committees, and to inform the public of the activities of the Legislature. The Board of Internal Economy is responsible for the department except for the Ombudsman.

**.02** The department managed Consolidated Fund appropriations of \$13.7 million in 1992. Information about the appropriations appears in Volume II of the Public Accounts at page 206.

**.03** The following is a list of major programs and spending on those programs.

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Indemnity, allowances and expenses to Members	\$ 8.6	\$ 7.6
Legislative Assembly Office	3.3	3.1
Legislative Library	.8	.8
Ombudsman	.8	.8
Allowances to caucuses	.8	.8
Other	<u>.6</u>	<u>.6</u>
	<u>\$14.9</u>	<u>\$13.7</u>

#### Our Audit Findings

**.04** In our opinion, the department complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The department's rules and procedures to safeguard and control its Consolidated Fund appropriations were adequate. However, we have the following concerns.

#### Members' Expenses

**.05** The Board issues directives regarding Members' expenses. These directives govern the expenses the Board will pay for and the procedures Members must follow to be paid for an expense.

**.06** We found the department's rules and procedures to comply with the Board's directives were adequate. However, the Board should strengthen its directives.

---

---

## Chapter 23 Legislation (The Board of Internal Economy)

---

---

**.07** It is important the directives clearly state the difference between authorizing an allowance or reimbursing an expense. The rules and procedures for managing payments for expense allowances are different from those for managing payments for expense reimbursements.

**.08** When the Board authorizes an "allowance", we do not believe the department needs receipts for Members' actual costs. However, the department has a duty to report Members' allowances to Revenue Canada.

**.09** When the Board authorizes a "reimbursement", we believe the department must pay for actual costs incurred by Members. The Board's directives should require original receipts or invoices to support a claim for reimbursement and clearly define eligible expense criteria.

**.10** The Board's directives do not require original invoices or sufficient description of the goods and services provided to support requests for payments to Members. We found the department paid management companies. These companies did not always provide details of goods and services provided to Members. Also, these companies did not submit original invoices from third parties to support the charges for goods and services contracted from these third parties.

**.11** Our audit did not extend to reporting on the propriety of the expenses the Board authorized members to claim in paragraphs .12 to .14. We believe the propriety of these expenses is a matter of policy.

**.12** The Board's directives allow payments to Members for constituency expenses that have the appearance of a conflict of interest. A member can receive reimbursement for expenses for rentals and services provided by a spouse, family member or a company owned by the Member.

**.13** The Board's directive governing promotion expense allows a broad range of eligible expenses.

**.14** The Board's directives allow Members to keep furnishings or equipment purchased for their constituency offices after their terms have ended.

**We Recommend**

**.15 The Board's directives governing Members' expenses should provide specific guidance. The directives should specify at least the following matters.**

**The Board's directives should clearly state if the Board is authorizing an "allowance" or a "reimbursement" of an expense.**

**The Board's directives should clearly state "reimbursements", including payments made on behalf of Members, can only be made for actual costs incurred by Members.**

**The Board's directives should require original invoices or receipts to support Members' claims for expense "reimbursements". The claims for reimbursement should also require a detailed description of the goods and services provided.**

**.16** The department told us the Board has agreed in principle to change its directives. The department is currently preparing new directives for the Board's approval that will provide specific guidance for Members' expenses. The department told us the Board agreed in principle to:

- require all Members' claims for expense reimbursement, including payments made on behalf of Members, to be supported by original invoices. Claims will also require detailed descriptions of the goods or services provided;
- prohibit payments to a Member's family or a company owned by a Member or a Member's family; and
- discontinue the practice of allowing Members to keep office equipment, furnishings and supplies when Members cease being Members.

---

---

## Chapter 24

### Saskatchewan Auto Fund

---

---

**.01** *The Automobile Accident Insurance Act* established The Saskatchewan Auto Fund. The Fund receives insurance premiums from the motoring public and pays claims. Saskatchewan Government Insurance (SGI) administers the Fund.

**.02** The Fund earned revenue of \$294.1 million in 1991 and held assets of \$451.7 million at December 31, 1991. The Fund's financial statements are included in the Public Accounts Compendium of Financial Statements at Page B 259.

---

Our Audit Findings

**.03** In our opinion, the Fund's financial statements included in the Compendium are reliable. SGI's rules and procedures to safeguard and control the assets of the Fund were adequate. SGI complied with the authorities governing the activities of the Fund as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matters.

---

Authority for Two  
Payment Plan  
Required

**.04** On July 1, 1991, SGI started a "Two Payment Plan" (Plan) to help private and farm vehicle owners finance their insurance premiums and registration fees. The Plan requires an owner to pay approximately one half the registration fee and insurance premium and a financing fee when registering a vehicle. SGI sends an invoice for the unpaid amount five months later.

**.05** *The Automobile Accident Insurance Act* (the Act) requires owners to pay insurance premiums at the date of registration. In our opinion, this program lacked proper authority.

---

We Recommend

**.06** **SGI should obtain proper authority for its programs prior to their implementation.**

**.07** In July 1992, a change to the Act authorized the Plan.

---

Authority for  
Investment Required

**.08** Under the Act, SGI must register all investments of the Fund in SGI's name.

**.09** In October 1985, SGI acquired a real estate investment for the Fund by making a loan on the security of a mortgage.

---

---

## Chapter 24 Saskatchewan Auto Fund

---

---

.10 During 1991, the mortgagor defaulted. In October 1991, SGI established a new company called 598704 Saskatchewan Ltd. This new company holds the title to the property.

.11 In our opinion, title to the property must be registered in the name of SGI.

.12 SGI believes it has the authority to register the property under the name of the new company.

**We Recommend**

.13 **SGI should properly register title to this property.**

---

---

## Chapter 25

### Saskatchewan Forest Products Corporation

---

---

**.01** The Corporation (SFPC) produces plywood and dimension lumber.

**.02** SFPC earned revenues of \$23.1 million, incurred a loss of \$3.5 million and held assets of \$21.5 million at October 31, 1991. SFPC's financial statements are included in its annual report.

Our Audit Findings

**.03** In our opinion, SFPC's financial statements included in its annual report are reliable. SFPC's rules and procedures to safeguard and control its assets were adequate. SFPC complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matters.

---

Insufficient Board Meetings

**.04** Order-in-Council 1899/49 states the Board of Directors of SFPC must meet at least once in every three months. SFPC's Board only met three times during the year.

**.05** In our opinion, Board did not comply with Order-in-Council 1899/49.

**We Recommend**

**.06 The Board should meet at least once every three months.**

---

Head Office Requires Approval

**.07** *The Crown Corporations Act, 1978* requires the Lieutenant Governor in Council to approve the location of SFPC's head office. SFPC has relocated its head office from Prince Albert to Hudson Bay. The Lieutenant Governor in Council has not approved this relocation.

**.08** In our opinion, SFPC has not complied with the Act.

**We Recommend**

**.09 SFPC should obtain an Order-in-Council to approve the relocation of its head office to Hudson Bay.**

---

---

## Chapter 26

### Saskatchewan Gaming Commission

---

---

**.01** The Commission licenses organizations to conduct and manage bingo, casinos, raffles and Nevada break open ticket sales. The Commission also regulates gaming by registering all event suppliers and gaming employees.

**.02** The Commission raised revenue of \$5.3 million in 1992 and had assets of \$.9 million at March 31, 1992. The Commission's financial statements are included in the Public Accounts Compendium of Financial Statements at page B66

---

#### Our Audit Findings

**.03** In our opinion, the Commission's financial statements included in the Compendium are reliable. The Commission complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matters reported in paragraphs .04 to .14. The Commission's rules and procedures to safeguard and control its assets were adequate except for the following significant deficiencies.

---

#### Controls Over License Fees

**.04** The Commission did not have adequate rules and procedures to assess and collect the license fees required by the Saskatchewan Gaming Regulations.

**.05** New Regulations changed the license fee the Commission had to charge. However, the Commission did not apply the new license fee. The Commission continued to charge fees based on the former Regulations.

**.06** Subsection 3 (1) (c) (ii) of the Regulations state:

*"An applicant shall pay a fee equal to 2 percent of the cash prizes awarded pursuant to the conduct of the raffle lottery scheme with respect to which the license is issued".*

**.07** The Commission collected 2 percent of the value of cash and non-cash prizes, instead of 2% of the cash prizes only. Accordingly, the Commission collected unauthorized revenue.

#### We Recommend

**.08** The Commission should establish rules and procedures to ensure it applies the license fees prescribed by the Regulations.

---

---

## Chapter 26 Saskatchewan Gaming Commission

---

---

### Licensees Require Auditing

**.09** The Commission is responsible for ensuring licensees use gaming proceeds for the purpose authorized by the Commission. The Commission determines its license fee from the returns submitted by licensees.

**.10** The Commission needs rules and procedures to audit licensees. The Commission needs to know if returns submitted by licensees are accurate. The Commission also needs to know if licensees are using gaming proceeds for authorized purposes.

**.11** The Commission has established some rules and procedures to audit licensees. However, the Commission lacks a standard audit plan and proper methods for selecting licensees for audit.

**.12** In our opinion, these control deficiencies allow licensees to report incorrect information to the Commission without detection. This could result in lost revenue to the Commission. Also, the Commission does not know if licensees are using gaming proceeds for authorized purposes.

### We Recommend

**.13** **The Commission should establish audit procedures to ensure the accuracy of licensees' returns and to ensure licensees are using gaming proceeds for authorized purposes.**



---

---

## Chapter 27

### Saskatchewan Power Corporation

---

---

**.01** The Corporation (SPC) provides electrical energy in the Province.

**.02** SPC had revenues of \$674 million in 1991 and held assets of \$2,951 million at December 31, 1991. SPC's financial statements are included in its annual report.

---

#### Our Audit Findings

**.03** In our opinion, SPC's financial statements included in its annual report are reliable except for the matter reported in paragraphs .04 to .18. SPC's rules and procedures to safeguard and control its assets were adequate. SPC complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matters reported in paragraphs .19 to .34.

---

#### Pension Plan Requires More Disclosure

**.04** The amount of SPC's pension plan assets and liabilities is reported in two sets of financial statements. The first set is the financial statements of SPC. The second set is the financial statements of the Power Corporation Superannuation Plan. We believe there is insufficient information in SPC's statements pertaining to SPC's pension obligation.

**.05** Note 10 to SPC's December 31, 1991 financial statements states, that in 1991, its pension plan assets of \$405 million are approximately equal to its pension plan liability as determined by an actuary.

**.06** We then examined the financial statements of the Power Corporation Superannuation Plan. Those statements report that, at December 31, 1991, there were pension plan assets of \$421 million and a pension plan liability of \$341 million.

**.07** We asked the appointed auditor who examined the financial statements of both SPC and the Superannuation Plan why different amounts were shown for the same pension plan. We were advised the calculation of the pension plan liability was determined by management, using the same actuarial report. However, management decided to use different assumptions about future benefit payments when determining the amounts to report in the two financial statements.

---

---

## Chapter 27 Saskatchewan Power Corporation

---

---

.08 The liability disclosed in SPC's financial statements is based on the assumption that, in the future, pensioners will receive a benefit greater than that promised in the law governing the benefits due under the pension plan.

.09 Conversely, the liability disclosed in the Superannuation Plan financial statements is based on the assumption that, in the future, the pension benefits paid to pensioners will be equal to that provided in the law governing the benefits due under the pension plan.

.10 We asked why the financial statements of SPC and those of the Superannuation Plan did not disclose, to Members of the Assembly and to Members of the plan, that different assumptions were used. We were advised the 1992 financial statements of the Superannuation Plan will provide additional disclosures. However, additional disclosure is not planned to be provided in the financial statements of SPC.

.11 We then examined the financial statements of other government corporations and pension plans. We wanted to answer two questions. The first is -- do other government corporations report different pension plan obligations in their corporate financial statements as compared to their pension plan financial statements? We determined they reported the same amounts.

.12 The second question is -- do other government organizations calculate their pension plan obligations based on the assumption pension benefits paid to pensioners will be greater than that promised in the laws governing the benefits due under the pension plans? With the exception of SaskTel, we determined they did not. Other organizations calculate their pension obligations based on the benefits promised by laws governing their pension plans.

.13 Under the existing audit system, when our Office performs additional audit work pertaining to a government organization which has an appointed auditor, we must report why. We performed additional work because we believe SPC should disclose additional information in its financial statements to explain:

- why its corporate financial statements and its pension plan financial statements report different amounts of pension assets and liabilities; and

---

---

## Chapter 27 Saskatchewan Power Corporation

---

---

- why its pension liability is based on the assumption pension benefits paid to pensioners will be greater than that promised in the laws governing the benefits due under the pension plan.

**.14** We believe such information would assist Members of the Assembly understand and assess how the Government plans to manage public money.

**.15** We are particularly concerned government financial statements are issued to the Assembly and the public before our Office is able to examine those statements, as well as the related appointed auditor's reports and working paper files. We believe our views are particularly important when issues within one government organization relate to issues in other government organizations or to issues pertaining to the Government as a whole. Chapter 4 in this Report explains our concerns with the existing audit system in more detail.

### We Recommend

**.16** SPC should include, in its financial statements, additional information about its pension plan.

**.17** The Government, through the Treasury Board, should ensure that, when there are different actuarial assumptions underlying pension plan calculations, the differences are appropriate.

**.18** In Chapter 1, we note the Government is planning to create a commission to examine the status of its pension obligations. One issue that needs to be examined is the assumptions used by the Government in determining its pension benefit obligations. Members of the Assembly and members of government-sponsored pension plans should be provided additional information to help them understand and assess alternatives and help them hold the Government accountable.

---

### Payment to Trustee Lacked Authority

**.19** SPC had an employment contract with its President. The contract required SPC to pay its President \$1.35 million in severance pay if SPC ended his employment.

**.20** SPC entered into an agreement dated October 10, 1991, with its President and a Trustee. According to the terms of the agreement, SPC paid the President's \$1.35 million severance pay to the Trustee.

---

---

## Chapter 27 Saskatchewan Power Corporation

---

---

.21 The agreement called for the Trustee to pay \$1.35 million to the President immediately if SPC ended his employment.

.22 On October 10, 1991, SPC's Board of Directors authorized the Chair of the Board and the Vice-President of Law to execute the agreement. The Minister-in-Charge did not attend the meeting.

.23 Order-in-Council 783/89 dated October 3, 1989 appointed SPC's Board of Directors. The Order appointed the Board for a two year term from the date of the Order except the Minister-in-Charge. The Order appointed the Minister to an indefinite term.

.24 Therefore, the term of the Board of Directors, except for the Minister, expired October 3, 1991. Accordingly, the former Board could not authorize the agreement of October 10, 1991. Therefore, SPC lacked authority for the payment of \$1.35 million to the Trustee.

.25 The Trustee returned the \$1.35 million to SPC in November, 1991.

### We Recommend

**.26 The Government should establish a process to ensure the timely appointment of Boards of Directors of Crown agencies.**

---

Payment to a  
Contractor Lacked  
Authority

.27 SPC has a 1987 contract for the supply, erection and commissioning of two steam generators required for the Shand Power Station. An Order-in-Council approved this contract as required by Section 10 of *The Power Corporation Act*.

.28 SPC's Board of Directors established rules and procedures requiring the Board to authorize certain contracts and delegating authority to management for other contracts. Contracts for more than \$1 million require Board approval. Also, all contracts require the approval of two officers.

.29 On August 16, 1991, SPC's President signed a Memorandum of Understanding (the Memorandum) with the 1987 Contractor. The Memorandum required the Contractor to undertake expansion and enhancement of its Saskatchewan factory with the full cooperation and support of SPC. The Memorandum required SPC to advance \$4.2 million to the Contractor against the 1987 contract for Unit No. 2 at the Shand Power Station. The Memorandum also provided that if SPC cancelled construction of Unit No. 2, the Contractor did not have to repay the \$4.2 million

---

---

## Chapter 27 Saskatchewan Power Corporation

---

---

advance. The advance would be considered part of the cancellation settlement in addition to the cancellation provisions set out in the 1987 contract.

**.30** SPC paid the \$4.2 million on September 27, 1991. Later, SPC deferred construction of Unit No. 2 of Shand Power Station indefinitely.

**.31** We did not find evidence the Board of Directors approved this Memorandum. Further, this Memorandum was not signed by two authorized officials. Therefore, this Memorandum was contrary to the SPC's policies.

**.32** In our opinion, SPC lacked proper authority to advance the Contractor \$4.2 million.

### We Recommend

**.33 SPC should follow its established contracting procedures.**

**.34** SPC told us it is recovering the \$4.2 million advance. It is withholding 5% from payments due to the Contractor until it can negotiate a formal agreement with the Contractor.

---

### Appointed Auditor's Reports

**.35** We relied on the appointed auditor's report on internal control.

**.36** We relied on the appointed auditor's report on SPC's financial statements, except for SPC's pension plan disclosure. We believe SPC's pension plan disclosure is inadequate.

**.37** We relied on the appointed auditor's report on compliance with authorities, except for the matters reported in paragraphs .19 to .34. Although the appointed auditor brought these matters to our attention, they took no position on whether these payments had the required authority because the matters were before the courts.

**.38** *The Provincial Auditor Act* requires us to conduct additional audit procedures when we are unable to rely on the report of an appointed auditor.

**.39** We did more work to form an opinion on the disclosure of pension plan information and obtained advice from our lawyer on the two payments without authority.

---

---

## Chapter 27 Saskatchewan Power Corporation

---

---

### NORTHERN ENTERPRISE FUND INC.

**.40** Saskatchewan Power Corporation (SPC) created The Northern Enterprise Fund Inc. (NEFI) to stimulate economic growth in northern Saskatchewan and to encourage economic independence and opportunities for northern residents. All activities of NEFI are conducted through a fund called the SaskPower Northern Enterprise Fund (SPNEF).

**.41** NEFI had revenues of \$1.1 million in 1991 and held assets of \$2.1 million at December 31, 1991.

---

#### Our Audit Findings

**.42** In our opinion, the financial statements for NEFI and SPNEF are not reliable for the reasons described in paragraphs .52 to .68. NEFI's rules and procedures to safeguard and control its assets were adequate except for the significant deficiencies reported in paragraphs .52 to .68. NEFI complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matters reported in paragraphs .69 to .74.

---

#### Problems with Access to Information

**.43** We encountered problems carrying out our responsibilities to audit NEFI and SPNEF for the year ended December 31, 1991. SPC and NEFI management believed NEFI and SPNEF were not subject to audit under *The Provincial Auditor Act*. The following sets out our findings.

**.44** In March 1989, NEFI was incorporated under *The Business Corporations Act* and was named the SaskPower Northern Enterprise Fund Inc. Its purpose was to administer the SaskPower Northern Enterprise Fund, created in 1988 by SPC. SPC made regular payments to NEFI for credit to the Fund based on electrical generation in northern Saskatchewan. NEFI had three directors: a vice-president of SPC, a lawyer engaged by SPC, and the Executive Director of NEFI hired by SPC.

**.45** In October 1990, we contacted the appointed auditor regarding the 1989 audit of NEFI and SPNEF. They indicated they did not anticipate any difficulty in meeting our requirements.

**.46** In November 1990, SaskPower obtained a legal opinion. It stated that NEFI was a Crown Agency since its shares were owned by SaskPower. Therefore NEFI was subject to an audit under *The Provincial Auditor Act* (the Act).

---

---

## Chapter 27 Saskatchewan Power Corporation

---

---

.47 Several days later, the appointed auditor told us that effective November 1, 1990, NEFI was subject to *The Non-profit Corporations Act* instead of *The Business Corporations Act*. Its new name was the Northern Enterprise Fund Inc. NEFI was now a "membership" corporation instead of a share capital corporation. The three directors of the former SaskPower Northern Enterprise Fund Inc. were appointed as the three "members" and directors of the new corporation called NEFI. At the same time, SPC and NEFI signed a contract for the administration of SPNEF. The contract was effective March 3, 1989.

.48 According to NEFI it was no longer a crown agency under *The Provincial Auditor Act* because it changed its form from a share capital corporation to a "membership" corporation. Also, according to NEFI since it was managing SPNEF under a contract effective March 3, 1989, SPNEF was not public money under *The Provincial Auditor Act*. NEFI said that after November 1, 1990, NEFI is no longer affiliated with SPC.

.49 Among other questions, we asked NEFI why the documents that create NEFI state if it ceases to exist, any remaining property belongs to SPC. NEFI then changed its enabling documents so remaining property could be given to other entities such as a federal or provincial government or an agency of those governments. We told NEFI this change did not seem to alter significantly the original terms. In response, on April 30, 1991, NEFI made a further change to the enabling documents. The documents now disallow any distribution of property to a government or government agency.

.50 In our opinion, these attempts to alter the form of the corporation did not, in substance, change the nature of its arrangement with SPC. Accordingly, it is still a Crown agency subject to *The Provincial Auditor Act*. Also, SPC continued to control NEFI by holding blank resignation forms pre-signed by its three "members".

.51 In December 1991, we contacted the appointed auditor to advise we planned to rely on their work and reports for NEFI's year ended December 31, 1991. On January 17, 1992, the official of SPC, who was also a director of NEFI, told us there was no reason for us to have any involvement with NEFI. We were unable to do our work until June 4, 1992, when another official at SPC allowed the appointed auditor to co-operate with our Office.

---

---

## Chapter 27 Saskatchewan Power Corporation

---

---

Reservation in Our Auditor's Report on NEFI

**.52** NEFI's directors say that NEFI owns and operates SPNEF; the assets and liabilities of SPNEF are the assets and liabilities of NEFI. We agree with this statement.

**.53** NEFI did not prepare a financial statement that includes all of its assets, liabilities, revenues and expenses. NEFI prepares separate financial statements for what it calls the "corporation" and the "fund". The "corporation" financial statements portray an inactive entity, with only \$100 in both cash and members' equity. The "fund" financial statements display all the financial activity of NEFI, including the receipt of revenue from SPC, investment income and expenditures for loans, investments, grants, directors' expenses, salaries and other administrative expenses.

**.54** We believe NEFI should prepare one complete financial statement that shows all of its assets, liabilities, revenues and expenses. A complete financial statement would ensure readers are aware of the full nature and extent of the financial activities of NEFI. In the past, we thought if NEFI provided readers both sets of statements together, readers would be adequately informed. However, during the year, we became aware NEFI issued its financial statements separately.

**.55** Our opinion on the financial statements of NEFI follows.

*As explained in the Note to the financial statement, the assets, liabilities, revenues and expenditures of the SaskPower Northern Enterprise Fund (SPNEF) are not included in this financial statement. The Board of NEFI delegated authority for making decisions concerning disposition of SPNEF to appointees called investment fund directors. However, management has said that NEFI owns and controls SPNEF. The Board appoints the investment fund directors and is ultimately and fully responsible for SPNEF. Had the financial statements accounted for all of NEFI's activities, every account in, and the information provided in the Note to the financial statements, would have been materially different. The financial statements of NEFI would have shown revenue of \$1.1 million in 1991 and a fund balance at December 31, 1991 of \$2.1 million.*



---

---

## Chapter 27 Saskatchewan Power Corporation

---

---

*In my opinion, because the Corporation has not accounted for the activities of the SaskPower Northern Enterprise Fund as explained in the preceding paragraph, this financial statement does not present fairly the financial position of NEFI as at December 31, 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.*

---

Problems With the Existing Audit System

**.56** We report in Chapter 4 that the present system does not effectively serve Members of the Legislative Assembly. Members and SPC do not always have our views when financial statements are made public.

**.57** Also, since our audit opinion does not accompany the financial statements, others may not be aware of our concerns.

**We Recommend**

**.58 NEFI should prepare complete financial statements that show all of its assets, liabilities, revenues and expenses.**

---

Reservation in Our Auditor's Report on SPNEF

**.59** Under generally accepted accounting principles, financial statements are to include, as a liability, an amount for contingent liabilities if they are likely to occur and if the amount can be reasonably estimated.

**.60** NEFI guarantees loans taken out by residents of northern Saskatchewan. Lenders may call upon NEFI to honour these guarantees when three payments of a loan are in default. In 1989, NEFI guaranteed \$216,000 in loans. In 1990, NEFI paid \$73,000 to lenders to cover the loan guarantees made in 1989. In 1991, NEFI paid \$46,000 to lenders to cover guarantees approved in 1990 and 1991.

**.61** At December 31, 1991, NEFI obtained status reports from lenders for all of its loan guarantees. These reports showed 19 of the 47 loans guaranteed were in arrears. However, neither NEFI nor its appointed auditor analyzed each of these loans to assess the probability of losses to NEFI.

**.62** As a result, our Office had insufficient evidence to decide if NEFI should include a further loss on these loan guarantees in its financial statements. Accordingly, we informed management

---

---

## Chapter 27 Saskatchewan Power Corporation

---

---

and the appointed auditor we were unable to rely on the work of the appointed auditor and we would be doing additional audit procedures.

.63 Our work consisted of documenting, testing and evaluating NEFI's system for loan guarantees. We also analyzed the status of individual loan guarantees, including those in arrears at December 31, 1991 and those that lenders called in 1992. We discussed our findings with management and decided \$90,000 in losses for defaulted loans should have been recorded in the 1991 financial statements.

.64 Our opinion on the financial statements of SPNEF follows.

*The amount of loans to persons in northern Saskatchewan that have been guaranteed by the Fund has increased to \$806,632 as at December 31, 1991. Several of these loans are in arrears and it is likely that the Fund will have to honour some of the guarantees it has provided. Generally accepted accounting principles require that, if it is likely that contingencies existing at the financial statement date will result in a loss, they should be accrued in the financial statements. Management has estimated that payments of \$90,000 will be required as a result of making these guarantees. However, no provision has been recorded in the financial statements to account for these losses. Had these losses been recorded, excess of revenue over expenditure and fund surplus would be reduced by \$90,000. Also, accounts payable would be increased by \$90,000.*

*In my opinion, except for the failure to record the provision for payments on loan guarantees as described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of SPNEF as at December 31, 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.*

---

---

## Chapter 27 Saskatchewan Power Corporation

---

---

Problems With the Existing Audit System

**.65** We report in Chapter 4 that the present system does not effectively serve Members of the Legislative Assembly. Members and SPC do not always have our views when financial statements are made public.

**.66** Also, since our audit report does not accompany the financial statements, others may not be aware of our concerns.

We Recommend

**.67** NEFI should prepare complete financial statements showing all of its assets, liabilities, revenues and expenses.

**.68** NEFI should annually calculate and record estimated losses for defaulted loan guarantees.

---

Investments not Permitted

**.69** *The Non-profit Corporations Act* (the Act) governs two types of corporations, charitable corporations and membership corporations.

**.70** The Act requires membership corporations to follow the investment rules for charitable corporations if they receive a grant of money or property from a government agency which exceeds 10% of their income.

**.71** The Act states a charitable corporation may invest its funds only in investments that a Trustee can legally invest its funds. Section 3 of *The Trustee Act* describes permitted investments under the Act.

**.72** NEFI receives most of its revenue from SPC, a government agency. Accordingly, NEFI is deemed a charitable corporation and can only make investments permitted by Section 3 of *The Trustee Act*.

**.73** NEFI invested funds in classes of securities that *The Trustee Act* does not allow (Bankers' Acceptances - \$395,000, Mutual Funds - \$221,000 and Equity Investments - \$105,000). Accordingly, in our opinion, NEFI has not complied with Section 28 of *The Non-profit Corporations Act*.

We Recommend

**.74** NEFI should comply with the authorities governing its activities.

---

---

## Chapter 27 Saskatchewan Power Corporation

---

---

Public Accountability .75 The financial statements for NEFI do not have to be tabled with the Legislative Assembly.

**We Recommend .76 NEFI's financial statements should be tabled with the Legislative Assembly.**

---

Appointed Auditor's Reports .77 We relied on the appointed auditor's reports on internal control. Also, we relied on the appointed auditor's report on compliance with authorities except for the matter reported in paragraphs .69 to .74. We did not rely on the appointed auditor's reports on the financial statements of NEFI and SPNEF.

.78 We do not think the financial statements of NEFI and SPNEF are appropriate. The appointed auditor accepted NEFI's and SPNEF's financial statements.

.79 *The Provincial Auditor Act* requires us to do additional audit procedures when we are unable to rely on the report of an appointed auditor.

.80 Our additional work consisted of enquiry, discussion and review of documentation held by the management of NEFI.

---

---

## Chapter 28

### Saskatchewan Water Corporation

---

---

**.01** The Corporation (SWC) manages, develops and protects the water resources of Saskatchewan.

**.02** SWC had revenue of \$30.9 million and held recorded assets of \$46.5 million at December 31, 1991. SWC's financial statements are included in its annual report.

---

#### Our Audit Findings

**.03** In our opinion, SWC's financial statements included in its annual report are reliable except for the matter reported in paragraphs .04 to .11. SWC's rules and procedures to safeguard and control its assets were adequate. SWC complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing.

---

#### Asset Write Offs Require More Disclosure

**.04** Under generally accepted accounting principles (GAAP), companies should record capital assets at the lower of depreciated cost or their expected future cash flows. Usually, these future cash flows come from a person or business not related to the companies. Companies are related when they are subject to control or significant influence by the same person.

**.05** When a company has transactions with a related party the companies may not act independently. As a result, these transactions may not be at market value. Under GAAP companies should disclose related party transactions to assist readers of a company's financial statements to understand and assess the impact of these transactions.

**.06** SWC built irrigation systems at Luck Lake and Riverhurst with money borrowed from the Consolidated Fund. The Government arranged for the Department of Agriculture to pay SWC for this system. This arrangement required the Department to obtain an annual appropriation from the Consolidated Fund to pay SWC. SWC used the money it received from the Consolidated Fund to repay the money it had previously borrowed from the Consolidated Fund. The effect of the Government's decision was to spread out the cost of these systems to the Consolidated Fund over many years. Also, the Government's planned future cash flows to SWC justified the carrying value of the irrigation system in SWC's December 31, 1990 financial statements.

---

---

## Chapter 28 Saskatchewan Water Corporation

---

---

**.07** In 1991, the Government decided to change its planned cash flows to SWC for the irrigation projects as well as for the Rafferty and Alameda dams. SWC's financial statements reported that its funding arrangements with various users would not be completed. The Government decided SWC no longer had to repay the money it owed to the Consolidated Fund. The effects of this decision are as follows:

- i) The Consolidated Fund will recognize the cost of the irrigation projects of \$55.6 million immediately instead of over many years.
- ii) The net cost of the Rafferty and Alameda dams will be paid from general taxes instead of user fees and immediately recognized as a cost of the Consolidated Fund.
- iii) In the financial statements of SWC, the costs of these assets were written off, e.g., the cost of the Rafferty and Alameda dams and the cost of the irrigation projects are no longer recorded as an asset in the financial statements of SWC.

**.08** We believe Members of the Legislative Assembly need information about transactions among Government agencies to understand and assess the effects of these transactions.

**.09** Also, we report in Chapter 2, we believe Members need information about the Government's financial plan as a whole. To understand and assess the Government's financial plan, Members need information about the planned activities of crown corporations such as SaskPower (SPC) and SWC. The information should be provided to the Assembly when the Government presents its annual budget to the Assembly for approval.

---

Related Party  
Revenues Require  
Disclosure

**.10** As stated previously, SWC should disclose related party transactions to assist readers of its financial statements understand and assess the impact of these transactions.

**.11** SWC received \$9.3 million in revenue from SPC for water rental fees. We believe SWC's financial statements should disclose this information. Management informs us that this information will be disclosed in 1992.

---

---

## Chapter 28 Saskatchewan Water Corporation

---

---

Continued Disclosure  
of Assets Written Off  
Required

**.12** In addition, the Public Sector Accounting and Auditing Board of The Canadian Institute of Chartered Accountants (PSAAB) recommends governments disclose information describing acquired physical assets on hand and available for use. This information is useful in understanding and assessing a government's management of its physical assets and its future expenses for maintenance and replacement.

**.13** We think information about the assets written off by SWC should continue to be disclosed in SWC's future financial statements. PSAAB recommends this information should be disclosed in notes or schedules to financial statements.

---

Problems with  
Existing Audit System

**.14** We report in Chapter 4 that the present audit system does not effectively serve Members of the Legislative Assembly. When the Government uses appointed auditors, Members and SWC do not have our views when financial statements are made public.

**.15** Therefore, when Members reviewed SWC's statements, they were not aware of our concerns. Also, since our report does not accompany the financial statements, others may not be aware of our concerns.

We Recommend

**.16** SWC should disclose fully related party transactions.

**.17** SWC should continue to disclose a description of its acquired physical assets in the notes to future financial statements.

**.18** In 1992, we are working with SWC and the appointed auditor to complete our work before SWC makes its financial statements public. Our experience at SWC reinforces our belief that the existing audit system needs change to ensure Members and the public know our views when financial statements are issued by the Government.

---

Appointed Auditor's  
Report

**.19** We relied on the appointed auditor's report on internal control and compliance with authorities.

**.20** We relied on the appointed auditor's report on SWC's financial statements, except for the related party disclosure.

**.21** *The Provincial Auditor Act* requires us to conduct additional

---

---

## Chapter 28 Saskatchewan Water Corporation

---

---

audit procedures when we do not rely on an appointed auditor's reports. The appointed auditor's procedures were sufficient for us to form our opinions. Therefore, we did not have to conduct additional audit procedures to discharge our responsibilities. The reporting or non-reporting of the matter in paragraphs .04 to .11 is subject to judgement.



---

---

## Appendix I

---

---

### Office of the Provincial Auditor

Mission  
Statement

We serve the public through the Legislative Assembly.

We independently examine and report on the management of public resources entrusted to the Government of Saskatchewan.

We encourage accountability and effective management in government operations.

Our Role

**.01** The role of our Office is to assist the Legislative Assembly hold the Government accountable for how it manages public money. We audit all public money entrusted to the Government and report our findings annually to the Assembly. Our responsibilities are contained in *The Provincial Auditor Act* (see Exhibit 3).

**.02** Our Office fulfils our mission and role by conducting comprehensive audits, by presenting individual audit reports to government officials, and by presenting this Annual Report to the Assembly. We also advise the all-party Standing Committees on Public Accounts and Crown Corporations.

---

Our Independence

**.03** The Provincial Auditor is an officer of the Assembly. Therefore, our Office is free from interference from the Government. We work for the Assembly. The Board of Internal Economy, a Standing Committee of the Legislative Assembly, approves our budget. We employ our own staff and buy goods and services directly. We have access to all government information. Our independence is a safeguard ensuring we can audit and report fairly, impartially and thoroughly.

---

Our Audit  
Responsibilities

**.04** We audit the administration of Government programs and activities carried out by the nearly 190 government departments, commissions, boards, health and education institutions and crown corporations. Exhibit 4 lists all of the organizations we audit.

**.05** *The Provincial Auditor Act* sets out our auditing and reporting responsibilities. Our responsibilities do not extend to

---

---

## Appendix I

---

---

Government policy matters.

**.06** Our audits are called "comprehensive audits" and have three related but distinct aspects:

- financial reporting: When we audit financial reports, we answer the question -- are the financial reports provided by the Government reliable and credible?
- compliance with the law: When we examine compliance with the law, we answer the question -- has the Government complied with the main legislative authorities governing its activities?
- management controls: When we examine management controls, we answer the questions -- how well is the Government safeguarding public assets and preparing financial reports; and, is the Government managing public funds and resources in an economical, efficient and effective manner?

**.07** Appendix IV contains examples of the professional opinions we form as a result of our "comprehensive audits". The work we carry out to provide those opinions forms the basis for this Annual Report.

**.08** We use auditing standards recommended by The Canadian Institute of Chartered Accountants.

**.09** Our Office does not evaluate the effectiveness of programs or develop standards to ensure effectiveness. These are the Government's responsibilities.

---

Role of Other  
Auditors

**.10 Internal auditors** perform audits for management. Generally, internal audits focus on management controls for safeguarding public assets, preparing financial information, and for managing finances and resources effectively. We avoid duplicating audit work by relying, where possible, on work done and on reports issued by internal auditors.

**.11 Public accounting firms.** The Government may hire private sector auditors to audit crown agencies. In these cases, we continue to be responsible for the audit. Chapter 4 explains how we carry out our responsibilities. Our Office also hires private

---

---

## Appendix I

---

---

sector auditors to audit crown agencies. Again, we remain responsible for these audits.

---

### Audit Coverage

**.12** We do "comprehensive audits" of government departments, crown agencies and crown controlled corporations. Because of our limited resources and established priorities (see Chapter 4) we did not do sufficient audit work to report on all government departments, crown agencies and crown controlled corporations.

---

### Our Reports

**.13** We report our audit findings to the Government and to the Assembly.

**.14** At the end of each audit, we prepare a draft report showing the results of the audit. We discuss the draft with senior officials of the audited organization. We revise the draft if it is not accurate. We issue a final report to the Minister responsible, senior officials of the organization and if applicable, to the chair of the board of directors of crown agencies. Also, we send a copy to the Chair and to the Secretary of Treasury Board, and to the Provincial Comptroller.

**.15** In addition, we provide audit opinions on the reliability of financial statements issued by specific government organizations. Our opinions or audit reports are provided to the Assembly.

**.16** Each year we prepare our "Annual Report". This Report contains the matters we think are important and significant to the Assembly and the public. We assess importance or significance of a matter or issue in the context of the following questions:

- does the issue affect the Assembly's ability to control the financial activities of the Government?;
- does the issue affect the Assembly's ability to hold the Government accountable for how it administers public money?;
- does the issue involve improving how the Government administers public money?; or
- does the issue involve non-compliance with legislative authorities?.

---

---

## Appendix I

---

---

We assess these questions in the context of what to report about a specific government organization as well as what to report about the Government as a whole.

**.17** This Report contains the results of our audits of government organizations for their respective fiscal years ending in the period April 1, 1991 to March 31, 1992. In addition, some matters reported reflect issues that impact the Government as a whole, and that may not have resulted from a single audit.

**.18** When, in our opinion, a government organization's financial statements, compliance with authorities and rules and procedures to safeguard assets are satisfactory we do not comment on the organization in our Annual Report.

**.19** When an appointed auditor advises our Office that a matter or issue should be reported to the Assembly, we reproduce the report of the appointed auditor in our Annual Report. Appendix II contains those reports. Appendix II also contains a list of the reports received from appointed auditors indicating nothing of significance to report to the Assembly.

---

### Our Priorities

**.20** During the past year, we reviewed and updated our 1991 strategic plan to help determine the best use of our resources and efforts. In 1991, we identified three priorities which contribute to either strengthening public accountability or improving management of public finances and resources. Our priorities are to:

- promote better financial reporting by government,
- encourage crown agencies to be more accountable to the Assembly, and
- carry out broader or more in-depth value-for-money audits.

**.21** Significant progress has been made on all three priorities. With respect to better financial reporting by government, the Government's summary financial statements for the year ended March 31, 1992 follow most recommendations of The Canadian Institute of Chartered Accountants and were released to the public in a more timely manner. Also, more crown agencies and funds follow the accounting recommendations of The Canadian Institute

---

---

## Appendix I

---

---

of Chartered Accountants.

.22 We note progress of crown agencies in becoming more accountable to the Assembly. The financial statements of more crown agencies are provided to the Assembly and are included in the Public Accounts.

.23 During the year, we completed three broader and more in-depth audits. Chapter 8 sets out the audit of annual reports of government departments. Chapter 17 sets out two value-for-money audits of the contract management system and the surface repair maintenance plan of the Department of Highways and Transportation. In general, the Government's response to these audits indicates the audits are worthwhile.

.24 Our priorities for 1992-93 are similar to those of 1991-92. We continue to plan to carry out broader and more in-depth audits of accountability and management issues and to foster stronger public accountability by crown agencies. We also plan to encourage better reporting by government in respect to both financial and operational reports.

---

### Our Organization and Resources

.25 At March 31, 1992 our Office employed 56 people of which 32 hold professional accounting designations. Our professional staff are members of the Institute of Chartered Accountants of Saskatchewan or the Society of Management Accountants of Saskatchewan. Also, we employ 18 students who are currently training to become professional accountants.

.26 During the past year, we reorganized our Office. We now have three divisions supported by an office administration group. Within each division we have an operating group and a 'speciality' group. Each of the three operating groups are assigned a program theme. The themes reflect the Government's major spending programs of health, education and finance. The 'speciality groups' are responsible for crown corporations, value-for-money and professional practice.

.27 **Operating groups.** We assign the audits of government departments and crown agencies to each operating group. The objectives of our audits focus on financial reporting, compliance with the law and value-for-money as it relates to safeguarding public assets and preparing financial reports.

---

---

## Appendix I

---

---

**.28 Crown corporations group.** We assign to this group responsibilities for the audits of those crown corporations within the influence of the Crown Investments Corporation. This group coordinates our audit activity with appointed auditors and oversees the audit of the Crown Investments Corporation.

**.29 Value-for-money group.** We are now beginning to examine the Government's systems and practices for ensuring resources are obtained economically and used efficiently and effectively. We call these audits value-for-money audits. We assign these audits to this group. As discussed in paragraph .23, during the year we completed three pilot broader scope value-for-money audits.

**.30 Professional practice group.** It is critical that our staff keep abreast of new developments and technology. Our professional practice group ensures our Office maintains a high standard of professional practice. Our auditing policies, standards and procedures are based upon standards recommended by The Canadian Institute of Chartered Accountants.

**.31** Our professional practice group also develops and maintains a staff training and development program. We base our staff development programs on a combination of required professional accounting programs, on-the-job training, participation in conferences and formal training courses. We recruit staff from the University of Regina, University of Saskatchewan, and SIAST. We have been successful in hiring quality students. During the past year, 13 students passed the examinations required to become professional accountants.

**.32** The Act requires an audit of our Office. Arscott and Partners, audits our Office and reports to the Standing Committee on Public Accounts. (See Exhibit 2).

**.33** The all-party Board of Internal Economy approved our 1991-92 budget of \$3,615,000. Exhibit 1 is our auditor's report and our statement of expenditure.

---

---

## Appendix I

---

---

### Exhibit 1

#### AUDITOR'S REPORT ON STATEMENT OF EXPENDITURES

To the Office of the Provincial Auditor

We have audited the statement of expenditures of the Office of the Provincial Auditor for the year ended 31 March 1992. This financial information is the responsibility of the management of the Office of the Provincial Auditor. Our responsibility is to express an opinion on this financial information based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

In our opinion, this statement presents fairly, in all material respects, the expenditures of the Office of the Provincial Auditor for the year ended 31 March 1992 in accordance with the disclosed basis of accounting.

17 July 1992  
Regina, Saskatchewan

ARSCOTT & PARTNERS  
Chartered Accountants

---

---

## Appendix I

---

---

**Office of the Provincial Auditor  
Statement of Expenditures  
Year Ended March 31**

	<u>1992</u> (\$ 000)	<u>1991</u> (\$ 000)
Salaries and benefits	\$2,834	\$2,329
Rent	267	260
Travel	182	149
Other	<u>332</u>	<u>310</u>
	<u>\$3,615</u>	<u>\$3,048</u>

(See Accompanying Notes)

---

**Notes to the Financial Information  
For the Year Ended March 31, 1992**

**1. Significant Accounting Policies**

**A. Basis of Accounting**

The accounts are maintained on a modified cash basis for a fiscal year commencing on April 1 and ending March 31. Revenues are recorded as received and expenditures are charged to the accounts when payment is made. In addition, receipts in the 30 days of April in respect of raised up to March 31 of the preceding fiscal year, and payments made during the 30 days of April which are for goods and services received in the preceding fiscal year are reported as expenditures of the preceding fiscal year.

**B. Classification of Financial Transactions**

Expenditure includes payments for goods and services, salaries and the acquisition of fixed assets. Fixed assets are treated as an expenditure in the year of purchase.



---

---

## Appendix I

---

---

### Exhibit 2

To the Members of the Standing Committee of the  
Legislative Assembly on Public Accounts,  
Province of Saskatchewan

We have made a study and evaluation of the system of internal control of the Provincial Auditor of Saskatchewan in effect as at 31 March 1992. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of the Provincial Auditor of Saskatchewan is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute assurance that:

- a) the accounts are faithfully and properly kept;
- b) all public money is fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;
- c) public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and
- d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In our opinion, the system of internal control of the Provincial Auditor of Saskatchewan in effect as at 31 March 1992, taken as a whole, was sufficient to meet the objectives stated above and no matters came to our attention which would require reporting under Section 12 of *The Provincial Auditor Act*.

17 July 1992  
Regina, Saskatchewan

ARSCOTT & PARTNERS  
Chartered Accountants

---

---

## Appendix I

---

---

### Exhibit 3

#### An Act respecting the Provincial Auditor and the Auditing of Certain Accounts

##### SHORT TITLE AND INTERPRETATION

1 This Act may be cited as *The Provincial Auditor Act*.

2 In this Act:

(a) "acting provincial auditor" means the acting provincial auditor appointed pursuant to section 5;

(a.1) "appointed auditor" means an auditor appointed pursuant to an Act or other authority by the Lieutenant Governor in Council or another body to examine the accounts of a Crown agency or Crown-controlled corporation or accounts otherwise related to public money;

(b) "audit" means an audit or examination of accounts of public money that may be made by the provincial auditor pursuant to this Act;

(c) "Crown" means Her Majesty the Queen in right of Saskatchewan;

(d) "Crown agency" means an association, board, commission, corporation, council, foundation, institution, organization or other body, whether incorporated or unincorporated, all the members of which or all of the board of management or board of directors of which:

(i) are appointed by an Act or by the Lieutenant Governor in Council; or

(ii) are, in the discharge of their duties, public officers or servants of the Crown;

and includes a corporation that has at least 90% of its issued and outstanding voting shares vested in the Crown;

(e) "Crown-controlled corporation" means a corporation that is not a Crown agency and that has less than 90% and more than 50% of its issued and outstanding voting shares vested in the Crown;

(f) "fiscal year" means the period commencing on April 1 in one year and ending on March 31 in the next year;

(g) "provincial auditor" means the Provincial Auditor for Saskatchewan appointed pursuant to section 3;

---

---

## Appendix I

---

---

(h) "public money" means all revenues and public moneys from whatever source arising, whether the revenues and moneys:

(i) belong to the Government of Saskatchewan; or

(ii) are collected or held by officers of the departments of the Government of Saskatchewan or Crown agencies for, on account of or in trust for the Government of Canada or the government of any other province or for any other party or person;

and includes public property;

(i) "public property" means property held or administered by the Crown.

### APPOINTMENT AND OFFICE

3(1) After consultation with the Chairman of the Standing Committee of the Legislative Assembly on Public Accounts, the Lieutenant Governor in Council shall appoint a person as the Provincial Auditor for Saskatchewan.

(2) The provincial auditor is an officer of the Legislative Assembly and holds office during good behaviour.

(3) Repealed.

(4) The provincial auditor may resign his office at any time by forwarding a written notice addressed to:

(a) the Speaker; or

(b) where there is no Speaker or the Speaker is absent from Saskatchewan, the President of the Executive Council.

(5) The Lieutenant Governor in Council may suspend or remove the provincial auditor from office only for cause and on the address of the Legislative Assembly.

4(1) Subject to subsection (2), the provincial auditor is to be paid a salary equal to the average salary of all the deputy ministers and acting deputy ministers of the Government of Saskatchewan calculated as at April 1 in each year.

(2) Where, as a result of a calculation made pursuant to subsection (1), the provincial auditor's salary would be less than his previous salary, he is to be paid not less than his previous salary.

(3) The provincial auditor is entitled to receive any privileges of office and economic adjustments

---

---

## Appendix I

---

---

that are provided to deputy ministers.

(4) The provincial auditor's salary is a charge on the consolidated fund.

5(1) The provincial auditor may appoint an employee of his office as acting provincial auditor.

(2) Where the position of provincial auditor is vacant and there is no acting provincial auditor, the Lieutenant Governor in Council may appoint a person as acting provincial auditor who is to hold office until an acting provincial auditor is appointed pursuant to subsection (1).

(3) Where the position of provincial auditor is vacant or the provincial auditor is absent or unable to perform his duties due to illness or other disability, the acting provincial auditor has all the powers and shall exercise all the duties of the provincial auditor.

6 No person is eligible to be appointed as provincial auditor or as acting provincial auditor unless he is a member in good standing of the Institute of Chartered Accountants of Saskatchewan.

7 For the purposes of exercising any of the powers or carrying out any of the duties imposed upon him by this Act, the provincial auditor may engage the services of or retain any technical, professional or other advisors, specialists or consultants that he considers necessary.

8(1) The provincial auditor may employ any persons that he considers necessary to assist him in carrying out his duties and fulfilling his responsibilities under this Act.

(2) Employees of the office of the provincial auditor are employees of the Legislative Assembly and are not members of the public service of Saskatchewan.

(3) The disability income plan, the public employees dental plan and the group insurance plan applicable to the public servants of Saskatchewan and any plan introduced to replace or substitute for those plans apply or continue to apply, as the case may be, to the provincial auditor and the employees of the office of the provincial auditor.

(4) *The Public Service Superannuation Act* and *The Superannuation (Supplementary Provisions) Act* apply to the provincial auditor and the permanent and full-time employees of the office of the provincial auditor, and all credits in any superannuation plan or funds established pursuant to those Acts for the provincial auditor and the employees of the office of the provincial auditor and accumulated under those Acts, prior to the coming into force of this section, are preserved and continued in accordance with those Acts.

(5) The provincial auditor shall administer, manage and control the office of the provincial auditor and the general business of the office and shall oversee and direct the staff of the office.

9 The provincial auditor shall require every person employed in his office who is to examine the accounts of a department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation pursuant to this Act to comply with any security requirements applicable to, and to take any

---

---

## Appendix I

---

---

oath of secrecy required to be taken by, persons employed in that department, Crown agency or Crown-controlled corporation.

10 The provincial auditor may delegate to any member of his office the authority to exercise any power or to perform any duty conferred on him pursuant to this Act, other than the duty to make his annual report or a special report to the Legislative Assembly.

### DUTIES AND POWERS

11(1) The provincial auditor is the auditor of the accounts of the Government of Saskatchewan and shall examine all accounts related to public money and any accounts not related to public money that he is required by an Act to examine, and shall determine whether, in his opinion:

- (a) the accounts have been faithfully and properly kept;
- (b) public money has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;
- (c) public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and
- (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money.

(2) An appointed auditor is subject to the examination responsibilities prescribed in clauses (1)(a) to (d).

(3) For the purposes of this section, where an auditor, including an appointed auditor, is required to examine accounts and render an opinion on those accounts, he shall do so in accordance with generally accepted auditing standards as prescribed from time to time by the Canadian Institute of Chartered Accountants.

11.1(1) In the fulfillment of his responsibilities as the auditor of the accounts of the Government of Saskatchewan, the provincial auditor may rely on the report of the appointed auditor of a Crown agency or Crown-controlled corporation if he is satisfied that the appointed auditor has carried out his responsibilities pursuant to section 11 with respect to that Crown agency or Crown-controlled corporation.

(2) Where the provincial auditor determines pursuant to subsection (1) that he is unable to rely on the report of the appointed auditor with respect to a Crown agency or Crown-controlled corporation, the provincial auditor shall conduct additional audit work with respect to the accounts of that Crown agency or Crown-controlled corporation.

---

---

## Appendix I

---

---

(3) Where the provincial auditor has performed additional audit work on the accounts of a Crown agency or Crown-controlled corporation pursuant to subsection (2), he shall report in his annual report pursuant to this section:

- (a) the reason that he was unable to rely on the report of the appointed auditor of the Crown agency or Crown-controlled corporation;
- (b) the nature of the additional audit work he conducted; and
- (c) the results of the additional audit work.

12(1) At the end of each fiscal year, the provincial auditor and every appointed auditor shall prepare a report on the results of all examinations that they have conducted of departments of the Government of Saskatchewan, Crown agencies and Crown-controlled corporations during that year giving details of any reservations of opinion made in an audit report, and shall identify any instances they consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly, including any cases in which they observe:

- (a) any officer or employee of a department of the Government of Saskatchewan or Crown agency has wilfully or negligently omitted to collect or receive any public money belonging to the Crown;
- (b) any public money was not duly accounted for and paid into the appropriate fund;
- (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;
- (d) an expenditure was made for which there was no authority or which was not properly vouchered or certified;
- (e) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person;
- (f) a special warrant authorized the payment of public money; or
- (g) essential records were not maintained or the rules and procedures applied were not sufficient:
  - (i) to safeguard and control public money;
  - (ii) to effectively check the assessment, collection and proper allocation of public money; or
  - (iii) to ensure that expenditures were made only as authorized.

---

---

## Appendix I

---

---

(1.1) On completion of any examination of the accounts of a Crown agency or Crown-controlled corporation, an appointed auditor shall submit to the provincial auditor the report prepared pursuant to subsection (1) with respect to that Crown agency or Crown-controlled corporation.

(1.2) At the end of each fiscal year, the provincial auditor shall compile the reports submitted to him by appointed auditors pursuant to subsection (1.1) and shall submit them together with his report prepared pursuant to this section in the form of an annual report to the Legislative Assembly.

(2) In the annual return made pursuant to subsection (1), the provincial auditor may:

(a) report on the work of his office and on whether, in carrying on the work of his office, he received all the information, reports and explanations he required from departments of the Government of Saskatchewan, Crown agencies or Crown-controlled corporations or their auditors; and

(b) comment on the financial statements of any department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation of which he is the auditor.

(3) Notwithstanding subsection (1), neither the provincial auditor nor any appointed auditor is required to report to the Legislative Assembly on any matter that he considers immaterial or insignificant.

13 The provincial auditor may prepare a special report to the Legislative Assembly on any matter that is, in his opinion, important or urgent.

14 Notwithstanding *The Tabling of Documents Act*:

(a) the provincial auditor shall submit to the Speaker, as soon as is practicable, his annual report prepared pursuant to section 12 and any special report that is prepared by him pursuant to section 13; and

(b) the Speaker shall, as soon as practicable, lay before the Legislative Assembly each report received by him pursuant to clause (a).

15(1) The provincial auditor or the appointed auditor, as the case may be, shall express an opinion, in accordance with the outcome of his examinations, on the financial statements of:

(a) any funds that he is required to audit pursuant to subsection 11(1);

(b) Crown agencies;

(c) Crown-controlled corporations; and

(d) accounts not related to public money that are, by an Act, required to be examined by him.

---

---

## Appendix I

---

---

(2) Notwithstanding any other provision of this Act, the provincial auditor is not required to audit or report on the financial statements of a Crown agency or Crown-controlled corporation for which there is an appointed auditor.

16(1) Where:

(a) the Legislative Assembly or the Standing Committee of the Legislative Assembly on Public Accounts:

(i) requests the provincial auditor to perform a special assignment; and

(ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and

(b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor shall perform the special assignment.

(2) Notwithstanding *The Tabling of Documents Act*:

(a) the provincial auditor shall submit to the Speaker, as soon as is practicable, the report of any special assignment prepared pursuant to subsection (1) on the request of the Legislative Assembly; and

(b) the Speaker shall, as soon as is practicable, lay before the Legislative Assembly each report received by him pursuant to clause (a).

(3) The provincial auditor shall submit to the Clerk of the Assembly a special report prepared pursuant to subsection (1) on the request of the Standing Committee of the Legislative Assembly on Public Accounts, and the clerk shall make the special report available to the members of that committee.

(4) Where:

(a) the Lieutenant Governor in Council:

(i) requests the provincial auditor to perform a special assignment; and

(ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and

(b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act,

the provincial auditor may perform the special assignment.



---

---

## Appendix I

---

---

(5) The provincial auditor shall submit, as soon as is practicable, a special report prepared pursuant to subsection (4) to the Lieutenant Governor in Council.

17 Whenever, in the opinion of the provincial auditor or another auditor who is appointed to undertake an audit of Crown agencies or Crown-controlled corporations, any public money or revenues or money collected or held by employees of Crown-controlled corporations have been improperly retained by any person, the provincial auditor or the other auditor, as the case may be, shall immediately report the circumstances of that case to the member of the Executive Council who is responsible for the department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation and the Minister of Finance.

18 The provincial auditor shall:

- (a) cause to be examined debentures and other securities of the Government of Saskatchewan that have been redeemed;
- (b) assure himself that the securities described in clause (a) have been properly cancelled; and
- (c) at any time and to any extent that the Minister of Finance may require, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities.

19 On the request of the Standing Committee of the Legislative Assembly on Public Accounts, the provincial auditor and any member of his office shall attend meetings of that committee to assist that committee:

- (a) in planning the agenda for its review of the public accounts, the annual report of the provincial auditor, a special report prepared pursuant to section 13 or a report prepared pursuant to subsection 16(1) on the request of the committee; and
- (b) during its review of the items described in clause (a).

### AUDIT COMMITTEE

20(1) An audit committee, composed of not more than five persons appointed by the Lieutenant Governor in Council, is established.

(2) No Member of the Legislative Assembly is eligible to be a member of the audit committee.

(3) The Lieutenant Governor in Council shall designate one member of the audit committee as chairman.

(4) The audit committee may determine its rules of procedure.

---

---

## Appendix I

---

---

21 On the request of the provincial auditor or the Minister of Finance, the chairman of the audit committee shall call a meeting of the audit committee to review any matter that, in the opinion of the provincial auditor or the Minister of Finance, as the case may be, should be considered by the committee.

22 The provincial auditor may give the audit committee any information that he considers appropriate to enable the audit committee to advise the Lieutenant Governor in Council on the result of any audit or examination made by him.

23 The provincial auditor shall present to the audit committee:

- (a) his annual report; and
- (b) any special report prepared pursuant to section 13;

before he submits the report to the Speaker.

### GENERAL

24(1) The provincial auditor or the appointed auditor, as the case may be, is entitled:

- (a) to free access, at all convenient times, to:
  - (i) all electronic data processing equipment and programs and documentation related to the electronic data processing equipment; and
  - (ii) all files, documents and other records relating to the accounts;

of every department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or other person that he is required to examine or audit or, in the case of the provincial auditor, with respect to which he is examining pursuant to a special assignment; and

- (b) to require and receive from employees of a department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or other person subject to examination or audit by him any information, reports and explanations that he considers necessary for the proper performance of his duties.

(2) The provincial auditor or an appointed auditor, as the case may be, may station in any department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or with any other person subject to examination or audit by him any employee of his office or advisor, specialist or consultant to enable him more effectively to carry out his duties, and the department, Crown agency, Crown-controlled corporation or other person subject to examination or audit shall provide the necessary office accommodation for the employee, advisor, specialist or consultant person so stationed.

---

---

## Appendix I

---

---

25 The provincial auditor may examine any person or any matter relating to any account that is subject to an examination or audit by him, and, for the purposes of that examination, he may exercise all the powers of commissioners under *The Public Inquiries Act*.

26 Neither the provincial auditor nor any appointed auditor is required to lay any audit working papers of his office before the Legislative Assembly or any committee of the Legislature.

26.1 Where the auditor of a Crown agency or Crown-controlled corporation has been changed, the new auditor and the previous auditor shall deal with the transition in accordance with the rules of professional conduct as established from time to time by the Institute of Chartered Accountants of Saskatchewan.

27(1) An accountant, who is:

- (a) a member in good standing of the Institute of Chartered Accountants of Saskatchewan;
- (b) not employed by a department of the Government of Saskatchewan, a Crown agency, a Crown-controlled corporation or the office of the provincial auditor; and
- (c) appointed by the Lieutenant Governor in Council;

shall audit the accounts of the office of the provincial auditor.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the office of the provincial auditor that the provincial auditor has or performs in relation to an audit performed pursuant to this Act.

(3) The auditor of the office of the provincial auditor shall submit his report to the Standing Committee of the Legislative Assembly on Public Accounts.

28 The provincial auditor may charge a reasonable fee for professional services provided by his office.

29 The provincial auditor, the employees in his office and any advisor, specialist or consultant engaged pursuant to section 7 are not liable in any action for any act done or not done or on any statement made by them in good faith in connection with any matter they are authorized or required to do under this Act.

30 The provincial auditor, any employee in his office, an appointed auditor, any employee of an appointed auditor or any advisor, specialist or consultant engaged pursuant to section 7:

- (a) shall preserve secrecy with respect to all matters that come to his knowledge in the course of his employment or duties under this Act, and
- (b) shall not communicate those matters to any person, other than when he is required to

---

---

## Appendix I

---

---

do so in connection with:

- (i) the administration of this Act;
- (ii) any proceedings under this Act; or
- (iii) any proceedings in a court of law.

31 Subject to subsection 4(4), any sums required by the provincial auditor for the purposes of this Act are to be paid from moneys appropriated by the Legislature for the purpose.

32(1) The person appointed on the day before the coming into force of this section as provincial auditor pursuant to *The Department of Finance Act*, as that Act existed on the day before the coming into force of this Act, is deemed to be appointed as provincial auditor pursuant to this Act.

(2) On the day this section comes into force, the members of the public service who are employed in the office of the provincial auditor cease to be employed in the public service and each such person becomes an employee of the office of the provincial auditor at a salary of not less than that he was receiving on the day before the day this section comes into force.

---

---

## Appendix I

---

---

### Exhibit 4

Exhibit 4 lists the departments, crown agencies, crown controlled corporations, special purpose and trust funds, offices of the Legislative Assembly and other organizations subject to an audit examination under *The Provincial Auditor Act* at March 31, 1992.

#### Departments and Secretariats:

Department of Agriculture and Food  
Department of Community Services  
Department of Economic Diversification and Trade  
Department of Education  
Department of Energy and Mines  
Department of Environment and Public Safety  
Department of Finance  
Department of Health  
Department of Highways and Transportation  
Department of Human Resources, Labour and Employment  
Department of Justice  
Department of Parks and Renewable Resources  
Department of Rural Development  
Department of Social Services  
Executive Council  
Family Foundation  
Indian and Metis Affairs Secretariat  
Public Service Commission  
Seniors' Secretariat  
Women's Secretariat

#### Crown Agencies:

582099 Saskatchewan Ltd.  
586643 Saskatchewan Ltd.  
Agricultural Credit Corporation of Saskatchewan  
Agricultural Implements Board  
Agriculture Development Fund  
Board of Governors, Battlefords Regional Care Centre  
Board of Governors, Lakeside Home  
Board of Governors, Parkridge Centre  
Board of Governors, Whitespruce Youth Treatment Centre  
Carlton Trail Regional College  
CIC Industrial Interests Inc.  
CIC Mineral Interests Corporation  
CIC Pulp Ltd.  
CMB Fertilizer Inc.

---

---

## Appendix I

---

---

### Crown Agencies (continued):

Crown Investments Corporation of Saskatchewan (CIC)  
Cumberland Regional College  
Cypress Hills Regional College  
Hospital Laundry Services of Regina  
Investment Corporation of Saskatchewan  
La Ronge Hospital Board  
Law Reform Commission of Saskatchewan  
Liquor Licensing Commission  
Milk Control Board  
Municipal Employees' Superannuation Commission  
Municipal Financing Corporation of Saskatchewan  
Municipal Potash Tax Sharing Administration Board  
New Careers Corporation  
North West Regional College  
Northern Enterprise Fund Inc (formerly SaskPower Northern Enterprise Fund Inc.)  
Northern Forest Operations Ltd.  
Northlands College  
Nu-Net Communications Limited  
Palliser Regional Care Centre  
Parkland Regional Care Centre  
Parkland Regional College  
Power Greenhouses Inc.  
Prairie Agricultural Machinery Institute  
Prairie West Regional College  
Provincial Mediation Board  
Regina General Hospital  
Regina Health Board  
RT and CC Investment Corporation  
Royal University Hospital  
SP Two Properties Ltd.  
Saskatchewan Alcohol and Drug Abuse Commission  
Saskatchewan Arts Board  
Saskatchewan Assessment Management Agency  
Saskatchewan Auto Fund  
Saskatchewan Beef Stabilization Board  
Saskatchewan Cancer Foundation  
Saskatchewan Canola Development Commission  
Saskatchewan Centre of the Arts  
Saskatchewan Communications Advanced Network Corporation  
Saskatchewan Computer Utility Corporation  
Saskatchewan Crop Insurance Corporation  
Saskatchewan Development Fund Corporation  
Saskatchewan Diversification Corporation

---

---

## Appendix I

---

---

### Crown Agencies (continued):

Saskatchewan Economic Development Corporation  
Saskatchewan Energy Conservation and Development Authority  
Saskatchewan Energy Holdings Ltd.  
Saskatchewan Forest Products Corporation  
Saskatchewan Gaming Commission  
Saskatchewan Government Growth Fund Limited  
Saskatchewan Government Growth Fund Management Corporation  
Saskatchewan Government Insurance  
Saskatchewan Grain Car Corporation  
Saskatchewan Health Research Board  
Saskatchewan Horse Racing Commission  
Saskatchewan Housing Corporation  
Saskatchewan Indian Regional College  
Saskatchewan Institute of Applied Science and Technology  
Saskatchewan Legal Aid Commission  
Saskatchewan Liquor Board  
Saskatchewan Mining Development Corporation  
Saskatchewan Municipal Board  
Saskatchewan Power Corporation  
Saskatchewan Property Management Corporation  
Saskatchewan Research Council  
Saskatchewan Sheep Development Board  
Saskatchewan Telecommunications  
Saskatchewan Telecommunications International Inc.  
Saskatchewan Transportation Company  
Saskatchewan Vegetable Marketing and Development Board  
Saskatchewan Water Corporation  
Saskatchewan Wetland Conservation Corporation  
Saskatoon Health Board  
Saskatoon Health Services Authority  
SaskEnergy Incorporated  
SaskPen Properties Ltd.  
Souris Basin Development Authority  
Souris Valley Regional Care Centre  
South Saskatchewan Hospital Centre, The  
South Saskatchewan River Irrigation District No. 1  
Southeast Regional College  
SPI Marketing Group  
St. Louis Alcoholism Rehabilitation Centre  
Teachers' Superannuation Commission  
TransGas Limited  
Tripartite Beef Administration Board  
Wanuskewin Heritage Park Corporation

---

---

## Appendix I

---

---

### Crown Agencies (continued):

Wascana Rehabilitation Centre  
Water Appeal Board  
Westank Industries Ltd.  
Westbridge Computer Corporation  
Western Development Museum  
Workers' Compensation Board

### Special Purpose and Trust Funds:

Agriculture Development Fund  
Anti-Tuberculosis League Employees Superannuation Plan  
Assurance Fund  
Capital Pension Plan Inc. (formerly Crown Investments Corporation Pension Plan)  
Cattle Marketing Deductions Fund  
Commercial Revolving Fund  
Consolidated Fund  
Correctional Facilities Industries Revolving Fund  
Correspondence School Revolving Fund  
Crop Reinsurance Fund of Saskatchewan  
Department of Justice Victims' Fund  
Doukhobors of Canada C.C.U.B. Trust Fund  
Farm Purchase Program Fund  
Fish and Wildlife Development Fund  
Forest Renewal and Development Fund  
Highways Revolving Fund  
Horned Cattle Fund  
Judges of the Provincial Court Superannuation Plan  
Members of the Legislative Assembly Superannuation Plan  
Market Development Fund  
Northern Revenue Sharing Trust Account  
Northern Saskatchewan Economic Development Revolving Fund  
Oil and Gas Environmental Fund  
Power Corporation Superannuation Fund  
Prepaid Funeral Services Assurance Fund  
Provincial Mediation Board Trust Account  
Public Employees Benefit Agency Revolving Fund  
Public Employees Dental Fund  
Public Employees Disability Income Fund  
Public Employees Government (Contributory Annuity) Fund  
Public Employees Group Life Insurance Fund  
Public Employees (Government Contribution) Superannuation Plan  
Public Service Superannuation Board  
Queen's Printer Revolving Fund



---

---

## Appendix I

---

---

### Special Purpose and Trust Funds (continued):

Resource Protection and Development Revolving Fund  
Saskatchewan Agriculture Returns Stabilization Fund  
Saskatchewan Book Bureau Revolving Fund  
Saskatchewan Development Fund  
Saskatchewan Government Insurance Superannuation Fund  
Saskatchewan Heritage Foundation  
Saskatchewan Heritage Fund  
Saskatchewan Liquor Board Superannuation Plan  
Saskatchewan Pension Plan  
Saskatchewan Prescription Drug Fund  
Saskatchewan Research Council Employees' Pension Plan  
Saskatchewan Student Aid Fund  
Saskatchewan Telecommunications Superannuation Fund  
Saskatchewan Transportation Company Employees Superannuation Plan  
The Environmental Protection Fund  
Workmen's Compensation Board Superannuation Fund

### Other Organizations subject to examination under *The Provincial Auditor Act*:

Clinic Trust Funds  
Legislative Assembly Office  
Legislative Library  
Ombudsman, Office of the  
Provincial Auditor, Office of the  
Saskatchewan Archives Board  
University of Regina, The  
University of Saskatchewan, The

---

---

## Appendix II

---

---

### Reports of Appointed Auditors - Part I

The following is a list of Crown agencies where the appointed auditors' reports indicated there was nothing of significance to report in accordance with Section 12 of *The Provincial Auditor Act*. As mentioned in Appendix I, the contents of these reports have not been reproduced.

We have reported earlier where we have determined that we were unable to rely on the reports of the appointed auditors.

#### Crown Agency

#### Appointed Auditor

Agriculture Development Fund	Horachek Cannam Joa
Carlton Trail Regional College	E.J.C. Dudley & Co.
CIC Mineral Interests Corporation	Ernst & Young
Cypress Hills Regional College	Stark & Company
Municipal Financing Corporation of Saskatchewan	E.J.C. Dudley & Co.
Northern Enterprise Fund Inc.	Ernst & Young
Northern Forest Operations Ltd.	Price Waterhouse
NorthWest Regional College	Downie Meena Johnson
	Gress Holm & Svenkeson
Parkland Regional College	Skilnick & Partners
Power Corporation Superannuation Fund	Ernst & Young
Prairie West Regional College	Gilchrist & Co.
Saskatchewan Communications Network Corporation	Coopers & Lybrand
Saskatchewan Crop Insurance Corporation	Peat Marwick Thorne
Saskatchewan Development Fund	Arcscott & Partners
Saskatchewan Development Fund Corporation	Arcscott & Partners
Saskatchewan Energy Holdings Ltd.	Ernst & Young
SaskEnergy Incorporated	Ernst & Young
Saskatchewan Government Insurance	Coopers & Lybrand
Saskatchewan Government Insurance Superannuation Fund	Coopers & Lybrand
Saskatchewan Grain Car Corporation	Skilnick & Partners
Saskatchewan Housing Corporation	Peat Marwick Thorne
Saskatchewan Institute of Applied Science and Technology	Deloitte & Touche
Saskatchewan Liquor Board and Liquor Licensing Commission	Deloitte & Touche
Saskatchewan Mining Development Corporation	Ernst & Young
Saskatchewan Pension Plan	Ernst & Young
Saskatchewan Telecommunications Superannuation Fund (December 1990)	Deloitte & Touche
Saskatchewan Water Corporation	Peat Marwick Thorne
Saskatchewan Wetland Conservation Corporation	Price Waterhouse
Saskatoon Health Services Authority	Price Waterhouse
SaskPower Northern Enterprise Fund	Ernst & Young

---

---

## Appendix II

---

---

### Crown Agency

### Appointed Auditor

Souris Basin Development Authority	Matchett Potts & Seipp
TransGas Limited	Ernst & Young
Westbridge Computer Corporation (March 1991)	Peat Marwick Thorne
Workers' Compensation Board	Peat Marwick Thorne
Workmen's Compensation Board Superannuation Fund (December 1990 and 1991)	Peat Marwick Thorne

### Reports of Appointed Auditors - Part II

Where the appointed auditors' reports indicated there were matters to be reported in accordance with Section 12 of *The Provincial Auditor Act*, the contents of these reports are reproduced in this Part.

We have reported earlier where we have determined that we were unable to rely on the reports of the appointed auditors.

The contents of the following reports are included:

	<u>Page</u>
Agricultural Credit Corporation of Saskatchewan (March 1992)	263
Cumberland Regional College (June 1991)	266
Northlands College (June 1991)	267
Saskatchewan Auto Fund (December 1991)	269
Saskatchewan Crop Insurance Corporation (March 1991)	270
Saskatchewan Forest Products Corporation (October 1991)	270
Saskatchewan Indian Regional College (June 1991)	271
Saskatchewan Power Corporation (December 1991)	273
Southeast Regional College (June 1991)	274

---

---

## Appendix II

---

---

### AGRICULTURAL CREDIT CORPORATION OF SASKATCHEWAN YEAR ENDED MARCH 31, 1992

We have made a study and evaluation of the system of internal control of Agricultural Credit Corporation of Saskatchewan in effect as at March 31, 1992. We did not study and evaluate certain aspects of internal control concerning the effectiveness, economy and efficiency of certain management decision-making processes. The criteria for this study and evaluation consisted of the control environment and control systems described in the Canadian Institute of Chartered Accountants Handbook.

Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of Agricultural Credit Corporation of Saskatchewan is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that:

- (a) the accounts are faithfully and property kept to permit the preparation of financial statements in accordance with generally accepted accounting principles;
- (b) all public money is fully accounted for and property disposed of, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;
- (c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and
- (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation disclosed the following conditions in the system of internal control of the Agricultural Credit Corporation of Saskatchewan as at March 31, 1992 which in our opinion, based upon the above criteria, resulted in more than a relatively low risk that errors or fraud, in amounts that would be material in relation to the corporation, may occur and not be detected within a timely period.

---

---

## Appendix II

---

---

### Computer environment controls

The corporation has not documented and tested a disaster recovery plan for its computerized operations. In the event of a disaster, the corporation may find it difficult to recover in a timely manner.

The corporation will be working toward developing a disaster recovery plan in the near future.

### Processing of Amended Loan Agreements

Several instances were noted in the capital loan program where amendments per Amended Loan Agreements were not processed to client loan accounts effective the date the changes were to occur. In situations where the client's interest rate had changed, this resulted in incorrect interest charges until the amendments were processed.

Subsequent to year end, the corporation's management has addressed this situation and all previously processed Amended Loan Agreements will be reviewed and appropriate action will be taken.

Price Waterhouse  
May 29, 1992

### AGRICULTURAL CREDIT CORPORATION OF SASKATCHEWAN YEAR ENDED MARCH 31, 1992

We have made an examination to determine whether Agricultural Credit Corporation of Saskatchewan complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended March 31, 1992:

- The Agricultural Credit Corporation of Saskatchewan Act
- The Agricultural Credit Corporation of Saskatchewan Amendment Act, 1989
- The Agricultural Credit Corporation of Saskatchewan Regulations, 1989
- The Financial Administration Act
- The Department of Revenue and Financial Services Act, 1988
- The Interpretation Act

Our examination was made in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, Agricultural Credit Corporation of Saskatchewan has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended March 31, 1992. There are, however, a couple of matters which we believe should be brought

---

---

## Appendix II

---

---

to your attention.

### **Capital loan allowance fee**

The corporation continues to charge borrowers a 2% fee on all new disbursement capital loans approved after October 1987. The corporation's management believes that section 10(2) of the Agricultural Credit Corporation of Saskatchewan Act provides the corporation broad powers, including the authority to charge the 2% fee. The corporation's position is supported by the opinion of its legal counsel and by the conclusion of the Saskatchewan Justice Department.

Based upon our review of the relevant legislation, the opinion of the corporation's legal counsel and the conclusions of the Saskatchewan Justice Department, we also continue to be of the opinion that the corporation has the legislative authority to charge the capital loan allowance fee.

We understand you are of the opinion that the corporation acted beyond its authority when it began charging the 2% fee on all capital loans approved after October 1987 and that in your opinion the fee increases the effective rate of interest charged. We understand that your position is also supported by legal advice.

We acknowledge that the reporting of this matter is subject to professional judgement.

### **Interest rate charged on production loans**

Pursuant to sections 43(3) and 49(2) of the Agricultural Credit Corporation of Saskatchewan Regulations, 1989, the annual interest rate to be charged on production loans which have not been repaid on the due date, together with accrued interest, is not to be: (a) less than 9.75%; and (b) greater than the Bank of Montreal prime annual lending rate, from time to time, plus 2%. For the period from January 30, 1992 to March 10, 1992, the Bank of Montreal prime rate plus 2% was less than 9.75%. In this specific situation, it is impossible to satisfy these regulations as they are currently worded.

As well, production loan agreements do not reflect the regulations whereby the annual interest rate on the delinquent portion of loans is not to be less than 9.75%. The loan agreements only refer to the Bank of Montreal prime rate plus 2%. Since the corporation must abide by the terms of the loan agreements, the corporation charged production loan clients the Bank of Montreal prime rate plus 2%. This rate is consistent with the regulations as they pertain to other loan programs under the corporation's authority.

The corporation's management has initiated a process to amend the regulations to allow for this situation, should it reoccur, in future years.

Price Waterhouse  
May 29, 1992

---

---

## Appendix II

---

---

### CUMBERLAND REGIONAL COLLEGE YEAR ENDED JUNE 30, 1991

We have made a study and evaluation of the system of internal control of Cumberland Regional College, in effect as at June 30, 1991. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The management of Cumberland Regional College is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related cost of control procedures. Pursuant to your responsibilities under Section 11(l) of the Provincial Auditor Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance, that:

- (a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;
- (b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;
- (c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and
- (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation disclosed the following condition in the system of internal control of Cumberland Regional College as at June 30, 1991, which, in our opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to Cumberland Regional College may occur and not be detected within a timely period.

During the year, Cumberland Regional College changed the way it pays its employees. All payroll is deposited directly to the employees' bank accounts. The accounting clerk advises the College's financial institution how much should be transferred to various institutions and to which accounts in those institutions. The Director of Administration reviews the payroll register but does not review the information prepared by the accounting clerk provided to the College's financial institution. Furthermore, the bank reconciliation is prepared by the same accounting clerk and is not reviewed by

---

---

## Appendix II

---

---

the Director of Administration.

This condition could result in payroll being altered without proper authorization. This condition was due to a lack of appropriate procedures rather than non-compliance with existing procedures.

Subsequently, we have been advised by Cumberland Regional College officials that this condition has been rectified through implementation of appropriate control procedures.

Armstrong & Neumann  
May 31, 1992

### **NORTHLANDS COLLEGE YEAR ENDED JUNE 30, 1991**

We have made a study and evaluation of the system of internal control of Northlands College in effect as at June 30, 1991. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The Management of Northlands College is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(l) of The Provincial Auditor Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute, assurance that:

- a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;
- b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;
- c) transactions are executed in accordance with management's authorization, public money expended is applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and
- d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.



---

---

## Appendix II

---

---

Because of the inherent limitation in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation disclosed the following conditions in the system of internal control of Northlands College as at June 30, 1991 which in our opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to Northlands College may occur and not be detected within a timely period:

Accounts receivable accounts for programs are not monitored and reconciled on a monthly basis. Accounts receivable are recorded for all amounts invoiced, however, the receipt of monies from the funding agencies is not reconciled to the actual amounts recorded as receivable resulting in unreconciled balances appearing in the general ledger accounts. In preparing annual financial statements significant adjustments are required to these accounts. While reliable information is available for use in preparation of the financial statements, the accounts are not properly kept to allow for preparation of reliable financial statements on a timely basis.

The above weakness is a result of the absence of control procedures as opposed to non-compliance with control procedures.

This weakness could result in accounts receivable not being followed up in a timely manner which could result in inappropriate or incorrect information being provided to the Board of Directors for decision making.

Reconciliations of bank accounts were not prepared on a timely basis during the year and as such, their effectiveness as a control is greatly diminished. While these reconciliations were prepared, delays in their preparation meant that reliable financial information was not available on a timely basis for proper management of the college's resources.

The above weakness is a result of the non-compliance with control procedures as opposed to the absence of control procedures.

This weakness could result in errors or adjustments effecting the bank accounts not being identified and followed up on a timely basis which could result in inappropriate or incorrect information being provided to the Board of Directors for decision making.

Moline & Currie  
December 19, 1991

---

---

## Appendix II

---

---

### SASKATCHEWAN AUTO FUND YEAR ENDED DECEMBER 31, 1991

We have made an examination to determine whether Saskatchewan Auto Fund complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended December 31, 1991:

- a) Section 92(1) of the Automobile Accident Insurance Act;
- b) Section 94 of the Automobile Accident Insurance Act;
- c) Section 81 of the Automobile Accident Insurance Act;
- d) Section 91 of the Automobile Accident Insurance Act.

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

During the course of our examinations, we found the following:

- 1) On July 1, 1991, Saskatchewan Auto Fund implemented the Two Payment Plan. The Plan offers a two instalment payment option to owners of cars and trucks registered in the private or farm classification. The required legislative changes allowing Saskatchewan Auto Fund to operate this Plan had not been made and, in our opinion, Saskatchewan Auto Fund was not operating within its powers under the Automobile Accident Insurance Act.
- 2) Saskatchewan Auto Fund has a real estate investment of \$950,000 for which title is held in the name of #598704 Saskatchewan Ltd., a 100% owned subsidiary of Saskatchewan Auto Fund. In the opinion of independent legal counsel, the arrangements that have been made (resulting in investments not being in the name of Saskatchewan Government Insurance as administrator of Saskatchewan Auto Fund) are permitted by the Act. Legal counsel for the Provincial Auditor has expressed a contrary view. This is a legal issue on which differing legal views exist. In these circumstances we are unable to determine whether Saskatchewan Auto Fund had appropriate legislative authority for this investment.

In our opinion, except for the matters described in the preceding paragraphs, Saskatchewan Auto Fund has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended December 31, 1991.

Coopers & Lybrand  
April 30, 1992 except as to item 2 which is as of May 21, 1992

---

---

## Appendix II

---

---

### **SASKATCHEWAN CROP INSURANCE CORPORATION YEAR ENDED MARCH 31, 1991**

We are the appointed auditors of the Saskatchewan Crop Insurance Corporation ("the Corporation") and have reported without reservation on the Corporation's financial statements as at and for the year ended March 31, 1991, under date of May 30, 1991. We have also reported to the Provincial Auditor under date of May 30, 1991 on other matters to enable him to fulfill his responsibilities under paragraph 11(1) of the Provincial Auditor Act.

Pursuant to paragraph 12(1) of the Provincial Auditor Act, and as a result of our audit, we report the following:

#### **Bank and Accounts Receivable Reconciliations**

Due to problems within the computerized accounting system installed during the current year the Insurance Fund bank reconciliations and reconciliations between the Corporation's accounts receivable sub-ledger and general ledger control account could not be done. While additional work done during the course of our audit indicated that material errors had not occurred during the year ended March 31, 1991, we feel that there is a potential risk that errors or fraud in amounts that would be material in relation to future financial statements may occur and not be detected.

Peat Marwick Thorne  
May 30, 1991

### **SASKATCHEWAN FOREST PRODUCTS CORPORATION YEAR ENDED OCTOBER 31, 1991**

We have made an examination to determine whether Saskatchewan Forest Products Corporation complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended October 31, 1991.

The Crown Corporations Act, 1978  
Orders-In-Council

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, Saskatchewan Forest Products Corporation has not complied with the provisions of the aforementioned legislative and related authorities during the year ended October 31, 1991 in the instances noted below:

---

---

## Appendix II

---

---

	<b>Relevant section</b>
<b>The Crown Corporations Act, 1978</b>	
<ul style="list-style-type: none"><li>The corporation's new head office has not been designated as such by the Lieutenant Governor in Council</li></ul>	8

<b>Orders-In-Council</b>	<b>Relevant section</b>
<ul style="list-style-type: none"><li>The corporation's board of directors did not meet at least once in every three months during the fiscal year</li></ul>	O.C. 1899-49 Para.8

Price Waterhouse  
December 5, 1991

### **SASKATCHEWAN INDIAN REGIONAL COLLEGE YEAR ENDED JUNE 30, 1991**

We have examined the financial statements of the Saskatchewan Indian Regional College for the year ended June 30, 1991 and have issued our report dated September 20, 1991 thereon to the Board of Directors of the college. We have examined the system of internal control as at June 30, 1991 and have issued our report to you dated September 20, 1991. We have also made an examination to determine whether the Saskatchewan Indian Regional College complied with specified legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended June 30, 1991 and have issued our report to you dated September 20, 1991. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances. In those instances, if any, that our study and evaluation of internal control disclosed conditions indicating that internal controls were inadequate or not complied with, substantive tests were performed to detect any cases in which: (1) any officer or employee of the Saskatchewan Indian Regional College has wilfully and negligently omitted to collect or receive public money belonging to the Crown; (2) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person; and (3) an expenditure was made which was not properly vouchered or certified.

Our examination disclosed the following matters that should be brought to your attention:

- Per diem amounts and reimbursements to Board members were in excess of amounts authorized by Order in Council for the college. Also, the expenses of three unapproved Board members were paid. The unauthorized Board expenses paid during the year amounted to approximately \$56,000.

---

---

## Appendix II

---

---

- Certain payments were made during the year which do not appear to be of an educational nature. These payments totalled approximately \$38,000.

Price Waterhouse  
September 20, 1991

### SASKATCHEWAN INDIAN REGIONAL COLLEGE YEAR ENDED JUNE 30, 1991

We have made an examination to determine whether the Saskatchewan Indian Regional College complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended June 30, 1991:

The Regional Colleges Act and Regulations  
The Department of Finance Act, 1983  
The Regional Colleges Accounting and Reporting Manual  
The Interpretation Act

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the Saskatchewan Indian Regional College has not complied with the provisions of the aforementioned legislative and related authorities during the year ended June 30, 1991 in the instances noted below:

<b>Regional Colleges Act and Regulations</b>	<b>Relevant section</b>
• Not all board members have been appointed by the Lieutenant Governor in Council.	7(1)
• There are ten members on the board instead of the prescribed four to seven. Seven of the members have been approved by the Lieutenant Governor in Council and three are acting without approval.	7(2)
• Budgets are not approved by the Minister prior to adoption.	15(2)
• The appointment of auditors is not approved by the Minister of Education.	17(1)

---

---

## Appendix II

---

---

- Board members can serve for an unlimited length of time instead of the prescribed two terms. 5
- The college's line of credit has not been approved by the Minister of Education. 21(1)
- The purchase or long-term lease of land or buildings is not approved by the Minister of Education. 14(6)
- The disposition of real property is not approved by the Minister of Education.
- The college's personnel policy has not been approved by the Minister of Education. Reg 7(4)

### **Department of Finance Act, 1983**

- The college's line of credit has not been approved by the Minister of Finance. 41

### **Regional Colleges Accounting and Reporting Manual**

- The college records depreciation on its capital assets (excluding land). --

### **Interpretation act**

- Per diem amounts and reimbursements paid to Board members were in excess of amounts authorized by Order-in-Council for the college. 16

Price Waterhouse  
September 20, 1991

### **SASKATCHEWAN POWER CORPORATION YEAR ENDED DECEMBER 31, 1991**

We have, with regard to Saskatchewan Power Corporation, examined and reported without reservation to the Legislative Assembly on:

- the financial statements for the year ended December 31, 1991;
- the system of internal control as at September 30, 1991;

---

---

## Appendix II

---

---

- compliance with specified legislative and related authorities pertaining to financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1991.

Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Based on the examinations referred to in this report, there are no matters that we consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly pursuant to Section 12(1) subsections (a) through (g) of The Provincial Auditor Act.

However the following matters have been reported to us by management:

1. Saskatchewan Power Corporation and Babcock & Wilcox Industries Ltd. entered into a memorandum of understanding dated August 16, 1991. The approval of the Board of Directors may not have been obtained for this agreement. Management have informed us that they are of the opinion that Board of Directors approval should have been obtained. As this matter is an issue with respect to a legal action commenced against the Corporation by its former president and chief executive officer and as the terms and conditions of the memorandum of understanding are expected to be the subject of further negotiations with Babcock & Wilcox Industries Ltd., it is not appropriate for us to comment further at this time.
2. Management have informed us that there is a matter with respect to the termination of the former President and chief executive officer of Saskatchewan Power Corporation which is the subject of litigation between that individual and the Corporation. This includes the establishment of a Trust Agreement by the Board of Directors in favour of the former president and chief executive officer at a time when the term of the directors of the Board had expired. The Trust Agreement was collapsed prior to December 31, 1991 and monies paid pursuant to it returned to the Corporation. However, this matter may, in the opinion of management, constitute a material irregularity. As this matter is currently before the courts it is not appropriate for us to comment further at this time.

Ernst & Young  
February 7, 1992

### **SOUTHEAST REGIONAL COLLEGE YEAR ENDED JUNE 30, 1991**

We have made a study and evaluation of the system of internal control of the Southeast Regional College in effect as at June 30, 1991. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we

---

---

## Appendix II

---

---

considered necessary in the circumstances.

The management of the Southeast Regional College is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute, assurance that:

- a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;
- b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;
- c) transactions are executed in accordance with management's authorization, public money expended is applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and
- d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitation in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation disclosed the following conditions in the system of internal control of the Southeast Regional College as at June 30, 1991 which in our opinion resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to the Southeast Regional College may occur and not be detected within a timely period:

- 1) Bank account reconciliations were not completed on a timely basis. Due to this lack of compliance with the control procedure potential errors or fraud may not be discovered in a reasonable period of time, thereby making corrective actions ineffective.
- 2) A proper policy for the stop payment of reissued cheques is not in effect. This absence of control over cheque reissuance may lead to double payments.

E. J. C. Dudley & Co.  
November 13, 1991



---

---

## Appendix III

---

---

The Standing Committee on Public Accounts recommended an audit of every government agency every year.

Our annual report includes all audits completed at February 28, 1993 for fiscal periods ended March 31, 1992 or earlier. Since 1988 we have prepared our annual reports without completing all audits. We consider this practice necessary to improve the timeliness of the information given to the Members of the Legislative Assembly.

Audits completed after February 28, 1993 for fiscal periods ended March 31, 1992 or earlier will be reported to the Legislative Assembly in our next annual report. We reported in separate chapters several audits that will not be done for the 1992 year.

The following audits are not fully completed at February 28, 1993.

586643 Saskatchewan Ltd.  
Capital Pension Plan Inc.  
CIC Industrial Interests Inc.  
CIC Pulp Ltd.  
CMB Fertilizer Inc.  
Crown Investments Corporation of Saskatchewan  
Department of Education  
Department of Finance  
Investment Corporation of Saskatchewan 1988, 1989, 1990 and 1991  
Power Greenhouses Inc.  
S P Two Properties Ltd. 1990 and 1991  
Saskatchewan Diversification Corporation  
Saskatchewan Economic Development Corporation  
Saskatchewan Government Growth Fund Ltd.  
Saskatchewan Government Growth Fund Management Corporation  
Saskatchewan Property Management Corporation  
Saskatchewan Telecommunications  
Saskatchewan Telecommunications International Inc. 1990 and 1991  
Saskatchewan Telecommunications Superannuation Fund  
Saskatchewan Transportation Company  
SaskPen Properties Ltd.  
Wanuskewin Heritage Park Corporation

---

---

## Appendix IV

---

---

### Examples of Opinions We Form on Departments, Crown Agencies and Crown-Controlled Corporations

1. Following is an example of the opinion we form on the adequacy of the control systems used by an agency to safeguard and control public money.

I have made a study and evaluation of the system of internal control of (name of entity) in effect as at (date). I did not study and evaluate certain aspects of internal control concerning the effectiveness, economy, and efficiency of certain management decision making processes. The criteria for this study and evaluation consisted of the control environment and control systems described in the Canadian Institute of Chartered Accountants Handbook.

My study and evaluation was conducted in accordance with generally accepted auditing standards, and accordingly, included such test and other procedures as I considered necessary in the circumstances.

The Management of (name of entity) is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that:

- a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;
- b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;
- c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and
- d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In my opinion, based upon the above criteria, the system of internal control of (name of entity) in effect as at (date), taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material in relation to (name of entity).

---

---

## Appendix IV

---

---

*Or if the study and evaluation disclosed conditions that, individually or in combination result in one or more material weaknesses, the opinion paragraph should be modified as follows:*

My study and evaluation disclosed the following conditions in the system of internal control of (name of entity) as at (date) which in my opinion, based upon the above criteria, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to (name of entity) may occur and not be detected within a timely period.

*The report should go on to describe all material weaknesses, state whether they resulted from the absence of control procedures or the degree of compliance with them, and describe the general nature of the potential errors or fraud that may occur as a result of the weaknesses.*

City

Date

Signed

2. Following is an example of the opinion we form on an agency's compliance with the law regarding its spending, revenue-raising, borrowing and lending activities.

I have made an examination to determine whether (name of entity) complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended (date):

(List legislative and related authorities covered by this report. This list must include all governing authorities.)

My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, (name of entity) has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended (date).

(The report should provide adequate explanation with respect to any reservation contained in the opinion together with, if relevant and practicable, the monetary effect.)

City

Date

Signed

---

---

## Appendix IV

---

---

3. Following is an example of the opinion we form on the financial statements prepared by management of an agency.

I have audited the balance sheet of (name of entity) as at (date) and the statements of income, retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the (name of entity) management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the (name of entity) as at (date) and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

City  
Date

Signed

## Appendix V

### Financial Management Review Commission Analysis of Recommendations and Actions Proposed or Taken by the Government

#### Preamble

The following Table includes a summary of "recommendations" made by the Financial Management Review Commission. "Actions taken" and "proposed" represent the views of our Office based on those events we are aware of, including the Government's progress report released in November, 1992. Where the Government appears to disagree or has not dealt fully with a recommendation this has been noted in the "Actions Proposed" column.

#	RECOMMENDATION	ACTIONS PROPOSED	ACTIONS TAKEN
2-1	The Government should, through legislation, adopt accounting principles and reporting standards established by the Canadian Institute of Chartered Accountants (CICA).	Although summary financial statements were prepared in 1991-92 using CICA standards, no legislation has been enacted to commit government to using independently set principles in the future.	Summary financial statements were published for the first time in 1991-92 and conform to CICA standards, except pension liabilities are not recorded.
2-2	The Province's <b>main</b> financial statements should report on the financial condition and operating results of all organizations owned and controlled by the Province.	The Government has indicated this concept is not without merit but a review is needed of the implications for preparation of budget estimates, etc. The Consolidated Fund financial statements will remain the <b>main</b> statements of the Province in the interim.	The reporting entity for the 1991-92 summary financial statements was comprehensive. These statements are not regarded by the Government as the <b>main</b> financial statements of the Province.
2-3	Regular actuarial valuations should be made of the various pension plans for which the Government is responsible. Any unfunded pension liabilities should be recorded in the main financial statements as a liability.	The Government has indicated the decision to record the unfunded pension liability has been deferred until a review of public sector pension plans is completed by a pension review commission. This review will develop valuation, accounting and funding options for the Government.	
2-4	Loans should be treated as expenditures in the Government's financial statements, rather than assets, if they can only be repaid through future budgetary appropriations.	The Government has indicated this change will be implemented in 1992-93.	All loans in this category were written off against the accumulated deficit in the Consolidated and Heritage Funds at March 31, 1992.

## Appendix V

#	RECOMMENDATION	ACTIONS PROPOSED	ACTIONS TAKEN
2-5	To implement Recommendation 2-4, all loans to the Saskatchewan Property Management Corporation should be written off against the Province's accumulated deficit (in the Consolidated and Heritage Funds).		All loans to Saskatchewan Property Management Corporation outstanding at March 31, 1992 were written off.
2-6	All transactions should be recorded using the accrual basis of accounting.	The Government has indicated accrual accounting will be adopted for the 1993-94 fiscal year in the Consolidated Fund. Research is to be done so the budget for taxation revenues and transfer payments can be prepared on the same basis.	
2-7	Asset valuation provisions should be recorded as expenditures in the year the write-down is necessary.	The Government has indicated loss provisions will be recorded as budgetary expenditures of the Consolidated fund beginning in the 1992-93 fiscal year. For 1991-92 provisions were charged directly to the accumulated deficit of the Consolidated Fund.	Loss provisions are recorded in the summary financial statements as non-recurring expense items when there is evidence of a permanent decline in the value of an asset.
3-1	The Government should prepare mid-year interim financial statements for public consideration.	Although a mid-year report was prepared with projected 1992-93 results for the Consolidated Fund, actual results to date are not shown and no indication has been given that results are to be produced on a summary basis in future periods.	A mid-year report was prepared in November, 1992, which included projected 1992-93 operating results contrasted with budget estimates for the Consolidated Fund as well as an update on key economic indicators.
3-2	Specific write-downs were recommended for investments in Saskatchewan Water Corporation, Saskatchewan Economic Development Corporation (SEDCO), Saskatchewan Grain Car Corporation and Saskatchewan Diversification Corporation (SDC).		Write-downs have been made in each case at March 31, 1992. In some cases amounts changed from figures used by the Commission at October 31, 1991.
3-3	The Province should closely monitor certain investments for possible loss provisions as at March 31, 1992, i.e. Meadow Lake Pulp Limited Partnership, Bi-Provincial Upgrader, NewGrade Energy Inc., and CAMECO Corp.		The Province recorded provisions at March 31, 1992 totalling \$350 million for the four investments cited.

## Appendix V

#	RECOMMENDATION	ACTIONS PROPOSED	ACTIONS TAKEN
3-4	The Government, in its 1992 spring budget, should include a financial plan with a strategy to restore the strength of Province's balance sheet.	The Government has indicated comprehensive longer term strategies will be reflected in the 1993-94 budget. In its 1992-93 budget the Government began multi-year funding targets for third party grants and stated all borrowing processes had been centralized under the Minister of Finance.	
4-1	Policies and procedures for tendering, contract awards, etc. by all agencies should be reviewed, with public consultation. Resulting policies should be documented so compliance can be evaluated by the public.	The Government indicated in November, 1992 that a review had been initiated by the SPMC Minister and public input would be solicited. The Government has also indicated a set of policies and procedures will be published so Government actions can be assessed.	
4-2	The Government should review the mandate and role of each of the various agencies involved in economic development and diversification initiatives.	The Government indicated in November, 1992 the Department of Economic Development was in the process of determining the most appropriate organization structures and delivery mechanisms for economic development and diversification.	
4-3	SEDCO's capital structure should be reviewed and the costs of public policy initiatives, both past and future, financed from the Consolidated Fund. Non - performing investments should be reviewed to determine SEDCO's continuing responsibility.	The Government has indicated its intention to restore the financial health of individual corporations. Each case will be reviewed to decide the appropriate capital restructuring and level of subsidization needed. The outcome of the review of economic development activities will be reflected in decisions about SEDCO.	
4-4	The Government should review all special funds and the continued existence of such funds should be justified to the Legislature.	The Government has indicated a review of special purpose funds would be done in 1992-93, by the Department of Finance, to develop criteria for assessing the need for, organization of and accounting for such funds.	

## Appendix V

#	RECOMMENDATION	ACTIONS PROPOSED	ACTIONS TAKEN
4-5	<p><u>The Provincial Auditor Act</u> should be reviewed and amended, where necessary, to reflect the principle that the Provincial Auditor is responsible for reporting to the Legislature on all government-owned entities, but that private sector auditors can be appointed to review the financial affairs of such entities, as long as it is clear that the use of private sector auditors is not intended to restrict the Provincial Auditor in meeting his/her responsibilities for public accountability to the Legislature.</p>	<p>The Government has indicated its support of this principle with respect to the mandate of the Provincial Auditor and that the principle is being considered in the context of a review of <u>The Provincial Auditor Act</u>.</p>	
5-1	<p>A study should be done concerning whether any or all of the activities and responsibilities of SPMC should more appropriately be undertaken within government departments, instead of through a Crown corporation.</p>	<p>The Government indicated an internal review was underway in 1992 to determine the most suitable organization structure for delivering the services provided by SPMC.</p>	
5-2	<p>The provisions of <u>The Industry and Commerce Development Act</u> concerning the approval process for loan guarantees should be brought into conformity with the provisions which exist in <u>The Financial Administration Act</u>.</p>	<p>The Government has indicated this Act is being reviewed in conjunction with a thorough review of all guarantees provided by the Province (see rec.# 6-20).</p>	
5-3	<p>Legislation should be enacted to limit the amount of public funds that can be committed to a project or program without the prior approval of the Legislature.</p>	<p>The Government has indicated the need for legislation is being studied in detail.</p>	
5-4	<p>Legislation should be enacted to establish SaskEnergy as a Crown corporation and all available financial statements on the operations of SaskEnergy since December 31, 1988 should be tabled.</p>		<p>Legislation to establish SaskEnergy as a Crown corporation (Bill 21) was enacted in 1992. All financial statements up to and including December 31, 1991 were tabled on May 25, 1992.</p>



## Appendix V

#	RECOMMENDATION	ACTIONS PROPOSED	ACTIONS TAKEN
5-5	<p>All lottery revenues should be transferred to the Consolidated Fund and annual appropriations should then be approved by the Legislature for subsequent arms' length adjudication and allocation by SaskSport to sports, culture, and recreation organizations. SaskSport should be required to table an annual report and financial statement and these documents should be subject to review by the Public Accounts Committee.</p>	<p>The Government indicated in November, 1992 that a review was being done and that ongoing consultations between the Department of Community Services and funding recipients were proceeding.</p>	
5-6	<p>The Government should formalize a process whereby there is released to the Legislature, on each significant transaction or commitment involving a government owned or controlled agency, a document containing the following information about the transaction:</p> <ul style="list-style-type: none"> <li>• specific business and public policy objectives;</li> <li>• financial implications and risk analysis;</li> <li>• management process proposed;</li> <li>• legislative authority for decision;</li> <li>• organizational structure for on going government participation and process for informing the public about status and performance.</li> </ul>	<p>The Government indicated in November, 1992 that each significant transaction or commitment will be publicly announced. Additional disclosures will be made through annual reporting. Full disclosure may, in particular circumstances, be constrained by confidentiality agreements, regulatory legislation or competitive market conditions.</p> <p>However, no indication has been given that a process will be formalized to provide for timely, complete reports to the Legislature for all significant transactions.</p>	
6-1 6-2	<p>The Government should prepare suitable printed information on its current organizational structure for the general public. This should be supported by a communications strategy to assist the public in determining departments and agencies responsible for specific programs. Information materials should be updated in a timely way.</p>	<p>The Government has indicated its agreement with this recommendation and is currently evaluating the most appropriate mechanism. When information materials are finalized, the Government has indicated they will be readily updated.</p>	<p>A directory is being developed by Justice for use under <u>The Freedom of Information Act</u> and statements of purpose for department programs are being included in Public Accounts, starting with 1991-92.</p>

## Appendix V

#	RECOMMENDATION	ACTIONS PROPOSED	ACTIONS TAKEN
6-3	The Heritage Fund should be abolished and all revenues and expenditures of the Province should be processed through the Consolidated Fund.		Legislation was passed in 1992 to abolish the Heritage Fund and incorporate its assets, liabilities, revenues & expenditures within the Consolidated Fund. The 1992-93 budget was presented on the revised basis.
6-4	The Government should document a general policy on the circumstances under which Crown corporations will be allowed to retain current year surpluses or recover losses from future income. The continued appropriateness and application of this policy should be monitored by the Crown Corporations Committee and reported on annually to the Legislature.	<p>The Government has indicated an appropriate dividend or subsidy for each corporation will be determined by the Crown Investments Corporation (CIC), based on various factors. The proposed dividend and subsidy structure for any given year will be disclosed to the Legislature. Actual dividends and subsidies will be disclosed in the financial statements of CIC and the respective Crown corporations, all of which will be tabled and subject to scrutiny by the Crown Corporations Committee.</p> <p>It is not clear if the Government agrees a general policy should be documented and reviewed periodically for continued appropriateness by the Committee.</p>	

## Appendix V

#	RECOMMENDATION	ACTIONS PROPOSED	ACTIONS TAKEN
6-5	All dividends declared by Crown corporations and similar government owned entities and all dividends which the Province receives from a joint venture in which it is a shareholder should be paid directly to the Consolidated Fund.	<p>The Government appears to disagree with the central notion of the Commission that CIC should not be permitted to expend and invest the excess earnings of Crown corporations without the specific approval of the Legislature.</p> <p>The Government has indicated it views CIC as the holding company for the Crown's investments, including Crown corporations, and considers it appropriate that dividends and other returns from investment flow to CIC rather than to the Consolidated Fund. In years when CIC has positive retained earnings it could declare a cash dividend to the Consolidated Fund.</p>	
6-6	Operating losses of commercially oriented Crown corporations and government controlled agencies should be financed, on a timely basis, by appropriations from the Consolidated Fund.	The Government appears to disagree and has indicated CIC will provide subsidies for corporations unable to recover their losses. If CIC sustains a loss a subsidy will be received from the Consolidated Fund as was appropriated for 1992-93.	
6-7	<p>When Crown corporations and agencies have public policy responsibilities within their approved mandates which affect the financial performance of the entity, one of two financing strategies should be employed:</p> <ul style="list-style-type: none"> <li>• to the extent market conditions allow, cross subsidization should be allowed through the corporate rate structure; and</li> <li>• the financial impact of the policy initiative should be determined and a corresponding appropriation should be made from the Consolidated Fund to the corporation.</li> </ul>	<p>The Government appears to disagree that the cost of public policy initiatives should be appropriated from the Consolidated fund, believing that CIC should provide such subsidies.</p> <p>The Government has indicated the cost of public policy initiatives carried out in the Crown sector should be identified and disclosed to the Legislature. However it is not clear what form of disclosure is intended or whether approval of the Legislature will be sought.</p>	

## Appendix V

#	RECOMMENDATION	ACTIONS PROPOSED	ACTIONS TAKEN
6-8	Crown corporations and other government owned entities should not be created without their establishment having been reported to and debated in the Legislature in a timely fashion.	The Government has indicated it is committed to timely reporting in the Legislature and a higher degree of public accountability when new organizations are created. In the 1993 throne speech, the Government indicated amendments to the Crown Corporations Act would be introduced to prohibit Crown corporations from creating subsidiary corporations without full public disclosure.	
6-9	Statements of mandate should be prepared and tabled in the Legislature for all Crown corporations and government owned entities. These statements should provide clear direction on the function and purpose of the corporation, on those matters which the corporation is not permitted to engage in, on the mechanisms through which the corporation will be held accountable to the Government and Legislature, and on the extent to which the Government can intervene in the corporation's operational activities. They should be reviewed on a regular basis by the Crown Corporations Committee.	The Government indicated in November, 1992 that, throughout the next year, mandate statements will be developed for each Crown corporation and each government owned corporation. These statements will be included in their annual reports tabled in the Legislature and be subject to review by the Crown Corporations Committee.	

## Appendix V

#	RECOMMENDATION	ACTIONS PROPOSED	ACTIONS TAKEN
6-10	All corporations in the Government's reporting entity, unless specifically exempted by their mandates, should be subject to the same public reporting requirements, on their past year's activities, as government departments.	<p>The Government has indicated standardized public reporting requirements will be developed for:</p> <ul style="list-style-type: none"> <li>• government departments;</li> <li>• agencies and Crown corporations reporting to Treasury Board;</li> <li>• Crown corporations reporting to CIC; and</li> <li>• government owned corporations reporting to CIC.</li> </ul> <p>These standards may be different for each group and will be made available to the Public Accounts Committee and the Crown Corporations Committee, as appropriate.</p>	
6-11	The Government should adopt standards (similar to what is required by securities regulations in the private sector) for the preparation of annual reports, with the primary emphasis being placed on the role that these reports can play in improving public accountability.	The Government has indicated it agrees Crown corporations must prepare annual reports in a manner that is compatible with companies in similar commercial environments and hence agrees the securities regulations of the private sector be followed where appropriate.	
6-12	Legislation should be introduced which categorizes government owned entities and which specifies, for each category, the reporting requirements and financial control mechanisms which will be in place to ensure that they are accountable to the Legislature.	The Government has indicated its view a clearer definition of Crown agencies is required and believes this can be effected through a combination of mandate statements (see rec.# 6-9) and amendments to the existing <u>Crown Corporations Act</u> .	

## Appendix V

#	RECOMMENDATION	ACTIONS PROPOSED	ACTIONS TAKEN
6-13	Crown Management Board (CIC) should be responsible for overseeing and prioritizing the allocation of funds to the government owned entities under its jurisdiction. It should be accountable to the Legislature for all Crown corporations and investments under the Board's jurisdiction. It should also be responsible for representing the Province's investment interests, as an owner, in private corporations.	The Government has indicated it agrees with this recommendation and has established the Board of Directors of the Crown Investments Corporation as the committee of Cabinet responsible for all activities within the Crown sector. The Crown Investments Corporation will serve as 'staff' to the Board.	
6-14	In addition to filing the consolidated financial statements of the Crown Management Board (CIC), the Legislature should also receive, on a timely basis, full and audited financial statements for each and every subsidiary.	The Government has indicated there needs to be greater public accountability for activities within the Crown sector. Financial statements of all Crown corporations, including those of CIC, will be tabled. CIC, along with the Crown Corporations Committee, will develop appropriate reporting requirements for government owned Corporations.	
6-15	All members of Crown Management Board (CIC) and the board of directors of CIC Industrial Interests Inc. should be Cabinet Ministers. The Ministers should also be directors of one or more of the Crown corporations under the Board's jurisdiction.	The Government has indicated the Crown Management Board will be renamed the Board of Directors for Crown Investments Corporation and will function as the sole committee of Cabinet responsible for the Crown sector. The Minister responsible will serve as its chairperson with the balance of members being the Ministers responsible for and chairpersons of the respective Crown corporations under its jurisdiction.	In November, 1991 the CIC board was reconstituted to include only Cabinet Ministers. One Cabinet Minister is represented on the board of CIC Industrial Interests Inc. along with CIC staff members. All but four of the Crown corporations under CIC's jurisdiction have CIC board members as directors and chairpersons. These four are chaired by other Cabinet Ministers.

## Appendix V

#	RECOMMENDATION	ACTIONS PROPOSED	ACTIONS TAKEN
6-16	Cabinet Ministers should continue to be assigned to represent the Government on the boards of directors of each Crown corporation and government owned entity, but these Ministers should not be the chairpersons or vice-chairpersons of these boards.	The Government appears to disagree that Ministers should not be the chairpersons of boards, arguing that Crown corporations are instruments of public policy and it is the Minister responsible who is held to account by the Legislature as a whole as well as by the Crown Corporations Committee. It follows that to avoid confusion in the chain of command the Minister should also be the chairperson. Government owned corporations are somewhat different and must be evaluated on a case by case basis.	Ministers are chairpersons of all Crown corporations, except for some Treasury Board Crown corporations where ministers are not currently appointed as directors of the Boards.
6-17	Individuals other than members of the Legislature should continue to be appointed to the boards of directors of Crown corporations and government owned entities.	The Government has indicated it agrees with this recommendation and, during 1992, the Government restructured the Crown sector boards of directors with numbers having been reduced in most cases.	In November, 1992 the Government indicated over two-thirds of the members were selected from the public at large, continuing the previous practice.
6-18	Legislative amendments should be made to allow the Speaker to release the Public Accounts for examination by the public within 180 days after a fiscal year end, regardless of whether the Legislature is sitting at that time.		Amendments passed in the 1992 session of the Legislature require the public release of the Public Accounts by the October 31 following the end of the fiscal year to which the Public Accounts relate, regardless of whether the Legislature is sitting.
6-19	With respect to annual reports of government organizations, amendments should be made to <u>The Tabling of Documents Act</u> to require these reports to be tabled with the Speaker within ninety days of a fiscal year end and to require the Speaker to release these documents to the public when they are received, regardless of whether the Legislature is sitting at that time.	The Government has indicated it agrees with the intent of this recommendation and is considering the most appropriate way to meet the spirit of it.	

---

---

## Appendix V

---

---

#	RECOMMENDATION	ACTIONS PROPOSED	ACTIONS TAKEN
6-20	The Government should develop a comprehensive policy statement regarding the issuance of guarantees. This statement should define the maximum level of guaranteed debt that is appropriate in relation to the Government's overall financial position and should clearly enunciate the size and nature of the guarantees that can be issued without the legislature's approval.	The Government has indicated its view that a guaranteed dollar is no different than a dollar of debt and that policies and procedures governing the budgetary process must be amended so both forms of credit compete for the limited amount of credit available to the Province. The Department of Finance, with input from CIC, will undertake a major review of this area to determine the changes needed to effect better control over the issuance of guarantees.	



## Appendix VI

### Public Accounts Committee Status Report on Committee Recommendations

#### Preamble

In May, 1992 the Public Accounts Committee tabled its first report of the second session of the twenty-second Legislature. Included with that report was a request for a response from the Government to be tabled within 120 days. A response by the Government was not tabled prior to adjournment of the legislative session in August, 1992.

The following table identifies recommendations from that first report together with outstanding recommendations from previous Committee reports. The current status represents the view of our Office based on actions or announcements known to us in February, 1993.

DATE	RECOMMENDATION	STATUS - FEBRUARY, 1993
1975	In 1975 the Committee recommended aggregate amounts paid to persons across all departments that exceed the threshold for disclosure should be shown. In 1991, the Committee of the twenty-first Legislature agreed this was not necessary. That portion of the first Committee report of this Legislature, however, was not agreed to by the present Committee. Accordingly, the 1975 Committee recommendation stands.	<b>Partially Implemented</b> - From 1975 to 1983 the Public Accounts presented a report of the aggregate amounts paid to persons across all departments. This practice was discontinued in 1984. A 1991-92 Supplementary Volume lists payments across all departments, other than for personal services. However payments made for personal services are reported by department only, not across all departments.
1987	In 1987 the Committee recommended the Government prepare legislation to ensure that duly audited financial statements for Crown Agencies established pursuant to The Business Corporations Act are tabled in the Legislative Assembly, providing that the competitive position of the Crown Corporation is not prejudiced.	<b>Not Implemented</b> - No legislation has been enacted to deal with this recommendation.
1992	The Government of Saskatchewan should consider the implementation of an annual capital budget in addition to the current annual operating budget as part of an overall review of its budgeting and accounting procedures.	<b>Information not available</b> - No budget has been brought forward since tabling of the Committee report.
1992	Several recommendations for improving the disclosure of revenue and expenditure detail in the Public Accounts were made, namely:	
	<ul style="list-style-type: none"> <li>• A mandate statement for each department and major program area should be provided.</li> </ul>	<b>Implemented</b> - In the 1991-92 Public Accounts, mandate statements were provided for departments. Objectives and descriptions of program administration were provided for each subvote.

## Appendix VI

DATE	RECOMMENDATION	STATUS - FEBRUARY, 1993
	<ul style="list-style-type: none"> <li>• Expenditure detail should be summarized in a table format, grouped into major categories. The table would disclose the entire vote expenditure, with a breakdown by subvote.</li>   <li>Expenditure tables should be rounded to the nearest thousand dollars. Detailed information on grants, salaries and other expenditures would not be rounded.</li> <li>• Detailed description of revenue by department should be discontinued. Revenue disclosure would continue to be provided in a summary table format.</li> <li>• Highway disclosure should be presented in a table format, grouped into major categories such as maintenance, rehabilitation and capital construction.</li> <li>• Rural Development grant expenditures should be disclosed in a table format with separate categories for road grants, basic unconditional grants, equalization and other grant expenditures.</li> <li>• Disclosure of salaries should only be for classified out-of-scope employees, including order in council appointments.</li>   <li>All salaries would be disclosed in a supplementary book to be distributed on a limited basis.</li> <li>• Disclosure of travel on an individual basis should be discontinued, except with respect to Ministers. Travel should be shown as a total for each subvote.</li> </ul>	<p><b>Implemented</b> - A table in this format was prepared for the first time in the 1990-91 Public Accounts.</p> <p><b>Implemented</b> - The schedule of revenue detail by department was discontinued in the 1990-91 Public Accounts.</p> <p><b>Implemented</b> - A table of highway expenditures prepared in this format was included in the 1990-91 Public Accounts.</p> <p><b>Implemented</b> - A table of rural development grants prepared in this format was included in the 1990-91 Public Accounts.</p> <p><b>Implemented</b> - Beginning with the 1990-91 Public Accounts, lists of payments to individuals for personal services have excluded unionized employees. All individuals receiving salaries in excess of \$2500 are listed by department in supplementary volumes.</p> <p><b>Implemented</b> - Travel is no longer shown on an individual basis in the Public Accounts, except for Ministers' travel.</p>
1992	The disclosure limit for grant payments should be raised to \$5000. Universal grant programs and grants where confidentiality is an issue need not be disclosed by payee.	<b>Implemented</b> - Grant payments were disclosed on this basis beginning with the 1990-91 Public Accounts.
1992	The Saskatchewan Property Management Corporation should perform an inventory of the furnishings for which it has responsibility and identify the assets by departmental location.	<b>Information not available</b> - Our audit work is not complete for the year ended March 31, 1992, thus we are not able to report what progress has been made with respect to this recommendation.

## Appendix VI

DATE	RECOMMENDATION	STATUS - FEBRUARY, 1993
1992	If the remission of natural gas royalties is to continue to be paid to NewGrade Energy Inc. (re remissions granted to producers who supplied natural gas to NewGrade), the amount to be provided should be included in the Estimates and presented to the Legislative Assembly for their consideration.	<b>Not Implemented</b> - In public hearings of the Committee in February, 1993, officials of the Department of Energy and Mines argued against this recommendation. Upon conclusion of hearings, the Committee agreed to reiterate the recommendation in its third report.
1992	The Legislature should clarify the authority, if any, provided to Saskatchewan Power Corporation (SPC) to sell the natural gas business. If clarifying legislation confirms the continued operation of SaskEnergy as a separate operation, the accountability of SaskEnergy to the Legislative Assembly should be similar to that of SPC.	<b>Implemented</b> - Legislation was enacted in 1992 to establish SaskEnergy as a Crown Corporation and to provide legislative sanction for the transfer of the natural gas business to SaskEnergy from SPC.
1992	The Legislature should clarify the authority provided, if any, to SPC to consent to the supply and sale of natural gas to individual consumers, by independent natural gas producers.	<b>Implemented</b> - Passage of The SaskEnergy Act validated the consent given by SPC for persons to transport gas in Saskatchewan. The Act also provided TransGas with the exclusive right to transport gas in Saskatchewan, however TransGas may consent to the transportation of gas by other persons with the approval of the Lieutenant Governor in Council.
1992	SPC should seek to resolve the matter of a reservation of the auditor's opinion on its financial statements.	<b>Implemented</b> - The 1991 financial statements of SPC reflected a restatement of equity advances and retained earnings in the amount of \$226 million so as to conform with generally accepted accounting principles. As a result, the auditor's report was expressed without reservation for 1991.