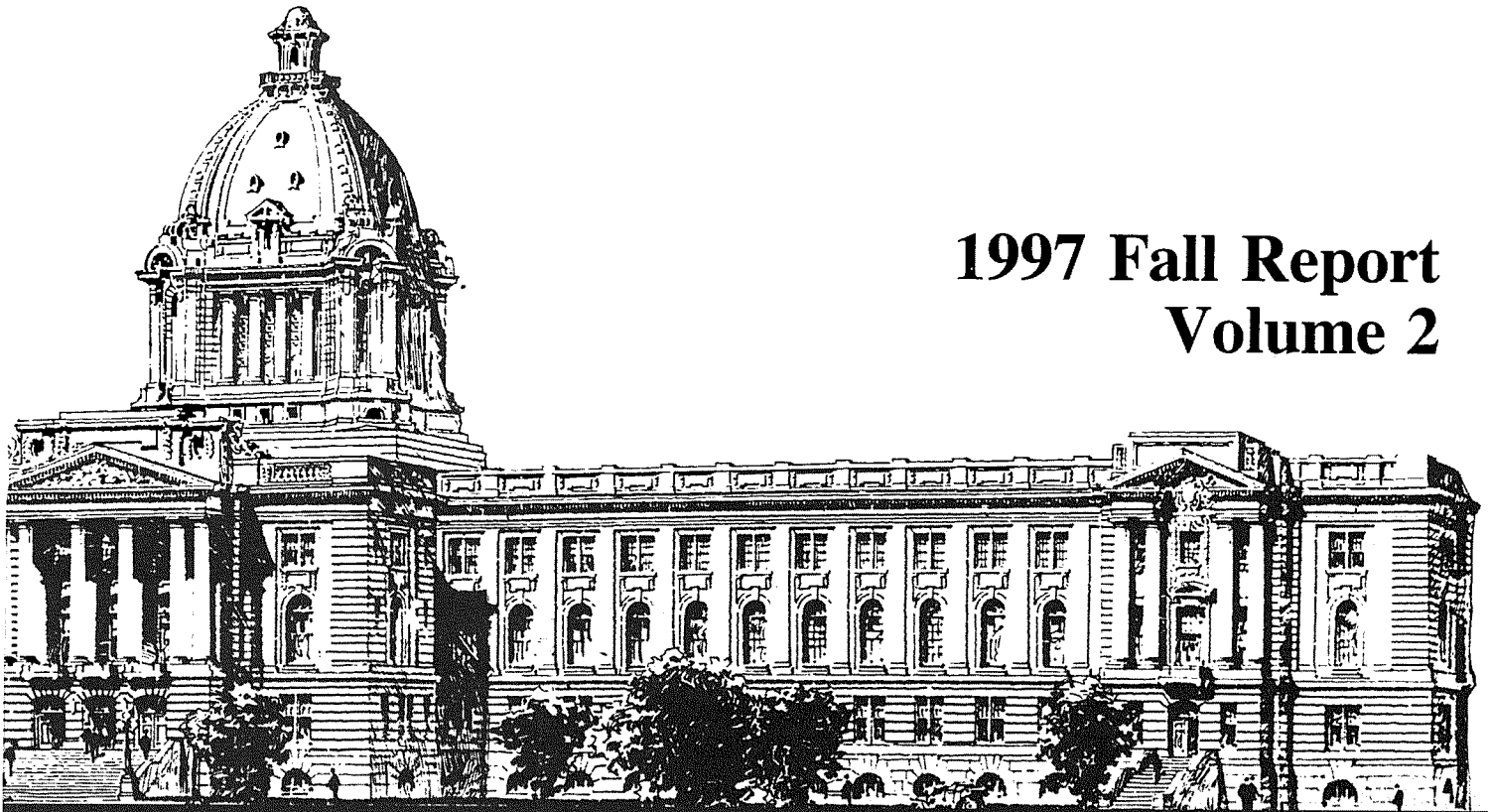




SASKATCHEWAN

Provincial Auditor Saskatchewan

**1997 Fall Report
Volume 2**



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

**Internet e-mail: prov.auditor.pas@govmail.gov.sk.ca
Website: www.legassembly.sk.ca/ProvAud/default.htm**

ISSN 0581-8214



SASKATCHEWAN

Provincial Auditor Saskatchewan

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

Phone: (306) 787-6360

Fax: (306) 787-6383

Internet e-mail: wayne.strelloff.pas@govmail.gov.sk.ca

November 17, 1997

The Honourable Glenn Hagel
Speaker of the Legislative Assembly
Room 129, Legislative Building
REGINA, Saskatchewan
S4S 0B3

Dear Sir:

I have the honour of submitting my *1997 Fall Report - Volume 2*, to be laid before the Legislative Assembly in accordance with the provisions of Section 14 of *The Provincial Auditor Act*.

Respectfully yours,

Wayne Strelloff, CA
Provincial Auditor

/lk

Our Vision

We envision effective, open and accountable government.
We are committed to making a difference by encouraging excellence
in public sector management and reporting practices.

Our Mission

Our Office serves the people of Saskatchewan through the Legislative Assembly.
We encourage accountability and effective management in government operations through
our independent examinations, advice and reports on the management of public
resources entrusted to government.

Our Values

- ❖ **Accountability** - taking responsibility for and explaining one's actions.
- ❖ **Objectivity** - independence, integrity and professionalism.
- ❖ **Open communication** - understandable, fair, clear and honest.
- ❖ **Effectiveness** - innovative and effective management.
- ❖ **Courtesy** - polite and equitable treatment for all.
- ❖ **Public confidence** - earning and keeping the respect and confidence of the public and their elected representatives.
- ❖ **Our employees** - our employees are our strength and major resource in achieving our mission and values. We value fairness and equity; personal development; creativity, challenge, and innovation; teamwork; and leadership. We also value balance and harmony between work, home and community responsibilities.

Foreword

I am pleased to present my *1997 Fall Report - Volume 2* to the Legislative Assembly. This Report focuses on the results of our work at government organizations with fiscal years ended during the year to March 31, 1997.

In past years, some of the contents of this Report would have been presented to the Assembly in the Spring of 1998. However, we continue to advance our completion dates so that we are able to report the results of our work in a more timely manner. We plan to continue to do so.

I wish to thank the staff and officials of the many organizations we audit for their co-operation and assistance. Also, I wish to thank the staff of my Office for their commitment to "making a difference".

Regina, Saskatchewan
October 31, 1997



Wayne Strelieff, CA
Provincial Auditor

Report of the Provincial Auditor

Table of Contents

Chapter	Topic	Page
	Observations	i
1	Executive Council	1
2	Public Service Commission	15
3	Year 2000	19
4	Crown Investments Corporation of Saskatchewan	25
5	Saskatchewan Power Corporation	37
6	SaskEnergy Incorporated	51
7	Energy and Mines	59
8	Saskatchewan Government Insurance	65
9	Economic Development	75
10	Saskatchewan Research Council	85
11	Saskatchewan Government Growth Fund Management Corporation	93
12	Saskatchewan Liquor and Gaming Authority	99
13	Saskatchewan Gaming Corporation	105
14	Agriculture and Food	109
15	Highways and Transportation	129
16	Saskatchewan Transportation Company	141
17	Municipal Government	145
18	Education	159
19	Post-Secondary Education and Skills Training	171

Report of the Provincial Auditor

Table of Contents

Chapter	Topic	Page
20	Finance	191
21	Justice	201
22	Social Services	213
23	District Health Boards	225
24	Health	287
25	Workers' Compensation Board	307
<hr/>		
Appendix I	<i>The Provincial Auditor Act</i>	I - 1
Appendix II	List of organizations subject to an examination under <i>The Provincial Auditor Act</i>	II - 1
Appendix III	Audits not completed at October 31, 1997	III - 1
Appendix IV	Organizations where we found no significant matters to report to the Legislative Assembly	IV - 1
Appendix V	Examples of opinions we form on departments, Crown agencies and Crown-controlled corporations	V - 1
Appendix VI	Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan on Executive Council (Cabinet) & SaskPower - April, 1997	VI - 1

Observations

Table of Contents

Introduction . . . . .	.01
Government organizations should know their key issues and manage them well . . . . .	.03
The Electoral Office should identify and collect anonymous donations to political parties and candidates . . . . .	.07
District Health Boards are starting to link health needs information to resource allocation decisions . . . . .	.10
Examples of organizations that are strengthening management and accountability practices . . . . .	.14
Examples of organizations that need to strengthen management and accountability practices . . . . .	.17
Accountability expectations need to be examined . . . . .	.26

Observations

Introduction

.01 In this *1997 Fall Report - Volume 2* to the Legislative Assembly, I report on my conclusions, findings and recommendations pertaining to my audits of government organizations with fiscal years ended during the year to March 31, 1997.

.02 In October of this year, I issued my *1997 Fall Report - Volume 1*. Volume 1 focuses on the importance of government planning and performance reports, and the information the Government could provide in an annual report to legislators and the public describing the state of government finances. I encourage the Government to publish an annual report.

Government organizations should know their key issues and manage them well

.03 One of the objectives of my Office relates to the key issues of significance and risk faced by government. We want to ensure government organizations know the key issues they face and demonstrate publicly they manage those issues well. If they do so, we think there will be more confidence in government and its institutions. Such confidence is an essential ingredient to a successful system of government.

.04 We note some government organizations identify clearly their key issues, challenges and risks. A few of those organizations publish their plans on public internet websites (e.g., see Chapter 2 - **Public Service Commission**, Chapter 9 - **Economic Development**, and Chapter 15 - **Highways and Transportation**). We commend these organizations for providing useful public planning information. This information will help legislators and the public better understand and assess their performance.

.05 We note continued progress by other organizations. We describe our understanding of the key issues these organizations face in Chapter 4 - **Crown Investments Corporation of Saskatchewan**, Chapter 22 - **Social Services**, Chapter 24 - **Health**, and Chapter 25 - **Workers' Compensation Board**.

.06 In general, we think those organizations or sectors of government that publish their plans and performance reports are more likely to know the key issues they face. Also, we think those organizations will likely be more able to demonstrate publicly they are managing those issues well.

Observations

The Electoral Office should identify and collect anonymous donations to political parties and candidates

.07 There continues to be much public discussion about the use of “special funds” to finance the activities of political parties and candidates. One aspect of this discussion concerns the public’s right to know who provides financial support to political parties and candidates, and to know who receives public money from government organizations.

.08 Through *The Election Act*, legislators require the Electoral Office to ensure that the names of those who make financial contributions (i.e., the original donors) to political parties and candidates are made public. If a contribution is anonymous and is over \$100, the Office must ensure such contributions are deposited in the General Revenue Fund. A change to *The Election Act, 1996*, has increased the amount to \$250.

.09 In Chapter 1 - **Executive Council**, we conclude that the Electoral Office did not ensure that the names of all original donors are made public and that all anonymous donations or contributions are deposited in the General Revenue Fund. We make several recommendations to strengthen the rules and procedures of the Office. We also continue to recommend that all government organizations report publicly who receives money from them. Most organizations now do so.

District Health Boards are starting to link health needs information to resource allocation decisions

.10 The Government continues to carry out the major portion of its responsibilities for our health system through district health boards. How health districts allocate resources is of great interest to Saskatchewan legislators and citizens. In the year ended March 31, 1997, the thirty health districts received revenues of \$1.25 billion and spent nearly \$1.24 billion.

.11 In our *Report of the Provincial Auditor: 1996 Spring*, we set out the results of our audit of the process health districts use to identify the health needs of their residents. Good information about health needs is essential to decide how to allocate resources on health needs.

.12 In Chapter 23 - **District Health Boards**, we note health districts are better positioned to make continued improvements to their needs assessment process. In this Chapter, we also set out the results of our audit of the adequacy of the processes districts use to allocate resources based on health needs.

Observations

.13 Overall, the five districts we examined had adequate processes to allocate resources based on health needs with two major exceptions. The districts need to strengthen how they decide which health needs are most important and how they set direction based on those priority health needs.

Examples of organizations that are strengthening management and accountability practices

.14 In Chapter 6 - **SaskEnergy Incorporated**, I note that SaskEnergy's Board of Directors has taken an important initiative to clarify its role and responsibilities. The Board wants to ensure it knows what role it has in deciding how SaskEnergy's resources are to be used to carry out the Government's general public policy initiatives. The Board also wants to ensure that its Chair (i.e., the Minister) is not able to carry out the Government's public policy initiatives without the knowledge of the Board.

.15 In Chapter 8 - **Saskatchewan Government Insurance (SGI)**, I report the results of an audit initiated by SGI's Board of Directors. The Board wanted to know, and agreed to have publicly reported, how well SGI manages the risk of losses due to fraudulent claims. Studies indicate the costs of insurance fraud in Canada are significant. We conclude SGI has adequate systems and procedures to manage this important risk. We also recommend several steps SGI could take to ensure it continues to do so.

.16 In Chapter 22 - **Social Services**, I report this Department is addressing issues we described in previous reports. For example, the Department has strengthened how it ensures only eligible clients receive assistance and receive the correct amount of assistance. In this Chapter, we also describe our understanding of several key issues faced by the Department.

Examples of organizations that need to strengthen management and accountability practices

.17 In Chapter 5 - **Saskatchewan Power Corporation**, I remind legislators and the public that SaskPower's 1996 financial statements understate revenue and net income by \$14 million.

.18 I continue to express concern Cabinet is choosing to direct SaskPower to move to a system of accounting in which revenues and expenses are measured differently by government corporations. Such a system will make it extremely difficult for

Observations

legislators and the public to understand, compare and assess the performance of corporations such as SaskPower, SaskTel and SaskEnergy.

.19 I also point out SaskPower did not adequately control the natural gas trading activities of one of its subsidiaries (Channel Lake Petroleum Ltd.) and SaskPower still holds the view that its subsidiaries can exercise powers beyond those provided to SaskPower itself by the Legislative Assembly.

.20 In Chapter 25 - **Workers' Compensation Board** (WCB), I describe several recent worrisome events pertaining to the WCB's accountability to the Assembly. I also set out several issues the WCB needs to manage well, and report the results of our regular audit.

.21 The worrisome events relate to the views expressed at a May 1997 meeting of the Standing Committee on Public Accounts. At this meeting, the Chair of the WCB questioned the jurisdiction of the Committee to call the WCB before the Committee. The WCB's Chair also questioned the authority of my Office to audit the WCB.

.22 Since that meeting, several government advisors have presented views and arguments inconsistent with those previously presented. They now argue that:

- the WCB, being accountable to the Assembly, impinges upon the autonomy of the WCB;
- our audit of the WCB impinges upon the autonomy of the WCB;
- my Office does not have the authority to examine the adequacy of the WCB's internal controls and compliance with legislative authorities; and
- when the Government appoints a private sector auditor, my Office has no further responsibility.

.23 I am surprised and disappointed that such views and arguments would be presented. Such views and arguments could serve to weaken the ability of legislators and the public

Observations

to assess the performance of any Crown agency and to hold such agencies accountable.

.24 In Chapter 17 - **Municipal Government** and Chapter 18 - **Education**, I note my concerns with the state of financial reporting by local governments and school districts. The financial statements of these important public sector organizations are inadequate. Their financial statements do not provide complete, reliable and comparable accounting measures.

.25 The Departments of Municipal Government and Education should strengthen the standards they now require local governments and school districts to follow. I recommend these Departments adopt the financial reporting standards set by The Canadian Institute of Chartered Accountants.

Accountability
expectations need to
be examined

.26 Across Canada and elsewhere, governments, legislators and their advisors are re-examining the state of public sector management and accountability. The trend is to set in place stronger systems and practices that will help ensure scarce public resources are managed well and that will help ensure legislators and the public know government organizations are doing the right things well.

.27 During the past year, my Office began to gather information about what is happening across Canada and elsewhere. We also are gathering the views of legislators, government officials and others.

.28 During the next year, I plan to further examine what changes are warranted. Key questions include:

- What information should be included in planning and performance reports for each government organization, for key sectors of government, and for the entire government?
- Why do utility corporations in Saskatchewan not make public planning information when this is done elsewhere?

Observations

- What information in government planning and performance reports should be audited and how frequently?
- Are legislative changes required?

.29 In future reports, I will report further on these important matters.

.30 In 1997, my Office issued the following reports to the Legislative Assembly:

- *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan on the Financial Statements of Crown Agencies for Years Ending in the Fiscal Year Ended March 31, 1996* issued in April 1997;
- *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan: 1997 Spring* issued in April 1997;
- *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan on Executive Council (Cabinet) & SaskPower* issued in April 1997;
- *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan on the 1996 Financial Statements of CIC Subsidiary Crown Corporations* issued in April 1997;
- *Annual Report on Operations for the Year Ended March 31, 1997*, including the audited financial statements of my Office, issued in June 1997;
- *Provincial Auditor Saskatchewan (Government Plans and Performance Reports & Understanding the Finances of the Government): 1997 Fall Report - Volume I* issued in October 1997;
- *Business and Financial Plan for the Year Ended March 31, 1999* issued in November 1997; and

Observations

- this Report, *Provincial Auditor Saskatchewan: 1997 Fall Report - Volume 2* issued in December 1997.

.31 If you wish to obtain copies of these reports, or wish to discuss or receive presentations on the contents of any of these reports, please:

- visit our website at:
www.legassembly.sk.ca/ProvAud/default.htm

- contact our Office by internet e-mail at:
prov.auditor.pas@govmail.gov.sk.ca

- or, write, phone or fax us at:
Provincial Auditor Saskatchewan
1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V7

Telephone: (306) 787-6398
Fax: (306) 787-6383

Observations

My colleagues at the Office of the Provincial Auditor of Saskatchewan are:

Ahmad, Mobashar	Kuntz, Linda
Anderson, Mark	Lahti, Jay
Atkinson, Brian	Lipon, Shelley
Bachelu, Gaylene	Maier, Corrine
Beblow, Jolene	Markewich, Dale
Black, Bob	Martens, Andrew
Borys, Angèle	Matchett, Joanne
Callander, Charlene	McNaughton, Scott
Coulter, Jill	Montgomery, Ed
Creaser, Phil	Nyhus, Glen
Dickin, Deann	Orrange, Loyd
Deis, Kelly	Peters, Cory
Duran, Jason	Pion, Josh
Earis, Lorianne	Pradhan, Karim
Ferguson, Judy	Salman, Salma
Fry, Kristen	Schiller, Rita
Gavel-Miayette, Charlene	Schwab, Victor
Grabarczyk, Rod	Shorten, Karen
Harasymchuk, Bill	Smith, Curtis
Harrison, Garnet	Smith, Scott
Heffernan, Mike	Smith, Shana
Ho, Matthew	Sturgeon, Darold
Hutchison, Wendy	Talbot, Marj
Jersak, Rodd	Taylor, Kevin
Kinvig, Amy	Tomlin, Heather
Kirchner, Carolyn	Volk, Rosemarie
Klisowsky, Cathy	Walker, Sandra
Knox, Jane	Watkins, Dawn
Kress, Jeff	Wendel, Fred
Kucher, Tara	Wendel, Leslie

Chapter 1 Executive Council

Table of Contents

Introduction . . . . .	.01
Our audit conclusions and findings . . . . .	.04
Background . . . . .	.06
Rules and procedures for anonymous donations need improvement . . . . .	.17
Rules and procedures for election expenses need improvement . . . . .	.31
Improved public accountability required . . . . .	.35
List of persons who receive money from government agencies required . . . . .	.41
Table	Page 12

Chapter 1

Executive Council

Introduction

.01 The Department of Executive Council facilitates and communicates decisions of the Executive Council (Cabinet) by: providing research, analysis, and policy advice to Cabinet and its committees; coordinating policy development and government communications; and managing cabinet records. The Department also ensures compliance with *The Election Act*, and provides support to the Premier in his role as: Head of Government; Chair of Cabinet; and Head of the political party with a mandate to govern.

.02 In 1997, the Department received \$7.3 million from the General Revenue Fund and spent this money on its programs. The *Public Accounts 1996-97 Volume 2* contains information about the Department's expenses.

.03 The following is a list of major programs and spending.

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Administration	\$ 2.8	\$ 2.8
Communications Coordination	1.4	1.4
Cabinet and Policy and Planning		
Secretariats	1.1	0.9
Accommodation and Central Services	0.9	0.9
Members of Executive Council	0.7	0.7
Electoral Office	<u>0.6</u>	<u>0.6</u>
	<u>\$ 7.5</u>	<u>\$ 7.3</u>

Our audit conclusions and findings

.04 In our opinion:

- the Department complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matters referred to in paragraphs .06 to .34; and
- the Department has adequate rules and procedures to safeguard and control its assets except for the deficiencies reported in paragraphs .06 to .34.

Chapter 1 Executive Council

.05 We also report other matters for the Legislative Assembly's attention at paragraphs .35 to .49.

Background

.06 The Department's operations include an Electoral Office (Office). The Office is responsible for ensuring compliance with *The Election Act* (Repealed on January 1, 1997 and replaced with *The Election Act, 1996*).

.07 In our *Report of the Provincial Auditor: 1996 Fall* (1996 Fall Report), we report the results of our audit of the Department for the year ended March 31, 1996. In that Report, we state we had not finished our work at the Department because the Office had not finished its work.

.08 The Office has now finished its work (see paragraphs .21 to .23). In our opinion, the Office's work was not adequate to ensure political parties and candidates have complied with the Act.

.09 We think the public wants to know who gives money to political parties and candidates. They also want to know who (e.g., employees, suppliers) receives money from government agencies.

.10 To meet this public need:

- *The Election Act* (the Act) requires candidates and political parties to file returns showing who gave them more than \$100 in a fiscal year. In our view, names of original donors must be published whether the original donor makes a donation directly to a political party or a candidate, or indirectly through an agent (i.e., a federal political party, a provincial constituency association, a trust fund, a special fund, or any other organization or person); and
- Most government agencies now annually make public a list of persons (e.g., employees, suppliers) who received money from those agencies. The Table at the end of this Chapter lists those agencies that do not now make public a list of persons who received money from them.

Chapter 1 Executive Council

.11 If political parties and candidates receive donations through agents, the returns must show the names of the original donors. The Act requires the Office to collect anonymous donations identified in the returns and pay them into the General Revenue Fund.

.12 The public also wants to know where political parties and candidates spend their money for election purposes because the public reimburses them for some of their expenses.

.13 To ensure political parties and candidates show where they spend their money for election purposes, they must submit returns to the Office. These returns are public documents. The Office also uses these returns to reimburse political parties and candidates for their election expenses.

.14 Our concerns with the Department relate to its public accountability and how the Electoral Office carries out its responsibilities under the Act.

.15 As part of our work, we audit the Office's compliance with the Act. As stated earlier, our audit focuses on authorities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing. In particular, our work focuses on ensuring the Office collects all anonymous donations over \$100, and on ensuring reimbursements to candidates for election expenses are proper. As a result, much of our work on the Department relates to candidate and political party returns.

.16 Recently, there has been public concern regarding the use of "special funds" (including contributions from provincial constituency associations and federal political parties) to finance provincial political parties and candidates. The concern relates to the public's need to know who gave the money to the "special funds" which was later given to political parties and candidates. Our concern with this matter relates to ensuring the Office collects all anonymous donations over \$100 and pays them to the General Revenue Fund (GRF). The next paragraphs describe this matter more fully.

Chapter 1 Executive Council

Rules and procedures for anonymous donations need improvement

.17 The Electoral Office needs to improve the rules and procedures for identifying anonymous donations of more than \$100 (changed to \$250 in *The Election Act, 1996*) to candidates and political parties.

.18 We asked the Office what system it used to identify anonymous donors. The Office relied on the candidates and the political parties to inform it of any anonymous donations.

.19 The Office's rules and procedures were not sufficient to identify anonymous donations of more than \$100. Therefore, we conclude the Office has not ensured political parties and candidates complied with *The Election Act*.

.20 The Office should improve its rules and procedures. It should issue directives to candidates and political parties setting out its interpretation of the Act. Also, the Office should review the candidates' and political parties' returns for questionable donors, e.g., donors who appear to be special funds or related parties, or who make unusually large donations. If the Office identifies such donors, it should ask for more information from candidates and political parties to decide if the donors are agents or political parties under the Act. If the donors are agents or political parties, the returns must show the names of original donors of over \$100. If the returns do not show the names of original donors, candidates and political parties cannot use the money and must remit the donations to the Office.

.21 As stated earlier, the Electoral Office is responsible for ensuring candidates and political parties comply with the Act. During 1996 and 1997, the Office investigated the "special funds" referred to in paragraph .16. In June 1996, it wrote to three political parties seeking information about "special funds" to ensure compliance with the Act.

.22 In our 1996 Fall Report, we state the Office asked for sufficient information to decide if the "special funds" are agents or political parties under the Act. Our Fall Report also states that if the Office decides the "special funds" are agents or political parties, it will need to obtain more information to determine if there are any anonymous donations.

.23 The Office has received the requested information and made a report to the Legislative Assembly. The Office's report concludes that most of the "special funds" are controlled by the

Chapter 1 Executive Council

political parties (i.e., the “special funds” are agents of the parties). However, the Office did not then require the agents to disclose the names of the original donors and remit any anonymous donations.

.24 As stated earlier, *The Election Act* requires political parties and candidates to immediately forward anonymous donations to the Office which will deposit the money in the GRF. The original returns of the political parties did not show the names of the original donors, resulting in the donors being anonymous under the Act. Donations from anonymous donors are a debt due to the Crown. If the Office does not wish to collect these donations from the political parties, it should follow Treasury Board directives and ask the Board of Revenue Commissioners to cancel this debt due to the Crown.

.25 In April 1996, before the Office started its investigation, one political party filed amended returns with the Office for the years 1989 to 1991. The returns give the names of original donors. As the amended returns were not audited, however, the Office cannot determine if the lists of donors are complete. Political party and candidate returns are available to the public at the Electoral Office.

.26 The other political parties have not filed amended returns. The Office has not asked them to do so.

.27 The Office’s rules and procedures were not adequate to ensure compliance with *The Election Act* because:

- having decided the special funds are agents of, or otherwise controlled by, political parties, the Office did not ask the parties to issue amended returns disclosing the names of the original donors and to remit any anonymous donations;
- the Office has not issued directives to candidates and political parties setting out its interpretation of the Act; and
- the Office did not review the candidates’ and political parties’ returns for questionable donors, e.g., donors who appear to be “special funds” or related parties, or who make unusually large donations.

Chapter 1 Executive Council

.28 Therefore, we conclude the Office has not ensured political parties and candidates complied with the Act.

We recommend

.29 The Electoral Office should improve the rules and procedures for identifying anonymous donations of more than \$100 in a fiscal year (\$250 in *The Election Act, 1996*) to candidates and political parties.

.30 The Electoral Office is preparing directives for candidates and political parties setting out the Office's interpretation of *The Election Act, 1996*. We will assess these directives and report the results in a future report.

Rules and procedures for election expenses need improvement

.31 In 1994, we made a report to the Standing Committee on Public Accounts regarding election expenses. The Report recommended changes to *The Election Act* to give the Office more authority. We thought the Office needed authority to issue directives:

- specifying the information to be contained in and accompanying candidates' returns;
- requiring candidates' business officers to maintain adequate rules, procedures, books, and records to prepare proper candidate returns; and
- requiring auditors to comply with generally accepted auditing standards and to verify compliance with the Electoral Officer's directives.

.32 *The Election Act, 1996*, gives the Office the authority we recommended in 1994. The Office, however, has not issued the directives noted in paragraph .31. Without these directives the Office cannot ensure compliance with *The Election Act, 1996*.

We recommend

.33 The Electoral Office should issue directives which:

- specify the information to be contained in and accompanying candidates' returns;
- require candidates' business officers to maintain adequate rules, procedures, books,

Chapter 1 Executive Council

and records to prepare proper candidate returns; and

- require auditors to comply with generally accepted auditing standards and to verify compliance with the Electoral Office's directives.

.34 The Electoral Office told us it is preparing directives for the items listed in paragraph .31. We will assess these directives and report the results in a future report.

Improved public
accountability
required

.35 The Department should provide an annual report to the Assembly to improve the Department's public accountability.

.36 The Government Organization Exemption Regulations exempt the Department from preparing an annual report. However, the Standing Committee on Public Accounts recommended that all government departments provide timely annual reports on their performance.

.37 The public could use an annual report to understand and assess the performance of the Department.

.38 The annual report should provide useful, timely information. The annual report should describe:

- what the Department is all about;
- what the Department has done;
- where the Department is now; and
- what the Department plans to do.

.39 We also reported this matter to the Assembly in our 1996 Fall Report.

We recommend

.40 The Department should prepare an annual report on its performance.

Chapter 1 Executive Council

List of persons who receive money from government agencies required

.41 As we state in paragraph .09, we think the public and legislators want to know who gave money to political parties and candidates. They also want to know who (e.g., employees, suppliers) receives money from government agencies.

.42 *The Election Act, 1996* requires candidates and political parties to report publicly who gave them money. The Act also requires the Electoral Office to report to the Assembly the names of candidates and political parties who have been reimbursed for election expenses.

.43 However, the Assembly has not enacted any other laws requiring government agencies to provide a list of persons (e.g., employees, suppliers) who received money from those agencies. Most government agencies now make public a list of persons who received money from those agencies. There are, however, still many agencies that do not do so.

.44 In past reports to the Assembly, we have recommended all government agencies should provide the Assembly with a list of persons (e.g., employees, suppliers) who received money from those agencies. The Standing Committee on Public Accounts has considered the need for this information. The Committee has recommended to the Assembly and the Assembly has agreed:

- on the required details of disclosure for government agencies;
- all government agencies reporting to Treasury Board should provide a list of persons who have received money; and
- Crown corporations should have the same public reporting requirements as government departments, unless otherwise stated in the mandate of the corporation.

.45 The Table at the end of this Chapter lists those government agencies that do not make public a list of persons (e.g., employees, suppliers) who received money from those agencies. There are four types of government agencies that generally do not make public a list of persons who received money from those agencies. These are:

Chapter 1 Executive Council

- Crown Investments Corporation of Saskatchewan and its subsidiaries;
- agencies created under *The Agri-Food Act*;
- agencies created under *The Health Districts Act*; and
- and other agencies.

.46 Also, in our *Report of the Provincial Auditor: 1995 Spring*, we state the Board of Internal Economy could improve public accountability if it made public a list of persons who received money from caucus offices and from members' special allowances.

.47 We are often reminded that public disclosure is important for three reasons. First, public disclosure serves to remind all government officials they are spending money that is entrusted to them by the public. Second, public disclosure adds rigour to decision-making as it ensures those who spend public money know their use of that money will be public. Third, public disclosure ensures the public knows who has received their money.

We recommend

.48 All government agencies should make public a list of persons (e.g., employees, suppliers) who have received money from them.

.49 Some government agencies think they should not have to disclose this information for certain payments because they think the information should be confidential. We think the Legislative Assembly should decide when this information should be confidential as it did for payments to doctors under *The Saskatchewan Medical Insurance Act*.

Chapter 1 Executive Council

Table

(Government agencies that do not make public a list of persons who received money from those agencies)

Entity

Crown Investments Corporation of Saskatchewan and its subsidiaries

Crown Investments Corporation of Saskatchewan and its share capital subsidiaries

CIC Industrial Interests Inc.

National Pig Development (Canada) Co. Ltd.

Saskatchewan Development Fund

Saskatchewan Government Growth Fund Management Corporation

Saskatchewan Government Insurance and its subsidiary

SGI CANADA Insurance Services Ltd.

Saskatchewan Opportunities Corporation

Saskatchewan Power Corporation and its subsidiaries

Channel Lake Petroleum Ltd.

SaskPower Commercial Inc.

Power Greenhouses Inc.

Northern Enterprise Fund Inc.

SaskEnergy Incorporated and its subsidiaries

TransGas Limited

Many Islands Pipe Lines (Canada) Limited

SaskEnergy International Inc.

Bayhurst Gas Limited

Saskatchewan Telecommunications Holding Corporation and its subsidiaries

Saskatchewan Telecommunications

Saskatchewan Telecommunications International Inc.

NST Network Services Inc.

DirectWest Publishers Inc.

Saskatchewan Transportation Company

Saskatchewan Water Corporation

Agencies created under *The Agri-Food Act*

Saskatchewan Broiler Hatching Egg Producers' Marketing Board

Saskatchewan Canola Development Commission and its subsidiary

Canodev Research Inc.

Saskatchewan Chicken Marketing Board

Saskatchewan Commercial Egg Producers' Marketing Board

Saskatchewan Flax Development Commission

Saskatchewan Pulse Crop Development Board

Saskatchewan Sheep Development Board

Saskatchewan Turkey Producers' Marketing Board

Table (continued)

Agencies created under *The Agri-Food Act* (continued)

Saskatchewan Vegetable Marketing and Development Board

SPI Marketing Group and its subsidiaries

KROP Transport Ltd.

Moose Jaw Packers (1974) Ltd.

SPI Producers' Trust Fund

Agencies created under *The Health Districts Act*

Battlefords District Health Board

Central Plains District Health Board

East Central District Health Board

Lloydminster District Health Board

Midwest District Health Board

Moose Mountain District Health Board

North Valley District Health Board

Parkland District Health Board

Prairie West District Health Board

South Country District Health Board

South East District Health Board

Touchwood Qu'Appelle District Health Board

Twin Rivers District Health Board

Other agencies

Fish and Wildlife Development Fund

Greystone Capital Management Inc.

Milk Control Board

New Careers Corporation

Northern Revenue Sharing Trust Account

Saskatchewan Auto Fund

Saskatchewan Indian Regional College

SaskPen Properties Ltd.

SP Two Properties Ltd.

Wanuskewin Heritage Park Corporation

Workers' Compensation Board

Chapter 2 Public Service Commission

Table of Contents

Introduction . . . . .	.01
Significant issues facing the Public Service Commission . . . . .	.02
General Revenue Fund appropriation . . . . .	.06
Our audit conclusion . . . . .	.08

Chapter 2

Public Service Commission

Introduction

.01 The Public Service Commission (PSC) acts as a central agency for some human resource activities for all Government departments and for several Crown agencies, e.g., New Careers Corporation. The PSC works to enable equity and fairness in personnel administration in the public service. It also encourages good personnel practices.

Significant issues facing the Public Service Commission

.02 To assess the performance of the PSC, it is important to understand the key issues the PSC faces. In 1995, we worked with the PSC to identify the key issues it faced at that time. We reported these issues in Chapter 3 of our *Report of the Provincial Auditor: 1996 Spring*. While some of these key issues continue, others have changed.

.03 Since 1995, the PSC has undergone significant strategic planning activities. The PSC has published its plan entitled *1995-1999 Strategic Plan*. It is available on its website at www.gov.sk.ca/govt/psc. In this plan, the PSC announces its plan to work with departments to redefine its role and reshape how human resource activities are carried out within the public service. It confirms the PSC's need to ensure its services appropriately respond to the human resource needs of departments. It outlines four priority strategies. Under these strategies, the PSC plans to:

- have responsive systems and practices to allow for a full integration of human resource functions with program delivery services;
- move from an administrative support function to assisting program managers and employees to deal effectively with change;
- increase learning and skill development in the public service, particularly leadership skills in a changing environment, involving partners and stakeholders in decision-making, and ensuring program efficiency and effectiveness; and
- ensure the public service reflects Saskatchewan's demographics, cultural diversity and employment equity while creating adequate succession plans for key public service positions.

Chapter 2 Public Service Commission

.04 The PSC's goals and objectives in its annual plans are in line with these strategies. We look forward to the PSC providing MLAs and the public with reports on its progress on achieving these strategies and, in turn, its goals and objectives.

.05 We encourage MLAs and the public to review the strategy, the PSC's website and the PSC's annual report. This information will help them understand the issues the PSC faces and enable them to assess the PSC's performance.

General Revenue
Fund appropriation

.06 In 1996-97, the PSC received \$7.2 million from the General Revenue Fund and spent this money on its programs. Also, PSC raised \$24 thousand of revenue. The PSC's *1996-97 Annual Report* will provide information about its expenses. Information about these appropriations and revenues appear in the *Public Accounts 1996-97 Volume 2*.

.07 The following are the PSC's major programs and spending.

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Administration	\$ 2.0	\$ 2.0
Accommodation and Central Services	1.0	1.0
Staffing and Development	2.1	2.1
Employee Relations	<u>2.3</u>	<u>2.1</u>
	<u>\$ 7.4</u>	<u>\$ 7.2</u>

Our audit conclusion

.08 In our opinion, the PSC had adequate rules and procedures to safeguard and control its assets. The PSC complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

Chapter 3 Year 2000

Table of Contents

Introduction . . . . .	.01
Year 2000 challenge . . . . .	.03
Scope and objective of our study . . . . .	.05
Best practices . . . . .	.07
Written and approved plans required . . . . .	.08
Examining and reporting on the year 2000 issue . . . . .	.17

Chapter 3

Year 2000

Introduction

.01 The Government's investment in information technology (IT) is significant. The cost of IT in Government departments, Crown corporations, commissions, boards, and universities (Agencies) exceeds \$225 million each year. These systems are critical to the Government's operations. Agencies need to develop plans to ensure they meet the year 2000 challenge.

.02 In our *Report of the Provincial Auditor: 1997 Spring* (1997 Spring Report), we describe the challenges and opportunities facing the Government as it manages its information systems into the year 2000. We also state it is our intention to examine and report on the Government's year 2000 plans. This Chapter sets out the result of our work.

Year 2000 challenge

.03 All Agencies must ensure their systems properly recognize 2000 as the year that follows 1999. Most older programs were written without a century code. 2000 becomes 00 and some programs may interpret this as 1900 and others may interpret it as 1980. This may cause unpredictable results and problems in sorting data, calculating interest, validating information, and recording transactions. This problem can also affect non-IT systems that use computer chips (i.e., elevators and security systems).

.04 Less than 26 months remain until December 31, 1999. Agencies cannot extend the deadline. They must complete all critical year 2000 projects before December 31, 1999. For most systems, changes should be completed well before December 31, 1999. This will allow time to ensure the system is working properly before the year 2000. All Agencies face the same deadline. There is currently a shortage of programmer analysts trained to fix the year 2000 problem. As we get closer to the year 2000, the shortage will likely become greater and the need for detailed plans even more critical.

Scope and objective of our study

.05 We performed a study to see if Agencies had appointed a project manager and documented a detailed plan to deal with the year 2000 problem.

.06 We interviewed 12 Agencies and reviewed their detailed plans. They were primarily large Agencies that we audit

Chapter 3 Year 2000

directly. We conducted most interviews before July 1, 1997. These procedures do not constitute an audit.

Best practices

.07 We state in our 1997 Spring Report, to address the year 2000 issue adequately, each Agency should:

- appoint a 'year 2000' project manager to carry out the Agency's year 2000 plan; and
- document and then obtain senior management's approval of the Agency's plan to address the issue. This includes:
 - listing all systems that the year 2000 problem affects. This includes both IT and other systems;
 - ranking the systems as to their importance to the Agency's operations;
 - estimating the full costs to fix the problem;
 - documenting who is going to carry out the work and how the Agency is going to cope with the possible shortage of skilled people;
 - scheduling when the Agency will carry out and complete the work;
 - planning to ensure testing of all systems and guaranteed software is done before the year 2000;
 - outlining a process to obtain guarantees from the manufacturers of all purchased software that their products are year 2000 compliant. Once the Agency has reliable guarantees, it should include the software in its testing plans; and

Chapter 3 Year 2000

- requiring approval of the changes to the systems by appropriate officials in the Agency.

Written and approved plans required

.08 We found that all 12 Agencies are aware of the year 2000 issue. All had appointed a project manager responsible for the year 2000 project. Most had written general strategies for the year 2000 projects. Most agencies believe they will meet their year 2000 goals and a few agencies have made substantial progress. However, none had detailed written plans that included all eight criteria set out in paragraph .07.

.09 Eight Agencies had a listing of their systems and ranked them as to their importance or planned to fix them all.

.10 Three Agencies had a preliminary estimate of the cost to fix the year 2000 problem. One Agency was planning to do the changes within existing resources. Most of the 12 Agencies have not had a budget approved for the year 2000 project. In some cases, the costs will be significant and senior management needs to budget for them. Therefore, a timely cost estimate is essential.

.11 Documentation of who will carry out the work for the year 2000 project is limited. All of the Agencies had a general idea of the personnel required. None of Agencies had documented who will update and test their critical systems. These Agencies only provided a final date for update and testing of all systems.

.12 Seven of the 12 Agencies have established general time lines, however, they need to develop more detailed time lines, including specific times and dates for each stage of the plan as their plans evolve.

.13 None of the 12 Agencies had a detailed testing plan at this time. Most are awaiting further analysis of their systems before doing a detailed testing plan. Most agencies indicated that some of their systems were year 2000 compliant. It is critical that even if Agencies believe their systems are year 2000 compliant, they test them to verify this.

.14 Eight Agencies indicated they need to receive third party guarantees from their significant vendors. Some have begun to

Chapter 3 Year 2000

obtain these. Most of the other Agencies said they planned to seek third party assurances before the end of 1998.

.15 All Agencies indicate senior management is aware of the year 2000 problem, however, we have seen no evidence that senior management has approved their written plans.

We recommend

.16 Agencies should complete a written year 2000 plan and have it approved by senior management. Senior management should approve the budget for the costs associated with the year 2000 issue.

Examining and reporting on the year 2000 issue

.17 We plan to continue to examine and report on the progress of the plans that Agencies have in place and their actions taken to become year 2000 compliant.

.18 We will also examine if the Agencies have a contingency plan in the event that their critical systems are not operating after 1999.

Chapter 4
Crown Investments Corporation of Saskatchewan

Table of Contents

Introduction . . . . .	.01
Key issues facing CIC . . . . .	.04
Our audit conclusions and findings . . . . .	.14
Crown corporation reporting . . . . .	.15
Public accountability information . . . . .	.15
Comparison of planned and actual results . . . . .	.16
Payee lists . . . . .	.23
Assessment of CIC's 1996 annual report . . . . .	.29
Corporate activities . . . . .	.32
CIC should table agreements . . . . .	.32
Matters of continuing importance . . . . .	.37
Section contents . . . . .	.37
Public policy and business objectives disclosure . . . . .	.38
Standard assumptions for pension liabilities . . . . .	.41
Table - Subsidiaries and pension plans under CIC's control	Page 35

Chapter 4

Crown Investments Corporation of Saskatchewan

Introduction

.01 Crown Investments Corporation of Saskatchewan (CIC) advises the Executive Council (Cabinet) about Crown corporations (subsidiaries) and pension plans under CIC's control. A list of subsidiaries and pension plans appears in the Table at the end of this Chapter. CIC also holds investments in several companies.

.02 CIC's *Annual Report 1996* contains three sets of financial statements. The first set shows CIC's results consolidated with those of its subsidiaries. The second set shows the results of activities of CIC, the legal entity. The third set shows the results of activities that CIC manages through its subsidiary CIC Industrial Interests Inc. (CIC III).

.03 The first set of financial statements shows CIC had revenue of over \$3 billion in 1996 and held assets of nearly \$8 billion at December 31, 1996.

Key issues facing CIC

.04 To carry out our work, one of our objectives is to ensure we understand the key issues of significance and risk facing a government agency. Also, it is important that MLAs and the public are aware of these key issues and receive information about them. We believe this will help MLAs and the public better understand and assess an agency's performance.

.05 We reviewed the CIC Board's responsibilities outlined in *The Crown Corporations Act, 1993* and updated our knowledge of CIC's business, management, and operating environment. From this, we noted four key issues facing CIC:

- Giving Cabinet relevant and reliable information.
- Monitoring and evaluating CIC's subsidiaries.
- Managing CIC's investments.
- As a secondary objective, pursuing economic development and diversification opportunities.

We discussed our understanding of these issues with CIC and confirmed we identified the right issues.

.06 Giving Cabinet relevant and reliable information. CIC's Board is responsible to Cabinet for monitoring and evaluating CIC's subsidiaries and for making and managing investments. CIC's Board provides information, analysis and advice to Cabinet on CIC's subsidiaries and its major investments. Cabinet uses this information to make important decisions about this significant part of the Government's overall activities.

.07 To be effective, CIC's Board needs to know the Government's overall strategic direction. Inadequate information can result in poor decisions. Also, inadequate information could prevent CIC and the Government from reaching their goals. It is important CIC's Board has systems and practices to provide relevant and reliable information to Cabinet.

.08 Monitoring and evaluating CIC's subsidiaries. CIC's subsidiaries are a key part of the Government's activities. In addition, the Government uses these agencies to achieve its overall goals. Integrating the priorities and plans of CIC's subsidiaries with those of the Government as a whole helps the Government to meet its goals.

.09 CIC's Board is responsible to Cabinet for monitoring the performance and co-ordinating the direction of CIC's subsidiaries. It is important CIC has adequate systems and practices to ensure its subsidiaries are properly monitored and evaluated and that their directions are co-ordinated to help meet the Government's overall goals.

.10 - Managing CIC's investments. CIC is responsible for making and managing investments. These investments include corporations, joint ventures and partnerships (e.g., HARO Financial Corporation and Bi-Provincial Upgrader). CIC's investments are important because they often involve large amounts of public money. Also, the Government uses CIC's investments to help achieve its overall goals. CIC needs adequate systems and practices to ensure it meets the Government's goals.

.11 CIC's Board is responsible for advising Cabinet about new investment opportunities. Making investments without sufficient analysis may expose the Government to undesired

Chapter 4 Crown Investments Corporation of Saskatchewan

financial commitments and risks. Therefore, it is important CIC has adequate systems and practices to evaluate investments.

.12 As a secondary objective, pursuing economic development and diversification opportunities. One of the Government's goals is to strengthen the provincial economy. A strong, diversified economy will help protect Saskatchewan from the effects of economic cycles associated with agricultural and resource industries.

.13 CIC contributes to this goal by pursuing expansion and diversification opportunities. Through its investments, CIC can participate directly in non-traditional manufacturing and business enterprises. It is important CIC has systems and practices to manage the additional risk associated with new business ventures to ensure there is a balance between risk and reward.

Our audit conclusions
and findings

.14 In our opinion:

- CIC's 1996 financial statements are reliable;
- CIC had adequate rules and procedures to safeguard and control its assets; and
- CIC complied with the authorities governing its activities related to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing, except for the matter described in paragraphs .32 to .36.

We note other matters for the Assembly's attention in paragraphs .15 to .31 and .37 to .45.

Crown corporation reporting

Public accountability
information

.15 CIC's annual report and the annual reports of its subsidiaries do not contain all of the essential accountability information described in paragraphs .16 to .28.

Comparison of
planned and actual
results

.16 CIC's annual report and the annual reports of its subsidiaries do not include comparisons of planned activities to actual results. It is difficult to understand and assess their performance without knowing what they planned to achieve. We think this information is essential.

.17 To assess the performance of Crown agencies, the public needs adequate summary information about the plans of those agencies. The accountability framework for Crown agencies should ensure they provide this information publicly. Information they should provide includes their vision, long-range goals, specific objectives, key performance targets, and main strategies for achieving those targets.

.18 A superior standard of public sector accountability is gaining acceptance in other provinces and other countries. Legislatures are intent on holding governments and their agencies accountable for achieving results and improving effectiveness, public accountability, management, and legislative decision-making.

.19 For example, the U.S. *Government Performance and Results Act* establishes an accountability framework that takes effect beginning in 1997. It requires each U.S. federal agency to produce:

- a strategic plan that includes a mission statement, goals and objectives, a description of inputs and processes, performance goals, risks, and program evaluations.
- an annual performance plan for each activity in its budget including measurable performance goals, performance indicators, comparisons to actual and a description of the means used to verify the results.
- an annual report on actual performance, including a comparison to the goals set out in its performance plan.

.20 Some governments have already implemented new accountability models. Others are in the process of developing models to serve as a framework for publicly reporting on their plans and performance.

Chapter 4 Crown Investments Corporation of Saskatchewan

.21 CIC and some of its subsidiaries have begun to expand the performance data they provide in their annual reports. We support this initiative. We encourage them to continue to review the experiences of other public sector agencies and continue to experiment with alternative means of reporting key plans, performance targets and results.

We recommend

.22 CIC should ensure its annual report and the annual reports of its subsidiaries include comparisons of planned activities to actual results.

Payee lists

.23 CIC and its subsidiaries did not give the Assembly a list of persons who received public money in 1996.

.24 The Standing Committee on Public Accounts recommended that *Crown corporations should have the same public reporting requirements as do Government departments unless otherwise stated in the mandate of the corporation.*

.25 A key to accountability is public knowledge of who received public money. Public accountability is strengthened when all government agencies provide a list of payees. Therefore, we believe CIC and its subsidiaries should also provide a list of payees. This way, the Assembly can review CIC's and its subsidiaries' use of public money. We think this information is essential. Most government organizations other than CIC and its subsidiaries now provide this type of information.

.26 Providing this information does not harm CIC's ability to manage its business successfully. We encourage CIC to establish a policy whereby CIC and its subsidiaries would begin to provide this type of information.

We recommend

.27 CIC and its subsidiaries should give the Assembly a list of persons and the amount of public money they paid to them.

.28 For a further discussion of the importance of this matter, see Chapter 1, **Executive Council**.

Chapter 4 Crown Investments Corporation of Saskatchewan

Assessment of CIC's
1996 annual report

.29 In Chapter 4 of our *Report of the Provincial Auditor: 1994 Fall* (1994 Fall Report), we reported on the adequacy of information contained in annual reports of Crown agencies. This year, our work at CIC included assessing CIC's 1996 annual report using the same criteria we noted in our 1994 Fall Report.

.30 Those criteria state that annual reports should describe what the corporation is all about, what it has done, where it is now, and what it plans to do. In addition, annual reports should make information available promptly and communicate information effectively.

.31 Our assessment showed that CIC's 1996 annual report provides MLAs and the public with much useful information. In addition, we gave CIC our suggestions for improving future annual reports. CIC told us it wants to continue to improve its annual reports and will use our suggestions when considering changes. We plan to assess CIC's 1997 annual report to see how CIC reports on its key issues. We will include details of our findings in a future Report.

Corporate activities

CIC should table
agreements

.32 CIC did not give the Assembly a copy of a share purchase agreement signed during the year.

.33 Subsection 29(6) of *The Crown Corporations Act, 1993* requires Crown corporations that purchase shares to give the Assembly a copy of the related share purchase agreement.

.34 CIC signed a share purchase agreement with Biostar Inc. on May 10, 1996. However, CIC did not give the Assembly this agreement.

We recommend

.35 CIC should give the Assembly a copy of the share purchase agreement related to Biostar Inc.

.36 CIC told us it gave the Assembly this agreement in 1997.

Matters of continuing importance

Section contents

.37 In 1996, we said we were monitoring CIC's progress on several matters initially reported in previous years. This section provides an update on those matters.

Public policy and business objectives disclosure

.38 Previously, we recommended *CIC should ensure public policy objectives for CIC and its subsidiary Crown corporations are prepared and presented to the Crown Corporations Committee for review.*

.39 In the public sector, public policy matters are an important part of an agency's business. Boards must consider both public policy and business objectives when carrying out their responsibilities. One of the components of CIC's business plan is "...to ensure policy objectives of the government are adhered to." MLAs and the public need to know corporations' public policy objectives so they can understand and assess their performance.

.40 CIC began a review of its subsidiaries in 1996. As part of the review, CIC considered their public policy objectives. The final report states, "...the Government of Saskatchewan, through [CIC], needs to clearly define public policy responsibility for the commercial Crown corporations." We will continue to monitor the action CIC takes to address issues raised in that report.

Standard assumptions for pension liabilities

.41 Previously, we recommended *CIC should establish and document standard assumptions for use by its subsidiary Crown corporations.*

.42 All of CIC's subsidiaries' pension plans used the same estimated inflation rate to calculate pension liabilities in 1996. Also, all plans used the same assumption for estimated future benefit increases related to cost of living adjustments (COLA), except for the Saskatchewan Telecommunications Superannuation Plan (SaskTel Plan). If the SaskTel Plan had used the same estimate of COLA increases as other plans, its pension liability would have been \$19.7 million less.

Chapter 4 Crown Investments Corporation of Saskatchewan

.43 COLA increases for all Crown pension plans are normally the same. Therefore, all plans should use the same estimate of future COLA increases to calculate pension liabilities.

.44 Also, since CIC prepares consolidated financial statements, we think CIC should use consistent assumptions for the same variable to calculate its pension liabilities.

.45 Accordingly, we continue to recommend CIC should establish and document standard pension plan assumptions for use by its subsidiary Crown corporations.

Table
Subsidiaries and pension plans under CIC's control

CIC Industrial Interests Inc.
CIC Pulp Ltd.
CIC Forest Products Ltd.
National Pig Development (Canada) Co. Ltd.
Capital Pension Plan

CIC Mineral Interests Corporation

Saskatchewan Development Fund Corporation
Saskatchewan Development Fund

SaskEnergy Incorporated
TransGas Limited
Bayhurst Gas Limited
Many Islands Pipe Lines (Canada) Limited
SaskEnergy International Incorporated

Saskatchewan Forest Products Corporation

Saskatchewan Government Growth Fund Management Corporation
Saskatchewan Government Growth Fund Ltd.
Saskatchewan Government Growth Fund II Ltd.
Saskatchewan Government Growth Fund III Ltd.
Saskatchewan Government Growth Fund IV Ltd.

Saskatchewan Government Insurance
SGI Canada Insurance Services Ltd.
Saskatchewan Government Insurance Superannuation Plan

Saskatchewan Opportunities Corporation

Saskatchewan Power Corporation
SaskPower Commercial Inc.
Channel Lake Petroleum Ltd.
Power Greenhouses Inc.
Northern Enterprise Fund Inc.
Power Corporation Superannuation Plan

Saskatchewan Telecommunications Holding Corporation
Saskatchewan Telecommunications
Saskatchewan Telecommunications International Inc.
DirectWest Publishers Inc.
NST Network Services Inc.
Saskatchewan Telecommunications Employees' Superannuation Plan

Saskatchewan Transportation Company

Saskatchewan Water Corporation

Chapter 5
Saskatchewan Power Corporation

Table of Contents

Introduction . . . . .	.01
Subsidiaries and the pension plan . . . . .	.04
Our audit conclusions and findings . . . . .	.07
Cabinet chose to direct SaskPower not to record revenue . . . . .	.09
Rules and procedures for gas marketing arbitrage business were inadequate . . . . .	.27
Share purchase lacked approval . . . . .	.39

Chapter 5

Saskatchewan Power Corporation

Introduction

.01 The Corporation (SaskPower) provides electrical energy in the Province. SaskPower controls the companies described in paragraph .04. SaskPower also sponsors the pension plan described in paragraph .05.

.02 SaskPower prepares consolidated financial statements to report on its activities. The consolidated financial statements include the financial activities of SaskPower and companies it controls (subsidiaries).

.03 SaskPower had revenue of \$982 million in 1996. At December 31, 1996, it held assets of \$3.3 billion. SaskPower's *1996 Annual Report* includes its consolidated financial statements. The consolidated financial statements understate SaskPower's revenue and net income by \$14 million. The Government's summary financial statements for the year ended March 31, 1997, include the financial results of SaskPower.

Subsidiaries and the pension plan

.04 At December 31, 1996, SaskPower controlled the following companies:

- **Channel Lake Petroleum Ltd. (Channel).**
Channel is incorporated under *The Business Corporations Act* [Alberta]. SaskPower holds all the shares of Channel. Channel owns and operates several petroleum and natural gas properties in Alberta.

Channel had \$43 million in assets at December 31, 1996. During 1996, Channel had revenues of \$85.1 million and a net loss of \$ 2.5 million.

- **SaskPower Commercial Inc. (Commercial).**
Commercial is incorporated under *The Business Corporations Act* [Saskatchewan]. SaskPower holds all the shares of Commercial. Commercial's mandate is to create opportunities in non core and international markets and enhance the value of skills, technologies and products resident in SaskPower.

Chapter 5 Saskatchewan Power Corporation

Commercial had \$0.8 million in assets at December 31, 1996. During 1996, Commercial had revenues of \$3 million and a net loss of \$70,000.

- **Power Greenhouses Inc. (Greenhouse).**
Greenhouse is incorporated under *The Business Corporations Act* [Saskatchewan]. SaskPower holds all the shares in Greenhouse. Greenhouse's mandate is to produce tree seedlings suitable for planting in the prairies.

The Greenhouse had \$3.6 million in assets at December 31, 1996. Its sole source of revenue is from SaskPower. During 1996, SaskPower reimbursed the Greenhouse for its costs of operations, totalling \$435,000.

- **Northern Enterprises Fund Inc. (Northern).**
SaskPower established Northern in 1988 to provide economic and educational support to the residents of northern Saskatchewan.

Northern had assets of \$5.5 million at December 31, 1996. During 1996, it had revenues of \$1.4 million. Contributions from SaskPower comprise Northern's revenue. These contributions are based on power generated in northern Saskatchewan and investment income.

.05 The Power Corporation Superannuation Plan (Plan) is a defined benefit pension plan. *The Power Corporation Superannuation Act* established the Plan for employees of SaskPower hired before October 1, 1977. A Board appointed by the Lieutenant Governor in Council administers the Plan.

.06 At December 31, 1996, the Plan had assets of \$571 million and liabilities of \$529 million.

Our audit conclusions
and findings

.07 Our Office worked with Ernst & Young, the appointed auditor for SaskPower, Channel, Commercial, Northern and the Plan. Also, our Office worked with Matchett, Potts & Seipp, the appointed auditor for Greenhouse. Our Office and the appointed auditors worked together using the framework recommended by the *Report of the Task Force on Roles,*

Chapter 5 Saskatchewan Power Corporation

Responsibilities and Duties of Auditors. The appointed auditors and our Office formed the opinions in paragraph .08.

.08 In our opinion:

- the financial statements of SaskPower, its subsidiaries and the Plan are reliable except for the matter described in paragraphs .09 to .26. Ernst & Young formed a different opinion on the financial statements of SaskPower. Ernst & Young reports the financial statements of SaskPower are reliable;
- SaskPower, its subsidiaries and the Plan had adequate rules and procedures to safeguard and control their assets except for the matter described in paragraphs .27 to .38; and
- SaskPower, its subsidiaries and the Plan complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matter described in paragraphs .39 to .45. Ernst & Young has not formed an opinion on this matter because there are conflicting legal opinions on the issue.

Cabinet chose to direct SaskPower not to record revenue

.09 In its 1996 financial statements, SaskPower reports total revenue of \$968 million and net income of \$139 million.

.10 In our opinion, SaskPower's financial statements are incorrect. They understate both total revenue and net income by \$14 million. SaskPower should report its total revenue as \$982 million not \$968 million. SaskPower should report its net income as \$153 million not \$139 million.

.11 In April 1997, we issued a Special Report to advise the Assembly of our concerns regarding SaskPower's financial statements. We include the *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan on Executive Council (Cabinet) & SaskPower - April 1997* in Appendix VI to this Report.

Chapter 5 Saskatchewan Power Corporation

.12 In 1996, SaskPower billed its customers a new flat-rate charge. They called this charge a “reconstruction charge.” The reconstruction charge totalled \$14 million for 1996. SaskPower expects to bill its customers similar amounts for 1997 and future years.

.13 In its 1996 financial statements, SaskPower followed the accounting rules set by Cabinet. SaskPower did not report as revenue the \$14 million charged to its customers. Also, SaskPower plans to report the \$14 million as a reduction in the amount of expenses SaskPower will report in the future.

.14 In our opinion, SaskPower should report the \$14 million “reconstruction charge” as revenue because it billed this amount as part of the rates it charged for the electrical energy supplied to its customers. It is commonly understood that what a business charges for services and products is recorded as revenue. Therefore, SaskPower’s 1996 financial statements understate both revenue and net income by \$14 million.

.15 We encourage Cabinet to direct SaskPower to record its “reconstruction charge” as revenue. Cabinet directed SaskPower to use the money collected from the “reconstruction charge” to help pay for infrastructure upgrades and reconstruction. If Cabinet wishes to show publicly that SaskPower uses the money from this charge for infrastructure upgrades and reconstruction, SaskPower can show that information in the notes to its financial statements. There is no need to direct SaskPower to exclude the “reconstruction charge” from revenue.

.16 We encourage Cabinet to ensure its Crown corporations follow the rules set out by The Canadian Institute of Chartered Accountants (CICA). The CICA provides accounting rules for measuring revenue. Using those rules ensures the financial performance of corporations is measured in a consistent and comparable manner.

.17 We issued our Special Report to express our concerns about moving to a system of accounting in which revenues and expenses are measured differently by government corporations. Such a system would make it impossible to understand, compare and assess the performance of government corporations such as SaskPower, SaskTel, SaskEnergy and STC.

Chapter 5 Saskatchewan Power Corporation

.18 In such a system, government corporations might account for similar transactions differently or account for similar transactions differently from one year to the next.

.19 In such a system, the important performance measures, e.g., net income and return on investment, contained within financial statements would not be useful because those measures would be calculated differently. This would make it difficult for Members of the Legislative Assembly (MLAs) and the public to understand, compare and assess the performance of government corporations.

.20 Increasingly, government corporations are facing competitive pressures. More than ever, MLAs and the public need to be able to understand and assess the financial performance of these corporations. To understand and assess performance, MLAs and the public need these companies to follow rigorous accounting rules to report their performance in a consistent and comparable manner.

.21 Over the last six years, the Government has strengthened the integrity of the financial information provided to the Assembly. The Government now publishes excellent summary financial statements. Crown Investments Corporation has made solid improvements to its financial reporting. There are many other examples of good financial reporting progress.

.22 However, the practices followed and arguments posed by government officials with respect to SaskPower are a worrisome step backwards. Government officials referred me to the financial statements of utility corporations in other provinces. I could not find an example of a similar "reconstruction charge." Also, I could not find an example where the Executive Council (Cabinet) of a provincial government sets the rates charged by such corporations.

.23 In other provinces, utility corporations use accounting rules set by their public rate regulators. Those rules vary from jurisdiction to jurisdiction. Also, those rules vary from the general income measurement rules recommended by The CICA. As a result, the accounting measures in their financial statements are not comparable among "rate-regulated" corporations. This makes it difficult to compare performance of similar enterprises between jurisdictions. In addition, the

Chapter 5 Saskatchewan Power Corporation

accounting measures are not comparable to other business enterprises.

.24 SaskPower plans to continue to exclude the “reconstruction charge” from revenue in 1997 and future years. We encourage Cabinet to reconsider its choice to direct SaskPower not to include the “reconstruction charge” as revenue.

We continue to recommend

.25 Cabinet should direct SaskPower to:

- record the “reconstruction charge” as revenue;
- record the revenue from the “reconstruction charge” in the year customers are charged; and
- amend and re-issue its 1996 financial statements, accordingly.

SaskPower’s comments

.26 *“As servants of the Crown, SaskPower management recognizes and accepts responsibility to ensure that the Corporation’s assets are safeguarded and that financial records are relevant and reliable. In the opinion of management, SaskPower’s accounting treatment of the Capital Reconstruction Charge (CRC) is appropriate in accordance with rules established by the accounting profession.*

Management arrived at this conclusion based on significant due diligence, including reference to rules established by the Canadian Institute of Chartered Accountants and the Financial Accounting Standards Board in the United States, established electric utility practice, and reference to accounting literature. SaskPower also obtained accounting opinions from electric utility experts from all six national accounting firms which supported the treatment of the CRC as a non-revenue item.

Chapter 5 Saskatchewan Power Corporation

SaskPower is preparing for the advent of competition in the electric utility industry. In order to assess SaskPower's ability to compete and succeed in a deregulated environment, users of the financial statements compare SaskPower's performance against that of potential competitors. Therefore, following accounting rules and procedures for the CRC which are consistent with, and generally accepted in, the electric utility industry allows users to conduct meaningful performance assessments."

Rules and procedures for gas marketing arbitrage business were inadequate

.27 Channel Lake Petroleum Ltd. (Channel) lacked adequate rules and procedures for its gas trading activities.

.28 In late 1995, Channel began a natural gas marketing arbitrage business. This business involves the simultaneous purchase of gas from one company and the sale to another. These purchase/sale transactions take place over an agreed period. Normally, a gas broker arranges the deals. The broker puts together buyers and sellers and offers the deal to a third party. The third party earns a profit from the price differential between the purchase and sale of the gas.

.29 Channel operated as the third party and collected the price differential. In 1996, the differential between the purchase and sale price was around 0.4 per cent. In return for this profit, Channel accepted the risks of defaults by the parties to the deals.

.30 The gas marketing arbitrage business involves future trading. For example, the purchase and sale may take place several months into the future. The prices may be fixed in advance or variable depending upon market prices.

.31 Channel began its gas marketing arbitrage business to take advantage of its surplus of storage facilities. Also, Channel wanted to increase its revenues. In 1996, Channel's gas marketing activity was extensive. Channel made 104 gas arbitrage deals. Sales totalled \$79 million and purchases totalled \$81 million.

.32 In November 1996, two companies that Channel had contracted with went bankrupt. One company that went

Chapter 5 Saskatchewan Power Corporation

bankrupt owed Channel \$400,000. Channel was unable to collect the \$400,000.

.33 Also, the bankrupt companies were no longer able to fulfill their contracts to supply gas to Channel. However, Channel still had to fulfill its contracts to supply gas to others. Channel had to buy gas to fulfill its contracts. Due to increasing gas market prices, Channel had to pay more for gas than it would have paid under its contracts with the bankrupt companies. This resulted in substantial further losses to Channel (see paragraph .36).

.34 Channel's rules and procedures to safeguard and control its assets had the following significant weaknesses:

- The Board of Directors of Channel did not approve rules and procedures to safeguard its assets from risks assumed by its new gas trading activities.

In December 1995, Channel's Board limited Channel's gas trading to \$50 million a year. It later increased the limit to \$100 million for the first nine months of 1996. However, Channel's board of directors did not approve additional rules and procedures to safeguard Channel's assets from risks assumed by its new gas trading business. These risks included the risk of default by parties to the gas arbitrage deals. Specifically, Channel's risks were that:

- a buyer may not pay Channel for gas delivered;
- a buyer may not take delivery of gas leaving Channel with excess gas; and
- a seller may not deliver gas to Channel leaving Channel to purchase additional gas at higher prices to fulfill its contracts.

These risks were increased by the volatility in the market price of natural gas.

Management had draft guidelines in place. These guidelines were under review and had not been approved by Channel's Board. Also, we could not determine if they were used to govern Channel's daily gas trading activities.

- Management lacked an adequate credit approval process to manage the credit risk of defaults by parties to its gas arbitrage marketing deals.

For example, no specific criteria existed to decide credit worthiness of companies before making gas trading contracts. Generally, management did basic credit checks and requested financial statements. However, they did not reconcile the credit risk assumed to the overall financial resources of the parties to the contracts. Also, they did not use tools, such as, letters of credit to reduce the risks to Channel of defaults by parties to its arbitrage deals.

- Management should have had a more comprehensive reporting and approval process for the gas marketing activities to allow the Board to fully understand and manage the risks involved.

Channel's business plans outlining its gas trading objectives should have clearly described the risks involved in the gas marketing arbitrage business. These plans should have outlined the ways to reduce those risks. Also, the plans should have included an assessment of the potential return from the gas marketing arbitrage business compared to the risks accepted.

We found no evidence that management made regular assessments of potential losses from defaults by the parties to its gas trading contracts. Also, we found no evidence management reported such assessments to the Board as part of the financial reporting process.

The cost to replace gas due to a default can be very high due to the volatility of gas prices.

Chapter 5 Saskatchewan Power Corporation

Such assessments would have highlighted the growing potential loss due to higher than expected gas prices. If these assessments had been prepared on a regular basis, they may have prompted management or the Board to take steps to limit its risk of potential losses from defaults.

- Management did not segregate the duties between the gas trading function and the risk management and reporting functions.

The individual with authority to make gas trading deals was also responsible for assessing credit risk exposure and for the risk management and reporting functions.

.35 On November 27, 1996, the Board of Channel resolved that Channel stop all natural gas trading except for those required to cover existing contracts. There were 47 arbitrage deals outstanding.

.36 In 1997, management estimated Channel would incur additional losses of \$5.6 million to fulfill its sales contracts.

.37 SaskPower told us they sold Channel in 1997.

We recommend

.38 SaskPower should ensure its subsidiaries have rules and procedures to safeguard and control their assets.

Share purchase
lacked approval

.39 Channel lacked proper approval for the purchase of common shares.

.40 In 1996, Channel acquired common shares of an oil and gas production company. Channel paid \$364,000 for the shares.

.41 Subsection 12(1) of *The Power Corporation Act* and subsection 29(1) of *The Crown Corporations Act, 1993* require SaskPower to obtain Lieutenant Governor in Council (Cabinet) approval before it can purchase shares of a company.

.42 SaskPower believes there is no legislative requirement to obtain Cabinet's approval for the purchase of shares by one

Chapter 5 Saskatchewan Power Corporation

of its subsidiaries. Therefore, SaskPower did not obtain Cabinet approval.

.43 We believe SaskPower requires Cabinet's approval before its subsidiaries purchase shares of a company. We think a subsidiary of SaskPower cannot exercise powers beyond those of SaskPower itself. Otherwise, the restrictions placed on SaskPower by the Legislative Assembly in *The Power Corporation Act* would be pointless. SaskPower should not be able to do things beyond its own mandate by incorporating a subsidiary with powers greater than its own. That, in our opinion defeats the object of the Act.

.44 We note other Crown corporations obtain Cabinet approval for the purchase of shares. For example, Crown Investments Corporation obtained approval for its subsidiary CIC Industrial Interests Inc. to purchase shares.

We recommend

.45 **SaskPower should obtain Cabinet approval before its subsidiaries purchase shares in any body corporate.**

Chapter 6
SaskEnergy Incorporated

Table of Contents

Introduction . . . . .	.01
Our audit conclusions and findings . . . . .	.04
Authority for debt needed . . . . .	.07
Guidance needed on role of Board and role of Chair . . . . .	.12
Essential public accountability information required . . . . .	.21
Comparison of planned and actual results required . . . . .	.22
List of persons who received public money required . . . . .	.27

Chapter 6

SaskEnergy Incorporated

Introduction

.01 SaskEnergy Incorporated provides natural gas service to residential, farm, commercial and industrial customers in Saskatchewan.

.02 SaskEnergy prepares consolidated financial statements to report on its activities. These statements include the financial activities of SaskEnergy and its wholly-owned companies (subsidiaries) TransGas Limited, Many Islands Pipelines (Canada) Limited, Bayhurst Gas Limited, and SaskEnergy International Incorporated.

.03 In 1996, SaskEnergy's consolidated financial statements report revenue of \$390 million, net income of \$73 million, and assets of \$1,132 million. SaskEnergy's *1996 Annual Report* contains its consolidated financial statements. The Government's summary financial statements for the year ended March 31, 1997 include the financial results of SaskEnergy.

Our audit conclusions and findings

.04 Our Office worked with Ernst & Young (SaskEnergy's appointed auditor) using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. Ernst & Young and our Office formed the following opinions.

.05 In our opinion:

- the financial statements of SaskEnergy and its wholly-owned subsidiaries are reliable;
- SaskEnergy and its wholly-owned subsidiaries have adequate rules and procedures to safeguard and control their assets; and
- SaskEnergy and its wholly-owned subsidiaries complied with authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing, except for the matters we report in paragraphs .07 to .11.

.06 We also note other matters for the Assembly's attention in paragraphs .12 to .31.

Chapter 6 SaskEnergy Incorporated

Authority for debt
needed

.07 TransGas should obtain approval for new debt.

.08 TransGas made agreements to borrow \$4.8 million to finance the construction of two natural gas caverns. We think SaskEnergy and its subsidiaries require approval for new debt from both the Minister of Finance under *The Financial Administration Act* and the Lieutenant Governor in Council under *The SaskEnergy Act*. TransGas did not obtain either of these approvals.

.09 The Department of Finance told TransGas that the Minister of Finance's approval for the debt was not needed. Also, TransGas received legal advice that the Lieutenant Governor in Council's approval for the debt was unnecessary.

.10 We think, supported by our own legal advice, the law requires TransGas to obtain both these approvals.

We recommend

.11 SaskEnergy should obtain the Minister of Finance's and the Lieutenant Governor in Council's approval for all debt.

Guidance needed on
role of Board and role
of Chair

.12 The Board of Directors needs to better understand when it is a decision maker and when it is an advisor. The Board also needs to better understand the role of the Minister as chair of the Board.

.13 For board members to perform well, they need to understand their responsibilities, roles and duties. In our *Report of the Provincial Auditor: 1995 Fall*, Chapter 4 - **Boards of Directors of Crown Agencies**, we describe the need for board members to understand when they can make decisions governing their agencies, e.g., SaskEnergy, and when they are limited to advising other government decision makers who make decisions governing their agency.

.14 From time to time, the Government directs Crown corporations to carry out broad policy initiatives. These initiatives may include subsidizing a certain industry or group. One of the roles of the Board Chair is to explain government policy initiatives to Board members. When the Chair takes an active role in the implementation of government policy through a Crown corporation, the Board may be uncertain whether it is responsible for decisions the Chair causes management to take.

Chapter 6 SaskEnergy Incorporated

The Government should provide guidance on the Board's role and responsibilities in those circumstances.

.15 Senior management and the Board of Directors brought to our attention the agreements we describe in paragraphs .07 to .11 and in the following paragraphs.

.16 TransGas made agreements in May 1994 to finance the construction of two underground natural gas storage caverns costing \$4.8 million. Upon completion of construction, TransGas is required to borrow \$4.8 million for a maximum period of 50 years. At every five year interval, the lender has the option to have TransGas repay the debt in full. Also, at every five year interval, TransGas, under certain economic conditions, has the option to repay the debt in full. The interest rate of the debt is 13.5 %. This interest rate is significantly higher than the rate TransGas could obtain from the Department of Finance. According to management, TransGas accepted the high interest cost to fulfil a government policy initiative.

.17 The Board asked the Crown Investments Corporation of Saskatchewan (CIC) to clarify the role of the Board of Directors when a major policy initiative of the Government affects the Corporation. For example, the Board needs to know what role it has in deciding how such policy initiatives are to be carried out with the resources of SaskEnergy.

.18 The Board has also asked CIC to clarify the role of the Board Chair. The Board expressed concern that the Chair was able to operate in isolation from the Board. The Board wants to ensure its Chair (i.e., the Minister) is not able to carry out government policy initiatives without the knowledge of the Board.

We recommend

.19 Crown Investments Corporation of Saskatchewan should issue guidelines to ensure members of the Board of Directors of SaskEnergy understand their responsibilities, roles and duties pertaining to broad policy objectives of the Government.

.20 Crown Investments Corporation of Saskatchewan should issue guidelines explaining the role of Crown corporation Board chairs.

Chapter 6 SaskEnergy Incorporated

Essential public
accountability
information required

.21 SaskEnergy's annual report requires essential accountability information as described in paragraphs .22 to .31.

Comparison of
planned and actual
results required

.22 SaskEnergy's annual report does not include comparisons of planned performance to actual results.

.23 It is difficult to understand and assess SaskEnergy's performance without knowing what it planned to achieve. We think this information is essential.

.24 For example, for the year ended December 31, 1996, SaskEnergy's net earnings were \$73 million. Because SaskEnergy has not set out its planned annual net earnings, legislators and the public cannot assess whether SaskEnergy has performed as planned.

We recommend

.25 SaskEnergy should include comparisons of planned performance to actual results in its annual report.

.26 For further discussion of the importance of this matter, see Chapter 4, **Crown Investments Corporation of Saskatchewan**.

List of persons who
received public money
required

.27 SaskEnergy did not provide the Assembly with a list of persons who received public money.

.28 The Standing Committee on Public Accounts (PAC) recommended that *Crown corporations should have the same public reporting requirements as do Government departments unless otherwise stated in the mandate of the corporation*.

.29 We are often reminded that public disclosure is important for three reasons. First, public disclosure serves to remind all government officials they are spending money that is entrusted to them by the public. Second, public disclosure adds rigour to decision-making as it ensures those who spend public money know their use of that money will be public. Third, public disclosure ensures the public knows who has received their money.

We recommend

.30 SaskEnergy should provide the Assembly with a list of persons who received public money and the amounts.

Chapter 6 SaskEnergy Incorporated

.31 For further discussion of the importance of this matter, see Chapter 1, **Executive Council**.

Chapter 7 Energy and Mines

Table of Contents

Introduction . . . . .	.01
Our audit conclusions and findings . . . . .	.04
NewGrade payments need authority . . . . .	.05

Chapter 7 Energy and Mines

Introduction

.01 The Department of Energy and Mines is responsible for managing Saskatchewan's energy and mineral resources.

.02 In 1997, the Department had expenses of \$14.8 million and collected revenue of \$916 million. Information about the Department's revenues and expenses appear in the *Public Accounts 1996-97 Volume 2*.

.03 The following is a list of the Department's major tax and royalty revenues:

	1994		1995		1996		1997	
	Original Estimates	Actual	Original Estimates	Actual	Original Estimates	Actual	Original Estimates	Actual
Oil	\$ 235	\$ 300	\$ 212	\$ 529	\$ 348	\$ 447	\$ 363	\$ 691
Potash	59	51	49	89	72	122	113	88
Natural Gas	34	50	91	61	68	41	53	53
Uranium	26	32	25	20	17	44	21	58
Coal	14	15	15	16	15	15	14	15
Other	10	13	10	11	12	13	5	11
Total	\$ 378	\$ 461	\$ 402	\$ 726	\$ 532	\$ 682	\$ 569	\$ 916

Our audit conclusions and findings

.04 In our opinion:

- the Department had adequate rules and procedures to safeguard and control its assets; and
- the Department complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matters described in paragraphs .05 to .15.

NewGrade payments need authority

.05 The Department paid \$1,034,729 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 authority to issue this Order is Section 24 of *The Financial Administration Act, 1993*.

.06 The Order imposes the following conditions:

Chapter 7 Energy and Mines

- Producers of the gas must pay the Department the full amount of royalties due under the law.
- They also must assign to NewGrade their right to the remission under this Order.
- The Department must pay the amount of the remissions to NewGrade for a minimum of fifteen years or until NewGrade's debt, guaranteed by the Government in December 1986, is paid. As at March 31, 1997, \$196.8 million of this guaranteed debt was unpaid.

.07 Section 24 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.

.08 We believe the only persons who can be forgiven royalties are the persons liable to pay the royalties. Because the Order imposes the condition that the producers must still pay, there is no forgiveness. The only change is that NewGrade receives the moneys collected instead of the Crown. Therefore, the effect of the Order is not a remission to producers but a grant to NewGrade.

.09 Section 24 of the Act gives Cabinet the power to remit royalties but not the power to make grants. Accordingly, the grant of \$1,034,729 to NewGrade is not authorized under Section 9 of *The Department of Energy and Mines Act*.

.10 The Department records this grant as a reduction of revenue. We think the Department should record this grant as an expense. Recording the grant as an expense would provide the Legislative Assembly the opportunity to annually debate and provide the money to pay the grant. We think this is an important parliamentary principle.

.11 Under *The Provincial Auditor Act*, we are required to report to the Assembly payments that, in our opinion, are without authority. In our previous reports to the Assembly, we also have reported this matter. In these Reports, we recommend:

The Estimates should present future payments to NewGrade under this agreement as expenditures.

Chapter 7 Energy and Mines

The Department should report these payments as an expense of the Department.

.12 The Standing Committee on Public Accounts of the Twenty-Second Legislature considered this matter several times. This Committee made the following recommendation to the Assembly on May 25, 1992, March 17, 1993 and March 29, 1994:

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.

.13 The Assembly concurred with the 1992, 1993 and 1994 recommendations of this Committee.

.14 The Standing Committee on Public Accounts of the Twenty-Third Legislature considered this matter on December 13, 1996. This Committee reported as follows to the Assembly on April 24, 1997:

Your Committee reports that it disagrees with the Provincial Auditor's recommendations made at paragraphs 15.15 and 15.16, concerning the accounting of future payments to NewGrade Energy Inc. and the reporting of the payments of expenses. It is your Committee's view that the Department is in compliance with the accounting requirements provided for in section 24 of The Financial Administration Act as it pertains to Order-in-Council 7/89.

.15 The Assembly concurred with the Committee's report.

Chapter 8

Saskatchewan Government Insurance

Table of Contents

Introduction . . . . .	.01
Our audit conclusions and findings . . . . .	.05
SGI's fraud management system . . . . .	.10
Significance of the audit . . . . .	.10
Audit objective . . . . .	.12
Audit criteria used . . . . .	.13
Audit work . . . . .	.16
Audit conclusions . . . . .	.18
Our audit findings . . . . .	.24
Criterion 1 . . . . .	.25
Criterion 2 . . . . .	.31
Criterion 3 . . . . .	.35
Criterion 4 . . . . .	.41
Criterion 5 . . . . .	.45

Chapter 8

Saskatchewan Government Insurance

Introduction

.01 Saskatchewan Government Insurance (SGI) is a property and casualty insurance corporation. SGI also manages The Saskatchewan Auto Fund (SAF). SAF receives money from the motoring public and pays claims.

.02 SGI earned revenue of \$144.1 million during 1996 and held assets of \$333.7 million as at December 31, 1996. SGI's *Annual Report* includes its financial statements.

.03 SAF earned revenue of \$408.1 million during 1996 and held assets of \$537.2 million as at December 31, 1996. SAF's *Annual Report* includes its financial statements.

.04 In 1996, the total premiums written (charged to the customers) for SGI and SAF were \$467 million. These premiums provided several billion dollars worth of insurance coverage. In 1996, SGI and SAF's claims expense totalled \$462 million.

Our audit conclusions and findings

.05 Our Office worked with KPMG, SGI's and SAF's appointed auditor, using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. KPMG and our Office formed the opinions in paragraph .06.

.06 In our opinion:

- SGI's and SAF's financial statements are reliable;
- SGI had adequate rules and procedures to safeguard and control its assets and SAF's assets; and
- SGI complied with the authorities governing its activities and the activities of SAF.

.07 SGI asked us to do a more in-depth audit of its fraud management systems and practices. SGI views its fraud management systems and practices important because of the significant effect fraudulent claims have on SGI's insurance premiums and its coverage. We agree.

Chapter 8 Saskatchewan Government Insurance

.08 Managing the risk of fraudulent claims is a key area of significance and risk SGI must manage well for success. We commend SGI for taking the initiative of ensuring its systems and practices for managing this risk withstand public scrutiny.

.09 Accordingly, we agreed to do an audit of SGI's fraud management systems and practices. The following section describes our audit objectives, our audit work and our conclusions for SGI's fraud management systems and practices.

SGI's fraud management system

Significance of the audit

.10 Fraudulent claims result in higher premiums, lower insurance coverage, lower profits, and loss of public confidence.

.11 Various organizations have studied insurance fraud, including the Canadian Coalition Against Insurance Fraud (CCAIF), the Insurance Crime Prevention Bureau, and the Insurance Bureau of Canada. They recommend ways to reduce the rate of fraudulent claims. Several years ago, a CCAIF study estimated the cost of insurance fraud in Canada to be over \$1.3 billion annually, or 10-15% of premiums written. A recent CCAIF study indicates this rate is declining.

Audit objective

.12 The objective of our audit was to determine if SGI has adequate rules and procedures to manage effectively the risk of losses due to fraudulent claims. Our audit covered SGI's systems and practices from January to December 1996.

Audit criteria used

.13 Auditors need criteria to evaluate matters they audit. Criteria are reasonable and attainable standards of performance and control against which auditors can assess the adequacy of systems and practices. The audit criteria selected are those that management can realistically expect to meet.

.14 We developed criteria after reviewing relevant literature on insurance fraud management. We discussed the criteria with SGI's management, made necessary changes, and obtained

Chapter 8 Saskatchewan Government Insurance

management's agreement that the criteria are reasonable and attainable.

.15 The agreed criteria are as follows. SGI should have:

- a clear framework outlining:
 - a culture and attitude toward fraudulent claims, including an external communication strategy;
 - methods for directing and monitoring management's rules and procedures to manage the risk of fraudulent claims;
- rules and procedures to discourage fraudulent claims;
- rules and procedures to identify and assess the risk of fraudulent claims occurring;
- rules and procedures to detect fraudulent claims; and
- rules and procedures to investigate suspicious claims.

Audit work

.16 We did our work in accordance with generally accepted auditing standards recommended by The Canadian Institute of Chartered Accountants. We did the procedures and tests we considered necessary to meet those standards.

.17 SGI's internal auditors and SGI's appointed auditor, KPMG, did much of the work for us.

Audit conclusions

.18 Overall, SGI's rules and procedures to manage effectively the risk of losses due to fraudulent claims are adequate.

.19 Adequate rules and procedures for managing risk of losses due to fraudulent claims are important because they enable SGI to provide higher insurance coverage at lower premiums. SGI needs to continuously improve its fraud

Chapter 8 Saskatchewan Government Insurance

management practices. The following recommendations are intended to help SGI do so.

We recommend

.20 SGI's Board should approve management's external communication strategy for informing brokers and the public about fraud ethics and SGI's fraud policies.

.21 SGI's management needs to provide better information to the Board to monitor SGI's rules and procedures to manage the risk of fraudulent claims.

.22 SGI should improve its rules and procedures to ensure that underwriting staff leave clear evidence of the work they have done to identify and assess the risk of fraudulent claims occurring.

.23 SGI should establish written rules and procedures for claims investigations by its Special Investigation Unit.

Our audit findings

.24 The following is a summary of our audit findings set out in terms of our audit criteria.

Criterion 1

.25 SGI should have a clear framework outlining:

- a culture and attitude toward fraudulent claims, including an external communication strategy; and**
- methods for directing and monitoring management's rules and procedures to manage the risk of fraudulent claims.**

.26 SGI has rules of conduct for adjusters (staff responsible for processing claims) and a written general principle concerning fraud deterrence. Also, SGI has a Security and Special Investigation Unit (SIU) to examine suspicious claims.

.27 In December 1996, the Board took the following action. The Board approved a comprehensive fraud policy to document SGI's culture and attitude toward external fraudulent claims as well as detailed policies dealing with the conduct and ethics of its employees. SGI told us it will inform employees, brokers, and the public of its new policies in 1997.

Chapter 8 Saskatchewan Government Insurance

.28 To discourage fraud, SGI should have a written communications policy. This policy should describe the methods it will use, and the type of information it will share, to inform employees, brokers and the public about fraud ethics and SGI's fraud policies.

.29 In 1996, the Board did not receive regular reports from management on statistics related to fraudulent claims and investigations, or on the effectiveness of the SIU and other management practices to limit fraudulent claims. After December 1996, management gave the Board a brief report about some of the SIU's recent activities and a summary of the results of its investigations. Accordingly, SGI needs better methods for monitoring management's rules and procedures to manage the risk of fraudulent claims.

.30 To help the Board effectively monitor SGI's fraud management practices, management should give the Board information about the fraudulent claims risk for each type of policy sold by SGI and its plan to control those risks. Also, the Board should ask its internal auditors to provide regular assurance reports on the adequacy and operation of management's plan.

Criterion 2

.31 SGI should have rules and procedures to discourage fraudulent claims.

.32 SGI has taken steps to discourage fraudulent claims. For example, insurance policies contain standard statutory conditions voiding coverage if fraud is found. Also, manuals set out the procedures staff must follow when receiving, verifying, and paying claims.

.33 In October 1996, SGI joined the CCAIF. The CCAIF encourages insurers to reduce the cost of fraud using its "Best Anti-Fraud Business Practices." These practices set goals related to fraud awareness programs, policy terms and conditions, underwriting, settling claims, and investigating claims.

.34 SGI should study the practices recommended by the CCAIF and adopt those that are cost-effective.

Criterion 3

.35 SGI should have rules and procedures to identify and assess the risk of fraudulent claims occurring.

Chapter 8 Saskatchewan Government Insurance

.36 SGI has some procedures to prevent and detect fraudulent claims. They include asking applicants about their claims history, inspecting insured property in certain circumstances, and following standard written rules and procedures for writing insurance policies and adjusting claims.

.37 SGI could reduce the possibility of selling insurance where there is more than a relatively low risk of a fraud by making additional checks. For example, to better identify and assess fraud risks, the CCAIF recommends that insurers:

- verify the claims history of all new applicants;
- analyse the financial soundness of new applicants for commercial lines of insurance; and
- do pre-insurance inspections on new applications for all vehicles and homes.

.38 SGI should study the CCAIF's recommended control procedures for cost-effectiveness. SGI should expand its existing control procedures to include those procedures recommended by the CCAIF that are cost-effective.

.39 SGI's staff periodically attend training sessions designed to improve their skills and complement guidance contained in their procedure manuals. To help staff identify and assess the risk of fraud, SGI's training sessions and procedure manuals include a description of the "red flags" of insurance claim fraud. These "red flags" are common fraud warning signs that are widely used in the insurance business to help identify fraudulent claims.

.40 SGI has established adequate rules and procedures to assess the risk of fraudulent claims occurring. However, SGI does not require the underwriting staff responsible to assess the risk of fraudulent claims to leave clear evidence of what warning signs they identified, what follow-up procedures they did, and what conclusions they made. In addition, underwriting files for high risk insurance applications do not contain details of work done, conclusions made and actions taken. SGI needs to improve its rules and procedures by requiring staff to leave clear evidence of the work they do. This process will improve SGI's records for future reference.

Chapter 8 Saskatchewan Government Insurance

Criterion 4

.41 SGI should have rules and procedures to detect fraudulent claims.

.42 SGI's rules and procedures for processing claims are set out in its procedure manuals. Staff are able to use these detailed manuals as a guide when carrying out their duties. This helps to ensure that staff collect and consider all relevant information needed to establish a claim's validity.

.43 SGI requires its staff to follow key rules and procedures such as inspecting damaged property, obtaining appropriate evidence related to claims, and looking for indicators of improper claims. In addition, adjusters must advise the SIU of certain types of claims, including those that are suspicious.

.44 Also, claims department officials periodically review claim files to monitor adjusters' compliance with the established procedures.

Criterion 5

.45 SGI should have rules and procedures to investigate suspicious claims.

.46 The adjusters' procedure manual requires adjusters to refer all suspicious claims to the SIU. As noted above, the manual identifies some fraud warning signs that adjusters need to consider.

.47 SGI relies on the law enforcement experience and the training of its SIU staff to appropriately investigate claims. There are job descriptions for staff positions in the SIU. In addition, the SIU uses a standard interview form when investigating suspicious, contentious, or large claims.

.48 However, SGI needs to establish written investigation rules and procedures. This will ensure all claim files are investigated consistently, clearly recording the work done, conclusions made and actions taken.

.49 SGI's management, staff and its appointed auditor gave us excellent cooperation throughout the audit. We appreciate their support and thank them.

Chapter 8 Saskatchewan Government Insurance

.50 We will monitor SGI's actions to address our recommendations in this Chapter. We will report our findings in a future Report.

Chapter 9 Economic Development

Table of Contents

Introduction . . . . .	.01
Government spending on economic development . . . . .	.02
Background . . . . .	.04
Key issues facing the Department . . . . .	.08
Cultivate a positive environment for economic growth . . . . .	.10
Build upon existing strengths and realize growth opportunities . . . . .	.12
Develop partnerships and programs to seek full employment . . . . .	.15
Gain the public's confidence . . . . .	.17
General Revenue Fund appropriation . . . . .	.21
Our audit conclusions and findings . . . . .	.26
Written service agreements required . . . . .	.28

Chapter 9 Economic Development

Introduction

.01 In this Chapter, we set out:

- the government's spending on economic development;
- key issues; and
- results of our audit of the General Revenue Fund appropriation.

Government spending on economic development

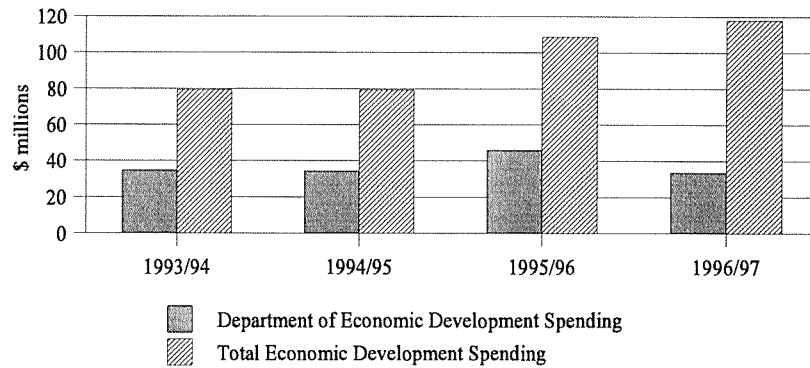
.02 In 1996-97, the Government, through its departments and some Crown corporations, spent a total of \$117.9 million on economic development (p.40, *Public Accounts, 1996-97 Volume 1*). This spending does not include the economic development spending of all Government agencies, i.e., departments (e.g., Agriculture and Food) and Crown corporations (e.g., SaskPower, SaskEnergy).

	<u>1997</u>	<u>1996</u>
(in millions of dollars)		
Department of Economic Development	\$ 33.7	\$ 45.9
Department of Energy and Mines	13.4	23.7
Department of Environment and Resource Management	7.2	7.5
Department of Municipal Government	0.2	0.0
Saskatchewan Infrastructure Program	0.0	0.1
Saskatchewan Research Council	20.0	22.3
Saskatchewan Opportunities Corporation	4.6	4.4
CIC III	38.8	4.7
 Total per summary financial statements	 <u>\$ 117.9</u>	 <u>\$ 108.6</u>

Source: *Public Accounts, 1996-97 Volume 1* - General Revenue Fund financial statements and the Government's summary financial statements

.03 The following graph compares the Department of Economic Development's spending to the Government's spending on economic development reported in the summary financial statements.

Chapter 9 Economic Development



Background

.04 The Department of Economic Development guides, promotes, co-ordinates and implements policies, strategies and programs which develop, diversify, and renew the Saskatchewan economy. This mandate is realized through the establishment of partnerships and working relationships with all types of business enterprises in every sector of the economy and within other levels of government.

.05 The Department provides support services for both the Cabinet Committee on Economic Development (CCED) and the Provincial Action Committee on the Economy (PACE). The CCED's terms of reference states that the subcommittee directs the implementation of the Government's economic development strategies. PACE is an advisory committee to the Minister of Economic Development set up in 1992. PACE's five-year mandate includes providing advice on achieving the Government's economic strategies.

.06 Through the CCED, the Government guides and carries out its economic strategy. The first public strategy called the *Partnership for Renewal* began in 1992. This strategy was followed by the *Partnership for Growth: Building on the Renewal of the Saskatchewan Economy*, February 1996 (*Partnership for Growth*). Both of these documents indicate the Department consulted with the Saskatchewan business community, through various forums, to develop these strategies.

.07 These strategies create a long-term strategic framework for economic renewal and growth in Saskatchewan. These strategies set out responsibilities for economic development. The Department co-operates with other departments and

Chapter 9 Economic Development

agencies to achieve the various objectives in these strategies. The Department helps co-ordinate these strategies.

Key issues facing the Department

.08 To carry out our work, we must understand the key areas of significance and risk facing the Department. We think sharing our understanding with legislators and the public will help them better understand and assess the Department's performance.

.09 The Department has identified three goals to foster economic growth. We think these goals represent key risks that the Department must manage well. In addition, we think gaining public confidence is also a key risk that the Department must manage well. The key risks are:

- cultivate a positive environment for economic growth;
- build upon existing strengths and realize growth opportunities;
- develop partnerships and programs to seek full employment; and
- gain the public's confidence that the Government's economic development programs are successful.

In paragraphs .10 to .20, we further discuss these four key risks.

Cultivate a positive environment for economic growth

.10 The Department's role includes developing and recommending policies to the Government that result in a positive environment for economic growth. The Department has developed the *Partnership for Growth* strategy as a guide for the Government's economic activity. The Department, through its programs and partnerships, is the Government's lead co-ordinator for economic development activities.

.11 Part of the Department's lead co-ordinator role is to ensure that the Government's policies and services stimulate the economy. Also, the Department must co-ordinate what other Government agencies are doing in economic development. The

Chapter 9 Economic Development

Department must assess and report on these other agencies' contributions to the achievement of the Department's goals and their impact on the economy.

Build upon existing strengths and realize growth opportunities

.12 To improve the Saskatchewan economy, the Department needs to know the economy's current state. To know where to stimulate growth, the Department must assess the current state of the economy and consider future trends. Assessing the economy is a complex task. It requires knowledge of different industries on local, national and global levels. The Department must also consider other factors affecting Saskatchewan's economy outside the Government's control, e.g., NAFTA, Federal/Provincial Agreement on Internal Trade. To obtain this knowledge, the Department must be aware of various statistics, legislation, industry policy, industry conditions and trends.

.13 With this knowledge, the Department can determine the strengths of the Saskatchewan economy. The Department must also identify opportunities in the economy that would benefit from the Government's involvement. The Department should recommend policies and programs, including their costs to the Government. The recommended policies must fit the Department's goals and build upon the economy's strengths. Programs to strengthen the economy might include providing grants, loans, loan guarantees, expertise, or making policy changes.

.14 Once the Government decides its economic development policies, the Department implements policies and programs to carry out its work. The Department is the lead co-ordinator for economic development activities. Therefore, the Department needs policies and programs to ensure its work, including monitoring other Government agencies, is carried out.

Develop partnerships and programs to seek full employment

.15 To move towards this goal, the Department must determine what kinds of policies and programs result in employment and who should best deliver the program. The Department's policies and practices for identifying skill shortages and encouraging employment are very important to the Department's success. The Department presents its findings to other Government agencies. These agencies use this information to focus their programs to build people's knowledge and skills, e.g., JobStart/Future Skills programs carried out by

Chapter 9 Economic Development

the Department of Post-Secondary Education and Skills Training.

.16 The Department also must ensure when it contracts with others to provide services the work is carried out in a way that achieves the Department's goals. Work done by others includes work paid for by the Department. In these cases, good service agreements are a key way to ensure the Department's goals are met.

Gain the public's confidence

.17 The Department must ensure the public and the Assembly have the information they need to understand and assess the Department's and the Government's performance. Publishing plans and performance reports will achieve this objective.

.18 To gather the information required for performance reporting, the Department must have a system to monitor the work it does and the work of others to meet the Department's goals. This system should track and measure performance. It should also compare performance to expected targets that have been set to meet the Department's goals.

.19 The Department regularly monitors the Government's economic development activity. In the *Partnership for Growth Progress Report Year 1*, the Department provides a good public report on the actual results of its economic development actions compared with its action plans and target dates.

.20 We congratulate the Department on providing this useful information.

**General Revenue
Fund
appropriation**

.21 In 1996-97, the Department managed General Revenue Fund appropriations of \$38.8 million, revenues of \$0.8 million, loans of \$17.6 million and guarantees of \$6.4 million. The Department plans to include this information in its *Annual Report 1996-97*.

Chapter 9 Economic Development

.22 The Department's major programs and spending are:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Tourism	\$ 7.1	\$ 7.1
Office of Northern Affairs	4.5	4.2
Business Investment Programs	9.9	9.7
Payments to Saskatchewan Opportunities Corporation	4.3	3.8
Administration	3.0	3.0
Business, Cooperatives and Community Economic Development	3.1	3.0
Diversification	2.6	2.6
Saskatchewan Trade Export Partnership Inc.	2.1	2.1
Accommodation and Central Services	2.2	2.2
Policy and Co-ordination	<u>1.1</u>	<u>1.1</u>
	<u>\$ 39.9</u>	<u>\$ 38.8</u>

.23 In late 1995, the Lieutenant Governor in Council (Cabinet) made the Minister of Economic Development responsible for part of the Department of Economic Development. Also, it made the Minister of Northern Affairs responsible for part of the Department of Economic Development (i.e., Office of Northern Affairs).

.24 The Office of Northern Affairs funding is part of the Economic Development appropriation. Therefore, two Ministers use this appropriation to carry out their responsibilities. In turn, both are accountable to the Legislative Assembly for activities carried out through this Department.

.25 The Department is also responsible for the Saskatchewan Trade and Export Partnership Incorporated.

Our audit conclusions and findings

.26 In our opinion:

- the rules and procedures to safeguard and control the Department's assets were adequate, except for the matters referred to in paragraphs .27 to .37; and
- the Department complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

Chapter 9 Economic Development

Written service agreements required

.27 The Department needs written service agreements for the services it receives or provides.

.28 The Department is responsible to foster economic growth. To meet this responsibility, the Department provides the services directly or contracts with others to provide the services. Written agreements reduce misunderstanding of responsibilities and expectations.

.29 The Department did not have written service agreements with the Department of Finance. Also, the Department has not amended its agreement with Saskatchewan Tourism Authority to consider changes in *The Tourism Authority Act*.

.30 The Department provides \$6.915 million to Saskatchewan Tourism Authority to deliver services for the Department. The agreement in place does not cover recent changes to programs being delivered.

.31 At times, the Department of Finance carries out work of the Department. The Department of Finance manages a loan of \$7.8 million to Hudson Bay Mining and Smelting. The Department of Economic Development made this loan. The Department of Finance provides these services without charge.

.32 At other times, the Department carries out work for the Department of Finance. The Department manages the Labour-Sponsored Venture Capital Tax Credit Program. The Cabinet has assigned this program to the Department of Finance. The Department of Finance does not pay the Department for these services.

.33 The Department needs written agreements with others when receiving or providing services. Sound agreements:

- describe the authority and responsibility of both parties;
- describe services and activities which the other party carries out to achieve the Department's objectives;
- require the other parties to report periodically to the Department on:

Chapter 9 Economic Development

- the systems and practices used to achieve the objectives; and
- how well the other parties achieved the objectives; and
- allow the Department or independent auditors to verify the other parties' reports.

.34 In 1993, the Standing Committee on Public Accounts (PAC) recommended that agencies should have authorized contracts before providing goods and services without charge to other government agencies.

.35 The Department has not complied with the PAC's recommendation.

We recommend

.36 The Department should have written agreements with others for the services they receive or provide.

.37 In October 1997, the Department told us it is working on service agreements in all of these areas.

Chapter 10
Saskatchewan Research Council

Table of Contents

Introduction . . . . .	.01
Pension Plan . . . . .	.03
Our audit conclusions and findings . . . . .	.04
Performance monitoring needs strengthening . . . . .	.05
Adequate contingency plan needed . . . . .	.21
System development policies needed . . . . .	.30

Chapter 10

Saskatchewan Research Council

Introduction

.01 The Saskatchewan Research Council (SRC) provides scientific, engineering and technical services to help further the economy of the Province of Saskatchewan.

.02 In the year ended March 31, 1997, SRC had revenue of \$21.9 million, had expenses of \$21.1 million and held assets of \$7.4 million. SRC's *Annual Report 1996-97* will contain its financial statements.

Pension Plan

.03 SRC also manages the Saskatchewan Research Council Employees' Pension Plan (Plan). At December 31, 1996, the Plan held assets of \$21.6 million and had a surplus of \$1.9 million.

Our audit
conclusions and
findings

.04 In our opinion:

- SRC's and the Plan's financial statements are reliable;
- SRC had adequate rules and procedures to safeguard and control its and the Plan's assets except for the matters referred to in paragraphs .05 to .37; and
- SRC complied with the authorities governing its and the Plan's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

Performance
monitoring needs
strengthening

.05 The Board has an important stewardship responsibility to monitor SRC's performance. The Board must set out what it expects and ensure SRC operates as expected. Management must understand the Board's needs to ensure the Board can fulfill its governance role.

.06 We think the Board can continue to improve how it monitors SRC's performance.

.07 To effectively monitor SRC's performance, the Board needs to receive accurate and complete information on what management has done compared to what the Board expects.

Chapter 10 Saskatchewan Research Council

.08 We evaluated the Board's monitoring of SRC's performance against the following criteria.

Performance monitoring

.09 To effectively monitor SRC's performance the Board should:

- document and communicate SRC's financial, operational and compliance objectives that SRC wants to achieve, how it will achieve them, and how it will know whether it achieved them. The objectives must be consistent with SRC's legislated mandate; and
- receive and assess reports on the accomplishment of its objectives. These reports would consist of:
 - financial reports prepared in accordance with generally accepted accounting principles that show for each program what the Board planned, what the actual results were, and explanations for significant variances from the plan;
 - operational reports that compare expected to actual results; and
 - compliance reports that show whether SRC's activities complied with authorities (e.g., laws, policies, contracts).

.10 We found the Board's monitoring of SRC's performance adequate except for matters we report in paragraphs .11 through .20.

.11 During the year, the Board initiated a new strategic planning process. As a result, SRC developed an operational/financial plan. The plan identifies financial and operational objectives. It also identifies indicators of success for these objectives. The Board recognizes strategic planning is an ongoing process. We encourage SRC to continue refining its financial and operational objectives. We also encourage SRC to develop reports that compare planned to actual operational results.

.12 The Board needs to know that SRC's activities comply with its legislative authorities, contracts, and values. We think SRC's strategic plan should address such compliance objectives.

Chapter 10 Saskatchewan Research Council

SRC should also monitor and report whether it is achieving these objectives.

We recommend

.13 The Board should continue its strategic planning process setting out SRC's financial, operational, and compliance objectives. The Board should also set out what reports on performance it needs and ensure it receives these reports.

.14 Management provides written quarterly financial reports to the Board. We note improvements from last year, however, these reports need the following improvements.

.15 The reports should compare planned and actual results for the same time period. The reports show a comparison of planned results for the whole year to actual year-to-date results. For example, the second quarterly report compared the planned results for the whole year to the actual results for half of the year. In addition, the reports did not explain significant variances. The Board needs such comparative information and variance explanations to help them monitor and assess performance.

.16 The reports do not show SRC's financial position (what it owns and owes). The Board needs to know what SRC owns and owes so it can monitor and assess SRC's ability to meet obligations and pay for planned activities.

We recommend

.17 The financial reports provided to the Board should show a comparison of planned to actual results for the same time period. The reports should explain significant variances between the planned and actual results.

Management
comments

.18 Management agrees that comparing planned and actual results for the same time period is valuable. However, they think the nature of SRC's business makes it difficult to set interim planning targets (e.g., monthly or quarterly). Management will consider setting interim planning targets for their 1998/99 budget plan.

We recommend

.19 The financial reports provided to the Board should show SRC's financial position (i.e., what it owns and owes).

Management
comments

.20 Management agrees that showing the Board SRC's financial position would be of some value. However, given the

Chapter 10 Saskatchewan Research Council

current financial reporting system, the cost of collecting this information outweighs the benefits at this time. Management plans to purchase a new financial reporting system in the near future. The new system should reduce the cost of compiling this information.

Adequate contingency plan needed

.21 SRC needs a written and tested contingency plan based on a risk assessment.

.22 SRC's operations are dependent on information technology (IT) systems. To provide continuous service, SRC must ensure its IT systems and data are available when needed. Continuous service is necessary to ensure SRC meets its commitments and has essential financial and research data to manage its affairs.

.23 We evaluated SRC's contingency planning practices against the following criteria.

Good contingency planning practices

.24 A contingency or disaster recovery plan sets out the procedures needed to protect the continuous operations of IT systems and the availability of data. These plans should cover all significant IT operations and they should reflect the importance of each program and service. SRC may decide not to recover less important programs and services as quickly as important ones.

.25 A good contingency plan should be written and set out the following:

- which system programs and data are significant (i.e., a risk analysis);
- the procedures to make electronic copies (backups) of the significant system programs and data;
- the procedures for the safe storage of the backups;
- the necessary recovery time for each system;
- the arrangements to replace or rent essential IT equipment;
- the requirement for management to approve the plans;

- the procedures to periodically test the contingency plans;
- the training of staff in contingency plan procedures;
- the procedures for the safe storage of the contingency plans; and
- the procedures to ensure all IT equipment, programs and data will function properly in the year 2000.

.26 Management should review and approve the contingency plans and the testing of these plans. They need to ensure the recovery time will meet their needs and that their plans work.

.27 SRC regularly makes copies of its system programs and data and stores them in a safe place. However, SRC has not documented these procedures in a written contingency plan. As well, SRC has not addressed the other aspects of a good contingency plan as set out in paragraphs .24 through .26.

We recommend

.28 SRC should prepare a complete written contingency plan based on a risk analysis, and test the plan.

Management
comments

.29 Management agrees and has begun a process of evaluating the merits of preparing a contingency plan which will cover potential losses resulting from various types of disasters.

System development
policies needed

.30 SRC needs written policies for computer system development.

.31 Computer system development includes equipment and programs purchased or designed to meet specific needs. Developing new computer systems is risky. If systems development is not managed well, costs increase, deadlines pass and systems fail.

.32 In the fall of 1997, SRC plans to purchase a new financial management system. We evaluated SRC's system development practices against the following criteria.

Chapter 10 Saskatchewan Research Council

Good system
development practices

.33 To ensure proper development of new systems, rules and procedures should be written and should ensure the following:

- information needs are known;
- new systems satisfy the information needs;
- procedures are in place to convert information from old systems to new systems;
- standards exist and are used to measure the actual and expected performance of new systems at defined intervals in its development;
- progress is monitored through an approved development and acquisition plan;
- system and computer programs are adequately tested before being used; and
- access to computer information and programs is controlled.

.34 SRC established a committee to oversee the new system it plans to develop. The committee consists of system users, management, the network administrator, accounting staff and a representative from the Department of Finance. The purpose of the committee is to ensure the new system will meet SRC's needs and the development process is managed well.

.35 SRC does not have written policies for system development. Written policies help ensure existing and future system development projects address issues common to all such projects. Such policies reduce the risk that costs will increase, deadlines will pass or the new system will fail.

We recommend

.36 SRC should prepare and follow adequate written policies for computer system development.

Management
Comments

.37 Management is considering the value of developing written policies for computer system development given they do not develop new computer systems often. They also believe their current processes are acceptable.

Chapter 11
Saskatchewan Government Growth Fund Management Corporation

Table of Contents

Introduction . . . . .	.01
Our audit conclusions and findings . . . . .	.03
Investment rules not met . . . . .	.06
Essential public accountability information required . . . . .	.16
Comparison of planned and actual results required . . . . .	.17
List of persons who received public money required . . . . .	.20

Chapter 11

Saskatchewan Government Growth Fund Management Corporation

Introduction

.01 The Saskatchewan Government Growth Fund Management Corporation (Corporation) manages government-administered venture capital funds under the Federal Government's Immigrant Investor Program. Saskatchewan Government Growth Fund Ltd. (SGGF I), Saskatchewan Government Growth Fund II Ltd. (SGGF II) and Saskatchewan Government Growth Fund III Ltd. (SGGF III) are the active fund companies set up by the Corporation to manage investors' funds. The Corporation provides operating and financial services to SGGF I, II and III. The Corporation charges a fee for these services.

.02 The Corporation's financial statements report 1996 revenues of \$1.8 million and assets of \$611 thousand at December 31, 1996. The Corporation's *Annual Report 1996* contains its financial statements. The financial statements of SGGF I, II and III respectively report 1996 revenues of \$11.4 million, \$2.4 million, and \$652 thousand, and assets of \$36.1 million, \$33.3 million, and \$24.2 million. The annual reports of SGGF I, II, and III contain their financial statements.

Our audit conclusions and findings

.03 Our Office worked with Deloitte & Touche, the appointed auditor for the Corporation, SGGF I, SGGF II, and SGGF III, using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. Deloitte & Touche and our Office formed the opinions in paragraph .04.

.04 In our opinion:

- the financial statements of the Corporation, SGGF I, II and III are reliable;
- the Corporation had adequate rules and procedures to safeguard and control its assets and those of SGGF I, II, and III; and
- the Corporation complied with the authorities governing its activities and those of SGGF I, II, and III relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing, except for the matters reported in paragraphs .06 to .15.

Chapter 11 Saskatchewan Government Growth Fund Management Corporation

.05 We also note other matters for the Assembly's attention in paragraphs .16 to .23.

Investment rules not met

.06 The Corporation did not meet the investment rules set by law for funds held for SGGF II's and SGGF III's investors.

.07 The Canada Immigration Regulations set investment rules for approved funds. One rule requires SGGF II and SGGF III to invest at least 70% of money held for investors in eligible businesses within nine months. The Corporation did not have 70% of the money held for SGGF II's and SGGF III's investors invested in eligible businesses.

.08 As stated earlier, at December 31, 1996, SGGF II and SGGF III held assets of \$33.3 million and \$24.2 million respectively. According to the Regulations, SGGF II needed to have at least \$21.9 million and SGGF III needed to have at least \$5.6 million of its assets invested in eligible businesses at that date. SGGF II had \$20.8 million and SGGF III had \$2.3 million invested in eligible businesses at December 31, 1996.

.09 We also reported this matter regarding SGGF II in our *Report of the Provincial Auditor: 1995 Fall* (1995 Fall Report) and *Report of the Provincial Auditor: 1996 Fall* reports.

.10 The Corporation told us the respective Boards of SGGF II and SGGF III had approved sufficient disbursements to meet the investment rules at December 31, 1996. After December 31, 1996, the Corporation disbursed the approved funds for SGGF II and the company now meets its investment rules. For SGGF III, the Corporation needs to complete required due diligence procedures before disbursing the approved funds.

.11 The Standing Committee on Public Accounts (PAC) reviewed this matter as reported in Chapter 13 of our 1995 Fall Report.

.12 The Corporation advised the PAC that actively marketed fund companies (such as SGGF II) have a difficult time meeting the investment rules set out in paragraph .07. Often, fund companies receive money from investors in a short period of time. Officials of the fund companies need time to ensure adequate due diligence procedures are carried out before

Chapter 11 Saskatchewan Government Growth Fund Management Corporation

investing money in eligible businesses. Accordingly, an unavoidable time lag may occur.

.13 The Corporation also told the Committee that the lack of compliance with the investment rules is reported by them in their quarterly reports to the Federal Government.

.14 The Committee asked my Office to write to the Auditor General of Canada and advise him of the concern raised by the Officials of the Corporation. We wrote the Auditor General on October 22, 1996.

.15 The Auditor General responded by letter of December 19, 1996. His response included the following information:

- The Department of Citizenship and Immigration is aware that significant improvements need to be made to the Immigrant Investor Program.
- In 1994, the Federal Government imposed a moratorium on the Program and established working groups to examine how it might be improved.
- The Department has not been in a position to meet the initial Federal Government deadline of July 1, 1996 for a redesigned program.
- The Auditor General will raise the matter with the Department and further discuss the issue with program Officials.

Essential public
accountability
information required

.16 The annual reports of the Corporation and the fund companies should include the essential accountability information described in paragraphs .17 to .19. Also, the annual report of the Corporation should include the information described in paragraphs .20 to .23.

Comparison of
planned and actual
results required

.17 The annual reports for the Corporation and the fund companies do not include comparisons of planned to actual results.

Chapter 11 Saskatchewan Government Growth Fund Management Corporation

.18 It is difficult to understand and assess the performance of each company without knowing what each company planned to achieve. This information is essential.

We recommend

.19 The Corporation should include comparisons of planned to actual results in its own annual report and in the annual reports of the fund companies.

List of persons who received public money required

.20 The Corporation did not provide the Assembly with a list of persons who received public money.

.21 Most government organizations provide the Assembly with a list of persons who received public money.

.22 In Chapter 1, **Executive Council**, we describe why all government organizations should publish this information. We also set out a list of government organizations that do not yet publish payee lists.

We recommend

.23 The Corporation should provide the Assembly with a list of persons who received public money and the amounts.

Chapter 12
Saskatchewan Liquor and Gaming Authority

Table of Contents

Introduction . . . . .	.01
Our audit conclusions and findings . . . . .	.03
Monitoring of SIGA casinos needed . . . . .	.04
Prior years' recommendations . . . . .	.16
Board needs to define and document financial and operational information it requires . . . . .	.17
Independent internal audit function needed . . . . .	.21
Current contingency plan needed . . . . .	.25
Documented rules and procedures for system operations needed . . . . .	.28

Chapter 12

Saskatchewan Liquor and Gaming Authority

Introduction

.01 The Saskatchewan Liquor and Gaming Authority (Authority) regulates liquor and gaming activities in the province. It operates retail liquor stores, manages video lottery terminal gaming and regulates casinos.

.02 For 1996-97, the Authority had revenues of \$476.6 million. The Authority held assets of \$511.2 million (including \$431.8 million on deposit with the General Revenue Fund) at March 31, 1997. The Authority plans to include its financial statements in its annual report.

Our audit conclusions and findings

.03 In our opinion:

- the Authority's financial statements are reliable;
- the Authority complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing; and
- the Authority had adequate rules and procedures to safeguard and control its assets except for the matters reported below.

Monitoring of SIGA casinos needed

.04 The Authority needs to improve its rules and procedures for monitoring the operations of the Saskatchewan Indian Gaming Authority (SIGA) run casinos.

.05 The Authority is responsible for regulating casinos in Saskatchewan. To fulfil this responsibility, the Authority made an operating agreement with SIGA. Under this agreement, SIGA operated four casinos in 1996/97, the first full year of operations.

.06 As required by the agreement, the Authority approved operating policies and procedures for the casinos and physically inspected all casinos before issuing operating licenses. It also receives and reviews periodic reports showing the amounts due from SIGA, reviews these reports for reasonability and receives audited financial statements annually from SIGA's external auditor.

.07 We think the Authority set a good framework for regulating casino operations. However, it needs to do more to ensure SIGA follows approved policies and procedures, complies with the law and operates within the terms of the agreement. The Authority can do this in a number of ways.

- It may request SIGA's external auditor to provide a report on SIGA's policies and procedures to ensure the casinos follow approved policies and procedures and comply with the law and terms of the agreement.
- It may hire another auditor to provide the information mentioned above.
- It may use its internal auditor to do direct audit procedures at the casinos to ensure they follow approved policies and procedures, and comply with the law and the terms of the agreement.

.08 The Authority needs this information to monitor and regulate the SIGA casinos effectively.

.09 The operating agreement also requires SIGA to pay a portion of net cash receipts from slot machines to the Authority weekly with the remaining portion paid after six months. The Authority did not have rules and procedures to ensure it received promptly any amounts due from SIGA. Accordingly, the Authority did not know how much SIGA was required to pay the Authority and when.

.10 We think the Authority needs rules and procedures to ensure SIGA pays amounts due from slot machine operations promptly.

.11 We note the Authority's financial statements include revenue and amounts due from SIGA of \$2.2 million.

We recommend

.12 The Authority should require SIGA to report on its policies and procedures to ensure casinos follow approved policies and procedures, and comply with the law and terms of the agreement.

.13 The Authority should require SIGA to have an independent auditor audit the report, or allow the

Chapter 12 Saskatchewan Liquor and Gaming Authority

Authority's staff access to SIGA's records to verify the report.

.14 The Authority should establish rules and procedures to ensure it receives promptly all the revenue due from SIGA.

.15 Management told us the Authority's internal auditor has prepared an audit plan for the SIGA casinos in 1997/98. Also, the Authority plans to have SIGA's external auditor provide a report on the policies and procedures used by SIGA. Management also told us the Authority has established a process to ensure it receives money from SIGA promptly.

Prior years' recommendations

.16 We made several recommendations in our *Report of the Provincial Auditor: 1997 Spring*. In this Chapter, we summarize those recommendations and note progress.

Board needs to define and document financial and operational information it requires

.17 To oversee operations, the Board of Directors needs to define and document its financial and operational information it requires and tell management what performance it expects. In 1996/97 the Board consisted of the Minister responsible for the Authority and the Minister of Highways and Transportation.

.18 We noted management provided financial and operational reports to the Board's March 1997 meeting.

.19 We continue to recommend the Board formally define and document its internal reporting needs, regularly review financial and operational reports from management and document its review.

.20 Management told us they clearly understand the reporting needs and expectations of the Minister and that the Minister receives adequate information to oversee management. Management also told us the Minister intends to adopt the recommendations noted above.

Independent internal audit function needed

.21 The Board needs to receive independent information that management safeguards the Authority's assets and complies with the laws and related authorities including the Board's delegation of authority.

Chapter 12 Saskatchewan Liquor and Gaming Authority

.22 The Board can receive this assurance through an independent internal audit function. To be independent of management, the internal auditor should report directly to the Board or to an audit committee. Currently, the Authority has no audit committee. The internal auditor reports to management.

.23 We continue to recommend the internal auditor report directly to the Board or to an audit committee of the Board.

.24 Management told us they plan to submit the internal auditor's 1996/97 report and the 1997/98 audit plan to the Board.

Current contingency plan needed

.25 The Authority needs a written and tested contingency plan to ensure continuous operations if computer processing is interrupted.

.26 We continue to recommend the Authority update its written contingency plan and test the plan.

.27 Management told us they are planning to update the contingency plan.

Documented rules and procedures for system operations needed

.28 The Authority needs to fully document its rules and procedures for computer system operations and ensure staff understand the rules and procedures.

.29 We continue to recommend the Authority fully document rules and procedures for operating its computer systems and ensure staff understand the rules and procedures.

.30 Management told us they plan to improve the documentation of rules and procedures for computer system operations.

Chapter 13
Saskatchewan Gaming Corporation

Table of Contents

Introduction . . . . .	.01
Our audit conclusions and findings . . . . .	.03
Better internal reports required . . . . .	.04
Control over Silver Sage Casino revenue needed . . . . .	.08

Chapter 13

Saskatchewan Gaming Corporation

Introduction

.01 The Saskatchewan Gaming Corporation (SGC) manages and operates Casino Regina.

.02 In 1997, SGC had revenue of \$42.8 million and held assets of \$43.3 million at March 31, 1997. SGC's *1996-1997 Annual Report* includes its financial statements.

Our audit conclusions and findings

.03 In our opinion:

- SGC's financial statements are reliable;
- SGC complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing; and
- SGC had adequate rules and procedures to safeguard and control its assets except for the matters referred to in paragraphs .04 to .14.

Better internal reports required

.04 Internal financial reports provided to the Board of Directors need improvement.

.05 On January 24, 1997, we reported to SGC the Board had not formally defined and documented its information needs. The Board has now done so. We commend the Board for taking this significant step. For the 1996/97 year, management did not have sufficient time to develop the internal reports required by the Board. However, by the end of the 1996/97 year management had made some improvements to the internal reports and was working towards providing all required information.

We recommend

.06 SGC's management should continue to improve its internal reports.

.07 Management told us they are now providing the information required by the Board.

Chapter 13 Saskatchewan Gaming Corporation

Control over Silver Sage Casino revenue needed

.08 SGC needs to ensure it receives all the money due from Silver Sage Casino.

.09 SGC had revenues of \$2.5 million in 1996/97 for slot machines it placed in the Silver Sage Casino.

.10 SGC has established rules and procedures to ensure slot machine revenue is complete. It uses a computer system to do this. SGC requires staff to monitor information from this system to ensure there was no unauthorized access to the slot machines or the system.

.11 SGC followed these rules and procedures for slot machines at Casino Regina. However, senior management did not establish rules and procedures to ensure there was no unauthorized access to the slot machines or the system at Silver Sage Casino.

.12 Accordingly, SGC does not know if it received all the money due from Silver Sage Casino.

We recommend

.13 SGC should establish rules and procedures to ensure it receives all the money due from Silver Sage Casino.

.14 Management told us they have made a new agreement with the Regina Exhibition Association. Management also told us they were restricted in their ability to address the matters reported above because they were negotiating the new agreement with Silver Sage Casino since fall 1996. Management informed us effective November 23, 1997 the slot machines will be returned to Casino Regina.

Chapter 14 Agriculture and Food

Table of Contents

Introduction . . . . .	.01
Financial background . . . . .	.04
Special purpose funds and Crown agencies . . . . .	.05
Contents . . . . .	.06
Our audit conclusions and findings . . . . .	.08
Better internal reports needed . . . . .	.11
Rules and procedures for reviewing lease rates needed . . . . .	.16
Accurate estimate of bad debts needed . . . . .	.22
Better rules and procedures for credit checks and collection of amounts owed by lessees needed . . . . .	.27
Rules and procedures required for managing the affairs of organizations . . . . .	.33
Need to obtain expectations of financial reporting systems . . . . .	.37
Complete and approved budget needed . . . . .	.42
Manuals need to be completed . . . . .	.46
Rules and procedures to prepare accurate financial statements needed . . . . .	.52
Timely annual reports needed . . . . .	.58
Agricultural and Food Products Development and Marketing Council . . . . .	.61
Better supervision needed . . . . .	.62
Assembly needs financial statements . . . . .	.70
SPI Marketing Group . . . . .	.75
Our audit conclusions and findings . . . . .	.81

Chapter 14 Agriculture and Food

Table of Contents

Setting direction and monitoring performance . . . . .	.85
Improvements in setting direction and monitoring performance needed . . . . .	.85
Safeguarding assets . . . . .	.95
Written governance policies required . . . . .	.95
Prairie Agricultural Machinery Institute . . . . .	.102
Our audit conclusions and findings . . . . .	.104
Better internal reports needed . . . . .	.105
Contingency plan needed . . . . .	.110

Chapter 14 Agriculture and Food

Introduction

.01 The Department of Agriculture and Food's mandate is to foster a commercially viable, self-sufficient, sustainable agriculture and food industry. In 1997, it had revenue of \$50 million and expenditures of \$326 million.

.02 The Department's major programs and spending are:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Payments to Saskatchewan Crop Insurance Corporation	\$ 99	\$ 198
Payments for Farm Income Stability and Development	93	66
Payments to Agricultural Credit Corporation	20	19
Agricultural Research	10	9
Agricultural Development	10	10
Other	<u>22</u>	<u>24</u>
	<u>\$ 254</u>	<u>\$ 326</u>

.03 The Department's major sources of revenue are:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Sales, Services & Service Fees	\$ 29	\$ 26
Transfers from the Federal Government	31	16
Other	<u>15</u>	<u>8</u>
	<u>\$ 75</u>	<u>\$ 50</u>

Financial background

.04 For 1996-97, the Government's summary financial statements show agriculture expenses of \$284 million. Table 1 sets out agriculture expenses as shown in the Government's summary financial statements reconciled to agriculture spending by the Department.

Chapter 14 Agriculture and Food

Table 1

(in millions of dollars)

Total 1996-97 appropriation: Department of Agriculture and Food per General Revenue Fund	\$	326
Deduct amounts transferred by the Department of Agriculture and Food and recorded as an expense of the Department and as revenue of:		
Saskatchewan Crop Insurance Corporation		(95)
Crop Reinsurance Fund of Saskatchewan		(103)*
Agricultural Corporation of Saskatchewan		(21)
Add actual expenses incurred by:		
Saskatchewan Crop Insurance Corporation		138
Agri-Food Innovation Fund		19
Agricultural Credit Corporation of Saskatchewan		16
Other		4
Agriculture expenses per Government's summary financial statements		\$ 284

* this relates to crop insurance claims paid to farmers in prior years that the Government decided to record as an expense in the General Revenue Fund in 1996-97.

Special purpose funds and Crown agencies

.05 The Department carries out some of its responsibilities through special purpose funds and Crown agencies. The Department is responsible for the following special purpose funds and Crown agencies:

Year End

Agricultural and Food Products Development and Marketing Council, including:	December 31
Saskatchewan Broiler Hatching Egg Producers' Marketing Board	December 31
Saskatchewan Canola Development Commission	July 31
Saskatchewan Chicken Marketing Board	December 31
Saskatchewan Commercial Egg Producers' Marketing Board	December 31
Saskatchewan Flax Development Commission	July 31
Saskatchewan Pulse Crop Development Board	August 31
Saskatchewan Sheep Development Board	December 31

Chapter 14 Agriculture and Food

Saskatchewan Turkey Producers' Marketing Board	December 31
Saskatchewan Vegetable Marketing and Development Board	June 30
SPI Marketing Group	December 31
Agricultural Credit Corporation of Saskatchewan	March 31
Agri-Food Innovation Fund	March 31
Beef Development Board	March 31
Cattle Marketing Deductions Fund	March 31
Conservation and Development Revolving Fund	March 31
Crop Reinsurance Fund of Saskatchewan	March 31
Horned Cattle Fund	March 31
Livestock Services Revolving Fund	March 31
Milk Control Board	December 31
Prairie Agricultural Machinery Institute	March 31
Saskatchewan Crop Insurance Corporation	March 31
Saskatchewan Grain Car Corporation	July 31

Contents

.06 This Chapter contains our audit conclusions and findings for the fiscal years ending on or during the year to March 31, 1997, except for the Saskatchewan Canola Development Commission (Commission). We reported on the Commission in our *Report of the Provincial Auditor: 1997 Spring* (1997 Spring Report).

.07 Also, this Chapter includes our audit conclusions and findings on the Conservation and Development Revolving Fund for the year ended March 31, 1996.

Our audit conclusions and findings

.08 In our opinion:

- the financial statements for the funds and agencies listed in paragraph .05 are reliable except where we report otherwise in this Chapter;
- the Department and its agencies had adequate rules and procedures to safeguard and control their assets except where we report otherwise in this Chapter; and

Chapter 14 Agriculture and Food

- the Department and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this Chapter.

.09 Due to established priorities, we have not completed our audit work on Conservation and Development Revolving Fund, Cattle Marketing Deductions Fund, Livestock Services Revolving Fund, and Horned Cattle Fund for the year ended March 31, 1997. We will report our conclusions and findings on these funds in a future Report.

.10 Also, we have not audited several of the agencies listed in paragraph .05. We are considering the best approach to audit the following smaller producer-elected boards:

Saskatchewan Broiler Hatching Egg Producers'
Marketing Board
Saskatchewan Chicken Marketing Board
Saskatchewan Commercial Egg Producers' Marketing
Board
Saskatchewan Flax Development Commission
Saskatchewan Pulse Crop Development Board
Saskatchewan Sheep Development Board
Saskatchewan Turkey Producers' Marketing Board
Saskatchewan Vegetable Marketing and Development
Board

Better internal reports
needed

.11 The Department needs better internal reports to safeguard and control its assets.

.12 The Department should define and document its internal reporting needs. This process will help ensure it receives suitable and timely reports. These reports will enable management to properly monitor and direct Department operations.

.13 We also reported this matter in our 1997 Spring Report and in previous reports.

We recommend

.14 The Department should formally define and document its internal reporting needs.

Chapter 14 Agriculture and Food

.15 During the year, management began documenting the Department's internal reporting needs. Recently, they told us they are continuing to make progress in this area.

Rules and procedures for reviewing lease rates needed

.16 The Department needs rules and procedures for reviewing surface lease rates.

.17 The Department makes leases with oil and gas companies to allow these companies access to its Crown land. *The Surface Leases (Petroleum and Natural Gas) Compensation and Rental Regulations* require the Department to include a component for loss of acreage earnings in its lease billings. Also, its lease agreements state the rate is subject to review every three years.

.18 The Department does not review lease agreements every three years to ensure its lease billings reflect the current rate for loss of acreage earnings. Also, it could not support the rates used in existing leases.

We recommend

.19 The Department should establish rules and procedures to review surface lease rates every three years.

.20 The Department should ensure the loss of acreage component of lease rates is correct.

.21 In November 1996, the Department began using current rates for loss of acreage earnings for leases reaching their three-year anniversary.

Accurate estimate of bad debts needed

.22 The Department needs adequate rules and procedures to estimate the amount it will not collect from clients who lease, rent or buy Crown land (bad debts).

.23 It needs this information to prepare accurate financial reports. At March 31, 1997, the Department estimated it would not collect \$11.1 million of its receivables from leases, rent and instalment plan sales contracts. However, it could not support the calculations made for its estimate. The total amount owed to the Department was \$25.8 million.

.24 We also reported this matter in our 1997 Spring Report and previous reports.

Chapter 14 Agriculture and Food

We recommend

.25 The Department should have adequate rules and procedures to estimate its bad debts.

.26 Management told us they are developing policies to establish adequate rules and procedures for all programs. They plan to use the Department's computer systems to improve procedures for estimating bad debts.

Better rules and procedures for credit checks and collection of amounts owed by lessees needed

.27 The Department needs to improve its rules and procedures for checking the credit worthiness of lease applicants and collecting the amounts owed by lessees.

.28 Leases are normally issued in the spring. Billings for leases are done once a year, in December. The Department considers unpaid lease accounts in arrears 90 days after they are billed. Then staff begin procedures for collection for accounts in arrears. Therefore, the Department waits a full year before its staff take action to collect amounts owed. We think the Department should improve the timeliness of its billing and collection procedures.

.29 Also, the Department makes leases before checking the credit worthiness of lease applicants. We think credit checks will reduce losses from lessees not paying for their leases.

.30 Staff contacted the Agricultural Credit Corporation of Saskatchewan and the Saskatchewan Crop Insurance Corporation for information about lease applicants before approving new leases. While useful, this contact is not a substitute for credit checks. The Department should do a cost-benefit analysis to determine the type and extent of credit checks that are cost-effective.

.31 At March 31, 1997, the Department estimated it will not collect \$9.1 million of the amount owed by lessees. The total amount owed by lessees is \$9.6 million.

We recommend

.32 The Department should improve its rules and procedures for checking the credit worthiness of lease applicants and collecting the amounts owed by lessees.

Chapter 14 Agriculture and Food

Rules and procedures required for managing the affairs of organizations

.33 The Department carries out the day-to-day administration of the Conservation and Development Revolving Fund, the Agri-Food Innovation Fund and the Beef Development Board. We think the Department is responsible to ensure that it has adequate rules and procedures to safeguard and control the assets of these organizations and to prepare accurate financial statements for them.

.34 During the audit of these organizations, we found the Department needs to improve its rules and procedures for managing these organizations.

.35 For some entities, e.g., the Conservation and Development Revolving Fund, the Department solely manages the fund. In other cases, e.g., the Agri-Food Innovation Fund and the Beef Development Board, a board of directors is also responsible for overseeing operations.

.36 We found the Department and the boards of directors need to strengthen the rules and procedures to safeguard their assets. They need to set and communicate their objectives and monitor managements' performance. In particular they need to:

- improve the financial reporting systems;
- approve a complete and timely budget;
- prepare complete and up-to-date policies and procedures manuals; and
- prepare rules and procedures to prepare accurate financial statements.

In paragraphs .37 to .57, we discuss these matters further.

Need to obtain expectations of financial reporting systems

.37 The Department needs to work with the boards of directors of the Agri-Food Innovation Fund and the Beef Development Board to find out what the directors need to monitor the operations of their entities.

.38 The Department needs to obtain the information so it can provide adequate reports. We note the reports provided to the directors did not show the following essential information: the

Chapter 14 Agriculture and Food

amounts owing to the funds; the amounts owed by the funds; and a comparison of planned and actual results.

.39 Inadequate and inaccurate reports can lead to incorrect decisions.

We recommend

.40 The Department should work with the boards of directors of the Agri-Food Innovation Fund and the Beef Development Board to find out what financial reports they need to monitor the operation of their entities.

.41 The Department should establish written rules and procedures for preparing accurate and timely reports required by the boards of directors of the Agri-Food Innovation Fund and the Beef Development Board.

Complete and approved budget needed

.42 The Department should work with the boards of directors to obtain a budget before the fiscal year begins. This budget should include expected revenues and expenses.

.43 We noted the board of directors of the Agri-Food Innovation Fund did not approve the budget for the year ended March 31, 1997, until November 1996. Also, the approved budget did not include expected revenues for the year.

.44 Budgets are key documents because they can approve a whole year's actions in advance. Also, budgets set goals for expected results such as expected revenue.

We recommend

.45 The Department should work with the boards of directors to ensure complete budgets are prepared and approved before the fiscal year begins.

Manuals need to be completed

.46 The Department should prepare complete accounting policies and procedures manuals for all the organizations it administers.

.47 Written guidance forms part of the system of internal control. Usually, such guidance is provided in an accounting policies and procedures manual. This manual can be a guide to staff as they carry out their duties. Recorded policies and procedures will help in the orderly and efficient conduct of business and ensure financial reports are accurate.

Chapter 14 Agriculture and Food

.48 The manuals for the Conservation and Development Revolving Fund, Agri-Food Innovation Fund and Beef Development Board are not complete. The lack of complete manuals increases the risks of breakdowns in controls.

.49 An accounting policies and procedures manual should include:

- information needs of the directors and senior management;
- job descriptions for all staff positions including delegated authority levels;
- a chart of accounts;
- significant accounting policies; and
- administrative control procedures for all accounting systems.

We recommend

.50 The Department should prepare complete accounting policies and procedures manuals for all the organizations it administers.

.51 The Department and the boards of directors should approve the policies and procedures as they are completed.

Rules and procedures to prepare accurate financial statements needed

.52 The Department needs rules and procedures to prepare accurate financial statements for all the organizations it administers.

.53 Department staff do the accounting and prepare the year-end financial statements for several entities. These include the Conservation and Development Revolving Fund, the Agri-Food Innovation Fund and the Beef Development Board.

.54 For these entities, staff prepared financial statements containing material errors and presented them to us for audit.

.55 Staff did not use generally accepted accounting principles when preparing financial statements for these entities. For example, staff were unsure how to properly account for grant expenditures and interest revenue in the appropriate

Chapter 14 Agriculture and Food

period. We advised the Department of these errors. It corrected all the financial statements.

.56 Inaccurate financial statements can lead to incorrect decisions by the boards or committees responsible for managing those entities.

We recommend

.57 The Department should establish rules and procedures for preparing accurate financial statements for all organizations it administers.

Timely annual reports needed

.58 The Department needs to ensure its agencies give the Assembly timely annual reports.

.59 *The Tabling of Documents Act, 1991* sets the dates for providing annual reports and financial statements to the Assembly. The Conservation and Development Revolving Fund and the Milk Control Board were late in providing the Assembly their annual reports.

We recommend

.60 The Department's agencies should provide their annual reports to the Assembly by the date required by law.

Agricultural and Food Products Development and Marketing Council

.61 *The Agri-Food Act* makes the Agricultural and Food Products Development and Marketing Council (Council) responsible for the operation and administration of several agencies created under that Act (see paragraph .05).

Better supervision needed

.62 The Council needs to better supervise the operation and administration of the agencies for which it is responsible.

.63 The Council is accountable to the Minister, and the Minister to the Assembly, for ensuring these agencies properly manage their financial affairs and comply with governing authorities.

.64 The Council's 1996 Annual Report states it supervises these agencies as follows. It reviews their board minutes, attends some board meetings, attends special and annual meetings, reviews plans and operating orders, and reviews annual reports and financial statements.

Chapter 14 Agriculture and Food

.65 However, these supervisory steps do not provide the Council with sufficient assurance that agencies have adequate rules and procedures to manage their financial affairs or that they are complying with authorities governing their activities.

.66 For example, we observed some agencies had significant deficiencies in how they carry out their financial affairs, did not comply with governing authorities, and did not issue audited financial statements. We advised the Council of those matters. Many of those matters have continued without correction.

.67 The Council needs to improve its supervision of these agencies. It should do this by obtaining information and reports about these agencies and acting to correct known deficiencies. For example, it should ask each agency's appointed auditor to report on the adequacy of the agency's systems to manage its financial affairs, on its compliance with governing authorities, and on the accuracy of its financial statements. These reports would help the Council to identify areas requiring its attention.

.68 We also reported this matter in previous Reports to the Assembly.

We recommend

.69 The Council should ensure marketing and development boards have adequate rules and procedures to safeguard and control their assets and to comply with authorities governing their activities.

Assembly needs financial statements

.70 The Council needs to give the Assembly financial statements of all the development and marketing agencies.

.71 The Minister of Agriculture and Food is responsible for the promotion, development, control and regulation of the production and marketing of agricultural products within Saskatchewan. The Minister fulfils some of these public policy objectives through agencies created under *The Agri-Food Act*. Accordingly, the Minister is accountable to the Assembly for the activities of these agencies.

.72 The Council's annual report to the Assembly does not include the financial statements of these agencies. Also, the Council does not table the agencies' financial statements separately. Providing the financial statements of these agencies to the Assembly is essential for proper public accountability.

Chapter 14 Agriculture and Food

.73 We also reported this matter in previous Reports to the Assembly.

We recommend

.74 The Council should give the Assembly the financial statements of all development and marketing agencies for which it is responsible.

SPI Marketing Group

.75 The Government gave the SPI Marketing Group (SPI) a monopoly to sell hogs produced in Saskatchewan. SPI is administered by a producer elected Board. SPI's powers are set out in the SPI Marketing Group Regulations under *The Agri-Food Act*. The Government controls SPI through the Agriculture and Food Products Development and Marketing Council and, thus SPI is a government organization.

.76 In 1996, SPI had total revenues of \$12.6 million. At December 31, 1996, it held total assets of \$9.4 million. SPI's annual report includes its financial statements.

.77 SPI has two subsidiaries: Moose Jaw Packers (1974) Ltd. and KROP Transport Ltd. They are incorporated under *The Business Corporations Act*. SPI also administers the SPI Producers' Trust Fund.

.78 Moose Jaw Packers (1974) Ltd., operates a hog slaughter business and specializes in producing pork for export and recovering hides. In 1996, it had revenues of \$7.1 million. At December 31, 1996 it held assets of \$3.9 million.

.79 KROP Transport Ltd. operates a trucking business. In 1996, it had revenues of \$1.4 million. At December 31, 1996, it held assets of \$0.3 million.

.80 SPI uses the SPI Producers' Trust Fund to account for the purchase and sale of hogs. In 1996, the Trust Fund had revenues of \$171.7 million. At December 31, 1996, it held assets of \$9 million. SPI's annual report includes the Trust Fund's financial activities.

Our audit conclusions and findings

.81 Our Office worked with KPMG, SPI's appointed auditor, and Garth H. Hetterly, KROP Transport Ltd.'s and Moose Jaw Packers (1974) Ltd.'s appointed auditor. We used the framework recommended by the *Report of the Task Force on the Roles, Responsibilities and Duties of Auditors*. Our

Chapter 14 Agriculture and Food

Office, KPMG and Garth H. Hetterly formed the opinions referred to in paragraph .82.

.82 In our opinion:

- SPI's financial statements and the financial statements of its subsidiaries are reliable;
- SPI and its subsidiaries had adequate rules and procedures to safeguard and control their and the Trust Fund's assets except for the matters reported in this Chapter; and
- SPI and its subsidiaries complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

.83 We organized our audit findings and recommendations into two groupings. These groupings reflect important responsibilities of the directors in their role of overseeing the operations of SPI, its subsidiaries and Trust Fund. These are:

- setting direction and monitoring performance; and
- safeguarding assets.

.84 The directors need to improve how they oversee the operations of SPI, its subsidiaries and Trust Fund.

Setting direction and monitoring performance

Improvements in setting direction and monitoring performance needed

.85 The directors need to improve how they set direction and monitor SPI's performance.

.86 The directors have many important stewardship responsibilities. One key responsibility is to set and communicate objectives. Also, the directors must assess if SPI is meeting those objectives.

.87 To govern the operations of SPI properly, the directors need to approve performance targets and indicators for SPI's

Chapter 14 Agriculture and Food

activities as a whole before they approve the budgets and business plans of its subsidiaries and Trust Fund. The directors need this information to assess how each of SPI's subsidiaries and the Trust Fund contribute toward SPI's overall goals. In addition, the directors need this information to co-ordinate the direction of SPI's subsidiaries and Trust Fund.

.88 Also, the directors need internal reports that compare actual performance against these targets and indicators.

.89 Management did not give the directors a budget for SPI's activities as a whole. Also, they did not provide a business plan for SPI's subsidiaries and Trust Fund. Management gave the directors a budget for SPI's activities on a non consolidated basis and incomplete budgets for each of its subsidiaries and the Trust Fund.

.90 We also reported this matter in our *Report of the Provincial Auditor: 1996 Fall* (1996 Fall Report) and previous reports.

.91 In April 1997, the Standing Committee on Public Accounts (PAC) considered this matter and concurred with our recommendation.

We recommend

.92 The directors should approve a budget and a business plan for SPI as a whole and a budget and a business plan for its subsidiaries and Trust Fund.

.93 The directors should monitor performance against targets and indicators set out in the consolidated budget and business plans.

.94 Management told us SPI is currently preparing a strategic plan as part of the preparation of the 1997 business plan.

Safeguarding assets

Written governance policies required

.95 The directors should document their governance policies setting out what they expect from management.

Chapter 14 Agriculture and Food

.96 The directors are responsible for the financial affairs of SPI, its subsidiaries, and the Trust Fund. To fulfil this responsibility, the directors need to establish and communicate policies. Policies should prescribe how activities should be managed and should prohibit inappropriate action.

.97 To govern the operations of SPI effectively, the directors should have policies:

- setting out the services the directors want delivered, at what cost, and the performance the directors expect;
- setting out the information the directors need to monitor management's performance. (e.g., reports showing what management did compared to what the directors expected);
- setting out delegated authority to management; and
- ensuring adequate accountability to producers, the Minister of Agriculture and Food, and the Assembly.

.98 Written policies provide for the orderly and efficient conduct of business. Written policies also reinforce the directors' delegation of authority and responsibility for all employees.

.99 We also reported this matter in our 1996 Fall Report and previous reports.

.100 In April 1997, PAC considered this matter and concurred with our recommendation.

We recommend

.101 The directors should document their governance policies.

Chapter 14 Agriculture and Food

Prairie Agricultural Machinery Institute

.102 The Prairie Agricultural Machinery Institute (PAMI) tests and appraises machinery, and publishes reports, bulletins and pamphlets. Also, it does development work to improve machinery.

.103 PAMI had revenue of \$3.4 million in 1997. At March 31, 1997, it held assets of \$2.3 million.

Our audit conclusions and findings

.104 In our opinion:

- PAMI's financial statements are reliable;
- PAMI had adequate rules and procedures to safeguard and control its assets except for the matters reported in this Chapter; and
- PAMI complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

Better internal reports needed

.105 PAMI needs to improve its internal financial reports.

.106 PAMI's internal reports do not contain essential information. For example:

- the reports are prepared on the cash basis of accounting rather than the accrual basis;
- the reports do not show assets and liabilities; and
- the variance analysis between planned and actual results does not provide an adequate level of detail to highlight and explain variances requiring the attention of its Board (Council) and management.

.107 PAMI's Council and management should begin to improve their system by defining and documenting their internal reporting needs. This will help ensure they receive suitable and timely reports. Such reports will help the Council and management to better monitor and direct PAMI's operations.

Chapter 14 Agriculture and Food

.108 Also, PAMI should develop written rules and procedures for preparing internal reports. These rules and procedures should be included in PAMI's policies and procedures manual. Accordingly, PAMI should update its manual to include:

- the information needs of PAMI's Council and management. For example, financial reports should be prepared using generally accepted accounting principles and include:
 - a comparison of planned and actual results for the period and year-to-date; and
 - a forecast of revenue and expenses to the end of the year, based on current information;
- the nature and extent of variances between planned and actual results that staff need to explain. Staff should state the reasons for variances between planned and actual activity levels, when possible;
- who is to prepare and approve the above reports; and
- who is to monitor the results of the variance analysis.

We recommend

Contingency plan
needed

.109 PAMI should improve its internal financial reports.

.110 PAMI needs a written contingency plan to ensure it can operate effectively if a major loss or destruction of its computer systems or records occurs.

.111 PAMI uses computer systems to keep most of its records and to monitor and control its business. PAMI needs an adequate contingency plan because its operations depend on the reliability of its computer systems.

.112 We also reported this matter in our 1997 Spring Report.

Chapter 14 Agriculture and Food

We recommend

.113 PAMI should complete its written contingency plan and test the plan.

.114 During the year, management began working on a written contingency plan. PAMI needs to complete this plan by documenting matters such as the detailed recovery steps and the names of key persons responsible for specific aspects of a computer system recovery.

Chapter 15

Highways and Transportation

Table of Contents

Government spending on transportation . . . . .	.01
Introduction . . . . .	.04
Significant issues facing the DHT . . . . .	.06
General Revenue Fund appropriation - DHT . . . . .	.10
Our audit conclusions and findings . . . . .	.12
Accurate financial reporting required for decision-making . . . . .	.13
Management direction required for interim financial reporting . . . . .	.16
Risk of loss or damage not adequately documented . . . . .	.25
Highways Revolving Fund . . . . .	.33
Our audit conclusions and findings . . . . .	.35
More effective financial reporting system needed . . . . .	.36
Better interim financial reporting needed . . . . .	.45
Transportation Partnerships Corporation . . . . .	.52
Our audit conclusions and findings . . . . .	.54

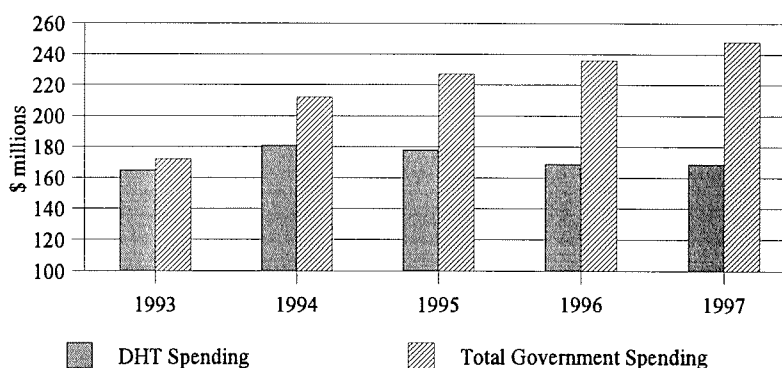
Chapter 15

Highways and Transportation

Government spending on transportation

.01 In 1996/97, the Government spent \$248 million on transportation (p. 40 of Volume 1 of the *Public Accounts - Summary Financial Statements*). This spending is made up of \$170.2 million by the Department of Highways and Transportation (DHT), \$40.1 million by the Department of Municipal Government, and \$37.8 million by the Saskatchewan Transportation Corporation.

.02 The following graph shows the government's spending on transportation for the last five years.



Source: *Public Accounts - General Revenue Fund financial statements and Summary Financial Statements*

.03 This Chapter reports on the results of our audits of the DHT, the Highways Revolving Fund (Fund) and the Transportation Partnerships Corporation (Corporation).

Introduction

.04 The DHT manages its General Revenue Fund appropriation, the operations of the Fund and the Corporation.

.05 The DHT contributes to the social and economic benefit of the Province by:

- developing and administering transportation policies and programs; and
- building, preserving, and regulating the safe use of the transportation system. This system includes public highways, winter roads, bridges, and provincial airports.

Chapter 15 Highways and Transportation

Significant issues facing the DHT

.06 In April 1997, the DHT released its long-term transportation strategy entitled *Investing in Transportation - A Transportation Strategy for Saskatchewan People* (Strategy). This Strategy can also be found on the DHT's website (www.gov.sk.ca/govt/highways).

.07 This Strategy clearly describes the challenges the DHT faces in the transportation sector. In addition, the Strategy sets out specific actions planned to address these challenges.

.08 The DHT's goals and objectives are in line with the Strategy. We look forward to the DHT providing MLA's and the public with periodic and annual reports on its progress on achieving the Strategy and, in turn, its goals and objectives.

.09 We encourage the MLA's and public to use the information contained in the Strategy, the DHT's website and the DHT's annual report. This information will help them understand the issues that the DHT faces and enable them to assess the DHT's performance.

**General Revenue
Fund appropriation
- DHT**

.10 In 1996/97, the DHT managed General Revenue Fund appropriations of \$168.8 million and revenues of \$15.2 million. Information about these appropriations and revenues appear in the *Public Accounts 1996-97 Volume 2*.

.11 The following is a list of major programs and spending.

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Construction of transportation system	\$ 43.5	\$ 44.5
Preservation and Maintenance	108.1	107.6
Administration	5.2	5.4
Accommodation and central services payments	6.5	6.3
Logistics, planning and compliance	<u>5.5</u>	<u>6.4</u>
	<u>\$ 168.8</u>	<u>\$ 170.2</u>

Our audit conclusions and findings

.12 In our opinion, the DHT had adequate rules and procedures to safeguard and control its assets, except the matters referred in paragraphs .13 to .32. The DHT complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

Chapter 15 Highways and Transportation

Accurate financial reporting required for decision-making

.13 The Deputy Minister is responsible for the integrity of the whole financial process within the DHT. Also, he must deliver the activities assigned to the DHT within established spending limits.

.14 To manage the affairs of the DHT properly, the Deputy Minister and other officials need accurate periodic financial reports. To prepare accurate reports, the DHT needs adequate rules and procedures. Inaccurate reports can result in incorrect decisions.

.15 In paragraphs .16 to .32, we describe rules and procedures where the DHT can improve how it manages its affairs.

Management direction required for interim financial reporting

.16 Management needs to document clearly its systems and practices for preparing sound interim financial reports.

.17 To help make sound decisions, management needs timely, complete, and accurate financial reports throughout the year. We assessed the adequacy of the DHT's rules and procedures for preparing interim financial reports. We evaluated them against the criteria set out in paragraphs .18 and .19.

.18 We think management would give staff clear direction on:

- the nature (e.g., written, verbal), type (e.g., financial and non-financial) and timing (e.g., weekly, monthly, quarterly) of reports they require;
- the procedures they expect staff to use when preparing those reports. For financial reports, those procedures should include the items listed in paragraph .19; and
- who is responsible for preparing those reports (i.e., specific position or work area within the department).

Chapter 15 Highways and Transportation

.19 We think sound interim financial reports would:

- use proper accounting policies (e.g., those approved by Treasury Board);
- show the financial results of all of an organization's activities (i.e., assets, liabilities, revenues and expenses);
- agree to the accounting records (i.e., general ledger, sub-ledgers, supporting information systems);
- compare actual results to those planned (i.e., initially budgeted and current forecast); and
- explain major variances between actual results and those planned. Explanations are based on activities when possible.

.20 As previously reported, the DHT management provides adequate direction to its staff to prepare interim financial reports except for the following.

- Direction on procedures staff are expected to use when preparing reports is not yet clear. Currently, direction is provided through course materials, e-mails, various memoranda and verbally. Clear policy and procedural manuals for preparing interim financial reports are not yet in place.
- Direction does not formally define who (e.g., position or division) is responsible for preparing the interim reports or set out the necessary procedures to prepare these reports. This guidance is important given the DHT's new organizational structure and changes in authority of each division and positions within each division.
- Direction provided does not define the nature of variances (i.e., sensitive accounts) or the extent of variances (i.e., dollar value, percentage changes) management expects staff to explain. Currently, management relies on its staff to

Chapter 15 Highways and Transportation

decide which variances require explanations. Also, management requests explanations from time to time.

.21 Better guidance would reduce the risk of inaccurate interim reports. Inaccurate reports in turn may result in incorrect management decisions.

.22 We also reported this matter in our *Report of the Provincial Auditor: 1997 Spring* (1997 Spring Report).

.23 The DHT is developing a new financial system and it will document its interim financial reporting as part of the new system. It plans to have this new system operating by the summer of 1998.

We recommend

.24 Along with the development of its new financial system, the DHT should clearly document systems and practices necessary to prepare sound interim financial reports.

Risk of loss or damage not adequately documented

.25 The DHT needs to document its assessment of the risk of loss or damage to its inventory and equipment.

.26 The DHT is responsible for approximately \$44 million of inventory and equipment. Section AR 1210 of the *Treasury Board Accounting and Reporting Policy Manual* sets out Treasury Board's policy for safeguarding assets. It requires departments responsible for handling assets "to establish procedures to ensure that adequate systems and controls are in place to reduce the risk of loss."

.27 We evaluated the DHT's systems and practices against the following.

Chapter 15 Highways and Transportation

.28 We think adequate systems and practices to safeguard capital assets (e.g., inventory and equipment) from risk of loss or damage include:

- tracking the purchase and location of assets regularly;
- formally assessing the risk of loss or damage to its assets;
- restricting physical access to assets against significant risks identified in its risk assessment; and
- insuring assets against significant risks that remain regardless of the physical access restrictions in place.

.29 The DHT has adequate systems and practices to track its assets. However, it does not formally document its assessment of the risk of loss or damage to all of its inventory and equipment. As a result, we cannot evaluate whether the steps it has taken are sufficient to ensure risks are at an acceptable level (e.g., physical access restrictions, insurance coverage).

.30 We also reported this matter in our 1997 Spring Report.

We recommend

.31 The DHT should document the results of its assessment of the risk of loss or damage to its inventory and equipment.

.32 Management indicates the DHT recently assessed the risk of loss or damage to its portable computer equipment and is taking appropriate steps to reduce this risk. It plans to carry out similar assessments of its vehicles in 1997/98. It notes the DHT will continue to operate within the government's current insurance policy which advocates not insuring most physical assets.

Chapter 15 Highways and Transportation

Highways Revolving Fund

.33 The DHT uses the Highways Revolving Fund to distribute the cost of equipment, materials and labour to the DHT's programs and other custom-work projects. The Fund operates on a break-even basis.

.34 In 1996-97, the Fund had revenues of \$28.6 million, expenses of \$27.9 million, and held assets of \$48.1 million. \$21.1 million of the Fund's revenues came from the DHT's appropriation. The *Financial Statements - Compendium 1996-97* will include the Fund's financial statements.

Our audit conclusions and findings

.35 In our opinion, the financial statements of the Fund are reliable. The rules and procedures to safeguard and control the Fund's assets were adequate, except for the matters referred in paragraphs .36 to .51. The DHT complied with the authorities governing the Fund's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

More effective financial reporting system needed

.36 The DHT needs to improve its financial reporting system for its Revolving Fund. Staff cannot efficiently produce interim and annual financial reports for the Fund with the current system.

.37 Management needs adequate financial reporting systems to help them monitor and assess the performance of the Fund. We assessed the adequacy of the Fund's financial reporting system against the following.

.38 Sound financial reporting systems would:

- efficiently integrate data from other systems;
- provide timely, adequate and accurate information necessary to control operations;
- respond to the needs of management; and
- provide information to the appropriate persons when needed.

.39 The current financial reporting system comprises of several manual and computer systems. These systems do not work well together to ease efficient record keeping. Staff

Chapter 15 Highways and Transportation

prepare many entries to update the general ledger. Many staff are involved in the preparation of these entries. The use of manual entries increases the risk that staff record transactions incorrectly and late. Also, the current system does not respond well to management's needs or give them the necessary information.

.40 The inadequacies in the Fund's reporting system contributed to the following.

- The Fund's quarterly financial reports do not show its assets and liabilities. Using its current system, the DHT finds it too costly to prepare this information.
- The draft annual financial statements took significant time to prepare due to the poor integration of the manual and computer systems.
- The DHT did not prepare the Fund's annual financial statements by the date that Treasury Board required.

.41 The DHT recognizes the weaknesses of its current system. During the year, the DHT has assessed its needs and is developing a new financial system that will meet its needs. Management indicates that financial reports prepared using the new system will include its assets and liabilities, and be easier to prepare. It plans to have the new system operating by the summer of 1998.

.42 We also reported this matter in our 1997 Spring Report.

We recommend

.43 The DHT should continue to develop a financial system that meets management's information needs efficiently.

.44 Management indicates the DHT's new financial system to be implemented in 1998 will also be used for the Fund and will resolve the financial reporting weaknesses currently being experienced.

Chapter 15 Highways and Transportation

Better interim financial reporting needed

.45 The DHT needs adequate rules and procedures for preparing complete and accurate interim financial reports for the Fund.

.46 Complete and accurate interim financial reports are necessary to assist management in making sound decisions. Management should define and document the information they need for decision-making. We evaluated the DHT's rules and procedures for preparing the Fund's interim financial reports against the criteria set out in paragraphs .18 and .19.

.47 The DHT had adequate rules and procedures for preparing the Fund's interim financial reports except:

- documented procedures do not clearly set out the procedures necessary to prepare accurate financial reports. For example, at year end, the financial information did not agree to detailed records of amounts owed to suppliers. Management later identified the missed procedure and made the necessary corrections.
- direction provided does not define the nature of variances (i.e., sensitive accounts) or the extent of variances (i.e., dollar value, percentage changes) management expects staff to explain. Management requests explanations from time to time; and
- the quarterly financial reports did not show assets and liabilities of the Fund (see paragraph .40 for further detail).

.48 Better guidance would reduce the risk of inaccurate interim reports and adverse management decisions.

.49 We also reported this matter in our 1997 Spring Report.

.50 As previously mentioned in paragraph .41, management is developing a new financial system. As part of this new system, management will establish new rules and procedures for preparing its interim reports.

Chapter 15 Highways and Transportation

We recommend

.51 The DHT should establish adequate rules and procedures for preparing complete and accurate interim financial reports for the Fund.

**Transportation
Partnerships
Corporation**

.52 The Transportation Partnerships Corporation's purpose is to pursue opportunities with other governments, persons, or corporations to share the cost of construction and maintenance of a transportation system that are in the public interest and of particular benefit to others.

.53 The Corporation was wound up effective June 30, 1997. In 1996-97 and in the period from April 1, 1997 through June 30, 1997, the Corporation had no active operations or financial transactions.

Our audit conclusions
and findings

.54 In our opinion, the financial information of the Corporation is reliable for both the year ended March 31, 1997 and for the period April 1, 1997 through June 30, 1997.

Chapter 16
Saskatchewan Transportation Company

Table of Contents

Introduction . . . . .	.01
Our audit conclusions and findings . . . . .	.03
Information system needs improvements . . . . .	.05

Chapter 16

Saskatchewan Transportation Company

Introduction

.01 Saskatchewan Transportation Company (STC) provides a public passenger transportation system and parcel express delivery service for the Province.

.02 STC earned revenue of \$15.6 million, incurred a loss of \$6.2 million and held assets of \$20.9 million at December 31, 1996. STC's *1996 Annual Report* includes its financial statements.

Our audit conclusions and findings

.03 Our Office worked with Price Waterhouse, STC's appointed auditor, using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. Price Waterhouse and our Office formed the opinions referred to in paragraph .04.

.04 In our opinion:

- STC's 1996 financial statements are reliable;
- STC had adequate rules and procedures to safeguard and control its assets except for the following significant deficiencies; and
- STC complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

Information system needs improvements

.05 STC's information system needs improvements. STC needs to improve its rules and procedures in the following areas:

- STC needs a formal information security and confidentiality policy;
- STC needs a written and tested contingency plan; and
- STC needs to ensure timely data entry and processing.

Chapter 16 Saskatchewan Transportation Company

.06 We reported the first two deficiencies in STC's rules and procedures in our past several reports to the Legislative Assembly, including our *Report of the Provincial Auditor: 1996 Fall* (STC's year ended December 31, 1995). These deficiencies continued for STC's year ended December 31, 1996. We have not repeated the detail of these deficiencies in this Report. Instead, this Report describes STC's actions to improve its rules and procedures.

.07 STC carried out the following steps in response to our recommendations. They:

- completed the implementation of its new computer system;
- started to prepare formal security and confidentiality policies; and
- prepared a written contingency plan.

.08 During the year, STC used its new computer system to process data. We noted significant delay in data entry and processing. These delays resulted because STC underestimated the time required to enter and process data in the new system.

.09 Delays in entering and processing data can result in incorrect decisions because of incorrect financial reports. Also, delays can result in uncollectible customer accounts. STC needs timely information to carry out effectively its collections procedures.

We recommend

.10 STC should complete its formal information security and confidentiality policies.

.11 STC should test its contingency plan.

.12 STC should establish adequate rules and procedures to ensure timely data entry and processing.

Chapter 17 Municipal Government

Table of Contents

Introduction .....	.01
Financial background .....	.05
Special purpose funds and Crown agencies .....	.06
Our audit conclusions and findings .....	.09
Written service agreement required .....	.11
Assurance needed for conditional grants .....	.19
Proper financial statements standards required .....	.36
Saskatchewan Heritage Foundation .....	.44
Our audit conclusions and findings .....	.46
Internal reporting needs improvement .....	.47
Wanuskewin Heritage Park Corporation .....	.54
Our audit conclusions and findings .....	.57
The Corporation needs to strengthen controls over donations .....	.60
Public accountability .....	.65

Chapter 17

Municipal Government

Introduction

.01 The Department of Municipal Government is responsible for supporting and maintaining a viable system of municipal government in Saskatchewan.

.02 The Department helps enable communities to provide local governance, public protection, social housing, and access to sport, recreation, culture and information. The Department also works in partnership with communities by providing financial and technical support and by developing legislation, regulations and other policies to meet the changing needs of Saskatchewan people.

.03 In 1997, the Department received \$185 million from the General Revenue Fund and spent this money on its programs. Also, the Department raised \$26 million of revenue. Information about the Department's revenues and expenses appears in the *Public Accounts 1996-97 Volume 2*.

.04 The following is a list of major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Municipal financial assistance	\$ 90	\$ 86
Housing	41	39
Infrastructure assistance	29	21
Heritage and culture	12	13
Provincial library	8	8
Municipal services and public safety	6	7
Gaming funds	4	4
Other	7	7
	<u>\$ 197</u>	<u>\$ 185</u>

Financial background

.05 For 1996-97, the Government's summary financial statements show community development expenses of \$148 million. Table 1 sets out community development expenses as shown in the Government's financial statements reconciled to community development spending by the Department.

Chapter 17 Municipal Government

Table 1

	(in millions of dollars)
Department of Municipal Government (Public Accounts - Volume 2 page 151)	\$ 185
Deduct expenses shown as:	
Transportation - Municipal financial and infrastructure assistance	(40)
Social services and assistance - Housing and municipal financial assistance	(42)
Others	(12)
Add expenses funded by:	
Saskatchewan Lotteries Trust Fund	25
Indian and Métis Affairs Secretariat - Treaty land entitlement	23
Others	9
Community development expenses per the Government's financial statements	<u>\$ 148</u>

Special purpose funds
and Crown agencies

.06 The Department is also responsible for the following special purpose funds and Crown agencies:

Associated Entities Fund
First Nations Fund
Municipal Potash Tax Sharing Administration Board
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 Sport, Culture,
and Recreation
Saskatchewan Municipal Board
Wanuskewin Heritage Park Corporation
Western Development Museum

.07 We have not yet completed our work for the following special purpose funds and Crown agencies. We will include our findings in our next report to the Legislative Assembly.

Associated Entities Fund
First Nations Fund
Saskatchewan Archives Board
Saskatchewan Arts Board
Saskatchewan Centre of the Arts

Chapter 17 Municipal Government

.08 Accordingly, this Chapter includes our findings for the following special purpose funds and Crown agencies:

Municipal Potash Tax Sharing Administration Board
Northern Revenue Sharing Trust Account
Saskatchewan Heritage Foundation
Saskatchewan Housing Corporation
Saskatchewan Lotteries Trust Fund for Sport, Culture,
and Recreation
Saskatchewan Municipal Board
Wanuskewin Heritage Park Corporation
Western Development Museum

Our audit conclusions
and findings

.09 In our opinion:

- the financial statements for the funds and agencies listed in paragraph .08 are reliable except where we report otherwise in this Chapter;
- the Department and its agencies listed in paragraph .08 had adequate rules and procedures to safeguard and control their assets except where we report otherwise in this Chapter; and
- the Department and its agencies listed in paragraph .08 complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this Chapter.

.10 We also note other matters for the Legislative Assembly's attention in this Chapter.

Written service
agreement required

.11 The Department needs a written service agreement with the Department of Highways and Transportation (DHT) to ensure it pays Rural Revenue Sharing grants correctly.

.12 The Department relies on DHT to keep the records the Department uses to determine its Rural Revenue Sharing grants of approximately \$17 million. However, the Department does

Chapter 17 Municipal Government

not know if the records are accurate. The Department does not pay DHT for these services.

.13 The Department needs written agreements with others when receiving or providing services. Sound agreements:

- describe the authority and responsibility of both parties;
- describe services and activities with the other party to achieve the Department's objectives;
- require the other parties to report to the Department periodically on:
 - the systems and practices used to achieve the objectives; and
 - how well the other parties achieved the objectives; and
- allow the Department or independent auditors to verify the other parties' reports.

.14 The Department has not ensured DHT's records are reliable for the purpose of calculating Rural Revenue Sharing grants. Because the Department does not know if the DHT records are reliable, we are unable to determine if the Department paid Rural Revenue Sharing grants correctly.

.15 We also reported this matter in our *Report of the Provincial Auditor to the Legislative Assembly: 1997 Spring* (1997 Spring Report).

.16 In 1993, the Standing Committee on Public Accounts (PAC) recommended that agencies should have authorized contracts before providing goods and services without charge to other government agencies.

We recommend

.17 The Department should have a written agreement with others for the services the Department receives.

.18 The Department told us it has drafted a service agreement for discussion with DHT.

Chapter 17 Municipal Government

Assurance needed for conditional grants

.19 The Department needs assurance that the money it gives to libraries is used for the intended purposes.

.20 The Department gives money to libraries under Section 64 of *The Public Libraries Act, 1996* (Act). During the year, the Department paid a total of \$1,045,181 to northern and municipal libraries. The Public Libraries Regulations issued under the Act state libraries must use the money they receive to buy library materials or provide services during the fiscal year.

.21 The Department does not have adequate rules and procedures to ensure libraries properly safeguard and spend the public money they receive from the Department. Nor does the Department tell the libraries what performance it expects from the libraries to meet the Department's objectives.

.22 The Department needs information on libraries' rules and procedures so it can ensure that public money is properly safeguarded and spent. The Department also needs to tell the libraries what performance it expects to ensure the libraries are meeting the Department's objectives.

.23 To ensure public money is properly spent, the Department needs to know whether the libraries:

- safeguard and control their assets;
- comply with legislative and related authorities; and
- meet the Department's objectives.

.24 The Act gives the Minister the power to obtain necessary information from the libraries. For example, Section 75 of the Act states:

When requested by the minister, every public library board shall furnish the minister with the required information respecting the organization, equipment, cost, maintenance, finances and use made of the library.

.25 Currently, the Department receives the libraries' annual financial statements. Annual financial statements alone are not sufficient to know libraries safeguard and control their assets,

Chapter 17 Municipal Government

comply with legislative and related authorities, and meet the Department's objectives.

.26 Also, the Department has not set any standards for library financial statements to ensure libraries report consistently. Currently, libraries are using different methods of accounting and some libraries are not providing financial statements that report on their total operations. These differences in financial reporting make comparing library operations difficult. We think consistent accounting policies for financial reporting by libraries will help the Department in comparing the financial needs of the libraries.

.27 The Canadian Institute of Chartered Accountants (CICA) has researched and developed standards for financial statements for local governments similar to libraries. These standards ensure financial statements show properly the financial position, results of operation and changes in financial position.

.28 Also, the Department has not told the libraries how they should contribute to the Department's overall objectives. The Department receives a policy statement from each library outlining the objectives of the library. However, the Department does not ensure the libraries' objectives are consistent with those of the Department. Accordingly, the Department does not know how the libraries are helping in achieving the Department's objectives.

.29 As a result, the Department does not know if libraries use the money the Department gives them for the intended purpose.

.30 We also reported this matter in our 1997 Spring Report.

We recommend

.31 The Department should obtain assurance that libraries' rules and procedures are adequate to:

- safeguard and control their assets;
- comply with the legislative and related authorities; and
- meet the Department's objectives.

Chapter 17 Municipal Government

.32 The Department should require the libraries to use standards for financial statements recommended by CICA.

.33 The Department should tell the libraries what performance it expects from the libraries to meet the Department's objectives.

.34 The Department should receive and verify reports on how successful the libraries were in meeting the Department's objectives.

.35 The Department told us it is developing regulations under *The Public Libraries Act, 1996*. Management believe these regulations are an important step in the accountability process and will set out the departmental objectives regarding the use of public money. The Department also told us it has formed a committee to help set up the financial and operational reporting requirements for all libraries.

Proper financial statements standards required

.36 The Department needs to set proper financial statement accounting principles (standards) for municipalities (local governments).

.37 The law (Section 70(1) of *The Rural Municipality Act, 1989* and Section 73(7) of *The Urban Municipality Act, 1984*) requires the Department to set the financial statement standards that local governments must use for public reporting. These financial statements should help users understand and assess a local government's management of the public resources entrusted to it.

.38 The Canadian Institute of Chartered Accountants (CICA) has researched and developed standards for government financial statements. These standards ensure financial statements properly show a government's financial position, results of operations and changes in financial position. The Government of Saskatchewan uses these standards to prepare its financial statements to report on the management of the public resources entrusted to it. The CICA has rules and procedures to ensure standard setting is done according to due process. This is done through consultation and debate.

.39 The Department set financial statement standards for local government before CICA recommended standards for

Chapter 17 Municipal Government

local governments. The Department's standards are not consistent with CICA's standards. Using the Department's standards, the local governments financial statements do not show their proper financial position, results of operations and changes in financial position. Following are some significant deficiencies in the Department's standards:

- Local governments do not have to include all of the organizations they own or control in their financial statements. As a result, assets, liabilities, revenues and expenses may not be properly reported.
- Local governments record debt repayment as expenses. As a result, expenses are not properly reported.
- Local governments charge expenses they may incur in the future (reserves) as an expense of the current year. As a result, actual expenses are not properly reported.
- Local governments do not have to disclose all their capital assets. As a result, users lack information to understand and assess the local government's management of its assets.

.40 We also reported this matter in our *Report of the Provincial Auditor to the Legislative Assembly: 1996 Spring* and our 1997 Spring Report.

.41 In April 1997, PAC considered this matter and concurred with our recommendation.

We recommend

.42 The Department should require local governments to prepare their financial statements following the standards for local governments recommended by CICA.

.43 The Department told us it intends to undertake further consultations with stakeholders regarding the financial statement format and the overall financial accountability framework for municipalities. The Department's goal is to develop a plan that will allow for the successful implementation of the accounting policies recommended by CICA for local governments. This may involve phasing-in changes over a number of years.

Chapter 17 Municipal Government

Saskatchewan Heritage Foundation

.44 The Saskatchewan Heritage Foundation (Foundation) provides support for community-based heritage projects. These projects conserve, restore, develop and interpret Saskatchewan's rich heritage resources.

.45 The Foundation had revenue of \$0.4 million in 1997 and held assets of \$0.7 million at March 31, 1997. The Foundation's financial statements are included in its Annual Report.

Our audit conclusions and findings

.46 In our opinion:

- the Foundation's financial statements are reliable;
- the Foundation had adequate rules and procedures to safeguard and control its assets, except for the matter reported in paragraphs .47 to .53; and
- the Foundation complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

Internal reporting needs improvement

.47 The Board of Directors need better information to manage the Foundation's activities.

.48 The directors have many important stewardship responsibilities. One key responsibility is to establish and communicate objectives (business plan) and define its reporting needs to monitor performance. The directors must ensure the Foundation is achieving its objectives.

.49 The Foundation has not fully documented its operational (non-financial) information needs or established rules and procedures for preparing operational reports. Operational reports should show the effectiveness of programs, i.e., outputs and outcomes.

.50 We realize defining and documenting operational reporting needs is not easy and will take time. However, we think the Foundation should work toward this goal.

Chapter 17 Municipal Government

We recommend

.51 The Foundation should formally define and document its operational information needs.

.52 The Foundation's internal reports should show whether it achieved its goals and objectives.

.53 The Department told us the Foundation has started to document these needs.

**Wanuskewin
Heritage Park
Corporation**

.54 Wanuskewin Heritage Park Corporation (Corporation) is established under *The Wanuskewin Heritage Park Act* (Act).

.55 The Act assigns the Corporation the responsibility to:

- maintain and operate the Wanuskewin Heritage Park;
- contribute to the conservation and preservation of heritage sites, artifacts and knowledge on the park site;
- contribute to the conservation and preservation of native culture through the conservation and preservation of heritage sites, artifacts and knowledge about the park site; and
- contribute to the development and promotion of tourism in the park.

.56 For the year ended March 31, 1997, the Corporation had total expenses of \$1.4 million (1996 - \$1.6 million), reported net income of \$14.4 thousand (1996 - \$66.1 thousand) and held assets of \$9.1 million (1996 - \$9.7 million).

**Our audit conclusions
and findings**

.57 Our Office worked with KPMG, the Corporation's appointed auditor. We used the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. KPMG and our Office formed the opinions referred to in paragraph .58.

.58 In our opinion:

- the Corporation's financial statements are reliable except for the matter described in paragraphs .60 to .64;

Chapter 17 Municipal Government

- the Corporation's rules and procedures to safeguard and control its assets were adequate except for matter described in paragraphs .60 to .64;
- the Corporation complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

.59 Our Office notes another matter for the Assembly's attention in paragraphs .65 to .68.

The Corporation needs to strengthen controls over donations

.60 The Corporation needs to strengthen controls over donations.

.61 The Corporation's control system does not ensure the Corporation issues receipts for all donations it receives. The Corporation should establish written rules and procedures to ensure:

- staff obtain the information necessary to issue receipts for all donations;
- staff issue receipts for all donations;
- there is an independent reconciliation of receipts issued to cash received and recorded in the Corporation's records; and
- there is an accounting for unused receipts.

.62 As a result of the above weakness, the Corporation may not have received all the money donated to the Corporation. Also, we could not verify the completeness of donation revenue reported in the financial statements. As a result, our audit opinion on the financial statements for the year ended March 31, 1997, contains a reservation regarding the completeness of the Corporation's donation revenue.

We recommend

.63 The Corporation should strengthen its rules and procedures to control donations received by Corporation.

Chapter 17 Municipal Government

.64 Management told us that adequate controls are now in place.

Public accountability

.65 The Corporation's financial statements lack essential accountability information.

.66 The Corporation's financial statements do not include a comparison of planned results to actual results. As a result, it is difficult to understand and assess the performance of the Corporation without knowing what it planned to achieve.

.67 We think it is important for all organizations that report to the Assembly to report in a way that enhances public accountability. Also, we think clear and meaningful comparisons of plans to actual results will help Members of the Legislative Assembly and the public understand and assess the performance of the Corporation.

We recommend

.68 The Corporation should ensure its financial statements include comparisons of planned results to actual results.

Chapter 18

Education

Table of Contents

Introduction . . . . .	.01
Special purpose funds and Crown agencies . . . . .	.05
Accountability for education needs to be reviewed . . . . .	.06
Our audit conclusions and findings . . . . .	.12
Responsibilities and expectations need to be defined . . . . .	.15
Proper financial statement standards required . . . . .	.26
Operating grants calculated incorrectly . . . . .	.36
Teachers' Superannuation Commission . . . . .	.41
Our audit conclusions and findings . . . . .	.43
Monitoring compliance with the law needs to be improved . . . . .	.44
Annual reports should be timely . . . . .	.54
Pensionable earnings . . . . .	.58

Chapter 18 Education

Introduction

.01 The Department of Education is responsible for delivering elementary and secondary programs in the province. The Department pays operating and capital grants to school divisions and teachers' pensions and benefits.

.02 To deliver education programs, the Department works with many participants. These include students, teachers, taxpayers, members of locally elected school boards and the agencies created to deliver the Department's programs.

.03 In 1997, the Department received \$541 million from the General Revenue Fund (GRF) and spent this money on its programs. Also, the Department raised \$10 million of revenue. The *Public Accounts 1996-97 Volume 2* reports information about the Department's revenues and expenses.

.04 The following is a list of major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Teachers' Pensions and Benefits	\$ 139	\$ 134
Educational Grants and Programs	398	401
Other	6	6
	<u>\$ 543</u>	<u>\$ 541</u>

Special purpose funds
and Crown agencies

.05 The Department is responsible for the following special purpose funds and Crown agencies:

	<u>Year end</u>
Correspondence School Revolving Fund	March 31
Saskatchewan Learning Resources Distribution Centre Revolving Fund (formerly Saskatchewan Book Bureau Revolving Fund)	March 31
School Division Tax Loss Compensation Fund	March 31
Teachers Superannuation Commission	June 30
Saskatchewan Communications Network Corporation	March 31

Chapter 18 Education

Accountability for
education needs
to be reviewed

.06 The current system of accountability for public money spent on education needs to be reviewed to consider whether it needs strengthening.

.07 School divisions raise some of the taxes to pay program costs. However, they do not raise all the taxes, they receive direction from the Department on the programs, and they do not determine teachers' salaries and benefits. Therefore, school divisions cannot be held fully accountable.

.08 Individual school divisions do not set teachers' salaries and benefits, their largest single expense. Section 234(2) of *The Education Act* (Act) states:

The association shall appoint four persons and the Lieutenant Governor in Council shall appoint five persons to a bargaining committee to have exclusive authority, and be the sole party, to bargain collectively and to execute collective bargaining agreements on behalf of boards of education and conseils scolaires and the Government of Saskatchewan.

.09 The association referred to in Section 234(2) is The Saskatchewan School Trustees' Association.

.10 Teachers' salaries and benefits, including pension benefits, are negotiated as part of province-wide collective bargaining.

.11 The Legislative Assembly needs to consider whether the system of accountability for the education sector needs strengthening. The current system is inconsistent with the principle that the person raising taxes should answer for how those taxes are spent.

Our audit conclusions
and findings

.12 This Chapter contains our findings for the Department (including special purpose funds) and its Crown agencies for fiscal years ending on or before March 31, 1997.

.13 In our opinion:

- the financial statements for the funds and agencies listed in paragraph .05 are reliable

Chapter 18 Education

except where we report otherwise in this Chapter;

- the Department had adequate rules and procedures to safeguard and control its assets except for the matters reported in this Chapter; and
- the Department complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matters referred to in this Chapter.

.14 We have not yet completed our audit of the School Division Tax Loss Compensation Fund. We will report the results in a future report.

Responsibilities and expectations need to be defined

.15 To ensure school divisions properly safeguard and spend public money, the Department needs to provide the school divisions with the Department's expectations.

.16 The Department is responsible for ensuring money appropriated for education is properly safeguarded and spent. To fulfil this responsibility, the Department needs to set out what it expects the school divisions to do with public money the Department gives them. It then needs to know how well the school divisions met these expectations and report the results to the Assembly. To ensure there is no misunderstanding, the Department should provide its expectations and required accountability to the school divisions.

.17 We think *The Education Act, 1995* (Act) gives the Minister the power to obtain the necessary information. The Minister can determine accounting principles, information systems and reporting requirements for agencies receiving money from the Department. For school boards:

Section 282 of the Act states:

A board of education or conseil scolaire shall furnish to the minister copies of budget estimates, financial statements and other information in

Chapter 18 Education

such form and at such times as the minister may consider necessary; and

Section 312(1)(a) referring to information required on grants given to school divisions states:

from each school division, any returns, statements, reports and information that he considers necessary.

.18 The Department receives audited financial statements from school divisions. As explained in paragraphs .26 to .35, these financial statements are not in accordance with the accounting principles set by the Public Sector Accounting and Auditing Board (PSAAB) of The Canadian Institute of Chartered Accountants (CICA). In any case, financial statements by themselves do not provide enough information to know if the school divisions met the Department's expectations. As well, the Department does not require school divisions to report on how well they safeguard and spend public money and comply with authorities. The Department does not require information from school divisions to know if school divisions meet the Department's expectations or how well the school divisions safeguard and spend public money the Department gives them.

.19 We have not examined the accounts of the school divisions to know whether they properly safeguard and spend money they receive from the Department.

.20 We also reported this matter in our *Report of the Provincial Auditor: 1996 Spring* (1996 Spring Report) and *Report of the Provincial Auditor: 1997 Spring* (1997 Spring Report).

We recommend

.21 The Department should provide the school divisions with the Department's expectations.

.22 The Department should require the school divisions to report on the rules and procedures used to meet the Department's expectations.

.23 The Department should require school divisions to report on their performance in achieving the Department's expectations.

Chapter 18 Education

.24 The Department should table these school division reports in the Assembly.

.25 In December 1996, the Standing Committee on Public Accounts (PAC) considered these matters. The PAC acknowledged the importance of locally elected school boards to safeguard public money and that the Department is continuing to seek to improve accountability to the Public and the Assembly. The PAC also noted the Department will consult the Provincial Auditor with respect to improving public accountability of the province's public education system.

Proper financial statement standards required

.26 The Department needs to set proper financial statement accounting principles (standards) for school divisions.

.27 The Act (Section 283) requires the Department to set the standards for financial statements. These financial statements should help users understand and assess a school division's management of the public resources entrusted to it.

.28 The CICA has researched and developed standards for government financial statements. These standards ensure financial statements show properly a government's financial position, results of operation and changes in financial position. The Government uses these standards to prepare its financial statements to report on the management of public resources entrusted to it. The CICA has rules and procedures to ensure standard setting is done according to due process. This is done through consultation and debate.

.29 In 1996, The CICA published a research study on standards for school division financial statements. It concluded "that the objectives, general principles and many of the PSAAB Recommendations developed for local governments were generally appropriate".

.30 The Department sets financial statement standards for school divisions but these are not consistent with those developed by CICA. Using the Department's standards, school division financial statements do not show their proper financial position, results of operations and changes in financial position. For example, the Department's standards are weak in the following areas:

Chapter 18 Education

- School divisions record debt repayments as expenses. As a result, the amounts recorded do not reflect the costs of programs delivered during the period.
- School divisions record costs they may incur in the future (reserves) as an expense of the current year. As a result, the amounts recorded do not reflect the costs of programs delivered during the period.
- School divisions do not show their net investment in capital assets. As a result, users do not receive the information necessary to assess the school division's management of its capital assets.
- School divisions do not include a comparison of planned results with actual results. As a result, users cannot compare results with what was planned.

.31 As a result, the Department does not know what it costs to deliver the Department's programs.

.32 We also reported this matter in our 1996 Spring Report and 1997 Spring Report.

We recommend

.33 The Department should require school divisions to prepare their financial statements following the standards recommended by the CICA.

.34 In December 1996, the PAC considered this matter and recommended "school divisions should use Canadian Institute of Chartered Accountants' standards for financial statements."

.35 Management told us the Department is working with the Saskatchewan Association of School Business Officials on financial reporting and that several recommendations from the public sector will be incorporated into a revised reporting manual.

Operating grants
calculated incorrectly

.36 The Department needs rules and procedures to ensure operating grants are calculated according to the regulations.

Chapter 18 Education

.37 Operating grants to school divisions are calculated using the School Grants Regulations. The Department asks Cabinet to change these Regulations annually. For the year ended March 31, 1997, the Department intended to ask Cabinet to change the "small school factor" used in the operating grant calculations. In drafting the regulations, the amendment to the small school factor was omitted. As a result, Cabinet approved the regulations with the old "small school factor".

.38 The Department calculated operating grants using the intended "small school factor" rather than the approved "small school factor" specified in the regulation. Therefore, several school divisions received larger operating grants and some received smaller grants than they were entitled to under the regulations. The Department has not calculated the exact amount of the overpayments and chose not to recalculate the grants using the approved "small school factor".

We recommend

.39 The Department should ensure grants are calculated according to the regulations.

.40 Management told us that in the future all intended changes will be submitted to Cabinet.

**Teachers'
Superannuation
Commission**

.41 The Commission manages the Teachers' Superannuation Plan (Plan). It consists of the Teachers' Superannuation Fund (Fund), a defined benefit final average pension plan and the Voluntary Contributions Fund, a defined contribution plan.

.42 In 1996, the Plan received contributions of \$25.3 million from teachers and \$112.6 million from the Minister of Finance. At June 30, 1996, the Plan held assets of \$1,277.9 million and had liabilities of \$3,270.0 million. The Plan's financial statements will be included in its annual report.

**Our audit conclusions
and findings**

.43 In our opinion:

- the Plan's financial statements are reliable;
- the Commission had adequate rules and procedures to safeguard and control the Plan's assets except for the matter referred to in paragraphs .44 to .53; and

Chapter 18 Education

- the Commission complied with the authorities governing the Plan's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matters described in paragraphs .44 to .63.

Monitoring compliance with the law needs to be improved

.44 The Commission needs to improve its monitoring of investments to ensure they comply with the law.

.45 The law on pension plan investments aims to reduce the risk of loss to pension plans. The Commission must follow limits set out in *The Pension Benefits Act, 1993* when investing pension plan money. Pension plan administrators sometimes contract with investment managers to make investment decisions for the Plan. Administrators must ensure their investment managers comply with the law.

.46 Administrators usually contract with custodians to physically safeguard Plan investments, settle all investment transactions and ensure all investment income is received. They also often contract with asset consultants to provide advice on the management of Plan investments and on the measurement of the Plan's performance.

.47 Service contracts should ensure the Commission receives accountability reports from the investment manager on compliance with the law. The service contract could also require the manager to:

- report periodically on the systems and practices it uses to comply with the law; and
- allow the Commission access to the manager's records and personnel to verify its reports or verify the reports using the manager's independent auditor.

.48 Alternatively, the custodian or asset consultant could be contracted with to monitor investments to ensure they comply with the law. This would provide independent verification of the investment manager's compliance report.

Chapter 18 Education

.49 The Commission's contract with its investment manager, Greystone Capital Management Inc. (Greystone) requires the manager to ensure the Plan's investments comply with the law.

.50 The Commission does receive investment compliance reports from Greystone. However, the Commission has not verified these reports. Also, the Commission does not receive periodic reports on the systems and practices Greystone uses to comply with the law.

.51 We also reported this matter in our *Report of the Provincial Auditor: 1996 Fall*.

We recommend

.52 The Commission should improve its monitoring of investments to ensure they comply with the law by either:

- **improving its investment contract with Greystone so:**
 - **Greystone provides periodic reports on its systems and practices for complying with the law; and**
 - **the Commission has the authority to verify compliance reports using its staff or the Commission's independent auditor; or**
- **the Commission should contract with its custodian or an asset consultant to independently monitor the investments for compliance with the law.**

.53 Management told us the Commission is currently negotiating an agreement with its custodian to monitor compliance with the law.

Annual reports should be timely

.54 The Commission did not comply with *The Tabling of Documents Act, 1991*.

.55 *The Tabling of Documents Act, 1991* required tabling of the 1995 annual report by March 21, 1996.

Chapter 18 Education

We recommend

Pensionable earnings

.56 The Commission tabled the 1995 annual report on March 12, 1997.

.57 The Commission should table its annual report by the date required by law.

.58 The Commission is aware of some school boards not correctly reporting pensionable earnings or days taught by retired teachers receiving a pension.

.59 The Commission is currently reviewing pensionable earnings reported by school boards. It is reviewing pensionable earnings calculations to ensure the school boards calculated them in accordance with *The Teachers Superannuation and Disability Benefits Act*.

.60 Incorrect reporting of pensionable earnings can result in incorrect pension payments. If any of the five highest years of pensionable earnings are incorrect, the pension will be incorrect.

.61 In addition, the Commission is currently reviewing all school boards' reports on the number of days each retired teacher has taught. The Commission is also requesting those boards who have not reported to report.

.62 Retired teachers receiving a pension and who teach more than 120 days each year are required to have their pension reduced.

.63 We will review the Commission's work and report our findings in a future report to the Assembly.

Chapter 19

Post-Secondary Education and Skills Training

Table of Contents

Introduction . . . . .	.01
Special purpose funds and agencies . . . . .	.04
Our audit conclusions and findings . . . . .	.06
Responsibilities and expectations need to be defined . . . . .	.09
Student Aid Fund . . . . .	.21
Our audit conclusions and findings . . . . .	.23
Ineligible student loans . . . . .	.24
Trustees need to administer the Fund . . . . .	.36
Lack of authority to limit interest write-down grants . . . . .	.45
New Careers Corporation . . . . .	.55
Our audit conclusions and findings . . . . .	.57
Financial reports need improvement . . . . .	.58
Agreements need improvement . . . . .	.72
Saskatchewan Indian Regional College . . . . .	.80
Our audit conclusions and findings . . . . .	.82
Written governance policies required . . . . .	.85
Compliance with <i>The Regional Colleges Act</i> . . . . .	.93
Other payments . . . . .	.103
Payee list required . . . . .	.104

Chapter 19

Post-Secondary Education and Skills Training

Introduction

.01 The Department of Post-Secondary Education and Skills Training is responsible for policies and programs relating to post-secondary education and job related training. To deliver education programs the Department works with many agencies. The major agencies include regional colleges, the Student Aid Fund, the Saskatchewan Institute of Applied Science and Technology (SIAST), the University of Saskatchewan and the University of Regina.

.02 In 1997, the Department received \$345 million from the General Revenue Fund and spent this money on its programs. Also, the Department raised \$16 million of revenue. The *Public Accounts 1996-97 Volume 2* reports information about the Department's revenues and expenses.

.03 The following is a list of major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Student Support	\$ 33	\$ 25
Grants to Universities, SIAST and Regional Colleges	251	258
Skills Training and Labour		
Market Planning	44	44
Distance Education	13	13
Other	6	6
	<u>\$ 345</u>	<u>\$ 345</u>

Special purpose funds and agencies

.04 The Department is responsible for the following special purpose funds and Crown agencies:

	<u>Year end</u>
Carlton Trail Regional College	June 30
Cumberland Regional College	June 30
Cypress Hills Regional College	June 30
New Careers Corporation	March 31
North West Regional College	June 30
Northlands College	June 30
Parkland Regional College	June 30
Prairie West Regional College	June 30
Private Vocational Schools Training Completion Fund	March 31

Chapter 19 Post-Secondary Education and Skills Training

SIAST	June 30
Saskatchewan Indian Regional College	June 30
South East Regional College	June 30
Student Aid Fund	March 31

.05 The Department is also responsible for the University of Saskatchewan and the University of Regina. The year end for the universities is April 30.

Our audit conclusions
and findings

.06 This Chapter contains our findings for the Department (including special purpose funds) and its Crown agencies for fiscal years ending on or before June 30, 1997. We also include our findings on the Saskatchewan Indian Regional College for the year ended June 30, 1996. We reported our findings on the other regional colleges for the year ended June 30, 1996 in our *Report of the Provincial Auditor: 1997 Spring* (1997 Spring Report).

.07 In our opinion:

- the financial statements for the funds and agencies listed paragraph .04 are reliable except where we report otherwise in this Chapter;
- the Department and its agencies had adequate rules and procedures to safeguard and control their assets except where we report otherwise in this Chapter; and
- the Department and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this Chapter.

.08 We have not yet completed our audit of the regional colleges for the year ended June 30, 1997. We will report the results in a future report.

Responsibilities and
expectations need to
be defined

.09 To ensure the universities properly safeguard and spend public money, the Department needs to provide the universities with the Department's expectations.

Chapter 19 Post-Secondary Education and Skills Training

.10 The Department is responsible for ensuring money appropriated for the universities is properly safeguarded and spent. To fulfil this responsibility the Department needs to set out what it expects the universities to do with public money given to them. It then needs to know how well the universities met these expectations and report the results to the Legislative Assembly. To ensure there is no misunderstanding, the Department should provide the universities with the Department's expectations and the accountability requirements.

.11 We think, *The Education Act, 1995* (Act) gives the Minister the power to obtain this necessary information. The Minister can determine accounting principles, information systems and reporting requirements for agencies receiving public money.

.12 For example section 7(e) of the Act states:

The minister may require a university to establish any accounting and information systems that the minister considers necessary for the proper conduct of the business affairs of the university and require the university to provide any reports and other information that the minister considers necessary.

.13 Currently, the Department receives audited financial statements from the universities. Financial statements by themselves are not sufficient to know if the universities met the Department's expectations. As well, the Department does not require universities to report on how well they safeguard and spend public money and comply with authorities.

.14 We audit both universities and give the Department our memoranda of audit observations on the universities' rules and procedures to safeguard and spend public money and comply with authorities. We think the Department should provide this information to the Assembly to improve accountability.

.15 We also reported this matter in our *Report of the Provincial Auditor: 1996 Spring* (1996 Spring Report) and 1997 Spring Report.

We recommend

.16 The Department should provide the universities with the Department's expectations.

Chapter 19 Post-Secondary Education and Skills Training

.17 The Department should require the universities to report on the rules and procedures used to meet the Department's expectations.

.18 The Department should require universities to report on their performance in achieving the Department's expectations.

.19 The Department should table these reports in the Assembly.

.20 In December 1996, the Standing Committee on Public Accounts considered this matter and concurred with our recommendations.

Student Aid Fund

.21 The Department of Post-Secondary Education and Skills Training uses the Student Aid Fund (Fund) to help students finance their education.

.22 The Fund had revenues of \$37.3 million in 1997 and assets of \$94.8 million at March 31, 1997. The Fund's annual report will include its financial statements.

Our audit conclusions and findings

.23 In our opinion :

- the Fund's financial statements are reliable;
- the Department had adequate rules and procedures to safeguard and control the Fund's assets except for the matters referred in paragraphs .24 to .44; and
- the Department complied with authorities governing the Fund's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matters described in paragraphs .24 to .54.

Ineligible student loans

.24 The Department needs to verify critical information on student loan applications.

.25 The Department approved 14,000 student loans for approximately \$44.4 million. It must ensure only eligible applicants receive aid and in the correct amounts, while remaining responsive to the applicant's financial needs. To do this, the Department needs to verify the applicant's student and financial status. Applicants are responsible for providing accurate financial, personal and demographic information. We found the Department did not sufficiently verify critical information before approving the loans.

.26 Inadequate resources limit the Department's ability to verify the information provided by applicants before disbursing loans. Therefore, the Department sometimes grants loans in error or in amounts greater than the law permits.

.27 The Department monitors the extent of ineligible loans by doing certain procedures after loans are approved. These include checking loan files to provincial health records (for residency and existence of dependants) and to Saskatchewan Auto Fund records (for a check of assets). Files are also checked to income tax records on a test basis. Any discrepancies are followed up by the Department. However, the Department has not adequately verified critical information for loan eligibility, using a statistically sound method, since 1992/93. We think verifying the information using a statistically sound method each year is necessary to determine the extent of ineligible loans. Because the Department has not done this for loans approved after 1992/93, we have not been able to determine the extent of ineligible loans.

.28 During 1994/95, the Department verified the information on loans granted for the 1992/93 school year using a statistically sound method. Results showed 20% of all student loans granted during 1992/93 were for amounts greater than the law permits. The Department has not audited 1993/94, 1994/95, 1995/96 and 1996/97 student loans to know the extent of ineligible loans during these periods.

.29 While we do not know the error rate for 1996/97 loans, applying the 1992/93 error rate to the \$44.4 million of current loans results in an estimate of loans approved in excess of what the law permits of \$8.8 million (1995/96 \$8.1 million).

Chapter 19 Post-Secondary Education and Skills Training

.30 Through the Fund's financial statements, the Department recognizes expenses related to loans approved each year. These expenses result from the following factors:

- interest payable to the bank on student loans held by the bank for the student's interest free period;
- risk premium payable to the bank;
- interest relief granted for students having financial difficulties; and
- loan remission or forgiveness when students meet specific financial and academic criteria.

.31 Using these factors, the Department estimates the expenses for the loan portfolio each year. The estimated expense related to \$8.8 million of ineligible loans for 1996/97 is \$3.7 million (1995/96 \$4.9 million).

.32 We also reported this matter in our 1996 Spring Report and 1997 Spring Report and previous reports.

.33 In December 1996, the Standing Committee on Public Accounts reviewed this matter and concurred with our recommendation.

We recommend

.34 The Department should verify critical information on student loan applications.

.35 Management told us the Department now requires all single university students to have their pre-study estimate of earnings confirmed by the employer thirty days after the start of courses. Management also told us:

Management does not do a statistically sound audit each year because it is a very time consuming audit and the department resources are insufficient to perform a yearly audit. Management is using their available resources to do more selective audits. Changes made to the system since 1992-93 is expected to reduce overpayments related to student earnings and therefore, management is doing a statistically sound audit on 1995-96 study term earnings and

Chapter 19 Post-Secondary Education and Skills Training

1996-97 pre-study term earnings to determine the effectiveness of the changes.

Trustees need to administer the Fund

.36 The Fund's Trustees need to administer operations. They have important management responsibilities including overseeing the Fund's performance, safeguarding assets, complying with laws and other authorities, and ensuring adequate public accountability.

.37 Section 3(2) of *The Student Assistance and Student Aid Fund Act, 1985* (Act) requires the trustees to administer the Fund following the Act and regulations.

.38 To administer the Fund, the Trustees need to meet regularly and review financial reports received from management. The Trustees consist of the Department's deputy minister, the Deputy Minister of the Department of Finance and one person appointed by the Lieutenant Governor in Council. We saw no evidence the Trustees met during the 1996/97 fiscal year.

.39 To properly administer the Fund, the Trustees must tell management what performance they expect. They must also receive reports from management comparing what management did with what the Trustees expected.

.40 The Trustees have not formally defined their financial and operational information needs. They need to do this to ensure they receive suitable and timely reports. The Trustees should document their reporting needs setting out:

- their information needs. For example:
 - financial reports prepared in accordance with generally accepted accounting principles;
 - reports comparing planned results for the period and year-to-date to actual results for the period and year-to-date; and
 - reports showing the forecast of expected results to the year end based on current information; and

- the nature and extent of variances between planned and actual results. Variance explanations should include a comparison of the planned activity level with actual activity when appropriate.

.41 Management prepared periodic financial reports through the year, but the reports were not accurate. In 1996, the Department transferred approximately \$45 million of loans to the Royal Bank. The financial reports did not recognize certain changes required to accounts receivable arising from the transfer of loans to the Royal Bank. The financial reports did not recognize liabilities due to the Royal Bank for loans transferred to the Bank. The reports did not provide written variance explanations for differences between planned and actual results.

We recommend

.42 The Trustees should meet regularly and formally define and document their internal reporting needs.

.43 The Trustees should regularly review financial and operational reports from management and document their review.

.44 Management told us the Department is currently preparing rules and procedures for the preparation of periodic financial reports.

Lack of authority to limit interest write-down grants

.45 The Department withheld certain interest write-down subsidies from students.

.46 On May 1, 1986, the Government introduced an interest write-down program for student assistance loans obtained for courses commencing between May 1, 1986 and July 31, 1989. "The Interest Write-down Program" applied to all students receiving either Canada Student Loans or Saskatchewan Student Loans during this period. This program subsidized interest rates to a rate of 6%.

.47 When the Department started the program, the Student Guide explained the program. Neither the Guide nor the promissory notes signed by the students placed restrictions on the subsidy period. We think a continuing subsidy exists for students who received loans the first year (loans issued from May 1, 1986 to July 31, 1987) for the loan term.

.48 The Department sought legal advice regarding the subsidy period. The question was whether the subsidy should be for the loan repayment term or applied to some lesser, fixed period.

.49 The legal opinion stated if a limited benefit period was not communicated to the students either in the Student Guide, the promissory loan agreements or in another form, students may be in a legal position to expect the Department to grant the subsidy for the full term of the loan. This applies only to loans issued in the first year as the Student Guide for the next year limits the subsidy period to thirty-six months.

.50 Contrary to its legal advice, the Department applied Interest Write-down subsidies over a 36-month benefit period on loans issued in 1986/87. Officials informed us they have no legal advice to support this practice.

.51 We think, the Department acted beyond its authority when it limited the interest subsidy period for students who received loans in 1986/87.

.52 We also reported this matter in our 1997 Spring Report and in previous reports.

.53 In January 1992, Cabinet directed that this be handled on a case-by-case basis. Any students who received a loan in 1986/87 and requests a review regarding their eligibility for an interest rate subsidy, will have the interest rate on those loans reduced to 6% for the repayment period.

.54 In December 1996, the Standing Committee on Public Accounts reviewed the matter and concurred with Cabinet's direction. The Committee recommended "the Department deal with any student who received a loan in 1986-87 and who requests a review of their repayment on a case by case basis".

Chapter 19 Post-Secondary Education and Skills Training

New Careers Corporation

.55 New Careers Corporation (New Careers) gives social assistance clients opportunities for greater independence and employment. It provides these opportunities through career planning, job-search training, counselling, skills development, educational upgrading, and work experience.

.56 In 1997, New Careers had revenues of \$18.7 million, spent \$20.4 million, and held assets of \$7.2 million at March 31, 1997. New Careers plans to include financial statements in its annual report.

Our audit conclusions and findings

.57 In our opinion:

- New Careers' financial statements are reliable;
- New Careers had adequate rules and procedures to safeguard and control its assets except for the matters referred in paragraphs .58 to .79; and
- New Careers complied with authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

Financial reports need improvement

.58 New Careers' internal financial reports need improvement.

.59 Internal financial reports are necessary to properly manage financial operations. Internal financial reports should:

- be prepared in accordance with generally accepted accounting principles;
- include a balance sheet to show what an organization owns and what it owes;
- compare planned results to actual results for the period and year-to-date (e.g., revenues and expenses);
- contain written explanations of variances between actual results to date and planned results; and

Chapter 19 Post-Secondary Education and Skills Training

- include a projection of revenue and expenses to the end of the year based on current information.

.60 To improve its financial reports during the past year, New Careers:

- used accrual accounting for its revenues;
- showed a comparison of year-to-date planned to actual results for some programs; and
- explained major variances between year-to-date actual and year-to-date budget for some programs.

.61 New Careers should continue to improve its internal financial reports.

.62 New Careers' current internal financial reports do not comply with generally accepted accounting principles because they do not show actual expenses incurred for all programs, do not show all revenues and expenses, and do not include a balance sheet.

.63 In its internal financial reports, New Careers includes actual expenses it has incurred and expenses it will incur in the future for the Community Employment and Work Preparation programs. New Careers' financial reports should show only actual expenses incurred. Its other reports can continue to provide expense information it will incur in the future.

.64 New Careers' internal financial reports do not show all the revenues and expenses of its Work Experience program. The reports show labour expense recoveries as revenue in its financial reports. However the reports do not show material costs as an expense or their recovery as revenues. As a result, the internal financial reports are not complete.

.65 New Careers' internal financial reports do not include a balance sheet. A balance sheet shows what an organization owns and what it owes. It also allows a check on the completeness and accuracy of the other financial reports.

.66 New Careers' internal financial reports provide information on projected revenues and expenses, comparisons

Chapter 19 Post-Secondary Education and Skills Training

to approved budgets and variance explanations. However, the reports use budget and projected expense amounts for the program year rather than New Careers' fiscal year. When the program year extends beyond the fiscal year, this information is not consistent with other information contained in the financial reports. This impairs the usefulness of financial reports in monitoring operations.

.67 New Careers' internal financial reports should show budgets and revenue and expense projections for the fiscal year. New Careers can continue to show financial information for a program year in other reports.

.68 The November 1996 internal financial report showed the same \$60,000 expense twice. Management did not detect this error because of the internal financial reporting weaknesses described above.

.69 Inaccurate and incomplete financial reports can lead to incorrect decisions.

.70 We also reported this matter in our 1997 Spring Report.

We recommend

.71 New Careers should improve its internal financial reports to:

- show actual costs;
- include all Work Experience program costs and revenues;
- include a balance sheet; and
- show its budget and projections on a fiscal year basis.

Agreements need improvement

.72 New Careers needs to improve its agreements with agencies delivering services for New Careers.

.73 New Careers makes service agreements with various agencies for the delivery of training and development services. Payments to these agencies totalled \$1.0 million for the year ended March 31, 1997.

.74 New Careers remains responsible for the training and development services provided by these agencies. Therefore, adequate service agreements are essential to ensure New Careers' financial, operational and compliance with authorities objectives are being met.

.75 Adequate service agreements should:

- set out clearly New Careers' financial, operational and compliance with authorities objectives;
- require the agencies to have systems to carry out New Careers' objectives and report to it on those systems;
- require the agencies to report periodically on how well they have achieved New Careers' objectives;
- allow New Careers or an independent auditor to verify the reports; and
- describe how New Careers will provide funding.

.76 We found most service agreements set out financial and compliance with authorities objectives. However, the agreements do not clearly set out New Careers' operational objectives. One such objective would be to ensure social assistance recipients find long-term employment because of the training they receive. Also, the agreements do not require the agencies to establish and report on their systems to achieve New Careers' objectives, nor to report on how well they have achieved the objectives.

.77 Better agreements will help New Careers ensure the agencies meet New Careers' objectives.

We recommend

.78 New Careers Corporation should improve its service agreements with agencies delivering services for the Corporation.

.79 Management told us they will be reviewing their service agreements to ensure they meet New Careers' financial, operational and compliance with authority objectives.

Chapter 19 Post-Secondary Education and Skills Training

Saskatchewan Indian Regional College

.80 The Saskatchewan Indian Regional College operates under *The Regional Colleges Act*. The College provides training and learning opportunities to members of First Nations in Saskatchewan.

.81 The College had revenue of \$7.4 million in 1996 and held assets of \$2.0 million at June 30, 1996. The College's annual report contains its financial statements.

Our audit conclusions and findings

.82 We worked with KPMG, the College's appointed auditor, using the frame work recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. KPMG and our Office formed the opinions in paragraph .83.

.83 In our opinion:

- the College's financial statements are reliable;
- the College had adequate rules and procedures to safeguard and control its assets except for the matters described in paragraphs .85 to .92; and
- the College complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matters described in paragraphs .93 to .102.

.84 We report other matters for the Assembly's attention in paragraphs .103 to .107.

Written governance policies required

.85 The Board of Directors need written governance policies setting out what they expect from management.

.86 The directors are responsible for the financial affairs of the College. To fulfill this responsibility, the directors need to establish and communicate policies. Policies should prescribe what and how things should be done and prohibit inappropriate action.

.87 The directors need to give adequate direction to management for safeguarding and controlling the College's

assets. The directors also need to know that management discharge their responsibilities according to the directors' policies.

.88 To govern the operations of the College effectively the directors should have written policies:

- setting out the services the directors want delivered at what cost and the performance the directors expect of senior management;
- setting out the information the directors need to monitor the College's performance (e.g., performance reports and assurance that assets are safeguarded);
- setting out delegated authority to management; and
- ensuring adequate accountability to the members of First Nations, the Minister of Post-Secondary Education and Skills Training, and the Legislative Assembly.

.89 Written policies provide for the orderly and efficient conduct of business. Written policies also reinforce the directors' delegation of authority and responsibilities for all employees.

.90 We also reported this matter in our *Report of the Provincial Auditor: 1996 Fall* (1996 Fall Report).

We recommend

.91 The Board of Directors should establish written governance policies.

.92 The Board of Directors should ensure senior management has provided adequate direction to staff to safeguard and control the College's assets.

Compliance with *The Regional Colleges Act*

.93 The College is subject to *The Regional Colleges Act* (Act). The Act requires the members of the Board to be appointed by an Order in Council. There was no Order in Council appointing four persons regularly taking part in Board's meetings.

.94 The College paid these four persons pay and expenses. In addition, the College paid all members of the Board at a rate higher than the rate approved by Order in Council. In 1996, the total amount paid to the members of the Board for pay and expenses was approximately \$47,000. The College lacked authority to make these payments.

.95 The Act requires the Board, subject to the approval of the Minister, to appoint an auditor to audit the accounts and financial transactions of the College. The Minister did not approve the appointment of the auditor.

.96 The Act requires the Minister to approve the College's budget before the Board adopts it. The Minister did not approve the College's budget.

.97 *The Regional Colleges Regulations* made under the Act require the Minister to approve the College's personnel policy. The Minister did not approve the College's personnel policy.

.98 *The Regional Colleges Regulations* made under the Act require that a person shall not serve as Chair of the Board for more than two consecutive terms. The Chair of the Board has served more than two consecutive terms as Chair.

.99 We also reported this matter in our 1996 Fall Report and previous reports.

.100 The Standing Committee on Public Accounts (PAC) considered this matter on January 7, 1992, on February 4, 1993, and again on January 19, 1994.

.101 On January 19, 1994, the Deputy Minister reported to PAC the Department had formed a committee jointly with the College to examine its legislative status and relationship with the College system.

We recommend

.102 **The College should comply with *The Regional Colleges Act*. Alternatively, the Department of Post-Secondary Education and Skills Training should propose changes to the Act to exempt the College from the requirements of the Act.**

Chapter 19 Post-Secondary Education and Skills Training

Other payments

.103 During the year, the College paid \$46,500 to Saskatchewan Indian Training Assessment Group (SITAG), a related organization, to cover the pay and expenses for SITAG's Board of Directors. We are unable to determine whether these payments were used for educational purposes.

Payee list required

.104 The College needs to comply with the Standing Committee on Public Accounts' recommendations to provide a list of payees to the Legislative Assembly for each fiscal year.

.105 We think public accountability is strengthened when the College provides a list of persons that received money from it. This way the Assembly and the public, including members of First Nations, can review the use of money by the College. Also, we think officials make better spending decisions when they must answer for who received money from them.

.106 The College did not table a list of payees for the year ended June 30, 1995 in the Assembly.

We recommend

.107 The College should provide a list of payees to the Legislative Assembly.

Chapter 20 Finance

Table of Contents

Introduction . . . . .	.01
Special purpose funds and Crown agencies . . . . .	.03
Our audit conclusions and findings . . . . .	.04
Our concerns with the GRF financial statements . . . . .	.08
Timely annual reports and financial statements needed . . . . .	.13
Members of the Legislative Assembly Superannuation Plan . . . . .	.16
Our audit conclusions and findings . . . . .	.18
Spousal payments require authority . . . . .	.20
Act needs change . . . . .	.26
Public Employees Dental Fund . . . . .	.32
Our audit conclusions and findings . . . . .	.34
Policies should be followed . . . . .	.35
Budget needed . . . . .	.42

Chapter 20

Finance

Introduction

.01 The Department of Finance:

- administers various provincial tax, grant, and refund programs.
- arranges financing, banking, investing and borrowing functions.
- provides policy and financial analyses to the Treasury Board and Executive Council.
- develops tax policy alternatives.
- provides economic forecasting, and economic, social and statistical data.
- prepares the annual *Budget Address*, the *Estimates* and the *Public Accounts*; and
- administers public sector pension and benefit plans.

.02 Also, the Department helps the Government and the Legislature manage and account for public money. As well, it controls spending from the General Revenue Fund (GRF) and ensures the GRF receives all revenue.

Special purpose funds and Crown agencies

.03 The Department is responsible for managing the following special purpose funds and Crown agencies.

Year end: December 31

Extended Health Care Plan
Liquor Board Superannuation Commission, The
Municipal Employees' Pension Commission
Public Employees Deferred Salary Leave Fund
Public Employees Disability Income Fund
Public Employees Dental Fund
Saskatchewan Pension Plan
Workers' Compensation Board Superannuation Plan

Chapter 20 Finance

Year end: March 31

General Revenue Fund (GRF)
Members of the Legislative Assembly Superannuation Plan
Public Employees Benefits Agency Revolving Fund
Public Employees (Government Contributory) Superannuation
Plan
Public Service Superannuation Plan
Sinking Fund

The Department also prepares the Government's Summary
Financial Statements.

Our audit conclusions
and findings

.04 In our opinion:

- the financial statements for the funds and agencies listed in paragraph .03 are reliable except where we report otherwise in this Chapter;
- the Department and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this Chapter; and
- the Department and its agencies had adequate rules and procedures to safeguard and control their assets except where we report otherwise in this Chapter.

.05 This Chapter contains our audit findings for the fiscal years ending on or during the year to March 31, 1997.

.06 Due to established priorities, we have not completed our audit work on the Department. Also, we have not completed our financial statement audit of the following funds and agencies:

- The Liquor Board Superannuation Commission
- Members of the Legislative Assembly
Superannuation Plan
- Municipal Employees' Pension Commission

Chapter 20 Finance

- Public Employees (Government Contributory) Superannuation Plan
- Public Service Superannuation Plan
- Workers' Compensation Board Superannuation Plan
- Sinking Fund

.07 We will report the results of our audit of the Department and the financial statements of the funds and agencies in paragraph .06 in a future Report.

Our concerns with the GRF financial statements

.08 Our auditor's report on the General Revenue Fund's (GRF) financial statements contains a reservation of opinion. We reserved our opinion because Treasury Board does not properly record annual pension costs and total pension liabilities.

.09 The GRF is responsible for the liabilities and costs of several pension funds. Those pension liabilities and costs are not recorded in the GRF's financial statements. Pension liabilities of \$3.5 billion and pension expenses of \$102 million are not recorded.

.10 Our auditor's report also warns readers not to use the GRF's financial statements to understand and assess the Government's management of financial affairs and resources as a whole. The GRF's financial statements do not include all financial activities of the Government. Readers should refer to the Government's statements, i.e., the Government's summary financial statements, to understand and assess the Government's management of financial affairs and resources as a whole.

.11 We also reported this matter in our *Report of the Provincial Auditor: 1996 Fall* and in previous reports.

We recommend

.12 Treasury Board should record the General Revenue Fund's pension costs and liabilities in its financial statements.

Timely annual reports and financial statements needed

.13 The Department needs to ensure its agencies give the Assembly timely annual reports and financial statements.

Chapter 20 Finance

.14 *The Tabling of Documents Act, 1991* sets the dates for providing annual reports and financial statements to the Assembly. The following agencies were late in giving the Assembly their annual reports:

- Public Employees Dental Fund;
- The Liquor Board Superannuation Commission;
- Workers' Compensation Board Superannuation Plan;
- Municipal Employees' Pension Commission;
- Public Employees Group Life Insurance Fund;
- Public Employees Disability Income Fund; and
- Saskatchewan Pension Plan

We recommend

.15 The Department should ensure its agencies provide their annual reports and financial statements to the Assembly by the date required by the law.

**Members of the
Legislative
Assembly
Superannuation
Plan**

.16 The Members of the Legislative Assembly Superannuation Plan (Plan) receives contributions from Members and the General Revenue Fund and receives investment income. The Department uses the money to pay pensions, annuities and administrative costs.

.17 In 1997, the Plan had investment income of \$0.9 million and the Department paid pensions of \$2.1 million from the Plan. The Plan had net assets of \$13.8 million at March 31, 1997.

Our audit conclusions
and findings

.18 In our opinion:

- the Department had adequate rules and procedures to safeguard and control the Plan's assets; and
- the Department complied with the authorities governing the Plan's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing

Chapter 20 Finance

except for the matters reported in paragraphs .20 to .25.

.19 We have not completed our audit of the Plan's financial statements and will report on them in a future report.

Spousal payments
require authority

.20 The Department paid more allowances to surviving spouses than required by *The Members of the Legislative Assembly Superannuation Act, 1979* (Act).

.21 Section 26.1 of the Act 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*
- 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.

.22 When pensioners die, the Department pays surviving spouses 60% of the supplementary allowances as required by Section 26.1. However, when it grants new supplementary allowances, the Department pays 100% of these allowances to surviving spouses. Section 26.1 requires the Department to pay 60% of these allowances to surviving spouses. We believe the amount paid more than the 60% rule is contrary to the law.

.23 We reported this matter in our *Report of the Provincial Auditor: 1997 Spring* (1997 Spring Report) and previous Reports.

We recommend

.24 The Department should pay allowances to surviving spouses as required by the Act or seek changes to the Act to allow these payments.

Chapter 20 Finance

.25 In June 1994, the Deputy Minister of Finance told us the Department would seek a legislative change to clarify Section 26.1. In April 1997, the Department told us it continues to seek legislative changes.

Act needs change

.26 *The Members of the Legislative Assembly Superannuation Act, 1979* needs to set out how the Department should administer profits or losses from underwriting annuities.

.27 The Department underwrites annuities for Members and pays these annuities out of the Plan. When the Department writes annuity contracts, it should ensure it will have the money to make future payments. Due to uncertainties related to future events, such as investment earnings and changes in mortality rates, the amount set aside may be insufficient to make future payments.

.28 The law does not specify the source of funding for any future losses. Also, the law does not direct the use of profits. At March 31, 1997 the annuity activity had a deficit of \$56,000.

.29 We reported this matter in our 1997 Spring Report and previous Reports.

We recommend

.30 The Department should seek changes to the law to provide direction for the handling of profits or losses from annuity underwriting.

.31 In 1989, the Minister responsible for the Act told us the Department would seek a change to the law. In June 1994, the Deputy Minister told us the Department is continuing to pursue a legislative amendment to clarify the handling of profits and losses on the annuity underwriting operations. In April 1997, the Department told us it continues to seek legislative changes.

Chapter 20 Finance

Public Employees Dental Fund

.32 The purpose of the Public Employees Dental Fund (Fund) is to promote good dental health among plan members by reducing the members' cost for preventive, routine and major dental services.

.33 The Fund had revenue of \$4.3 million and had a deficit of \$0.2 million at December 31, 1996.

Our audit conclusions and findings

.34 In our opinion:

- the Fund's financial statements are reliable;
- the Department had adequate rules and procedures to safeguard and control the Fund's assets except for the matters reported in paragraphs .35 to .47; and
- the Department complied with the authorities governing the Fund's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

Policies should be followed

.35 The Department should follow its established policies and procedures to ensure claim payments are accurate and complete.

.36 Members of the dental plan submit their claims to an insurance company. The insurance company adjudicates the claims and pays the members. Then, the Department receives the claims and a report of claims paid. For 1996, the Department incurred \$6.1 million for dental claims.

.37 The Department has established rules and procedures to ensure the insurance company pays members correctly. The rules and procedures require the Department to check to ensure claims are complete and accurate and the insurance company paid the correct amounts. The Department cannot economically verify all claims paid. Therefore, it has decided to examine a sample of claims processed and paid. The Department selects a sample of claims monthly to check. The Department checks these claims to ensure:

- the claim was properly authorized;

Chapter 20 Finance

- the claimant was eligible for benefits; and
- the amount paid was for eligible dental procedures and was for the correct amount.

.38 The Department's rules and procedures require it to discuss the findings with the insurance company and take appropriate action.

.39 The Department followed its established rules and procedures for the period January 1996 to April 1996. However, the Department did not check the claims paid for the months May 1996 to December 1996. As a result, the Department may have inappropriately paid claims from the Fund and not detected them.

We recommend

.40 The Department should follow its established rules and procedures for paying claims.

.41 Management told us the Department plans to obtain an additional employee to assist in providing service to the plan and to provide timely performance of the audit function.

Budget needed

.42 The Department lacks a budget for the Fund.

.43 Budget controls are key because they approve a whole year's transactions in terms of expected results before the fiscal year starts. The budget also provides a way of reviewing results to decide if corrective action is necessary.

.44 Financial reports comparing expected results with actual results will help management assess the Fund's performance. The reports will also help management decide if they need to adjust premium rates.

We recommend

.45 The Department should prepare and approve a budget for the Fund before the fiscal year begins.

.46 The Fund's annual financial statements should present a comparison of actual results with planned results.

.47 Management told us the Department will now prepare an annual budget for comparison and review. Also, they will include this budget in the Fund's financial statements.

Chapter 21

Justice

Table of Contents

Introduction . . . . .	.01
Special purpose funds and Crown agencies . . . . .	.06
Our audit conclusions and findings . . . . .	.07
Internal financial reports need improvement . . . . .	.09
Security policies and procedures required . . . . .	.14
Contingency plans required . . . . .	.25
Money due from the Government of Canada not timely . . . . .	.32
Financial statements required . . . . .	.37
Queen's Printer Revolving Fund . . . . .	.42
Our audit conclusions and findings . . . . .	.44
Internal financial reports need improvement . . . . .	.45
Revenue records not complete . . . . .	.54
Unpaid accounts not collected . . . . .	.59
Sales pricing needs improvement . . . . .	.62

Chapter 21 Justice

Introduction

.01 The Government's summary financial statements show protection of persons and property expenses of \$191 million for the year ended March 31, 1997. The following table shows the expenses of Government agencies for the protection of persons and property.

(in millions of dollars)

Department of Justice	\$ 185
Less payments by Justice for purposes other than the protection of persons and property	(12)
Department of Labour	9
Department of Municipal Government	4
Other Government agencies	<u>5</u>
	<u>\$ 191</u>

.02 The Department of Justice is to maintain public order and safety through the operation of an independent, impartial, and effective justice system that upholds the rule of law and defines and protects the basic legal rights of citizens.

.03 The Department administers justice, police services, and adult corrections in the Province. The Department administers registry systems for corporations, land titles, and personal property. The Department also regulates pensions, credit unions and businesses.

.04 The Department received \$185 million from the General Revenue Fund and spent this money on its programs. Also, the Department raised \$63 million of revenue. Information about the Department's revenue and expenses appears in the *Public Accounts 1996-97 Volume 2* and in the Department's annual report.

Chapter 21 Justice

.05 The following is a list of major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Policing Services	\$ 63	\$ 63
Adult Corrections	44	44
Court Services	22	23
Registry and Regulatory Services	11	11
Accommodation and Central Services	13	13
Legal Services	12	13
Administration	6	6
Boards and Commission	<u>13</u>	<u>12</u>
	<u>\$ 184</u>	<u>\$ 185</u>

Special purpose
funds and Crown
agencies

.06 The Department is also responsible for the operations of several trust and special purpose funds and Crown agencies. These are:

- Agricultural Implements Board
- 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 Legal Aid Commission
- Trust accounts for courts, local registrars, and sheriffs
- Victims' Fund

Our audit conclusions
and findings

.07 In our opinion:

- the financial statements for the funds and agencies listed in paragraph .06 are reliable, except where we report otherwise in this Chapter;
- the Department and its agencies had adequate rules and procedures to safeguard and control their assets except where we report otherwise in this Chapter; and

Chapter 21 Justice

- the Department and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this Chapter.

.08 We have not completed our audit of the Correctional Facilities Industries Revolving Fund; the Judges of the Provincial Court Superannuation Plan; Office of the Rentalsman Trust Account; Provincial Mediation Board Trust Account; Public Trustee for Saskatchewan; and Victims' Fund due to established priorities. We will report the results in a future report.

Internal financial reports need improvement

.09 The Department needs to continue to improve the internal financial reports it provides to senior management.

.10 The Department has taken several steps to improve its internal reports over the past few years. The internal reports provided to senior management are now adequate except they do not compare year-to-date expenses with budget amounts for the same period and explain variances in writing at selected interim periods during the year.

.11 Comparison of year-to-date expenses to budgeted amounts for the same period would help senior management assess whether the Department is achieving its program cost and activity targets during the year, and to take corrective action when necessary. Also, senior management will be better able to assess the reasonableness of forecasted expenses to the year end.

.12 We reported this matter in our *Report of the Provincial Auditor: 1997 Spring* (1997 Spring Report) and previous reports.

We recommend

.13 The Department should continue to improve its internal financial reports to senior management to:

- show a comparison of expenses for the year-to-date to budgeted amounts for the same period at selected interim periods during the year; and

Chapter 21 Justice

- highlight and explain major variances between year-to-date expenses and year-to-date budgeted amounts.

Security policies and procedures required

.14 The Department needs approved security policies and procedures for its Information Technology (IT) systems.

.15 Without clearly defined security policies and procedures, the Department may not carry out proper security procedures. This may result in security measures that do not meet the needs of the Department. The Department may be over secured, leading to increased costs, or under secured, thus placing its goals and objectives at risk.

.16 To ensure the confidentiality and integrity of its IT systems, the Department's policies and procedures should include standards for:

- the composition and changing of passwords that permit access to confidential data; and
- achieving appropriate segregation of duties by restricting access to various IT systems, programs and data files by using passwords.

.17 For example, the Department's staff record fine transactions using the following IT systems:

- Justice Automated Information Network (JAIN); and
- Provincial Court Management Information System (PCMIS).

The Public Accounts show the Department manages approximately \$10 million of revenue with these systems.

.18 In computerized systems, passwords can be used to segregate the duties of staff with access to cash from staff who have access to records of fines due to the Department. The password system used by the Department does not adequately segregate the duties of staff. For example, staff who receive cash for fines and record it in the JAIN and PCMIS systems

Chapter 21 Justice

also have access to the systems' records of fines due to the Department.

.19 This deficiency in the Department's rules and procedures means staff can mishandle money without timely detection.

.20 We also reported the segregation of duties matter in our 1997 Spring Report and previous reports.

We recommend

.21 The Department should prepare security policies and procedures and senior management should approve them.

.22 The Department should set password standards for all its IT systems and applications.

.23 The Department should improve the segregation of staff duties at its larger court offices to ensure no one person can mishandle money without timely detection.

.24 In February 1997, the Department initiated a project to develop and deliver a Security Program for the Department.

Contingency plans
required

.25 The Department needs a written, tested and approved contingency plan for its IT systems.

.26 The Department depends on its IT systems to carry out its programs and services. To provide continuous service, the Department must ensure its IT systems and data are available when needed. If they are not, the Department faces increased risk because of the possibility:

- it may lose essential data, miss commitments, or need to delay decisions; and
- it may face increased program and service costs and a weakening of the public's confidence in the Department.

.27 We also reported this matter in our 1997 Spring Report.

We recommend

.28 The Department should base its contingency plan on an analysis of the risks and the importance of each program and service.

Chapter 21 Justice

.29 The Department should test and approve its contingency plan and then store it in a safe place.

.30 The Department is presently working on a project to automate the land titles system. That project includes development of a contingency plan. The Department intends this project to be a model for the development of contingency plans for other major IT systems.

.31 For smaller systems currently under development, the Department told us it will include a risk analysis in the development process.

Money due from the Government of Canada not timely

.32 The Department has not made timely claims to the Government of Canada for money due to the Department under the firearms financial agreement with Canada.

.33 The Department signed a financial agreement in September 1996 with Canada. The agreement was retroactive to April 1, 1993. Under the agreement, the Department agreed to administer Part III of the Criminal Code on control of firearms in Saskatchewan in return for payment of costs by Canada.

.34 Canada requires reports of services provided and related costs from the Department before making any payment. At March 31, 1997, the Department has not prepared these reports for the retroactive period of the agreement. Therefore, Canada had not made any payments to the Department for amounts due. The amount due is estimated by the Department to be \$900,000.

.35 The delay in claiming the money from Canada results in a loss of interest income.

We recommend

.36 The Department should make timely claims to the Government of Canada for money due to the Department under the firearms financial agreement with Canada.

Financial statements required

.37 The Department has not received financial statements as required under its community policing service agreements.

.38 The Department signed a number of community policing service agreements with First Nations and the Government of

Chapter 21 Justice

Canada. Under the agreements, the RCMP continue to be responsible for policing First Nations' Communities with support services being provided by the Communities. The Department and Canada advance money to 23 Communities to cover the costs of support services as specified in the agreements. The Department pays forty-eight percent of the costs of the program. Payments by the Department under these agreements totalled \$700,000.

.39 Under the agreements, each Community is to provide to the Department and Canada a financial statement showing the disposition of program funds for each fiscal year. The Department has not received financial statements from most of the Communities.

.40 As a result, the Department is unable to ensure the Communities spent the money the Department gave them for the intended purposes.

We recommend

.41 The Department should ensure it receives financial statements showing the disposition of program funds from all the First Nations Communities, as required by its community police service agreements.

**Queen's Printer
Revolving Fund**

.42 The Queen's Printer Revolving Fund publishes and distributes acts, regulations, *The Saskatchewan Gazettes* and other government publications to government and non-government clients.

.43 The Fund had revenue of \$890 thousand in 1997 and held assets of \$292 thousand at March 31, 1997.

**Our audit conclusions
and findings**

.44 In our opinion:

- the Fund's financial statements are reliable;
- the Department had adequate rules and procedures to safeguard and control the assets of the Fund except for the significant deficiencies reported in paragraphs .45 to .64; and
- the Department complied with the authorities governing the Fund's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

Chapter 21 Justice

Internal financial reports need improvement

.45 The Fund's internal financial reports need improvement.

.46 Internal financial reports should compare plans with actual results and explain variances. Management and other users of the Fund's financial reports can then understand and assess what the Fund planned to do and what it did. Written explanations of significant variances highlight matters for management's attention.

.47 The Fund's financial reports compare the year-to-date actual results with the annual budget and with the most recent forecast. The reports show variances between forecast and budget.

.48 However, the reports do not show year-to-date budget amounts compared to year-to-date results, the variances between these amounts, and a written explanation of the variances. Also, the Fund's financial reports do not show sales and cost of sales information for major product lines (e.g., *The Saskatchewan Gazette*, looseleaf statutes, special orders). The reports show only one total for sales and one total for cost of sales.

.49 As a result, management and other users of the Fund's financial statements do not receive adequate information to understand and assess its operations.

.50 Inadequate reports can lead to incorrect decisions.

We recommend

.51 The Department should improve the Fund's internal financial reports to:

- show a comparison of year-to-date budget amounts to year-to-date results;
- highlight and provide written explanations of major variances between year-to-date actual and year-to-date budget; and
- show sales and cost of sales by major product lines.

.52 After April 1, 1997, the Department told us its staff now analyse variances between actual results for the year and the annual budget.

Chapter 21 Justice

.53 The Department told us it will prepare sales and cost of sales information in 1997-98.

Revenue records
not complete

.54 Staff did not maintain the record of customers' special orders and billings for the whole year.

.55 The special order and billing record allows management to see that all special order customers were billed for work done.

.56 For the first six months of the year, staff kept the record of special orders. When orders were completed, they noted billings on this record. They therefore knew they billed all special orders.

.57 For the last six months of the year, staff did not maintain the special order record. As a result, management could not readily tell if they billed all completed orders. However, we did not find any unbilled orders.

We recommend

.58 The Department should maintain and review the special order record to ensure it bills all completed orders.

Unpaid accounts
not collected

.59 The Department did not follow up and collect unpaid accounts.

.60 Staff did not carry out established collection procedures. This resulted in many overdue accounts, which increases the risk of lost revenue.

We recommend

.61 The Department should follow established policies and procedures to follow up and collect overdue accounts.

Sales pricing needs
improvement

.62 The Department's system of pricing special sales orders needs strengthening.

.63 Management does not check the pricing of special orders. As a result, customers may be under or over billed.

We recommend

.64 The Department should improve its system for checking prices charged for special orders.

Chapter 22

Social Services

Table of Contents

Introduction . . . . .	.01
Key issues the Department faces . . . . .	.04
What we audited . . . . .	.27
Our audit conclusions and findings . . . . .	.27
Significant improvement in control of social assistance payments . . . . .	.29
Control environment strengthened . . . . .	.31
Better control over bank account required . . . . .	.34
Annual report needs improvement . . . . .	.42

Chapter 22 Social Services

Introduction

.01 The Government's summary financial statements show social services and assistance expenses of \$586 million for the year ended March 31, 1997. The following table shows the expenses of Government agencies for social services and assistance.

(in millions of dollars)

Department of Social Services	\$ 525
Department of Municipal Government	42
Other Government agencies (excluding grants from the Departments of Social Services and Municipal Government)	<u>19</u>
	<u>\$ 586</u>

.02 The Department of Social Services is to:

- help families care for and support their members;
- provide basic income support for those in need;
- work to reduce the risks and disadvantages of poverty;
- protect children from abuse and neglect;
- provide services for youth in conflict with the law;
- promote a standard quality of day care; and
- support independent community-based services for people with mental and physical disabilities.

Chapter 22 Social Services

.03 The following is a list of major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Social Assistance Plan	\$ 317	\$ 323
Family and Youth Services	58	57
Community Living	51	51
Regional Service Centres	36	36
Child Care	16	16
Saskatchewan Income Plan	14	13
Accommodation and Central Services	11	11
Payments to New Careers Corporation	6	6
Family Income Plan	6	3
Other	9	9
	<u>\$ 524</u>	<u>\$ 525</u>

Key issues the Department faces

.04 To carry out our work, one of our objectives is to ensure we understand the key issues facing an organization. We discuss our understanding of those issues with management to confirm we have identified the right issues. These procedures do not constitute an audit of the issues.

.05 It is important that legislators and the public know the key issues facing an organization and receive information on these issues to understand and assess the organization's performance. Sharing our understanding with legislators and the public will help them better understand and assess an organization's performance.

.06 In this Chapter, we identify five key issues facing the Department. We have not assessed whether the Department's systems and practices adequately address these issues.

.07 The Assembly sets out the Department's mandate in its legislation. To be successful, the Department needs to:

1. identify the long-term social service needs of Saskatchewan residents that fall within its mandate;

Chapter 22 Social Services

2. decide the types, levels and standards of essential social services it needs to provide to meet those long-term needs, make those services available, and monitor service delivery;
3. contribute to public policy decisions and influence public attitudes on people's social well-being;
4. obtain sufficient resources to deliver its services; and
5. ensure the Assembly and the public know whether the Department is doing the right things well.

Each of these issues is more fully described below.

1. The Department must identify, for Saskatchewan residents, the long-term social service needs that fall within its mandate.

.08 To know what services to provide, the Department must know the public's social services needs. Assessing social services needs is complex. To identify social services needs, the Department needs systems and practices to collect and assess forecast data on long-term changes in population and demographic factors such as age, education, employment, and health status.

.09 Also, the Department needs systems and practices to find out what social service needs other organizations fulfill. The Department estimates it delivers only 20% of the social services provided to Saskatchewan residents. Other provincial government departments (e.g., Health and Education), the Federal Government, municipalities, and many charitable organizations (e.g., the United Way) deliver the other 80%.

.10 The Department must also address the need for employable social assistance recipients to become financially independent and move off assistance. The Department estimates half its social assistance clients are employable. The

Chapter 22 Social Services

Department is using several strategies to help social assistance recipients become financially independent.

.11 One strategy is case planning. The Department has adopted case planning to help employable clients gain the skills they need for long-term independence. We describe the Department's case planning initiatives in our *Report of the Provincial Auditor: 1997 Spring* (Chapter 5, p. 145).

.12 A second strategy encourages recipients to improve their employment opportunities through education, skills training and work experience (i.e., Post-Secondary Education and Skills Training program and the Youth Futures project). A third strategy is the redesign of social assistance so recipients have incentives to obtain employment and increase their income (i.e., Saskatchewan Child Benefit and Saskatchewan Employment Supplement).

2. The Department must decide the types, levels and standards of essential social services it needs to provide to meet long-term social service needs, make those services available, and monitor service delivery.

.13 The Department must ensure it delivers essential social services at a reasonable cost to taxpayers. Limited resources challenge the Department in meeting social service needs.

.14 To provide essential social services, the Department must consider alternative programs and services, their costs and expected outcomes (results). The Department expects it can improve social outcomes and reduce long-term social assistance costs through various strategies. For example, it encourages recipients to become financially independent. It strives to lower the barriers poverty imposes on children and youth, and to help families at risk. It tries to address the needs of First Nations people and others requiring special services.

.15 The Department provides resources to community-based organizations, Indian bands, and other service providers who deliver services for the Department. As a result, the Department must convey its social service expectations to service providers and ensure they deliver the needed services and achieve the expected outcomes. Supplying resources to

Chapter 22 Social Services

service providers and communicating service requirements is a complex process and requires the Department to continually assess its systems and practices that produce the necessary information.

.16 To find out if its services meet expected outcomes, costs and standards, the Department needs to set standards and monitor services provided. The Department must have reliable information systems to measure the outcomes and costs of social services. When the Department's expectations are not met, it should have systems to make the required changes.

3. The Department must contribute to public policy decisions and influence public attitudes on people's social well-being.

.17 Factors such as income, education, age, personal attitudes and beliefs affect people's social well-being. The Department needs systems and practices to enable it to work with other organizations that affect people's social well-being. Other organizations the Department needs to work with to improve peoples' social well-being include other government departments and agencies, municipalities, First Nations, school boards, health districts, charitable organizations, and other private corporations and agencies.

4. The Department must obtain sufficient resources to deliver required services.

.18 The Department must identify the resources needed to meet its long-term plan for social services. To ensure it has the right resources, the Department needs resource plans that are consistent with its overall long-term plan, and the long-term plans of the Government.

.19 The Department's financial resources are under a lot of pressure. Federal Government funding for social services is declining. In addition, demand for social assistance is increasing. In part, this is because the Federal Government has increased eligibility criteria for the Employment Insurance

Chapter 22 Social Services

Program and eliminated social assistance to First Nations people living off reserves. Also, the increasing public demand to address child abuse, family violence, and youth crime is putting pressure on social services spending.

.20 The Department describes its strategies to deal with increased service demands and constrained resources in its *Annual Report: Saskatchewan Social Services, 1995/96*, p. 6.

.21 To obtain required resources, the Department needs to convince the Assembly and the public that it is doing the right things well.

5. The Department must ensure the Assembly and the public know whether the Department is doing the right things well.

.22 The Department must ensure the public and the Assembly have the information they need to understand and assess the Department's performance. People want to know what the Department planned and what it achieved. The public wants information about potential changes to the social services system, the cost of those changes and their impact on services and on people. The public also wants to know the Department uses its resources effectively.

.23 To inform the Assembly and the public, the Department's communications strategy should include a business and financial plan. A business and financial plan would show the Department's vision and goals. It would also provide a vehicle for consulting with and informing the public about the Department's plans.

.24 The Department's annual report should help the public understand and assess the Department's performance. In addition, it should contribute to public confidence in the social service system. The report should describe the Department's performance compared with what it planned to achieve, and the performance indicators and targets it used to measure its performance.

.25 For example, the Department strives to ensure all social assistance payments comply with governing authorities.

Chapter 22 Social Services

However, a performance target of 100% is not realistic because the social assistance program must quickly meet people's basic needs. Meeting basic needs often requires making payments before recipients' circumstances can be verified. Therefore, the Department has set a performance target of at least 96% of social assistance payments will comply with governing authorities. We think publishing actual audited performance for this target should build public confidence that the Department uses its resources effectively.

.26 In our audits of annual reports, we have found that legislators want information to assess the performance of government organizations. We think the Department's annual report should describe the key issues the Department faces and how it is managing those issues. In paragraphs .42 to .49, we assess the Department's annual report.

What we audited

Our audit conclusions
and findings

.27 In our opinion:

- the Department had adequate rules and procedures to safeguard and control its assets except as otherwise described in this Chapter; and
- the Department complied with the authorities governing its financial reporting, safeguarding assets, revenue raising, and spending.

.28 We also report another matter for the Assembly's attention in paragraphs .42 to .49.

Significant
improvement in
control of social
assistance payments

.29 In our 1996 and 1997 Spring Reports, we report we were unable to determine whether the Department complied with authorities governing its social assistance payments. Because the Department did not adequately follow its rules and procedures, we were unable to determine whether only eligible clients received assistance and that they received the correct amount of assistance.

Chapter 22 Social Services

.30 Our 1997 audit revealed the Department made significant improvements in this area. As a result, this year we are able to form a conclusion on the Department's compliance with authorities governing social assistance payments. We conclude the Department's social assistance payments comply with the governing authorities. We commend the Department for its achievement.

Control environment strengthened

.31 In our 1997 Spring Report, we report suspected cases of social assistance fraud in Regina and Saskatoon are not being investigated. As a result, we conclude the Department's ability to maintain a control environment that does not tolerate fraud is at risk.

.32 In August 1997, the Department signed an agreement with the Saskatoon Police Services for the investigation of suspected social services fraud and the laying of charges when appropriate. Also, the Department told us they have reached a similar agreement with the Regina Police Services, but the agreement is not yet signed.

.33 In 1997-98, we will review these changes to the Department's control environment. We will report the results in a future report.

Better control over bank account required

.34 The Department requires better control over its bank account.

.35 The Department pays out more than \$300 million from its Social Allowance Bank Account.

.36 Reconciling the Department's recorded bank balance to the bank's records is an important control. This control provides a check on the accuracy and reliability of accounting records. It also ensures that all charges to the bank account are appropriate. As a result, the reconciliation should be prompt and approved.

.37 The Department did not promptly reconcile the Social Allowance Bank Account. For example, it did not reconcile the bank account for September 1996 to February 1997 until May 1997 and it did not reconcile the bank account for March 1997 until June 1997.

Chapter 22 Social Services

.38 As a result, the Department's bank account could be misapplied without timely detection.

.39 Our audit procedures did not reveal a financial loss because of this control weakness.

.40 We also reported this matter in our 1997 Spring Report.

We recommend

.41 The Department should promptly reconcile its bank account.

Annual report needs improvement

.42 We reviewed the Department's annual report for the year ended March 31, 1996. We think the report should explain the key issues the Department needs to manage well. To assess the Department's performance, the Assembly and the public need to know how the Department is managing its key issues. We have set out what we think are the Department's key issues in paragraph .07.

.43 One of the key issues is to show the Assembly and the public that the Department is doing the right things well. As we describe in paragraphs .24 and .25, public confidence would strengthen if the Department published its performance targets and results.

.44 The annual report does not specifically address the key issues set out in paragraph .07 or explain the systems and practices the Department uses to manage these issues. The annual report does include strategies and activities relating to these issues.

.45 The annual report shows the revenue and expenditure plan for the current year, but not for past years. The report shows a comparison of the current year's expenses to budget and the current year's revenues. It does not show what the Department owns and owes. For example, the report does not disclose the Department's investment in capital assets or describe how the Department protects this investment. It does not give a summary of the Department's future financial plans.

.46 The report sets out the Department's operating goals and objectives, and activities to achieve them. The report, however, does not state whether the Department has achieved

Chapter 22 Social Services

its goals and objectives. It does not set out the Department's performance measures and targets.

.47 Public confidence in the Department's policies and procedures is key to the Department's success. While many factors are involved, we think public confidence will strengthen if the Department improves its annual report.

We recommend

.48 In its annual report to the Legislative Assembly, the Department should describe how the Department manages the key issues it faces.

.49 The annual report should provide a summary of the Department's financial and operational plans, performance targets, and actual results.

Chapter 23
District Health Boards

Table of Contents

A.	Introduction	Page 227
B.	District Resource Allocation	Page 235
C.	District Financial Management & Accountability Systems and Practices	Page 255
D.	District Needs Assessment - Follow-up	Page 269
E.	District Revenues, Expenses, Assets & Liabilities in More Detail	Page 277

**Chapter 23 District Health Boards
Part A - Introduction**

Table of Contents

Background . . . . .	.01
District responsibilities . . . . .	.02
Financial summary . . . . .	.06
Our audit approach . . . . .	.08
List of the 30 District Health Boards . . . . .	.14
Cyclical audits of Districts . . . . .	.16

Chapter 23 District Health Boards

Part A - Introduction

Background

.01 In 1996-97, the expenses of 30 District Health Boards were \$1.2 billion. Their responsibilities include:

- assessing the health needs of persons to whom they provide services;
- planning, managing, delivering and integrating the provision of health services; and
- promoting health and wellness.

District responsibilities

.02 In carrying out their responsibilities, district boards of directors and senior management groups face many challenges. Those challenges include:

- integrating and co-ordinating the delivery of health care in the districts; and
- reporting to the Minister and the public on:
 - the health needs and health status of district residents;
 - the effectiveness of district programs; and
 - district services and activities, and their costs.

.03 In addition, districts are expected to set up more useful management and accountability information systems and practices, i.e., they are expected to move to a higher standard of performance and accountability.

.04 As we describe in Parts B, C, and D, districts are working on these challenges. We commend the districts for these efforts and encourage them to continue.

.05 In this Chapter, we discuss some of those challenges and identify issues districts need to address. Some of the issues can be addressed quickly. Other issues require more time to address because districts will need new information systems.

Chapter 23 District Health Boards

Part A - Introduction

Financial summary

.06 The combined revenues and expenses of the 30 districts for the years ended March 31, 1997 and 1996 are:

	Operating Fund	Capital Fund	Restricted Fund	Total	
				1997	1996
	(in thousands of dollars)			(in thousands of dollars)	
Revenue	\$1,165,328	\$84,380	\$2,333	\$1,252,041	\$1,183,915
Expense	1,153,368	82,842	1,276	1,237,486	1,201,137
Surplus (Deficit)	11,960	1,538	1,057	14,555	(17,222)

.07 The total assets and liabilities of the 30 districts at March 31, 1997 and 1996 are:

	1997	1996
	(in thousands of dollars)	
Assets	\$1,053,258	\$1,022,886
Liabilities	223,265	204,856
Equity		
Operating funds	33,168	29,097
Capital funds	766,735	756,164
Restricted funds	<u>30,090</u>	<u>32,769</u>
	<u>\$ 829,993</u>	<u>\$ 818,030</u>

Our audit approach

.08 For 1996-97, we audited all districts except South Country District Health Board (see paragraphs .09 and .10). We carried out our audit responsibilities by working with the many accounting firms engaged by the districts.

.09 We followed the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*, except in the audit of the South Country District Health Board.

.10 South Country restricted our ability to obtain the information and explanations we require to properly carry out our duties for the Assembly. As a result, we did not audit the District's accounts for the year ended March 31, 1997. Recently, we have reached an agreement with South Country to

Chapter 23 District Health Boards

Part A - Introduction

allow us follow the framework recommended by the *Report of the Task Force on Roles Responsibilities and Duties of Auditors* for the District for 1996-97 and future years.

.11 In addition, we have not completed the audit of four other districts. We will report the results of these audits in a future report. Many accounting firms and our Office formed the opinions referred to in paragraph .12.

.12 In our opinion:

- the districts' financial statements are reliable except for the matters described in Part C;
- the districts had adequate rules and procedures to safeguard and control their assets except for the matters described in Part C; and
- the districts complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matters described in Part C.

.13 In this Chapter, our conclusions, findings and recommendations are organized as follows:

- In Part B, **District Resource Allocation**, we describe the results of our audit of the process five districts use to allocate resources based on health needs.
- In Part C, **District Financial Management & Accountability Systems and Practices**, we describe the results of our audits of district financial management and accountability systems and practices.
- In Part D, **District Needs Assessment - Follow-up**, we set out the results of our follow-up examination of the process districts use to assess the health needs of district residents.

Chapter 23 District Health Boards

Part A - Introduction

- In Part E, **District Revenues, Expenses, Assets & Liabilities in More Detail**, we provide a more detailed description of district financial results for the years ended March 31, 1997 and 1996.

List of the 30 District Health Boards

.14 The 30 Districts are:

Assiniboine Valley District Health Board
Battlefords District Health Board
Central Plains District Health Board
East Central District Health Board
Gabriel Springs District Health Board
Greenhead District Health Board
Living Sky District Health Board
Lloydminster District Health Board
Midwest District Health Board
Moose Jaw-Thunder Creek District Health Board
Moose Mountain District Health Board
North Central District Health Board
North-East District Health Board
North Valley District Health Board
Northwest District Health Board
Parkland District Health Board
Pasquia District Health Board
Pipestone District Health Board
Prairie West District Health Board
Prince Albert District Health Board
Regina District Health Board
Rolling Hills District Health Board
Saskatoon District Health Board
South Central District Health Board
South Country District Health Board
South East District Health Board
Southwest District Health Board
Swift Current District Health Board
Touchwood Qu'Appelle District Health Board
Twin Rivers District Health Board

.15 In May 1997, the Government created two new districts. They are Keewatin Yathe District Health Board and Mamawetan/Munito Uskiy District Health Board.

Chapter 23 District Health Boards

Part A - Introduction

Cyclical audits of Districts

.16 In the *Report of the Provincial Auditor: 1996 Spring*, Chapter 2, **Health Summary**, we report that when the basic financial management issues are in hand, we plan to move to a cyclical approach to our financial audits of districts. We will then focus our efforts on examining issues common to all districts.

.17 We believe it is now time to move to a cyclical approach for our financial audits of districts. Each year, starting with the year ended March 31, 1998, we plan to audit 10 districts: the 3 largest districts and 7 others. Once all smaller districts have sound financial management systems, we will audit each of them once every four years.

.18 Although the three largest districts (Regina, Saskatoon, and Prince Albert) have adequate financial controls, we think it is important to continue to audit them each year because they account for 55% of total district spending.

.19 In 1997-98, the seven smaller districts we will audit will be the two new northern districts, Keewatin Yathe and Mamawetan/Munito Uskiy, South Country, and the districts that continue to have inadequate financial systems. Once their financial management systems are adequate, we will move to auditing each of the 29 smaller districts once every four years.

.20 In future reports, we plan to show the results for each of the 10 districts we audit. That is, our reports will show which districts each reported matter relates to. Before going ahead with this planned change in how we report on districts, we will seek the advice of the Advisory Group to the Provincial Auditor. The role and composition of the Advisory Group is described in the *Report of the Provincial Auditor: 1996 Fall*, Chapter 13, **Department of Health**, paragraphs .11 to .15.

Chapter 23 District Health Boards

Part B - District Resource Allocation

Table of Contents

Introduction . . . . .	.01
Resource allocation in Saskatchewan health districts . . . . .	.02
Our audit objective . . . . .	.10
Our audit criteria . . . . .	.11
Our audit conclusion . . . . .	.13
Our audit standards . . . . .	.18
Our audit findings . . . . .	.24
Criterion 1: Identify priority health needs . . . . .	.25
Criterion 2: Set direction based on priority health needs . . . . .	.37
Criterion 3: Assess strategies to move in the direction set . . . . .	.47
Criterion 4: Select action plans best able to achieve objectives . . . . .	.55
Criterion 5: Assign resources for strategies selected to meet objectives . . . . .	.62
Summary . . . . .	.68
Department's response . . . . .	.72
Thank you . . . . .	.73
Glossary	Page 252
References	Page 253

Chapter 23 District Health Boards

Part B - District Resource Allocation

Introduction

.01 In our *Report of the Provincial Auditor: 1996 Spring* (p.135), we describe the process health districts use to assess the health needs of their residents. We note the needs assessment process helps board members and senior managers decide how to allocate resources and change programs. In this Chapter, we report our examination of the resource allocation process used in five health districts.

Resource allocation in Saskatchewan health districts

.02 In 1996-97, the Saskatchewan Government spent \$1.78 billion on health. Health districts spend more than one billion of this public money each year. Their resource allocation decisions determine the health services available and have an impact on the health and well-being of all citizens.

.03 In the 1980s, Canada's health system spending spiralled upward. Few questioned the health system's focus on institutional care (e.g., hospital and long-term care facilities). Neither governments nor health managers routinely asked if services effectively improved health. Government spending on health continues to increase in the 1990s, but decision-makers now try to use spending to improve health. Legislators, the public and health managers are more aware that increased spending on institutional care does not necessarily improve health.

.04 Difficult decisions must be made about health care to increase its effectiveness. In Saskatchewan, both the Department of Health (Department) and health districts require a careful process to weigh the many demands for health spending and allocate resources effectively. More specifically, *The Health Districts Act, 1993* made health districts accountable to allocate resources to:

- improve the health of all their residents; and
- provide co-ordinated health care services for the ill or injured.

.05 How districts allocate resources is of great interest to legislators and citizens. During the 1990s, two factors increased interest in health districts' resource allocation process: funding restrictions and increased focus on whether health services improve health (i.e., health outcomes).

Chapter 23 District Health Boards

Part B - District Resource Allocation

.06 An environment of restraint challenges the districts to improve health outcomes without using increased resources. Supplying fewer services does not decrease the demand for health care. Successful resource allocation depends primarily on health system planning based on needs assessments and clear communication about the services available.

.07 In 1993-94, the Department made two fundamental changes that promote improved health system planning. It introduced *The Health Districts Act* (Act) and needs-based funding for health districts. The Act draws attention to outcomes like meeting health needs and improved population health. It encourages needs assessments and requires reports on the effectiveness of health services in improving health status. Needs-based funding uses age, gender and other factors to distribute available resources toward the outcome of meeting districts' health care needs. Achieving these outcomes requires districts to carefully allocate resources to improve population health in the long term as well as meeting immediate needs for health care.

.08 These changes will challenge health districts into the foreseeable future. Districts require a strong process to identify health needs and allocate resources to improve health. Without a strong resource allocation process, the districts may waste resources and fail to provide services that could improve health.

.09 Many things have changed health funding in this decade. Saskatchewan's health services have a new structure and a new funding system. In addition, both legislators and the public recognize the importance of improving population health. In view of these changes and the amount the Government spends on health, we decided to examine how health districts manage their resource allocation processes.

Our audit objective

.10 Our audit examined whether five health districts had adequate processes to allocate resources based on health needs. We examined the processes used by these health districts between April 1995 and October 1996.

Chapter 23 District Health Boards

Part B - District Resource Allocation

Our audit criteria

.11 Criteria are standards used to assess performance. To develop criteria for the resource allocation process, we reviewed relevant literature and sought advice from an external expert. We also examined the Department's directions to the districts. We invited comments on draft criteria from the Department and all health districts. The Department and responding districts agreed the criteria were reasonable and attainable over the long term.

.12 We used these criteria to assess the process districts used to allocate resources based on health needs. We expected districts to have a process to:

1. identify priority health needs
2. set direction (e.g., goals and objectives) based on priority health needs
3. assess strategies to move in the direction set
4. select action plans best able to achieve objectives
5. assign resources for selected strategies to meet objectives

Our audit conclusion

.13 Overall, we concluded the five districts had adequate processes in 1995-96 to allocate resources based on health needs with two major exceptions. Districts used weak processes to decide which health needs were most important and to set direction based on those needs.

.14 We found resource allocation procedures in these five health districts evolved and improved during 1995-96. Districts experimented to find resource allocation procedures that helped them manage the complex health system. Some practices varied depending on governance policies and events such as the arrival of new board members following elections or changes in senior management positions.

We recommend

.15 Districts should decide which health needs are most important for action in the short, intermediate and long term.

Chapter 23 District Health Boards

Part B - District Resource Allocation

.16 Districts should set clear direction based on priority health needs in the context of other pressures on the district. The direction set should include goals, specific objectives and performance targets for short and long-term improvements in population health as well as health service needs.

Department's
response

.17 We invited the Department of Health to respond to our recommendations on behalf of the districts. Their comments are at paragraph .72.

Our audit standards

.18 We conducted this audit according to The Canadian Institute of Chartered Accountants' standards. These standards require that we plan and carry out an audit to obtain reasonable assurance to support our conclusions. To meet these standards, we examined both general Department directions for resource allocation and specific procedures within districts.

.19 The Department provided districts with guidance for resource allocation in several ways. They published general guides to the planning process and a booklet titled *Introduction of needs-based allocation of resources to Saskatchewan district health boards* (1994; updated 1995). The Department said they regularly provide written direction and verbal assistance to districts about resource allocation issues.

.20 The Department requires all districts to submit Health Plans each year. In addition, the Department annually gives districts *Guidelines for the Preparation of the Health Plan*. In 1996, the Guidelines included ten indicators of health status and socio-economic conditions. In these Guidelines, the Department required districts to analyse trends and report health outcomes for their district in each indicator area (p.4). The Department explained the indicators could be used to "support decision making" (p.4). The Guidelines listed sources to show where districts could obtain information on the indicators.

.21 We examined specific resource allocation procedures in five Saskatchewan health districts. We identified districts that assessed and reported health needs prior to 1995. From those districts, we selected five districts which reflect the size,

Chapter 23 District Health Boards

Part B - District Resource Allocation

services and geographic location of all districts (e.g., small, regional, large; south, central, north).

.22 We compared the resource allocation process in each selected district to our criteria. Interviews, minutes, reports and policies all helped show us the district's process to allocate resources.

.23 Each district we examined received a detailed appraisal of its resource allocation process. We discussed our detailed findings with senior managers and made revisions to ensure our detailed report for each district was accurate and complete.

Our audit findings

.24 This Chapter synthesizes our findings in the five health districts we examined. For each criterion, we describe what we expected and make a general statement about what we found. Then we set out a summary of our findings for that criterion.

Criterion 1:

Identify priority health needs

.25 We expected districts to have a process to identify which health needs should be priorities. We looked for practices that helped identify key forces affecting resource allocation (e.g., trends in health status, financial and other internal pressures, objectives of the Minister of Health). We hoped districts had routine processes to rank important health needs in the short, medium and long term. We expected them to validate the ranking with key stakeholders and find ways to overcome conflict about which health needs were priorities.

.26 We found four out of five districts did not have adequate practices to consistently identify priority health needs. Four districts used weak processes to rank health needs and none had a process to decide priorities in the short, medium and long term. Only one district had a strong process to select health need priorities and validate their importance.

.27 All districts tried to assess forces influencing their resource allocation decisions using the board or board subcommittees. This process tended to emphasize financial

Chapter 23 District Health Boards

Part B - District Resource Allocation

constraints and the impact of internal pressures and external demands.

.28 Districts found it more difficult to assess health status information and decide priority health needs. We found districts used various methods to identify trends and needs. Two districts asked expert committees to analyse needs assessments and other health status information and recommend health need priorities. One district also asked the public for input on priorities within service categories (e.g., acute care, long-term care, preventive services). Three districts expected their board to identify health need priorities without providing summary information about trends or provincial health status indicators (e.g., rates for infant mortality, teen pregnancy, life expectancy).

.29 Districts had difficulty analysing information to decide which identified health needs were priorities. Most boards and committees did not receive concise information or recommendations. Those who did were reluctant to set priorities. Board members we interviewed said they believed it was important to allocate resources to all identified health needs. Some board members stated they did not have enough information to set priorities. They knew what was important to the public, but they hesitated to act on one health problem rather than another.

.30 Districts did not appear to have clear decision principles to help them choose important health needs. Decision principles set out the key factors used consistently to guide decisions (e.g., what would most improve the health of district residents). For example, three districts did not have a process to identify and focus on issues where health status was much lower than the provincial average.

.31 When districts set priorities, they were often related to the Department's expectations rather than the district's priority health needs. For example, all districts added gambling addiction counselling services. Several senior managers told us they had no time or energy to address priority health needs because they handled the Department's priorities first. Some districts said they did not have time to use resources available to them for new programs. Districts did not examine the Department's short term priority requests in the context of the

Chapter 23 District Health Boards

Part B - District Resource Allocation

district's short, intermediate and long term health need priorities. Although some exceptions exist, district planning was most often short term (i.e., less than two years).

.32 Most districts responded to specific Department priorities rather than assessing the health status indicators selected as having great impact on long term health (e.g., rate of infants with low birthweight). Senior managers in one district were aware that the Department had identified ten health status and socio-economic indicators. They found their district did not differ from the provincial average on some indicators. They did not have district-level statistics for several indicators. Also, they did not compare provincial averages to other provinces or to the national average to see if there was room for improvement. For example, Saskatchewan has the lowest rate of bicycle helmet use but no district planned to take action to promote helmets as a way of preventing head injuries to youth (ACPH, 1996).

.33 All five districts used discussion methods to resolve conflict about priorities. Board members discussed proposed priorities several times before confirming their decision. In addition, if a district decided it was not a priority to fund a group with special needs, they often met with the group to discuss their concerns. If an affiliate disagreed with the priority given to their funding requests, the district explained its funding pressures and sometimes stated its health need priorities.

.34 One district had a sound process to set and validate their priorities. They consulted communities and service providers, surveyed special needs groups and asked experts for advice. They involved affiliates and major community partners (e.g., school boards) in choosing and confirming priorities.

.35 In general, districts could improve their process to collect and analyse information influencing resource allocation decisions. Clear decision principles may help districts decide which health needs should be priorities for action. Districts also require help to make good use of available information and experts on their own staff.

.36 Weak processes to identify priority health needs adversely influenced districts' ability to set direction. Without clear health priorities, districts may choose action plans that

Chapter 23 District Health Boards

Part B - District Resource Allocation

meet their short-term objectives but may not improve health over the long term.

Criterion 2:

Set direction based on priority health needs

.37 We expected districts to set direction (e.g., major goals and objectives) through a process that reviewed priority health needs and the district's overall strategic plan. We hoped the district's process to set direction would create a goal or specific objective for each priority health need. When this process suggested a change in strategic direction, we expected districts to seek input from key partners (e.g., staff, affiliates and others whose cooperation might be needed). In addition, we expected districts to have a process to clearly communicate their direction to staff, affiliates, community partners and the public.

.38 Most districts did not have an adequate process to ensure priority health needs influenced the strategic direction they set. Districts used various methods to set direction. Practices in this area varied widely depending on the wishes of the board.

.39 In two districts, the board met alone to discuss their direction and did not request information or recommendations from senior managers. In the other three districts, the board and senior managers met together to plan for priority health needs. Four districts did not have a process to provide summary information to the board about forces that could influence their direction or health need priorities.

.40 District planning sessions usually identified key areas where the district wished to set goals and strategic objectives. Three districts did not ask their managers or communities to give feedback on proposed new directions. Managers often drafted objectives for each goal the board set.

.41 Districts reviewed their strategic direction regularly as required by their formal policies or informal planning processes. Districts did not regularly review priority health needs. Their processes may not ensure they make timely changes in direction necessary to respond to serious health concerns.

Chapter 23 District Health Boards

Part B - District Resource Allocation

.42 Districts were not comfortable with health status information provided by the Department. They did not seem to use information about health status indicators (e.g., teen pregnancy rates) to help them set specific objectives and, in turn, performance targets. The process used by four districts resulted in objectives for some identified health needs. These objectives were not very specific. For example, most often objectives showed the district wished to “reduce” a health concern (e.g., teen pregnancy rate), but did not say by how much or by when. Since priority health needs were most often not well defined, objectives were based on identified health needs in general.

.43 Without specific objectives, districts could not set short, intermediate and long-term performance targets for improving health. In addition, managers found it more difficult to plan programs and services that would achieve the desired health outcome.

.44 Four districts did not have a process to involve key partners when they planned to change direction. This courtesy encourages partners to adjust their own thinking. It can also clarify the direction set. For example, obtaining feedback on proposed goals and objectives brings new ideas and may result in sharing common goals with affiliates and community partners. Most important, it may reduce conflict with key partners.

.45 All five districts confirmed and communicated their new goals and objectives to senior management. Some districts did not confirm or clearly communicate their new direction to partners. At times, this occurred when the district required the partner’s help to carry out the district’s plans.

.46 Districts need to further develop their process to set direction. Now, most districts set direction based on health needs in general. To guide the resource allocation process, districts require more specific objectives linked to priority health needs. Districts should involve key partners when revising district goals and objectives and should clearly communicate their new direction.

Chapter 23 District Health Boards

Part B - District Resource Allocation

Criterion 3:

Assess strategies to move in the direction set

.47 When districts assessed how to proceed in the direction they set, we expected them to identify and assess possible approaches, strategies and action plans. We anticipated districts would consider costs, potential partners, and secondary impacts to help analyse proposed strategies. We hoped they would have a process to use program evaluations and research to identify effective ways to achieve the health outcome targets in their objectives.

.48 Most districts had an adequate process to identify and assess approaches and strategies to move in the direction set. Districts used many methods to identify approaches, strategies and action plans. Sometimes managers developed plans independently. Occasionally, the board proposed public policy approaches to meet an identified health need. More often, committees identified potential approaches and strategies.

.49 District committees usually included expert service providers, community partners and those intending to use the service. The broad membership of these committees helped them identify varied approaches and strategies to address health needs. Action plans for these strategies were proposed consistently by service managers and co-ordinators.

.50 All five districts considered costs, potential partners and secondary impacts to some extent as they analysed potential plans. All districts estimated program costs (e.g., staff, equipment, space). Most districts identified two or three optional action plans. Managers usually estimated the cost of only one action plan because of the time required to carry out this analysis. When the cost of alternative action plans is not known, there is a risk the district does not consider the cost of lost opportunities inherent in the choices it makes.

.51 As previously stated, most districts did not have objectives for priority health needs. When districts had objectives for health needs, they were not specific enough to show how much improvement in health they expected. Without specific health objectives, the districts' strategies tended to be

Chapter 23 District Health Boards

Part B - District Resource Allocation

short term. In addition, districts could not tell which strategies would be most successful in achieving improved health status.

.52 For example, some districts wished to “reduce” injuries. These districts did not set specific objectives. As a result, the districts could not assess whether to use aggressive strategies (e.g., to reduce injuries by 50% within two years) or take a long-term view (e.g., reduce injuries by 5% annually for six years). Because the desired health outcome was not clear, districts could not assess whether short or long-term strategies would achieve the desired health outcome.

.53 Some districts used program evaluation results and research to help them identify effective strategies. In smaller districts, managers became aware of effective program ideas by reading journals and attending conferences. Larger districts used research officers, formal program evaluations and professional practice panels to identify effective practices.

.54 In general, districts had adequate processes to assess broad approaches, seek optional strategies and develop detailed action plans for identified health needs. More specific objectives would show which health needs were priorities and would help districts set both short and long-term action plans.

Criterion 4:

Select action plans best able to achieve objectives

.55 We expected districts to re-align their current resources or find new resources or partners to achieve objectives for improved health. We looked for districts’ processes to identify action plans that were feasible and could achieve objectives effectively. We anticipated the districts would identify decision principles as one way to help them select effective action plans. We expected districts would tell major partners about selected action plans.

.56 All districts tried to maximize available resources. They used a range of processes to seek additional resources. Districts received extra resources for special projects from the Department (e.g., rural health initiatives, pilot projects). Most districts expected their managers to work toward common goals

Chapter 23 District Health Boards

Part B - District Resource Allocation

with school boards and other community partners. Some districts obtained help from expert partners like the Lung Association or the Heart and Stroke Foundation.

.57 All districts had adequate processes to select action plans when the objective stated what health outcome was desired (e.g., reduce farm injuries). All districts expected senior managers to recommend re-aligning resources to achieve the board's goals and objectives. The managers considered trade-offs between health needs, and tried to balance them against other pressures on district resources. The process used by two districts was weak. Without well-defined priority health needs, specific objectives and performance targets, districts found it difficult to know they aligned enough resources to meet their objectives for improved health.

.58 Three districts had some objectives that were specific enough to help managers choose which action plans could achieve the desired health outcomes. These districts also used their objectives to assess the duration or intensity of action required. In addition, these districts used more formal processes to ensure managers had enough information to select effective action plans.

.59 All districts used managers and program co-ordinators to select action plans they had the capacity to carry out (i.e., planned activities they could do). These managers verified the commitment of partners and the availability of staff or equipment at the times required. Time frames for action were set according to resource availability. The Department also influenced some districts' process and time frames for action (e.g., by deciding whether or not to provide additional funds). Availability of additional resources increased the options managers could consider to meet the Department's requirements in areas such as home care and respite care.

.60 Three districts informed their partners about their plans. Districts used operational plans or informal management communication to inform staff about plans early in the fiscal year. Formal Health Plans were often submitted to the Department later in the year but timeliness was improving. Community partners were least likely to be informed of plans.

Chapter 23 District Health Boards

Part B - District Resource Allocation

.61 In general, districts adequately selected action plans to achieve their objectives for improved health. More specific health outcome objectives for priority health needs will make this process more effective over time.

Criterion 5:

Assign resources for strategies selected to meet objectives

.62 We expected districts to design or amend their programs in light of the resources available and to align resources to carry out the strategies they selected. We looked for a process to assign responsibility for monitoring the implementation of the district's plans and for reporting progress to senior management and the board.

.63 Four districts had systems to redesign or align programs and related resources. Districts often asked managers to amend services or revise program designs. For example, managers often met in groups or with their staff to generate ideas. Then, they recommended new ways to design programs or co-ordinate staff and other resources. Some districts also used expert committees to advise them about the resources required. Some districts are also starting to use program evaluation results.

.64 All districts had generally adequate processes to assign resources for strategies selected. However, districts' processes most often considered only short-term strategies and did not assess the long-term effort required to meet objectives for improved health.

.65 Communication between the chief executive officer and senior managers is essential. All districts had a process to assign responsibility for monitoring the achievement of their given plans and for reporting progress. Two districts assigned responsibility to managers verbally or asked managers to assume responsibility based on their position descriptions. Three other districts used written systems for assigning responsibility. This made their expectations more clear and they found it easier to track and report progress.

.66 All districts required regular progress reports to senior management and their board. The quality of these reports is

Chapter 23 District Health Boards

Part B - District Resource Allocation

evolving and dependent upon the quality of districts' plans. Also, districts are required to report regularly to the Department on their Health Plans and on their progress in improving the health of their residents. As yet, districts do not seem to have a process to monitor or report progress on the health status performance indicators set by the Department in their 1996 *Health Plan Guidelines* (p.4).

.67 Districts generally had adequate systems to assign resources for strategies selected to meet stated district objectives. As districts improve their analysis of information about health status, they will be able to state more specific objectives and identify performance targets which have the potential to shift the allocation of their resources.

Summary

.68 Districts face many challenges in allocating resources to provide co-ordinated services and improve health. These difficult decisions require careful judgement about which important health needs can be effectively addressed if available resources are used in creative new ways.

.69 We examined how five districts allocated resources in 1995-96. We found the districts had adequate processes to allocate resources based on health needs except for two important areas. Although districts identified many health needs, they used a weak process to decide which of these needs were most important. The lack of clear priority health needs adversely influenced districts' ability to set direction. Most often the direction districts set did not focus on particular health need priorities but responded to health needs in general. In spite of this, district managers found ways to assess strategies, select action plans and assign resources to achieve districts' stated objectives for health needs.

.70 Much of the success of health reform rests on appropriate resource allocation. A re-structured health system and newly available health status information are making new demands on boards and managers alike. The resource allocation process is evolving rapidly. Districts are learning quickly to meet the challenge and manage this complex process.

.71 The Department plays an important role. It continues to support districts and stimulate them to find new ways to

Chapter 23 District Health Boards

Part B - District Resource Allocation

improve the health of all Saskatchewan citizens while maintaining effective health care services.

Department's
response

.72 On behalf of the districts, the Department responds to our recommendations as follows.

The Department appreciates the work of the Provincial Auditor in addressing the Resource Allocation Process and agrees with the importance placed upon effective resource allocation as a key district process. The supportive nature and presentation of the audit observations creates an environment for cooperative progress toward the development and appropriate application of the type of formal processes described.

The Department's view is that the formalization of organizational decision-making tends to evolve in all organizations depending upon a number of factors. These factors include but are not limited to:

- the age of the organization - in the start up years of an organization's existence or following major changes in function or governance, management tends to be predominantly focused on start up issues;
- the degree of complexity of the issues being faced - the size and scope of the issues faced by an organization will dictate to some degree the appropriate decision model to be employed;
- the experience of the leadership in dealing with similar issues - management who are experienced in dealing with issues frequently require less formalized decision models; and

Chapter 23 District Health Boards

Part B - District Resource Allocation

- the external environment and challenges facing the organization - the greater the threats and challenges facing the organization the more likely it is that formalized models are appropriate.

We believe that it is important to recognize that this audit occurred in a period immediately following the establishment of newly elected health boards and the transfer of Community Services responsibilities to the boards.

We believe that it is useful to establish the type of "best practises" framework outlined in paragraph .12; however, we would expect to see variety in its applicability. Future audit reports in this area might endeavor to explore best practises in the context of observed need and thus highlight the consequences of any mismatch of decision process to desired outcome. Future audits will also be able to assess the degree to which the organization's processes are evolving over time.

Thank you

.73 We sincerely thank the staff and board members of the five health districts we examined for their cooperation during the audit. We appreciated this opportunity to work with them toward better health for Saskatchewan citizens.

Glossary

action plan - specific details of activities to be undertaken including personnel and other resources required in a specific time frame; includes who will do what and when

approaches - broad philosophy guiding selection of strategies and actions (e.g., public policy, health education, medical service delivery, community partnerships, personal skill building, etc.)

community partners - organizations or groups whose cooperation is required for success (e.g., affiliates,

Chapter 23 District Health Boards

Part B - District Resource Allocation

school boards, municipalities, Departments of Social Services and Justice).

decision principle - key criteria selected by the board as a basis for making decisions and setting priorities; a planned influence on the board's decisions in directing health district affairs (e.g., affordable, effective)

goal - broad direction for change

objective - specific statement of results to be achieved over a period of time; answers both "what" and "when"

outcome - the result or consequences of activities, often from the perspective of the client

performance indicator - a factor chosen to monitor success in achieving objectives

performance target - expected outcome for a specific population at a point in time; desirable health status level; shows how fast an organization plans to move toward its objective

strategy - general direction of change; shows how objectives will be achieved in a general way, but has no specific details about who will do what

References

Canadian Institute of Chartered Accountants. (1995). *Public Sector Accounting and Auditing Handbook*. Toronto: Author.

Community Health Division. (1996). *A guide to needs/impact-based planning*. Toronto: Ministry of Health. (Final Report of the Needs/Impact-based Planning Committee and presents interesting decision principles and priority setting tools).

Federal, Provincial and Territorial Advisory Committee on Population Health (ACPH). (1994). *Strategies for population health: Investing in the health of Canadians*. Ottawa: Health Canada.

Chapter 23 District Health Boards

Part B - District Resource Allocation

Federal, Provincial and Territorial Advisory Committee on Population Health (ACPH). (1996). *Report on the health of Canadians*. Ottawa: Health Canada Communications and Consultation Directorate. (Summary of Canadians' health status and health indicator data by province).

Saskatchewan Health. (1991). *Planning guide for Saskatchewan health districts*. Part I Strategic planning. Regina: Author.

Saskatchewan Health. (1994). *Planning guide for Saskatchewan health districts*. Part II Program planning. Regina: Author.

Saskatchewan Health. (1994). *Introduction of needs-based allocation of resources to Saskatchewan district health boards*. Regina: Author.

Saskatchewan Health. (1996). *Health Plan Guidelines*. Regina: Author.

Chapter 23 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

Table of Contents

Introduction . . . . .	.01
Our audit conclusions and findings . . . . .	.03
Background . . . . .	.09
Setting direction and monitoring performance . . . . .	.13
Setting direction and monitoring performance are important responsibilities . . . . .	.13
Safeguarding assets . . . . .	.25
Written rules and procedures required . . . . .	.25
System development policies and controls required . . . . .	.31
Sound system development policies and controls . . . . .	.36
Written operating agreements need improvement . . . . .	.37
Complying with authorities . . . . .	.44
Districts need to comply with authorities . . . . .	.44
Ensuring adequate accountability to district residents and the Minister of Health . . . . .	.50
External reporting needs improvement . . . . .	.50
Reporting required by <i>The Health Districts Act</i> . . . . .	.52
Budgets submitted late . . . . .	.60
Recommendations of PAC . . . . .	.66
Reservations of opinions on financial statements . . . . .	.71

Chapter 23 District Health Boards (Districts)
Part C - District Financial Management & Accountability Systems and Practices

Introduction

.01 For 1996-97, we audited all health districts except South Country District Health Board (see Part A of this Chapter). We carried out our audit responsibilities by working with the accounting firms engaged by districts.

.02 We followed the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. Together with many accounting firms, we formed the opinions referred to in paragraph .03.

Our audit conclusions
and findings

.03 In our opinion:

- the districts' financial statements are reliable except for the matters described in paragraphs .71 and .72;
- the districts had adequate rules and procedures to safeguard and control their assets except where we report otherwise in this Chapter; and
- the districts complied with the authorities governing their activities relating to financial reporting, safeguarding assets; revenue raising; spending, borrowing, and investing except where we report otherwise in this Chapter.

.04 The districts' appointed auditors and our Office formed the opinions referred to in paragraph .03 except as follows.

.05 We disagree with the reports of an appointed auditor of two districts who did not report the matters described in paragraphs .13 to .24 and .50 to .59.

.06 *The Provincial Auditor Act* requires us to do additional audit work when we are unable to rely on the reports of an appointed auditor. Our additional work consisted of reviewing the districts' internal financial reports and discussions with management.

.07 At the date of this Report, the audits of five districts are not complete. We will report the results of these audits in a future report.

Chapter 23 District Health Boards

Part C - District Financial Management & Accountability Systems and Practices

.08 We also report other matters for the Assembly's attention in paragraphs .66 to .70.

Background

.09 In carrying out their responsibilities, the Boards of directors and senior management face many challenges. Those challenges are described in Part A, paragraphs .02 and .05.

.10 In this Chapter, we discuss some of those challenges and identify issues districts need to address. Some of the issues can be addressed quickly. Other issues will take more time to address as districts will require new information systems. We note improvements from last year in the districts' rules and procedures to safeguard and control their assets (see paragraphs .25 to .43) and in the districts' compliance with governing authorities (paragraphs .44 to .49). We also note the Department and districts are working on a framework to enable districts to measure and report on the health status of residents and the effectiveness of their programs.

.11 We organize our audit findings and recommendations into four groupings. These groupings reflect important responsibilities of the boards of directors in their role of overseeing the districts' operations. These are:

- setting direction and monitoring performance;
- safeguarding assets;
- complying with authorities; and
- ensuring adequate accountability to district residents and the Minister of Health.

.12 We think the boards need to continue to improve how they oversee the districts' operations.

Setting direction and monitoring performance

Setting direction and monitoring performance are important responsibilities

.13 As stewards of the districts, boards of directors must approve the districts' objectives, their services and their expected costs. Also, the boards need to assess if their Districts are meeting the boards' objectives and expectations. Key to fulfilling this role is setting direction and monitoring performance.

.14 In our opinion, the boards need to improve how they set direction and monitor the districts' performances.

.15 To set direction and monitor performance, the directors need to tell management what performance the boards expect. The boards need written governing policies setting out what services the districts should deliver, for whom, and at what cost. The boards then need to receive reports showing what management did compared to what the boards expected.

.16 When providing direction for preparing a district's governing policies, the boards should specify for each service a district delivers:

- what needs the service will satisfy (objective);
- the expected cost of the service and related activities (input);
- how many procedures or activities the districts expect to deliver (output); and
- the desired outcome of the service and how the districts will measure the health outcome (e.g., fewer low-birth-weight babies).

.17 The reports boards receive do not show all the information in paragraph .16. Generally, the reports show the cost and volume of services the districts provide compared to the planned results. However, the reports do not show actual health outcomes compared to desired outcomes. As a result,

Chapter 23 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

the boards are unable to assess the effectiveness of their services on improving the health status of residents.

.18 To establish desired health outcomes, districts need to continue to work on determining the health needs and health status of residents.

.19 Once districts have set desired outcomes, boards will have to consider the effect this will have on the types, cost and volumes of services they provide.

.20 Some districts are experimenting with using standards set by the Canadian Council on Health Services Accreditation as a model to assess and report on their performance. Districts are also working at assessing, and reporting publicly, the health status and health needs of residents. We commend the districts for their efforts.

.21 The districts' internal reports would provide a sound basis for external reporting (see paragraphs .50 to .59) to the Minister and the public showing the districts' services, activities and their cost, and the effectiveness of their programs.

.22 We also reported this matter in previous years.

We recommend

.23 The boards of directors should formally define and document what services their health districts need to deliver to meet the needs of district residents, the desired outcomes, and the performance they expect from management.

.24 The health districts' internal reports should compare actual performance and costs for services delivered to planned performance and costs.

Safeguarding assets

Written rules and procedures required

.25 Boards of directors must ensure management has established adequate written rules and procedures to safeguard and control the districts' assets.

Chapter 23 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

.26 For 1996-97, we found ten districts require better written rules and procedures. Paragraph .30 sets out our findings and recommendations.

.27 Written rules and procedures provide for the orderly and efficient conduct of business. They also reinforce the boards' delegation of authority and responsibility to all employees. The lack of adequate written rules and procedures increases the risk of errors, fraud, breakdowns in control and unauthorized transactions.

.28 The Department has worked with districts to prepare a model set of rules and procedures that districts can adapt to their own circumstances.

.29 We also reported the following matters in more detail in our *Report of the Provincial Auditor: 1997 Spring* (1997 Spring Report).

We recommend

.30 Management should establish, and boards should approve, written rules and procedures to safeguard and control health districts' assets and to govern the:

- **proper authorization and recording of transactions** (eight districts);
- **preparation of monthly financial reports showing what the districts own and owe** (seven districts) and the degree of the Districts' compliance with governing laws and other authorities (ten districts);
- **control of bank accounts** (eight districts);
- **operations of affiliated organizations** (two districts);
- **preparation of quarterly reports to the Minister** (11 districts);
- **hiring staff and designing training plans** (one district);

Chapter 23 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

- **control of computer files and records** (seven districts);
- **access to computer records** (one district);
- **authorized changes to the computer records used to pay suppliers** (two districts);
- **storage of backup copies of computer records off site** (three districts); and
- **preparation of written and tested contingency plans** (six districts).

System development policies and controls required

.31 Eight districts require written policies and controls for developing information systems.

.32 Developing new systems is risky. If the development of new systems is not managed well, costs increase, deadlines pass, and systems fail.

.33 Because the districts are changing many of their systems and practices, they must have appropriate system development policies and controls. The boards should approve the policies.

.34 We set out criteria for sound systems development policies and controls in paragraph .36.

We recommend

.35 Health districts should establish written policies and controls for developing information systems.

Sound system development policies and controls

- .36** Sound system development policies and controls:
- establish a strong management commitment to the project by:
 - ensuring the district's long-term plan includes the project; and
 - appointing a steering committee to guide the project to successful completion of its objectives;

Chapter 23 District Health Boards

Part C - District Financial Management & Accountability Systems and Practices

- ensure project development does not start before the board and management satisfy themselves the project and its objectives are right for the district;
- ensure strong project management systems and practices. This includes management approval of:
 - a strong project manager accountable for the success of the project;
 - a system development process and the management system that will permit project planning and monitoring;
 - a project development plan which sets out objectives and all technical and resource requirements, meets user needs, and sets target completion dates for all project tasks;
 - the project design after meeting all development plan needs;
 - an implementation plan that reflects the needs and resource constraints of the district; and
 - a post-implementation review of the project to ensure the completed project meets the district's needs and to identify areas for improvement.

Written operating agreements need improvement

.37 One district needs to improve its operating agreements with affiliated organizations that provide services for the district. Another district needs to make such an operating agreement with an affiliate.

.38 In 1996-97, the districts had agreements with many affiliates (e.g., hospitals and nursing homes) that provided services for the districts.

.39 Districts are responsible for providing necessary health services for their residents. To meet their responsibility in a cost-effective manner, the districts must co-ordinate the services they provide directly with the services the affiliates provide for the districts. Written agreements help to ensure the affiliates effectively deliver health services to achieve the districts' objectives.

Chapter 23 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

.40 Adequate agreements help ensure there is no misunderstanding of responsibilities and expectations.

.41 One district did not have an agreement with an affiliate. Another district's agreements with its affiliates are adequate with two exceptions. The agreements of this district do not:

- require the affiliates to establish and report on their systems to achieve the districts' financial, operational and compliance objectives needed to manage the delivery of health care successfully; and
- allow the districts or the affiliates' independent auditors to verify the affiliates' reports.

.42 As a result, the districts cannot ensure the affiliates effectively deliver health services to achieve the districts' objectives.

We recommend

.43 Health districts should have sound written operating agreements with affiliated organizations that provide services for the districts.

Complying with authorities

Districts need to comply with authorities

.44 Districts' boards of directors must ensure management have established adequate rules and procedures to comply with legislative and other authorities including key agreements.

.45 To do this, boards need compliance reports that describe the laws and other authorities (such as key agreements and the boards' delegation of authority) governing management's actions and the degree of compliance.

.46 Nine districts need to improve their compliance with legislative authorities. Paragraphs .47 to .49 set out our findings and recommendations. We also reported the following matters in more detail in our 1997 Spring Report.

Chapter 23 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

We recommend

.47 Health districts should obtain the Minister's prior approval to borrow money, sell real property or renovate facilities as required by *The Health Districts Act* (three districts).

.48 Districts should obtain the Minister's prior approval before purchasing hospital equipment costing more than the prescribed limit (seven districts).

.49 Districts should keep residents' money in a separate bank account (one district).

Ensuring adequate accountability to district residents and the Minister of Health
--

External reporting
needs improvement

.50 Boards of directors are the accountability link to the community and the Minister of Health for the districts' performance. Fully accountable boards provide the community and the Minister with information necessary to understand and assess the districts' performance.

.51 The boards should provide more information on the districts' performance.

Reporting required by
The Health Districts Act

.52 The districts did not submit to the Minister and the public some information required by *The Health Districts Act*. Other information was submitted late.

.53 Section 35(2) of the Act requires districts to submit to the Minister within three months of their year end, the following:

- a) a detailed audited set of financial statements and a schedule of investments;
- b) a report on their services and activities and their costs; and
- c) a report on the health status of the residents and the effectiveness of their programs.

Chapter 23 District Health Boards

Part C - District Financial Management & Accountability Systems and Practices

.54 Seven districts did not submit their audited financial statements including a schedule of investments to the Minister, within three months of the year end.

.55 As stated in paragraph .20, districts have started to give more information to the Minister and the public. Districts' annual reports and health plans now provide information about Districts' services and activities and their costs, the health status of residents and the effectiveness of their programs.

.56 However, these reports do not meet the full range of requirements in section 35(2) of the Act. More work needs to be done before the districts can report this information more fully. The Department of Health has issued guidelines for the preparation of the districts' annual reports. The annual report guidelines cover the requirements of Section 35(2) of the Act.

.57 As we note in paragraphs .13 to .24, districts need to improve their internal reports. These internal reports would provide a sound basis for the preparation of external reports to the Minister and the public required by the Act.

We recommend

.58 The health districts should continue to work with the Department to ensure they can provide the Minister and the public the full range of required information.

.59 The Department and districts have set up a working group to prepare a framework for districts to measure and report on the health status of residents and the effectiveness of district programs. The working group is obtaining advice from all key stakeholders and our Office.

Budgets submitted late

.60 The districts did not submit their 1996-97 annual budgets to the Minister on time.

.61 Section 31 of *The Health Districts Act*, requires districts to submit their 1996-97 budgets to the Minister "prior to the day fixed by the Minister". The Minister set June 30, 1996 as the 1996-97 budget deadline.

.62 We think it is important that the Minister receive and approve the budgets before the year begins. The districts submitted their budgets to the Minister after the year began.

Chapter 23 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

.63 We note that districts are submitting, and the Minister is approving, budgets several months earlier than in previous years.

We recommend

.64 Health districts should submit their budgets to the Minister on time.

.65 For 1998-99, the Minister has set May 15, 1998 as the districts' budget deadline.

Recommendations of PAC

.66 For 1996-97, 17 districts publicly reported a list of persons who received money from the districts, 13 districts did not.

.67 It is usual practice for government organizations to publicly report a list of persons who received public money.

.68 We are often reminded that public disclosure is important for three reasons. First, public disclosure serves to remind all government officials they are spending money that is entrusted to them by the public. Second, public disclosure adds rigour to decision-making as it ensures those who spend public money know their use of that money will be made public. Third, public disclosure ensures the public knows who has received their money.

We recommend

.69 Health districts should publicly report a list of persons who received money from them and the amount.

.70 For further discussion of the importance of this matter, see Chapter 1, **Executive Council**.

Reservations of opinions on financial statements

.71 The auditor's report on one district's 1996-97 financial statements contains a reservation of opinion.

.72 We reserved our opinion because, in the absence of an agreement between the district and another organization regarding a facility operated by the district, we could not verify the accounting treatment of certain assets and liabilities related to the facility. As a result, we were unable to determine if adjustments were required for the identified assets and liabilities.

Chapter 23 District Health Boards
Part D - District Needs Assessment - Follow-up

Table of Contents

Introduction . . . . .	.01
Our recommendations . . . . .	.04
Districts better positioned to act on our recommendations . . . . .	.05
Our follow-up procedures . . . . .	.08
Districts active in needs assessment . . . . .	.10
Health Department's actions support districts . . . . .	.19
Our future plans . . . . .	.23

Chapter 23 District Health Boards

Part D - District Needs Assessment - Follow-up

Introduction

.01 In 1994, the Government began to move toward funding health services based on health needs rather than past service volumes. The Department of Health (Department) now expects 30 district health boards to show how they identify health needs and to allocate resources to address those needs. In future, newly formed districts and authorities also will address these changes.

.02 Formal assessment of health needs helps district boards select priorities and allocate resources in response to health needs. Needs assessments help districts provide services with potential to improve the health of district residents.

.03 Assessment of health needs influences health spending. It also improves the Government's ability to control future health costs. As a result, we monitor this important process.

Our recommendations

.04 In our *Report of the Provincial Auditor: 1996 Spring* (1996 Spring Report, p.135), we report the results of our examination of the process districts used to assess their residents' health needs. We recommend:

- “Districts should plan for the entire health-needs assessment process over the long term (e.g., three to ten years).”
- “Districts should organize and combine their health-needs assessment information to present an overview. This should be done in a way that helps districts compare key information at district, provincial and national levels, and allows the information from all districts to form a provincial picture.”
- “Districts should improve their analysis of collected needs assessment information, including their process to identify important health needs and set priorities for action.”

Districts better positioned to act on our recommendations

.05 Health districts have positioned themselves to act on our 1996 recommendations for improving the needs assessment process. Given the complexity of assessing health needs and

Chapter 23 District Health Boards

Part D - District Needs Assessment - Follow-up

the many priorities districts face, we recognize it will take time for districts to adopt our recommendations. In their first five years of operation, health districts have begun to grapple with the complex needs assessment process. Staff and board members attend training sessions. Resources are made available to gather and analyse needs assessment information.

.06 The Department and districts plan to move toward long-term planning and are working to establish a framework of indicators that will help districts monitor and report an overview of the health status of their residents.

.07 Districts' actions will increase their ability to manage the complex needs assessment process. Support is strong from the Department, the Saskatchewan Association of Health Organizations and others. We anticipate districts will continue to enhance their ability to plan needs assessments over the long term, to analyse health need information, and to organize their findings in a way that contributes to an overall picture of the health status of the province.

Our follow-up
procedures

.08 In 1996, our first follow-up focused on how the Department helps districts to assess health needs *Report of the Provincial Auditor: 1997 Spring* (1997 Spring Report, p.85-91). This second follow-up includes activities in the districts which address our recommendations, as well as ongoing actions by the Department. This follow-up is not an audit. Rather it reports on actions which help to achieve the intent of our recommendations.

.09 We asked the Department to help us assess progress made by districts. In addition, we examined reference binders and learning materials. We also reviewed relevant reports and observations from our 1997 audit of health districts' resource allocation process.

Districts active in
needs assessment

.10 Many districts now strongly support needs assessment activities. Most districts asked staff and Board members to learn more about issues related to needs assessment. Districts are involved in planning or doing needs assessments.

Chapter 23 District Health Boards

Part D - District Needs Assessment - Follow-up

.11 Using a February 1997 Department survey of districts, we noted 20 of 26 responding districts reported they support needs assessment as a priority. Districts show their support by budgeting for needs assessment activities, sometimes to the extent of making this the primary responsibility of a full-time staff member. Districts also assign committees and managers to monitor the needs assessment process.

.12 The Department asks to receive all district needs assessment reports and has staff who are closely associated with districts. The Department told us 23 districts (77%) have moderately well-developed or advanced needs assessment processes. Seven districts are at an early stage in developing their needs assessment process.

.13 The Department told us most districts improved their needs assessment process during 1996 and 1997. For example, many districts now take part in needs assessments with other sectors. Health district staff work with teachers and social workers to plan and carry out needs assessments to guide all community agencies in providing useful services. This collaborative work strengthens the districts' ability to analyse the information they gather and to set priorities.

.14 In the Department's February 1997 survey, 16 of 26 responding districts asked for help to interpret or analyse needs assessment information. Districts said they wanted additional training, expert assistance and other resources to help analyse available health status information. One district also asked for help to plan its needs assessments over the long term.

.15 Districts actively participated in workshops and other learning opportunities. For example, in February 1997, all districts participated in a satellite session on the determinants of health sponsored by the Department. Understanding how various factors influence health helps analyse important needs assessment information and set priorities for action.

.16 In March 1997, 28 districts took part in a Department-sponsored workshop on needs assessment activities. The workshop covered sources of information, designing surveys and analysing statistical and community information. It also provided handouts about analysing needs assessment information.

Chapter 23 District Health Boards

Part D - District Needs Assessment - Follow-up

.17 In August 1997, 27 districts attended a summer-school hosted by the Prairie Region Health Promotion Research Centre in Saskatoon. This event gave participants an opportunity to explore methods such as community development. This is one way to assess health needs and plan effectively to meet those needs over the long term.

.18 Acting through the Saskatchewan Association of Health Organizations, districts worked together toward longer term planning. They formed a Working Committee on Provincial Health Planning. Based on the Committee's work, districts began discussions with the Minister of Health and senior Department officials about long-term planning for health. The outcome of these discussions may help districts act on our recommendation to plan needs assessments over the long term.

Health Department's
actions support
districts

.19 In addition to the Department's actions documented in the 1997 Spring Report of the Provincial Auditor (p.85-91), the Department continues to help districts with needs assessments. The Department is working with districts to establish a framework for long-term strategic planning including needs assessments. The Department's Health Plan Guidelines now ask districts to manage on an annual basis while planning over the long term (e.g., minimum three years).

.20 The Department continues to work to improve the statistical information it shares with districts. The computer-based Community Profile (e.g., statistics on demographics, mortality rates, and service use) is being improved and expanded to include more useful information. The Department's service utilization reports also better explain how to analyse the detailed information provided.

.21 In July 1997, the Department published an in-depth manual on the determinants of health. The manual is titled *Population Health Promotion Model: A Resource Binder*. It explains how various factors influence health in the long and short term. This will help districts decide how often to monitor these factors in their long-term needs assessment plans. The Resource Binder will also be useful to districts in analysing health status indicators to decide whether identified health needs should be priorities for action.

Chapter 23 District Health Boards
Part D - District Needs Assessment - Follow-up

.22 In addition, the Department is working with districts and experts to establish a framework for useful performance indicators. The indicators will help districts monitor specific health needs to show an overall picture of district residents' health. Eventually, the indicators will also help the Department prepare a health status report for the whole province.

Our future plans

.23 Needs assessments are essential to help districts allocate resources effectively. They also help districts provide the health status reports required by *The Health Districts Act*. Our Office will continue to monitor the progress of needs assessments.

Chapter 23 District Health Boards
Part E - District Revenues, Expenses, Assets & Liabilities in More Detail

Table of Contents

Introduction **.01**

Combined Financial Position **Page 280**

Combined Revenues and Expenses **Page 281**

Revenues, Expenses, Assets and Liabilities of each District Health Board **Page 282**

Chapter 23 District Health Boards

Part E - District Revenues, Expenses, Assets & Liabilities in More Detail

Introduction

.01 In Part E of Chapter 23, we set out the financial results of Districts for the years ending March 31, 1997 and 1996.

.02 The first schedule shows the assets and liabilities of Districts as a whole (see page 280).

.03 The second schedule shows revenues and expenses of Districts as a whole (see page 281).

.04 The third schedule shows the revenues, expenses, assets and liabilities of each District (see pages 282 to 285).

.05 The financial results are derived from the audited annual financial statements of Districts. The following additional information is provided.

1. Unaudited Financial Statements

We used unaudited financial statements in preparing the schedules for one District as audited financial statements were not available at the time of preparation.

2. Reclassification of Information

Certain figures from the current and the previous year have been reclassified to conform to a consistent financial statement presentation.

3. Breakdown of Expenses not by Programs

The audited financial statements for one District does not include a breakdown of expenses consistent with the other Districts. As a result, we allocated expenses based on information provided by the Department of Health.

Chapter 23 District Health Boards
Part E - District Revenues, Expenses, Assets & Liabilities in More Detail

District Health Boards
Combined Financial Position
As at March 31

(in thousands of dollars)	1997 Total	1996 Total
ASSETS		
Current Assets:		
Cash and short-term investments	\$ 87,992	\$ 89,221
Accounts Receivable		
Saskatchewan Health - General Revenue Fund	33,585	17,354
Other	27,822	27,530
Inventory	17,939	17,236
Prepaid expenses	6,087	5,016
Total Current Assets	<u>173,425</u>	<u>156,357</u>
Assets held for restricted purposes:		
Cash and short-term investments	47,442	38,859
Long term investments	9,396	6,829
	<u>56,838</u>	<u>45,688</u>
Investments	19,828	18,489
Capital Assets	803,167	802,352
	<u>822,995</u>	<u>820,841</u>
Total Assets	<u>\$ 1,053,258</u>	<u>\$ 1,022,886</u>
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	\$ 62,543	\$ 48,894
Accrued salaries and vacation payable	66,903	59,100
Current portion of mortgages payable	1,788	1,612
Current portion of capital lease obligation	31	31
Deferred revenue	12,018	13,421
	<u>143,283</u>	<u>123,058</u>
Mortgages payable	79,900	81,685
Capital lease obligations	82	113
	<u>79,982</u>	<u>81,798</u>
Total Liabilities	<u>223,265</u>	<u>204,856</u>
Fund Balance:		
Operating Fund	33,168	29,097
Capital Fund	766,735	756,164
Restricted Fund	30,090	32,769
Fund balances	<u>829,993</u>	<u>818,030</u>
Total Liabilities and Equity	<u>\$ 1,053,258</u>	<u>\$ 1,022,886</u>

Chapter 23 District Health Boards
Part E - District Revenues, Expenses, Assets & Liabilities in More Detail

District Health Boards
Combined Revenues and Expenses
For the Year ended March 31

(in thousands of dollars)	Operating Budget	Operating Fund	Capital Fund	Restricted Fund	1997 Total	1996 Total
REVENUES:						
Saskatchewan Health - General Revenue Fund	\$1,017,439	\$1,021,561	\$ 55,912	\$ ---	\$1,077,473	\$1,007,080
Funds received under Hospital Revenue Act	1,854	3,109	6,029	---	9,138	8,524
Long-term resident and respite income	63,623	64,449	---	---	64,449	64,332
Home based service client fees	5,329	5,330	---	---	5,330	5,251
Emergency response service fees	3,870	4,045	---	---	4,045	3,818
CMHC mortgage subsidies	3,069	3,245	1,379	---	4,624	3,613
Out-of-province charges & third party reimbursements	22,121	21,221	---	---	21,221	20,685
Donations	313	1,688	6,445	676	8,809	11,374
Investment income	3,612	4,353	1,695	1,573	7,621	8,973
Ancillary operations - income	4,276	4,479	10,138	18	14,635	15,201
Other	<u>32,356</u>	<u>31,848</u>	<u>2,782</u>	<u>66</u>	<u>34,696</u>	<u>35,064</u>
TOTAL REVENUE:	<u>1,157,862</u>	<u>1,165,328</u>	<u>84,380</u>	<u>2,333</u>	<u>1,252,041</u>	<u>1,183,915</u>
EXPENSES:						
Acute services	490,199	555,838	13,901	39	569,778	507,935
Community health, wellness and social centres	25,418	26,088	1,522	182	27,792	29,542
Supportive care services	271,242	215,234	9,356	173	224,763	306,060
Grants to affiliates:						
Acute services	27,943	27,184	271	---	27,455	28,471
Community health, wellness and social centres	34,945	196	---	---	196	34,548
Supportive care services	62,562	94,485	10,925	---	105,410	64,044
Home based services	61,353	67,997	370	21	68,388	57,945
Health improvement initiatives	18,036	9,407	26	---	9,433	12,809
Emergency response services	19,390	14,817	707	25	15,549	19,507
Alcohol and drug services	6,056	7,609	1	---	7,610	4,776
Community health services	35,190	37,489	89	---	37,578	30,099
Mental health services	42,150	42,883	105	---	42,988	39,399
Rehabilitation services	38,920	36,506	2	---	36,508	32,833
Ancillary operations - expenses	1,334	1,386	8,468	1	9,855	1,529
Other	<u>19,129</u>	<u>16,249</u>	<u>37,099</u>	<u>835</u>	<u>54,183</u>	<u>31,640</u>
TOTAL EXPENSES	<u>1,153,867</u>	<u>1,153,368</u>	<u>82,842</u>	<u>1,276</u>	<u>1,237,486</u>	<u>1,201,137</u>
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES:	<u>\$ 3,995</u>	11,960	1,538	1,057	14,555	(17,222)
Fund balances, beginning of year		29,097	756,164	32,769	818,030	872,061
Transfers between funds		(7,889)	11,610	(3,721)	---	---
Adjustments to Equity		---	(2,577)	(15)	(2,592)	(36,809)
FUND BALANCES, END OF YEAR		<u>\$ 33,168</u>	<u>\$ 766,735</u>	<u>\$ 30,090</u>	<u>\$ 829,993</u>	<u>\$ 818,030</u>

Chapter 23 District Health Boards

Part E - District Revenues, Expenses, Assets & Liabilities in More Detail

District Health Boards
Financial Statements
for the year ended March 31, 1997

(In thousands of dollars)	Assiniboine Valley	Battlefords	Central Plains	East Central	Gabriel Springs (Note 1)	Greenhead
REVENUES:						
Saskatchewan Health						
- General Revenue Fund	17,384	42,351	17,858	41,940	9,781	10,250
Funds Received under						
- Hospital Revenue Act	195	214	53	302	106	167
Long-term resident and respite income	2,692	3,002	1,266	4,434	34	1,278
Home Based Service - client fees	147	146	235	284	86	143
Emergency response service fees	---	---	33	18	---	191
CMHC mortgage subsidies	253	---	220	283	---	106
Out-of-province charges & third party reimbursements	158	1,153	22	2,177	108	136
Donations	298	178	30	338	1	119
Investment income	108	189	116	233	55	120
Ancillary operations - income	---	709	35	174	---	---
Other	610	349	741	1,051	50	332
TOTAL REVENUE	21,845	48,291	20,609	51,234	10,221	12,842
EXPENSES:						
Acute services	6,761	16,852	1,978	23,559	3,903	5,155
Community health, wellness and social centres	---	11,632	706	472	---	---
Supportive care services	10,523	10,739	4,717	17,426	---	5,032
Grants to affiliates						
Acute services	---	---	6,220	---	---	---
Community health, wellness and social centres	---	---	---	---	---	---
Supportive care services	---	792	3,317	---	4,674	918
Home based services	2,099	1,822	1,988	2,753	842	1,103
Health Improvement Initiatives	287	234	189	700	112	254
Emergency response services	414	353	384	511	136	404
Alcohol and drug services	44	395	96	195	50	---
Community health services	390	1,809	435	1,634	165	558
Mental health services	47	3,612	127	3,722	121	---
Rehabilitation services	108	386	60	491	106	---
Ancillary operations - expenses	---	---	37	146	---	---
Other	296	---	45	637	---	---
TOTAL EXPENSES	20,969	48,626	20,299	52,246	10,109	13,424
EXCESS OF REVENUE OVER EXPENSES:						
- Operating Fund	853	455	84	498	242	(81)
- Capital Fund	(21)	(799)	226	(1,542)	(137)	(582)
- Restricted Funds	44	9	---	32	7	81
TOTAL EXCESS OF REVENUE OVER EXPENSE	876	(335)	310	(1,012)	112	(582)
Equity, beginning of year	7,382	15,323	5,059	15,822	2,441	6,899
Adjustments to Equity	---	---	---	---	---	---
EQUITY, END OF YEAR	8,258	14,988	5,369	14,810	2,553	6,317
ASSETS						
Cash and short-term investments	1,485	5,968	2,588	---	478	1,366
Accounts Receivable						
Saskatchewan Health - General Revenue Fund	17	38	101	176	---	---
Other	312	593	150	1,034	53	191
Inventory	526	570	161	754	121	218
Prepaid expenses	111	342	71	155	18	45
Assets held for restricted purposes						
Cash and short term investments	811	982	573	4,234	101	1,128
Long term investments	1,010	---	---	557	182	1,168
Investments	---	---	145	126	677	6
Capital assets	10,562	12,853	6,350	29,791	1,535	6,248
TOTAL ASSETS	14,834	21,346	10,139	36,827	3,165	10,370
LIABILITIES						
Accounts payable	710	2,114	477	7,538	217	446
Accrued salaries and vacation payable	1,194	2,530	682	3,047	246	836
Current portion of mortgages payable	99	25	29	300	---	97
Current portion of capital lease obligations	---	---	---	---	---	2
Deferred Revenue	244	603	738	385	149	240
Mortgages payable	4,329	1,086	2,844	10,747	---	2,430
Capital lease obligations	---	---	---	---	---	2
TOTAL LIABILITIES	6,576	6,358	4,770	22,017	612	4,053
Fund Balance:						
- Operating Fund	265	2,441	1,254	(8,852)	735	304
- Capital Fund	7,065	12,449	4,115	21,927	1,677	4,893
- Restricted Funds	928	98	---	1,735	141	1,120
Fund Balance - Statement 2	8,258	14,988	5,369	14,810	2,553	6,317
TOTAL LIABILITIES AND FUND BALANCE	14,834	21,346	10,139	36,827	3,165	10,370

Chapter 23 District Health Boards

Part E - District Revenues, Expenses, Assets & Liabilities in More Detail

Living Sky	Lloydminster	Midwest	Moose Jaw-Thunder Creek	Moose Mountain	North Central	North East	North Valley	Northwest
10,476	6,716	15,272	45,013	10,508	14,859	12,938	15,069	8,551
138	124	317	459	162	135	97	31	134
1,991	1,697	2,477	1,417	1,250	1,700	1,754	997	1,042
164	57	197	348	168	105	127	176	57
34	96	137	63	134	---	---	30	273
34	85	195	95	51	324	646	36	108
81	252	80	436	213	242	140	---	153
125	158	239	256	30	77	345	10	40
94	467	289	302	138	346	116	87	233
22	---	---	128	---	31	252	---	---
478	7,709	567	872	189	246	---	50	295
13,637	17,361	19,770	49,389	12,843	18,065	16,415	16,486	10,886
4,708	9,408	4,617	22,216	4,681	7,686	6,963	281	4,556
148	72	542	---	95	---	203	247	109
6,768	6,443	10,678	5,662	5,208	7,801	6,785	3,566	3,709
---	---	---	---	---	---	---	4,992	---
---	---	---	---	---	---	---	---	---
---	---	---	10,115	---	---	---	3,721	---
1,392	881	1,694	3,347	1,248	865	1,128	1,395	611
249	30	166	357	196	371	174	90	116
333	233	520	634	342	145	209	279	428
40	310	66	655	86	161	---	89	110
359	723	1,305	2,067	316	1,147	480	366	328
64	406	392	3,076	93	165	200	50	186
---	477	182	336	---	166	123	280	68
30	14	---	94	---	---	---	---	---
---	---	---	---	---	38	---	---	---
14,091	18,997	20,162	48,559	12,265	18,545	16,265	15,356	10,221
(5)	(421)	785	1,493	963	318	724	439	911
(573)	(1,215)	(1,124)	(706)	(412)	(974)	(574)	647	(290)
124	---	(53)	43	27	176	---	44	44
(454)	(1,636)	(392)	830	578	(480)	150	1,130	665
7,800	21,542	15,966	18,833	5,283	12,535	10,907	2,017	7,818
---	---	---	---	---	---	---	---	---
7,346	19,906	15,574	19,663	5,861	12,055	11,057	3,147	8,483
555	3,314	5,493	5,239	4,107	2,014	2,199	1,380	591
15	---	---	250	---	---	---	710	4
345	598	672	453	168	409	279	83	260
358	372	344	509	168	270	266	61	181
70	202	87	800	56	109	97	14	57
400	499	1,714	3,571	528	3,604	685	1,006	2,412
379	2,131	---	478	---	---	---	79	140
363	2,147	5	51	---	---	50	254	1,617
7,690	16,109	14,314	16,465	4,443	9,347	13,843	2,024	6,330
10,175	25,372	22,629	27,816	9,470	15,753	17,419	5,611	11,592
639	963	1,021	2,286	497	194	117	364	318
718	1,541	1,135	2,298	655	1,044	823	326	545
32	50	68	40	37	30	65	16	40
---	---	---	---	---	---	---	---	---
144	509	681	1,009	335	239	284	488	268
1,296	2,403	4,150	2,520	2,085	2,191	5,073	1,270	1,938
---	---	---	---	---	---	---	---	---
2,829	5,466	7,055	8,153	3,609	3,698	6,362	2,464	3,109
179	3,512	3,800	1,564	3,174	2,821	1,369	616	1,579
6,738	16,394	10,485	17,272	2,321	7,297	9,688	1,488	5,726
429	---	1,289	827	366	1,937	---	1,043	1,178
7,346	19,906	15,574	19,663	5,861	12,055	11,057	3,147	8,483
10,175	25,372	22,629	27,816	9,470	15,753	17,419	5,611	11,592

Chapter 23 District Health Boards

Part E - District Revenues, Expenses, Assets & Liabilities in More Detail

District Health Boards
Financial Statements
for the year ended March 31, 1997

(In thousands of dollars)	Parkland	Pasquia	Pipestone	Prairie West	Prince Albert	Regina
REVENUES:						
Saskatchewan Health						
- General Revenue Fund	13,659	14,989	18,390	11,519	67,671	285,040
Funds Received under						
- Hospital Revenue Act	160	139	170	213	374	2,663
Long-term resident and respite income	2,025	1,987	3,199	670	2,718	2,107
Home Based Service - client fees	132	195	230	163	242	820
Emergency response service fees	---	83	140	266	---	1,581
CMHC mortgage subsidies	822	205	139	52	315	---
Out-of-province charges & third party reimbursements	96	100	1,078	123	458	12,749
Donations	36	69	138	8	257	3,112
Investment income	158	202	250	149	478	1,189
Ancillary operations - income	---	34	---	130	674	2,012
Other	285	203	110	10	1,323	6,758
TOTAL REVENUE	17,373	18,206	23,844	13,303	74,510	318,031
EXPENSES:						
Acute services	4,965	7,562	6,884	4,046	26,586	164,610
Community health, wellness and social centres	---	572	621	718	1,044	229
Supportive care services	9,535	7,465	12,455	5,626	9,152	15,317
Grants to affiliates						
Acute services	---	---	---	---	5,853	---
Community health, wellness and social centres	---	---	---	---	---	---
Supportive care services	---	---	---	---	12,196	30,712
Home based services	1,487	1,652	1,796	1,253	2,867	11,605
Health Improvement Initiatives	372	247	302	160	802	1,470
Emergency response services	252	463	485	581	485	2,828
Alcohol and drug services	---	42	740	115	392	1,761
Community health services	461	410	262	355	2,867	7,390
Mental health services	---	70	197	221	3,879	10,696
Rehabilitation services	---	74	23	63	379	21,942
Ancillary operations - expenses	---	1	---	26	545	521
Other	10	---	---	124	2	28,868
TOTAL EXPENSES	17,082	18,558	23,765	13,288	67,049	297,949
EXCESS OF REVENUE OVER EXPENSES:						
- Operating Fund	834	560	364	335	1,879	(3,192)
- Capital Fund	(600)	(1,072)	(404)	(437)	5,349	23,274
- Restricted Funds	57	160	119	117	233	---
TOTAL EXCESS OF REVENUE OVER EXPENSE	291	(352)	79	15	7,461	20,082
Equity, beginning of year	5,046	20,231	16,912	9,179	23,325	190,936
Adjustments to Equity	---	---	---	(24)	---	---
EQUITY, END OF YEAR	5,337	19,879	16,991	9,170	30,786	211,018
ASSETS						
Cash and short-term investments	2,210	2,581	3,153	844	1,712	6,497
Accounts Receivable						
Saskatchewan Health - General Revenue Fund	19	23	544	345	7,284	21,956
Other	250	126	712	254	2,772	5,211
Inventory	296	412	387	273	515	2,908
Prepaid expenses	88	67	85	55	731	1,111
Assets held for restricted purposes						
Cash and short term investments	1,342	2,830	3,896	1,140	5,672	---
Long term investments	930	---	353	621	1	---
Investments	---	---	143	11	---	9,173
Capital assets	10,628	20,502	14,185	7,494	28,922	202,322
TOTAL ASSETS	15,763	26,541	23,458	11,037	47,609	249,178
LIABILITIES						
Accounts payable	921	268	472	60	8,537	18,344
Accrued salaries and vacation payable	852	893	1,678	567	2,140	18,001
Current portion of mortgages payable	94	66	139	45	220	---
Current portion of capital lease obligations	---	---	---	---	29	---
Deferred Revenue	81	211	278	49	562	1,815
Mortgages payable	8,478	5,224	3,900	1,146	5,255	---
Capital lease obligations	---	---	---	---	80	---
TOTAL LIABILITIES	10,426	6,662	6,467	1,867	16,823	38,160
Fund Balance:						
- Operating Fund	992	1,837	1,890	718	(1,760)	(886)
- Capital Fund	3,398	16,200	10,673	6,844	31,198	211,904
- Restricted Funds	947	1,842	4,428	1,608	1,348	---
Fund Balance - Statement 2	5,337	19,879	16,991	9,170	30,786	211,018
TOTAL LIABILITIES AND FUND BALANCE	15,763	26,541	23,458	11,037	47,609	249,178

Chapter 23 District Health Boards

Part E - District Revenues, Expenses, Assets & Liabilities in More Detail

Rolling Hills	Saskatoon	South Central	South Country	South East	Southwest	Swift Current	Touchwood Qu'Appelle	Twin Rivers	Total
	(Note3)				(Note 1)				
8,541	270,381	26,520	10,699	17,933	10,571	24,674	9,241	8,679	1,077,473
150	1,170	319	89	131	339	281	111	195	9,138
749	10,706	3,880	1,483	1,944	1,891	1,509	1,482	1,068	64,449
97	---	219	134	274	105	165	---	114	5,330
27	---	327	---	271	221	---	---	120	4,045
28	---	98	---	100	---	---	353	76	4,624
29	---	132	48	282	274	383	---	118	21,221
57	2,382	25	24	231	83	71	28	44	8,809
86	940	441	59	109	208	184	72	203	7,621
16	10,138	---	200	---	14	25	---	41	14,635
66	10,440	796	56	8	139	708	105	150	34,696
9,846	306,157	32,757	12,792	21,283	13,845	28,000	11,392	10,808	1,252,041
1,041	196,871	6,290	2,481	---	4,359	14,186	2,473	4,100	569,778
1,219	---	889	262	6,437	477	---	---	1,098	27,792
3,154	11,098	16,500	5,020	2,891	6,171	6,716	4,471	4,135	224,763
---	---	---	1,242	7,210	29	---	1,909	---	27,455
---	---	173	---	---	---	---	23	---	196
1,744	31,471	1,407	1,378	1,343	---	1,532	90	---	105,410
815	14,408	1,592	1,062	1,936	1,196	1,689	960	902	68,388
157	1,298	194	178	---	178	255	101	194	9,433
249	1,770	828	255	712	495	222	268	331	15,549
62	1,814	76	33	---	49	210	---	19	7,610
120	8,520	1,862	318	324	325	1,962	203	117	37,578
63	10,406	2,291	44	534	57	2,181	39	49	42,988
1	10,781	131	47	---	87	104	---	93	36,508
30	8,366	---	---	---	26	12	---	7	9,855
---	23,393	---	---	---	---	---	---	770	54,183
8,655	320,196	32,233	12,320	21,387	13,449	29,069	10,537	11,815	1,237,486
679	11	1,059	752	348	238	(276)	1,054	57	11,960
547	(14,050)	(535)	(358)	(717)	65	(793)	(199)	(456)	1,538
(35)	---	---	78	265	93	---	---	(608)	1,057
1,191	(14,039)	524	472	(104)	396	(1,069)	855	(1,007)	14,555
8,237	319,207	9,648	8,974	12,492	12,140	9,238	4,958	11,880	818,030
---	(2,500)	---	---	---	---	---	(68)	---	(2,592)
9,428	302,668	10,172	9,446	12,388	12,536	8,169	5,745	10,873	829,993
1,784	21,874	1,083	825	719	3,507	1,520	2,647	259	87,992
701	783	64	10	---	179	---	---	366	33,585
261	10,303	813	65	233	200	562	169	291	27,822
180	5,883	697	186	112	306	443	173	289	17,939
42	1,126	157	64	30	77	140	64	16	6,087
760	---	854	1,148	1,888	2,257	---	228	3,179	47,442
157	---	---	236	121	480	---	---	373	9,396
3	---	3,753	---	182	1	962	---	159	19,828
7,286	294,940	8,761	8,373	12,681	7,835	6,742	5,758	8,834	803,167
11,174	334,909	16,182	10,907	15,966	14,842	10,369	9,039	13,766	1,053,258
341	11,319	1,530	449	431	468	748	362	392	62,543
301	19,171	1,541	546	537	688	1,452	376	540	66,903
9	54	77	13	70	16	---	26	31	1,788
---	---	---	---	---	---	---	---	---	31
212	759	410	102	61	487	---	665	10	12,018
883	938	2,452	351	2,479	647	---	1,865	1,920	79,900
---	---	---	---	---	---	---	---	---	82
1,746	32,241	6,010	1,461	3,578	2,306	2,200	3,294	2,893	223,265
1,312	4,380	3,760	53	375	2,613	1,427	1,650	46	33,168
7,627	298,288	6,412	8,197	10,132	7,871	6,742	4,095	7,619	766,735
489	---	---	1,196	1,881	2,052	---	---	3,208	30,090
9,428	302,668	10,172	9,446	12,388	12,536	8,169	5,745	10,873	829,993
11,174	334,909	16,182	10,907	15,966	14,842	10,369	9,039	13,766	1,053,258

Chapter 24 Health

Table of Contents

Introduction . . . . .	.01
Government spending on health . . . . .	.03
Crown agencies . . . . .	.04
Key issues the Department faces . . . . .	.06
What we audited . . . . .	.27
Our audit conclusions and findings . . . . .	.27
Service agreements need improvement . . . . .	.30
Health plans need timely approval . . . . .	.37
District performance reports require improvement . . . . .	.45
Internal financial reports need improvement . . . . .	.53
Incorrect charges to appropriation . . . . .	.61
Annual report requires improvement . . . . .	.66
La Ronge Hospital Board . . . . .	.74
Our audit conclusions and findings . . . . .	.76
Adequate financial reports for the Board needed . . . . .	.77
Minister's approval required for equipment purchases . . . . .	.83
Board of Governors, Uranium City Hospital . . . . .	.87
Our audit conclusions and findings . . . . .	.89
Directors need to define required periodic financial information . . . . .	.90
Supporting documentation required . . . . .	.96
Board pay and expenses exceed authority . . . . .	.100

Chapter 24

Health

Table of Contents

External reporting requirements105
---	------

Chapter 24

Health

Introduction

.01 The Department of Health's mandate is to provide leadership and vision to the health system to protect and improve the health of Saskatchewan people. To do this, the Department provides policy direction, funding and arranges for health service delivery.

.02 In 1997, the Department received \$1.6 billion from the General Revenue Fund and spent this money on its programs. The Department also raised revenue of \$10 million. The Department's annual report contains information about the Department's revenues and expenses.

Government spending on health

.03 Table 1 shows total health costs of \$1.774 billion by program. Table 2 shows total health revenues of \$1.796 billion by source. We obtained the information for tables 1 and 2 from the *Public Accounts 1996-97 Volume 2*, the District Health Boards' March 31, 1997 financial statements and the March 31, 1997 financial statements of the agencies listed below. We restated amounts obtained from the Districts' financial statements to present comparable information. These costs do not include Federal Government "Indian and Northern Health Services" costs or the public's cost for private health services.

Crown agencies

.04 During 1997, the Department was responsible for several Crown agencies:

Health Services Utilization and Research Commission
La Ronge Hospital Board
Saskatchewan Cancer Foundation
St. Louis Alcoholism Centre
Board of Governors, Uranium City Hospital

.05 In Chapter 23, we list the District Health Boards responsible to the Department.

Chapter 24 Health

Table 1

Health Cost by Program (in millions of dollars)				
	1997		1996	
Acute services	\$ 851	48.0%	\$ 844	48.6%
Community health, wellness and social	73	4.1	75	4.3
Support care services	387	21.8	371	21.4
Home based services	78	4.4	75	4.3
Health improvement initiatives	15	0.8	15	0.9
Emergency response services	26	1.5	22	1.3
Alcohol and drug services	68	3.8	69	4.0
Community health services	42	2.4	37	2.1
Mental health services	42	2.4	40	2.3
Rehabilitation services	38	2.1	36	2.1
Ancillary operations	2	0.1	2	0.1
Research	4	0.2	4	0.2
Northern health services	13	0.7	12	0.7
Laboratory and disease control	8	0.5	13	0.7
Medical education	16	0.9	16	0.9
Other	111	6.3	106	6.1
Total expenses	\$ 1,774	100.0%	\$ 1,737	100.0%

Table 2

Health Funding by Source (in millions of dollars)				
	1997		1996	
General Revenue Fund (GRF)	\$ 1,608	89.6%	\$ 1,555	89.5%
GRF received in prior year	6	0.3	(10)	(0.6)
Patient and agency charges	95	5.3	94	5.4
Ancillary and dietary revenue	15	0.8	15	0.9
Local government taxes	13	0.7	12	0.7
Donations	9	0.5	12	0.7
Investment income	10	0.6	11	0.6
Other	40	2.2	36	2.1
Prior years' surplus	---	---	12	0.7
Total revenues	\$ 1,796	100.0%	\$ 1,737	100.0%

Key issues the Department faces

.06 To carry out our work, one of our objectives is to ensure we understand the key issues facing an organization. We discussed our understanding of those issues with management to confirm we have identified the right issues.

.07 We think it is important that legislators and the public know the key issues facing an organization and receive information on these issues to understand and assess an organization's performance. We think sharing our understanding with legislators and the public will help them better understand and assess an organization's performance.

.08 In this Chapter, we identify five key issues facing the Department. We have not assessed whether the Department has adequate systems and practices to address these issues. The Department needs to:

1. identify the public's health needs;
2. decide the types, levels and standards of services required to meet the public's health needs, make those services available, and monitor how those services are delivered;
3. influence public policy decisions and public attitudes on health to improve public health and to help control the cost of the health system;
4. have sufficient resources to deliver the required health services; and
5. ensure the Assembly and the public know whether the Department is doing the right things well.

The Department must identify the public's health needs.

.09 To know what services to provide, the Department must know the public's health needs. Assessing health needs is complex. The complexity includes finding needed data, preparing data and analysing it, and reporting the resulting assessments and decisions. Saskatchewan's sparse population makes data difficult to interpret.

.10 To identify health needs, the Department must obtain public input. Public expectations for health care are very high. The public tends to confuse health wants with health needs. As a result, the Department should have reliable information to help it evaluate what the public identifies as health needs. The Department has various forums for receiving and assessing public input. These forums include elected members of the Assembly, elected and appointed members of district health boards, committees and public meetings. Also, the Department carries out educational programs to inform the public about health issues.

.11 The Department has taken several actions to identify the public's health needs. We describe these actions in Chapter 23, Part D, **District Needs Assessment - Follow-up** of this Report.

The Department must decide the types, levels and standards of services required to meet the public's health needs, make those services available, and monitor how those services are delivered.

.12 The Department must ensure the right health services are delivered at a reasonable cost. Limited resources challenge the Department in meeting the public's health needs.

.13 To meet health needs, the Department must consider alternative services, their costs and expected health outcomes. For example, the Department expects that moving certain services from institutions to the community or the home will reduce costs and improve health outcomes. The Department must have information to measure alternative service costs and

outcomes. Current health information focuses on services and activities, but not on health outcomes or costs.

.14 The Department also provides resources to health districts, physicians, and other health providers who deliver services for the Department. The Department must communicate health service expectations to health providers, supply required resources, and ensure health providers deliver the needed services. Supplying resources to health providers and communicating service requirements is a complex process and requires the Department to continually assess systems and practices which provide the necessary information. To meet this information need, the Department is developing a provincial health information network.

.15 To determine whether health services meet expected outcomes, costs and standards, the Department should set standards and monitor services provided. When its expectations are not met, the Department needs systems to effect the necessary changes.

The Department must influence public policy decisions and public attitudes on health to improve public health and help control the cost of the health system.

.16 People's health is affected by income, education, lifestyle, working conditions, age, gender, and so on. Because factors other than the health system affect people's health, the Department works with other government agencies, health districts, municipalities, First Nations, private sector organizations, and the public to improve factors outside the health system that affect public health.

.17 To encourage healthy lifestyle choices, governments set policies such as seat-belt laws and the regulation of tobacco and alcohol products.

.18 The Department encourages people to take responsibility for their health through various publications and educational programs. For example, it encourages the public to eat more wisely, exercise regularly and avoid smoking.

The Department must have sufficient resources to deliver required services.

.19 To meet the public's health needs, the Department requires adequate resources. The two most important resources in the health system are human resources and infrastructure (land, buildings and equipment).

.20 The Department must identify the resources needed to meet its long-term plan for public health. To ensure the health system has the right resources, the Department requires human resource plans and capital asset plans that are consistent with its overall long-term plan.

.21 The Department must ensure its systems and practices are adequate to monitor the health system's human resources needs. The Department faces challenges in meeting these needs, and shares these challenges with health districts. Health reform (including the transfer of Department employees and the employees of 400 health institutions to 30 districts) has resulted in complex labour relations issues. In addition, Saskatchewan has difficulty attracting and keeping specialists for professional and personal reasons. For similar reasons, rural Saskatchewan finds it hard to retain family doctors.

.22 Our public health system has \$800 million of capital assets. The health system requires complex and expensive buildings and equipment for diagnosis and treatment. The Department must ensure its systems and practices are adequate to determine the health system's capital asset needs, compare the needs to existing assets, obtain needed capital assets at competitive prices, and properly maintain or replace existing assets. Capital asset needs are affected by where and how services are provided. Services provided in the community or home use fewer capital assets than services provided in hospitals and nursing homes.

The Department must ensure the Assembly and the public know whether the Department is doing the right things well.

.23 The Department must ensure the public and the Assembly have the information they need to understand and assess the Department's performance. The public wants to know what the Department planned and what it achieved. The public also wants information about potential changes to the health system, the cost of those changes and their impact on health services.

.24 To inform the Assembly and the public, the Department should have a communications strategy. This strategy could include publishing a business and financial plan. A business and financial plan would show the Department's vision and goals and provide a vehicle for consulting with and informing the public about the Department's plans.

.25 The Department's annual report should help the public understand and assess the Department's performance and help ensure public confidence in the health system. The report should describe what the Department planned to achieve and how, and what performance indicators it used to measure its performance. Also, the report should set out the Department's results in comparison to its plan, showing whether it met its goals and objectives in a cost effective manner.

.26 In audits of annual reports, we have found that legislators want information to assess the performance of government organizations. We think the Department's annual report should describe the key issues the Department faces and how it is managing those issues. In paragraphs .66 to .73, we assess the Department's annual report.

Chapter 24 Health

What we audited

Our audit conclusions
and findings

.27 In our opinion:

- the financial statements for the agencies listed in paragraph .04 are reliable except where we report otherwise in this Chapter;
- the Department and its agencies had adequate rules and procedures to safeguard and control their assets except where we report otherwise in this Chapter; and
- the Department and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this Chapter.

.28 We have not completed our audit work of the Health Services Utilization and Research Commission and the St. Louis Alcoholism Rehabilitation Centre. We will report the results in a future report.

.29 We report other matters for the Assembly's attention in this Chapter. In Chapter 23, we also report the results of our audit of District Health Boards.

Service agreements
need improvement

.30 The Department needs to improve its service agreements with the districts.

.31 The Department carries out many of its responsibilities through districts. Therefore, the Department must ensure the delivery of health care by districts achieves the Department's objectives.

.32 The service agreements are adequate except they do not require the districts to report periodically on the systems and practices they use to achieve the Department's financial, operational and compliance objectives. These reports should be

Chapter 24 Health

verified periodically by the Department or the districts' independent auditors. To meet its responsibilities, the Department must know the districts have systems to ensure they are able to meet the Department's objectives.

.33 We recognize the practice of providing audit assurance on systems and practices used to achieve operational objectives is evolving and can be expensive. We understand, therefore, that the Department will need time to decide how to obtain this assurance at a reasonable cost.

.34 We also reported this matter in previous years.

We recommend

.35 The Department should work with health districts to ensure service agreements require districts to report periodically on the systems and practices they use to achieve the Department's financial, operational and compliance with authority objectives.

.36 The Department has established a working group to look at service agreements and make recommendations for changes including how to achieve the above recommendation.

Health plans need timely approval

.37 The Department should receive and approve all districts' health plans in a timely manner. These plans should be approved before the year begins.

.38 Each year, the Department requires districts to prepare health plans. These plans outline the districts' financial and operational targets and are prepared in consultation with the Department. The Department uses these plans to help evaluate the districts' performance.

.39 Section 31 of *The Health Districts Act*, requires the districts to submit their 1996-97 budget to the Minister "prior to the day fixed by the Minister". The Minister asked districts to submit their health plans by June 30, 1996. We think the Minister should receive and approve the health plans before the year begins.

.40 The Department approved the health plans after June 30, 1996.

Chapter 24 Health

.41 While the Department regularly discusses plans with districts, timely approval of the plans is important so the Department and the districts can make decisions with a common understanding of annual and long-term priorities and goals.

.42 Making decisions without a common understanding of the priorities and goals may result in the Department and districts making inappropriate decisions.

We recommend

.43 The Department should work with the health districts to ensure the Department's timely receipt and approval of all district health plans.

.44 The Minister has asked districts to submit their 1998-99 health plans by May 15, 1998. We note continuous improvement in the timeliness of the Department's approval of districts' health plans during the past few years.

District performance reports require improvement

.45 District annual reports do not adequately show program performance compared to plan. Also, several districts did not submit their quarterly financial reports to the Department on time.

.46 The Department requires districts to report quarterly on their financial results compared to plan. The Department also requires districts to report on their program performance compared to plan in their annual reports.

.47 Several districts did not prepare the required financial reports on time.

.48 The districts' annual reports do not adequately show program performance compared to planned performance. The reports do not set targets for desired program and service outcomes, and do not show actual outcomes. As a result, the annual reports are not as useful as they could be in enabling the Department to assess the effectiveness of the districts' services in improving the health status of residents.

.49 Chapter 4, Part D of our 1997 Spring Report, **District Annual Reports - Follow-up**, describes more fully the improvements the annual reports require. We recognize reporting on program and service performance takes time.

Chapter 24 Health

.50 Because of this lack of complete and timely information, the Department cannot fully assess the districts' performance.

.51 We also reported this matter in previous years. We note the districts have significantly improved the timing and quality of their quarterly financial reports.

We recommend

.52 The Department should work with health districts to ensure they submit complete and timely performance reports.

Internal financial reports need improvement

.53 The Department needs to improve the internal financial reports it provides to senior management.

.54 The internal reports provided to senior management are adequate, except they do not compare year-to-date expenses with budgeted amounts for the same period and explain variances in writing. We think this information is particularly useful in programs, such as payments to doctors and pharmacists, where activity levels vary during the year.

.55 We note that, while senior management does not receive this information, other levels of management in the Department do.

.56 Financial reports showing a comparison of year-to-date expenses to budgeted amounts for the same period would help senior management assess whether the Department is achieving its program cost and activity targets during the year, and to take corrective action when necessary. Also, senior management will be better able to assess the reasonableness of forecasted expenses.

.57 We also note the Deputy Minister has not given formal approval to the Department's internal reporting rules and procedures.

.58 We reported this matter in previous years.

We recommend

.59 The Department should improve its internal financial reports to senior management to:

Chapter 24 Health

- show a comparison of expenses for the year-to-date to budgeted amounts for the same period; and
- highlight and explain major variances between year-to-date expenses and year-to-date budgeted amounts.

.60 The Department told us it has completed a review of its internal reports and has determined the reports are adequate to meet the needs of senior management.

Incorrect charges to appropriation

.61 In our opinion, the Department made incorrect charges of \$3.9 million to its appropriation.

.62 *The Financial Administration Act* allows the Department to charge appropriations only for goods or services it receives and only when the eligibility and performance requirements are met.

.63 The Department paid \$11.4 million to the districts and it specified performance requirements for the use of the money. At March 31, 1997, the districts had not spent \$3.9 million of this money for the specified purposes. We think the Department should not charge its appropriation for the \$3.9 million until the districts use this money for the Department's specified purposes.

.64 We reported a similar matter in previous years.

We recommend

.65 The Department should ensure it properly charges its appropriation.

Annual report requires improvement

.66 We reviewed the Department's annual report for the year ended March 31, 1996. We think the report should explain the key issues the Department must manage well to succeed. To assess the Department's performance, the Assembly and the public need to know how the Department is managing its key issues. We have set out what we think are the Department's key issues in paragraph .08.

.67 The annual report does not specifically address the key issues set out in paragraph .08 or explain the systems and

Chapter 24 Health

practices the Department uses to manage these issues. The annual report does, however, include some strategies and activities relating to these issues.

.68 The annual report shows the revenue and expenditure plan for the current year, but not for past years. The report shows a comparison of the current year's revenues and expenses to budget and explains significant variances. It does not show what the Department owns/controls and owes. The Minister is responsible for the state of finances of the overall public health system including \$800 million of infrastructure owned by districts. The Department's annual report should describe how the Department oversees this infrastructure. Also, the report does not give a summary of the Department's future plans.

.69 The report sets out the Department's operating goals and objectives, and activities to achieve them. It does not state whether the Department has achieved its goals and objectives. It does not set out the Department's performance measures and targets.

.70 Public confidence in the health system is key to the Department's success. While many factors are involved, we think public confidence will improve if the Department improves its annual report.

.71 We also reported this matter to the Assembly in previous years.

We recommend

.72 In its annual report to the Legislative Assembly, the Department should describe how the Department manages the key issues it faces.

.73 The annual report should publish the Department's performance targets and actual results compared to its plans.

Chapter 24 Health

La Ronge Hospital Board

.74 The Hospital provides health care services to people in northern Saskatchewan.

.75 In 1997, the Hospital had revenue of \$4.3 million and held assets of \$14.9 million at March 31, 1997. The Hospital's financial statements are included in its *Annual Report and Financial Statement, La Ronge Health Centre 1996-97*.

Our audit conclusions and findings

.76 In our opinion:

- the Hospital's financial statements are reliable;
- the Hospital had adequate rules and procedures to safeguard and control its assets except for the matters reported in paragraphs .77 to .82; and
- the Hospital complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matters reported in paragraphs .83 to .86.

Adequate financial reports for the Board needed

.77 The Board of Directors needs better financial reports to safeguard and control the Hospital's assets.

.78 During 1996-97, the Hospital has made significant improvement to its periodic financial reports and its rules and procedures for preparing them. The Hospital has documented its financial reporting needs in a policy manual.

.79 The financial reporting policies are good but management does not follow all the policies when it prepares the monthly reports. These financial reports do not follow the policies and are not adequate because:

- they do not contain written explanations of variances between actual expenditures to date and budget to date;
- they only contain information for the operating fund. They do not include financial information for the capital fund (including the Board's fund-raising activities).

Chapter 24 Health

.80 Inadequate financial reports can lead to incorrect decisions.

.81 We also reported a similar matter in our 1997 Spring Report.

We recommend

.82 The Hospital should improve its internal financial reports to include:

- an explanation of major variances between year-to-date actual and year-to-date budget; and
- financial information on all activities of the Hospital including the capital fund and fund-raising activities.

Minister's approval required for equipment purchases

.83 The Hospital purchased equipment without obtaining the Minister of Health's approval.

.84 Section 66(3) of the Hospital Standards Regulations requires the Hospital to obtain the approval of the Minister for the purchase of equipment costing more than \$1,000.

.85 The Hospital did not ask the Minister to approve its equipment purchases as required.

We recommend

.86 The Hospital should obtain the Minister's approval before buying equipment costing more than \$1,000.

**Board of Governors,
Uranium City
Hospital**

.87 The Hospital provides health care to people in northern Saskatchewan.

.88 In 1997, the Hospital had revenue of \$1.8 million and held assets of \$0.6 million at March 31, 1997.

**Our audit conclusions
and findings**

.89 In our opinion:

- the Hospital's financial statements are reliable;
- the Hospital had adequate rules and procedures to safeguard and control its assets except for the matters reported in paragraphs .90 to .99; and

Chapter 24 Health

- the Hospital complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matters reported in paragraphs .100 to .107.

Directors need to define required periodic financial information

.90 The Board of directors have not formally set out what financial reports they need to receive from management and when.

.91 The directors are responsible for the financial affairs of the Hospital. The directors need timely, accurate and complete financial information to meet their responsibility and to hold management accountable.

We recommend

.92 The directors, with the help of senior management, should define and document their periodic financial reporting requirements to ensure they receive suitable and timely financial reports for decision-making.

.93 The Hospital should improve its internal financial reports to include:

- a full set of financial statements including reports that show what the Board owns and what it owes, and its revenues and its expenditures;
- a comparison of actual results for the period to budgeted results for the period using the accrual basis of accounting;
- an explanation of major variances between year-to-date actual and year-to-date budget;
- a projection of revenue and expenses to the end of the year based on current information; and
- actual amounts of the prior year for comparison purposes.

.94 The Hospital should establish a process to ensure the accuracy and reliability of its accounting records.

Chapter 24 Health

.95 The Hospital's annual financial statements should present a comparison of actual results with planned results.

Supporting
documentation
required

.96 The Hospital did not retain supporting invoices for certain payments.

.97 During the year, the Hospital made payments of \$5,000 for credit card purchases. The Hospital's staff was unable to find the file of invoices supporting these payments.

.98 As a result, we were unable to verify the goods and services the Hospital purchased by credit card were properly authorized purchases.

We recommend

.99 The Hospital should retain supporting invoices for all expenditures made during the year.

Board pay and
expenses exceed
authority

.100 Members of the Board of Directors received pay and expenses that were not properly authorized.

.101 Section 22 of *The Interpretation Act, 1993* states the person who has the power to make an appointment also decides the pay and expenses of the person appointed.

.102 The Executive Government appointed the Board of Directors by Order in Council. Order in Council #599/96 set the rates for the directors' pay and expenses at \$50 per meeting day and reimbursement of expenses at rates approved by *The Public Service Act*. However, on March 19, 1996, the directors increased their pay rates to \$150 per day while attending workshops and conventions and \$30 (public service rates are \$26.75) per day for meals.

.103 The Hospital paid the Board of Directors \$3,380 for pay and expenses without adequate authority.

We recommend

.104 The Hospital should pay Board members using rates authorized by Order in Council.

External reporting
requirements

.105 The Board did not submit to the Minister information required by *The Hospital Standards Act*.

Chapter 24 Health

.106 Section (4) of this Act requires the Board to submit the following information to the Minister monthly:

- a statement of its financial transactions; and
- a summary of the hospital services provided by it during the preceding month.

We recommend

.107 The Board should submit to the Minister the monthly information required by *The Hospital Standards Act*.

Chapter 25 Workers' Compensation Board

Table of Contents

Introduction . . . . .	.01
Recent worrisome events	
Background . . . . .	.04
Four worrisome matters . . . . .	.07
Summary . . . . .	.15
Key issues the WCB faces . . . . .	.17
Our audit conclusions and findings . . . . .	.20
Compliance with the law . . . . .	.24
Insufficient money set aside . . . . .	.25
Sound financial management . . . . .	.35
System to determine compensation costs needs strengthening to allow for better budgeting and interim reporting . . . . .	.37
Good practices for compensation systems . . . . .	.39
Adequate contingency plan needed . . . . .	.47
Good contingency planning practices . . . . .	.50
Public accountability . . . . .	.54
Comparison of planned to actual results needed . . . . .	.56
Public disclosure of payments required . . . . .	.60
Exhibit 1 - Supplementary Report by the Provincial Auditor to the Standing Committee on Public Accounts regarding the Workers' Compensation Board	Page 323

Chapter 25

Workers' Compensation Board

Introduction

.01 The Workers' Compensation Board (WCB) operates under *The Workers' Compensation Act, 1979*. This Act establishes a mandatory no-fault compensation program for Saskatchewan workers. The Board of the WCB administers this program and manages the WCB. It also hears and adjudicates claims on appeal.

.02 The *1996 Annual Report* of the WCB provided to the Legislative Assembly contains the WCB's 1996 financial statements. Those statements report the following financial results at December 31. The statements report revenues of \$202 million, expenses (including increase in benefits liability) of \$213 million, assets of \$647 million and liabilities of \$608 million.

.03 In this Chapter, we describe recent worrisome events, set out the key issues the WCB faces, and the results of our audit.

Recent worrisome events

Background

.04 On May 6, 1997, at the request of the Standing Committee on Public Accounts (PAC), the WCB met with PAC to discuss Chapter 3 of the *Report of the Provincial Auditor: 1996 Fall* (1996 Fall Report). Before PAC considered this Chapter, the Chair of the WCB questioned the authority of the Provincial Auditor to audit the WCB and the jurisdiction of the PAC to call the WCB before it for questioning. The PAC approved the following motion:

That the committee direct the Chair to seek arguments and legal opinions from Legislative Counsel and Law Clerk, Department of Justice, the Provincial Auditor's office and the Workers' Compensation Board as they pertain to the autonomy of the Workers' Compensation Board and the jurisdiction of the Provincial Auditor to audit the Workers' Compensation Board.

The PAC agreed legal opinions should be received by the PAC no later than May 31, 1997.

Chapter 25 Workers' Compensation Board

.05 The PAC received a significant amount of information in response to this motion. In addition to arguments and legal opinions requested by the PAC, it has received arguments and opinions on topics broader than that requested.

.06 The arguments and opinions trouble us because they are inconsistent with previous views taken by the Government, the PAC and legislators. Also, we think these arguments and opinions will result in confrontation rather than cooperation. The Legislative Assembly has given both the WCB and our Office important work to do. We do not think the laws creating our Office and the WCB are in conflict. In addition, we are worried other Crown agencies may use these arguments to avoid accountability. As a result, the Assembly's ability to hold Crown agencies, including the WCB, accountable for important public programs may diminish.

Four worrisome matters

.07 To help the PAC fully consider the information it received, we made a special report to them on four worrisome matters. In this report entitled *Supplementary Report by the Provincial Auditor to the Standing Committee on Public Accounts regarding the Workers' Compensation Board* dated July 23, 1997, we discussed our concerns with these matters. See Exhibit 1 to this Chapter.

.08 The following summarizes these four matters.

.09 First, legal advice from the Department of Justice looked to definitions in other acts and meanings in common law as opposed to using those defined within *The Provincial Auditor Act* (Act). Based on this, the Department concluded the WCB was not subject to audit under the Act. We think interpretation of the Provincial Auditor's responsibilities must come from *The Provincial Auditor Act* and the definitions within that Act. Others agree. For example, the Chair of the WCB, both of the WCB's lawyers, and our Office's lawyer use the definitions within the Act to reach their opinions. In their opinions, they conclude the WCB is subject to audit under *The Provincial Auditor Act*.

.10 Second, the Department of Justice questions our responsibility to audit the WCB once Cabinet chooses a private sector auditor. Legislators, the public and the Government have previously discussed and debated the responsibility of the

Provincial Auditor and appointed auditors many times. They have and continue to support the view our Office is not replaced when the Government appoints a private sector auditor. In 1989, the Legislative Counsel and Law Clerk supported this view. The Government, legislators and appointed auditors continue to support a process that ensures all parties work together to serve efficiently the Assembly. This process is set out in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. We recommend the continued use of this process in the audit of the WCB.

.11 Third, the WCB's lawyers suggest we exceeded our authority in the 1995 audit of the WCB. They question our ability to determine what we audit (i.e., audit objectives). Our conclusion and findings at paragraph .20 are based on these objectives. These objectives are the same ones we use to audit every Crown agency each year. In addition, these are the same ones we have always had for the audit of the WCB. The WCB's private sector auditor also carries out his audit using these objectives.

.12 Fourth, the WCB suggests being accountable to the Assembly and our audit impinges the WCB's autonomy. Strong public accountability does not impinge upon the WCB's autonomy; rather, it can strengthen it. The Chair of the WCB argues the WCB should not be accountable to the PAC, a key committee of the Assembly. The Chair bases his argument on the view that the WCB does not spend taxpayer's money or hold public assets because it does not receive funding directly from the General Revenue Fund. This argument fails to take into account that the Assembly, through *The Workers' Compensation Act*, has asked and gives the WCB the necessary powers to carry out an important program - the workers' compensation program. The Assembly also gives the WCB access to public resources by allowing them the ability to charge employers for this program.

.13 The Assembly has created many other agencies like the WCB such as the Saskatchewan Auto Fund. The Assembly recognized when it creates an agency to manage a program for the public good and gives the agency the ability to raise revenues from the public that it must hold the agency accountable. It creates laws and uses its Committees to help ensure this happens. We encourage the Assembly to treat the WCB as other agencies are treated.

Chapter 25 Workers' Compensation Board

.14 Also, the work we do does not impact any agency's (e.g., the WCB) autonomy to make its own decisions. As auditors, we report our findings and make recommendations for improvements. Our audit conclusions and findings provide essential independent information used to hold agencies accountable for their administration. Legislators and the public want this information. We encourage a strong accountability regime for all government agencies including the WCB.

Summary

.15 We think *The Workers' Compensation Act, 1979* and *The Provincial Auditor Act* can and should be interpreted in a spirit of co-operation so both the WCB and our Office can carry out the important work given to us by the Assembly. We think the two acts do not create confrontation. The autonomy of the WCB and our mandate to audit the WCB for the Assembly can co-exist.

.16 Also, we recognize the Assembly, through laws, gives many Crown agencies access to public resources and asks them to administer important public programs. We are worried that the recent arguments and opinions presented to PAC will weaken the ability of the Assembly to hold Crown agencies, including the WCB, accountable. In addition, we are concerned that these arguments and opinions may lead to confusion about accountability for other Crown agencies.

Key issues the WCB faces

.17 To help legislators and the public understand and assess the WCB, we set out, in paragraphs .18 to .19, the key issues the WCB currently faces. We reported these issues in our 1996 Fall Report. We discussed these issues with the WCB then.

.18 The success of the WCB is best measured by the success of the compensation program. As with most other workers' compensation programs in Canada, Saskatchewan's program, developed in 1930, is based on five underlying principles. These are no-fault compensation, security of benefits, collective employer liability, independence of the board, and exclusive jurisdiction of the board. The WCB uses these principles to guide its decisions.

Chapter 25 Workers' Compensation Board

.19 To deliver the compensation program, the WCB works with many participants. These include workers and their representatives; employers; health care professionals; workers' counsellors; government appointed review committees; other parts of the Government; and those involved in injury and disease prevention. The WCB continues to experience increased pressures and demands from these participants. How the WCB manages these pressures and demands will drive its success. These pressures and demands include the following:

- Questions about the continued relevance of the five underlying principles

Various participants in the compensation program question the need to follow these principles. They ask: should employers continue to be collectively liable for compensation costs?; are benefits provided to workers too high?; or too low?; and should the Board continue to have exclusive jurisdiction to adjudicate claims?

- Need to control costs and explain the significant changes in costs

From 1991 to 1996, the WCB's expenses increased \$85.2 million (66%) of which \$66.3 million was due to increases in compensation costs. Due to the principle of collective liability, employers pay for these rising costs. Employers are unhappy about continued cost increases. They view these increases as more taxes that adversely affect their ability to compete and employ people. They are asking the WCB to explain the increases in costs and how the WCB plans to control them.

- Need for consistent and fair assessments of injuries

Assessment of injuries requires a great deal of knowledge, experience and judgement. The WCB must work closely with health service providers and the medical community in these assessments. New types of work-place injuries (e.g., stress, carpal tunnel syndrome) increase

the complexity of these assessments. In these cases, the WCB must identify the new type of injury, determine if it is a work-place injury and determine if it qualifies for compensation.

Workers today are proactive and questioning. No longer do they readily accept the judgement of others. Instead, they ask for the basis of the judgement, seek advice of others and expect fair treatment. If they feel they are not treated fairly, they seek recourse. This applies to their dealings with the WCB.

<h3>Our audit conclusions and findings</h3>

Our audit conclusions and findings

.20 Our Office worked with KPMG, the appointed auditor. KPMG and our Office formed the opinions in the following paragraph.

.21 In our opinion:

- the WCB complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except the matters described in paragraphs .24 to .34;
- the WCB had adequate rules and procedures to safeguard and control its assets, except the matters described in paragraphs .35 to .53; and
- the WCB's financial statements for the year ending December 31, 1996 are reliable.

.22 In paragraphs .54 to .64, our Office brings other significant matters to the attention of the Legislative Assembly.

.23 We set out our findings under three sections. These sections are: compliance with the law, sound financial management, and public accountability.

Chapter 25 Workers' Compensation Board

Compliance with the law

.24 As stated earlier, the WCB operates under *The Workers' Compensation Act, 1979* (Act). The WCB must ensure it has adequate processes to ensure compliance with this Act. In this section, we set out an area where the WCB needs to reconsider its current processes.

Insufficient money set aside

.25 The WCB needs to set aside sufficient money to pay for the costs of injuries incurred (i.e., reserves) as required by *The Workers' Compensation Act, 1979* (Act).

.26 Various provisions of the Act direct the WCB on how to set rates charged to employers. The Act envisions employers would be grouped together by industry. It calls these groupings classes. It gives the WCB authority to set classes. It does not provide guidance on how the WCB should set these classes.

.27 The WCB has a process to group employers into different classes of industries. Grouping employers is challenging because there are a small number of employers in Saskatchewan.

.28 In addition, the Act envisions that employers, within each of these classes, would be collectively liable for injuries occurring within their class. It requires today's employers to pay costs related to today's claims. The Act does not anticipate that one class would subsidize the costs incurred by another.

.29 If one class does not have sufficient money set aside to pay for the costs of its injuries (i.e., reserves), the law contemplates that the WCB would recover the deficiency from employers within this class either immediately or in the next year. The Act does not contemplate on-going deficiencies in classes.

.30 The WCB sets rates for each class to cover the expected costs of injuries occurring in that year and to recover part of any existing deficits in the classes. The WCB intends to recover the deficits over a five-year period.

Chapter 25 Workers' Compensation Board

.31 Because several classes have had deficits for more than one year and the WCB does not intend to recover these deficits within one year, the WCB did not comply with the Act.

.32 We also reported this matter in our 1996 Fall Report.

We recommend

.33 The WCB should adjust its rate setting process and practices to comply with the law or seek appropriate changes to the law.

.34 The 1996 Committee of Review, established under the Act, recommended the Assembly consider amending the Act. It thought the WCB should be allowed to recover deficits over a five-year period.

Sound financial management

.35 As stated earlier, the WCB faces several key issues. One of these issues is the need to control costs and explain significant increases in costs. This is an integral aspect of good financial management. Other aspects of good financial management include: setting clear financial objectives (i.e., financial plans), setting financial controls to ensure its affairs are being managed appropriately; and ensuring management and the Board receive the right information to ensure their objectives are achieved.

.36 In this section, we set out two areas where the WCB could improve its financial management. For each of these areas: we state the problem, we set out the benchmarks we used to evaluate the WCB's practices, and we identify where the WCB needs to strengthen its practices.

System to determine compensation costs needs strengthening to allow for better budgeting and interim reporting

.37 The WCB needs to improve its system to determine its compensation costs and to track these costs for each claim. In 1996, these costs were \$86.7 million (1995 - \$121 million). Also, in 1996, the WCB recorded an unusual, one-time expense of \$68.7 million. This expense reflects the increase in benefit-liabilities due to changes in the actuarial model and assumptions the WCB used to calculate its 1996 benefits-liability.

S
n
o
1
1
,

.38 An adequate compensation system is necessary to properly manage the WCB's insurance operations. This system will help the WCB: prepare more accurate budgets and monthly financial statements, set rates charged to employers,

Chapter 25 Workers' Compensation Board

and monitor on-going claims experience. We evaluated the WCB's system against the following set of good practices.

Good practices for compensation systems

- .39** An organization's system for compensation costs should:
- reliably estimate compensation costs (i.e., costs that have already been paid and those costs that must yet be paid) for each claim reported and for claims incurred but not yet reported (IBNR);
 - track information on the key factors affecting the costs of claims. These factors include the duration of reported claims, the expected rate of inflation, the real return on investment, mortality rates, and the future cost of administering existing claims;
 - compare the estimated costs recorded in the system to those calculated by an independent actuary and, when necessary, adjust its records of individual claims; and
 - ensure estimated total costs recorded in the system agree to those recorded in its books and records (i.e., general ledger) throughout the year.

When estimating the cost of reported claims, the system must determine and track the following:

- the expected duration of the reported claim (i.e., the length of time a worker receives compensation); and
- the level of benefits to be paid. The level of benefits paid depends upon the nature and severity of the injury and the amount of earnings the worker loses due to the injury.

Estimates for the reported claim should be adjusted as new information becomes available.

When estimating IBNR claims, the system must consider the historical trends of various factors. These factors include the time between the date of injury and date reported, the frequency of claims (i.e., the number of injuries occurring in the work force or the number of types of injuries eligible for compensation), the duration of claims, and the level of benefits paid to injured workers.

.40 In 1995, the WCB recognized its system to estimate and track compensation costs was not adequate. It also recognized it did not have the necessary information to prepare accurate

Chapter 25 Workers' Compensation Board

estimates of compensation costs for its budget or its monthly financial statements. These statements do not compare total compensation costs expected based on the most current data available to those planned.

.41 In 1996, the WCB continued to develop a better system which will estimate the total cost of each individual reported claim. The new system under development will not enable it to estimate claims incurred but not yet reported (IBNR).

.42 Because the WCB does not have an adequate system to estimate compensation costs, it hires external actuaries twice a year to calculate its benefits-liability. This places the WCB in an inappropriate situation where it has to rely heavily on the work and reports of external actuaries to determine its benefits-liability rather than to confirm its estimate of compensation costs. An adequate system to estimate compensation costs would make the WCB's review and challenge of its external actuaries' work more useful and easier.

.43 We also reported this matter in our 1996 Fall Report.

We recommend

.44 The WCB should complete its development of the system to estimate compensation costs it expects to pay for each reported claim, and develop a similar system for claims incurred but not yet reported.

.45 The WCB's annual budget should include estimated compensation costs based on these systems.

.46 The WCB's monthly financial statements should compare updated estimates of compensation costs, based on these systems, to those in its original budget and explain significant differences.

Adequate contingency plan needed

.47 The WCB needs to complete its contingency planning.

.48 The WCB uses information technology (IT) systems extensively to deliver its programs and services. Its programs and services are dependent upon these IT systems. If the WCB's information technology (IT) systems are not operating, commitments may be missed, decisions delayed and essential data lost. This would increase program and service costs.

Chapter 25 Workers' Compensation Board

.49 We evaluated the WCB against the following.

Good contingency
planning practices

.50 A contingency or disaster recovery plan sets out the procedures needed to protect the continuous operations of IT systems and the availability of data. These plans should cover all significant IT operations and they should reflect the importance of each program and service. Less important programs and services need not be recovered as quickly as important ones.

Contingency plans should set out the following:

- the procedures to make electronic copies (backups) of the system programs, applications, and data;
- the procedures for the safe storage of the backups;
- the importance of systems, applications, data and the recovery time;
- the arrangements to replace or rent essential IT equipment;
- the requirement for senior management to approve the plans;
- the procedures to periodically test the contingency plans;
- the training of staff in contingency plan procedures;
- the procedures for the safe storage of the contingency plans; and
- the procedures to ensure all IT equipment, programs and data will function properly in the year 2000.

Senior management should review and approve the contingency plans and the testing of these plans. They need to ensure the recovery time will meet their needs and that their plans work.

.51 The WCB continued to take steps to develop a complete contingency plan. It has procedures to make electronic copies of the system programs, applications, and data. These procedures cover their safe storage. They have made formal arrangements to restore their mainframe systems (e.g., claims system) in the event of a disaster. This plan was tested in the

Chapter 25 Workers' Compensation Board

fall of 1996. They have not yet included all systems (i.e., those residing at head office) in their contingency plan.

.52 We also reported this matter in our 1996 Fall Report.

We recommend

.53 The WCB should complete the development of its contingency plan.

Public accountability

.54 As stated earlier, the WCB is responsible for the management and delivery of the compensation program in Saskatchewan. The WCB must show its key stakeholders how it carries out this responsibility and provide them with information to allow them to both understand and assess its performance.

.55 In this section, we set out two areas where the WCB could improve its accountability to legislators, the public and other key stakeholders.

Comparison of
planned to actual
results needed

.56 The WCB's published financial statements do not include a comparison of planned to actual results.

.57 Such a comparison helps legislators and other users of financial statements to understand and assess what the WCB planned to do compared with what it did. This, in turn, helps them to assess the performance of the WCB.

.58 We also reported this matter in our 1996 Fall Report.

We recommend

.59 The WCB's published financial statements should include a comparison of actual results to those planned.

Public disclosure of
payments required

.60 The WCB needs to comply with The Standing Committee on Public Accounts' recommendation to provide the Legislative Assembly with a list of persons who receive public money in that fiscal year.

Chapter 25 Workers' Compensation Board

.61 The WCB's legal advisor indicates Section 171 of the Act bars the WCB from publishing a list of the names of individuals receiving compensation. In 1996, the WCB spent \$32.5 million on costs other than compensation. The WCB has not provided the Assembly with a list of persons who received public money for reasons other than compensation.

.62 We also reported a similar matter in our 1996 Fall Report.

We recommend

.63 Each year, the WCB should provide the Assembly with a list of persons, other than injured workers, who received public money and the amount.

.64 In Chapter 1, **Executive Council**, we further describe the importance of this matter.



SASKATCHEWAN

**Supplementary Report by the Provincial Auditor
to the Standing Committee on Public Accounts
regarding the Workers' Compensation Board**

July 23, 1997

Our Vision

We envision effective, open and accountable government.
We are committed to making a difference by encouraging excellence
in public sector management and reporting practices.

Our Mission

Our Office serves the people of Saskatchewan through the Legislative Assembly.
We encourage accountability and effective management in government operations through
our independent examinations, advice and reports on the management of public
resources entrusted to government.

Our Values

- ❖ **Accountability** - taking responsibility for and explaining one's actions.
- ❖ **Objectivity** - independence, integrity and professionalism.
- ❖ **Open communication** - understandable, fair, clear and honest.
- ❖ **Effectiveness** - economic, efficient and effective management.
- ❖ **Courtesy** - polite and equitable treatment for all.
- ❖ **Public confidence** - earning and keeping the respect and confidence of the public and their elected representatives.
- ❖ **Our employees** - our employees are our strength and major resource in achieving our mission and values. We value fairness and equity; personal development; creativity, challenge, and innovation; teamwork; and leadership. We also value balance and harmony between work, home and community responsibilities.



SASKATCHEWAN

Provincial Auditor Saskatchewan

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

Phone: (306) 787-6360

Fax: (306) 787-6383

Internet e-mail: wayne.strelioff.pas@govmail.gov.sk.ca

July 23, 1997

Mr. Gerard Aldridge, Chair
Standing Committee on Public Accounts
Room 265, Legislative Building
REGINA, Saskatchewan
S4S 0B3

Dear Mr. Aldridge:

Further to our report to the Standing Committee on Public Accounts dated May 29, 1997, I provide you with a supplementary report on whether Workers' Compensation Board (WCB) is subject to an audit by our Office and on whether officials of the WCB should appear before and answer questions from standing committees of the Legislative Assembly.

Yours truly,

Wayne Strelioff, CA
Provincial Auditor

/dd
encl.

**Supplementary Report by the Provincial Auditor
to the Standing Committee on Public Accounts
regarding the Workers' Compensation Board
July 23, 1997**

Table of Contents

	Page
1. Supplementary Report by the Provincial Auditor to the Standing Committee on Public Accounts regarding the Workers' Compensation Board	1
2. Bibliography	8
3. Appendix 1 Excerpts from the <i>Special Report by the Provincial Auditor to the Legislative Assembly: September 30, 1987</i>	10
4. Appendix 2 Comments by Mr. A. Blakeney, Leader of the Opposition on June 29, 1987	14
5. Appendix 3 Excerpts from <i>Final Report of Consensus Saskatchewan, Democratic Reforms for the 1990s, Report of the Saskatchewan Financial Management Review Commission, and Open Letter</i>	15
6. Appendix 4 Letter to the Provincial Auditor from Mr. G. J. K. Neill dated April 15, 1988	17
7. Appendix 5 Letter to Mr. W. Lutz, Provincial Auditor from Mr. R. D. Cosman, Legislative Counsel and Law Clerk dated June 14, 1989	22
8. Appendix 6 Summary of Conclusions and Recommendations of the <i>Report Task Force on Roles, Responsibilities, and Duties of Auditors</i>	25
9. Appendix 7 Letter to the Provincial Auditor from Mr. G. J. K. Neill dated February 7, 1994	34

**Supplementary Report by the Provincial Auditor
to the Standing Committee on Public Accounts
regarding the Workers' Compensation Board
July 23, 1997**

Introduction

This report is supplementary to our report to the Standing Committee on Public Accounts (PAC) regarding the Workers' Compensation Board (WCB) dated May 29, 1997.

We note others provided the PAC with opinions beyond those requested by the PAC. Specifically, others provided opinions on the roles, responsibilities, and duties of auditors when the Government (Cabinet) decides to use an appointed auditor to audit a Crown agency and the authority for our audit objectives for the WCB.

These opinions trouble us because they are inconsistent with previous views taken by Cabinet and the PAC. Also, we think these opinions will result in confrontation as opposed to co-operation. The Legislative Assembly has given both the WCB and our Office important work to do. We do not think the laws creating our Office and the WCB are in conflict.

To help the PAC fully consider how it wants to deal with the WCB, we think it is useful to provide the following additional information.

What are the Roles, Responsibilities, and Duties of Auditors?

The Department of Justice and one of the WCB's lawyers question our responsibility to audit a government agency once Cabinet chooses to appoint a private sector auditor to audit that agency. These lawyers advise the Provincial Auditor has no responsibility to audit a government agency once Cabinet has appointed a private sector auditor. We disagree because this opinion seriously undermines the ability of the Provincial Auditor to report to the Assembly in a manner which enables the Assembly to hold Cabinet accountable for its actions. Also, this view has been debated and discussed many times by legislators and the public and rejected by the PAC (see page 3) and the Government (see page 4).

The Assembly changed several acts in 1987 including *The Provincial Auditor Act*. These changes permitted Cabinet to use private sector auditors at more government agencies and provided additional audit requirements under *The Provincial Auditor Act* for government agencies that have share capital.

When these acts were changed the Assembly and PAC discussed the auditors' roles, responsibilities, and duties. In 1987, to help the Assembly consider the changes, we made a special report to the Assembly on our interpretation of the Act and how we planned to administer the Act. We reported that if our interpretation is not right the accountability of the Executive Government to the Assembly will be diminished. Our interpretation was accepted when the changes to the Act were debated by the Assembly. Our interpretation was, and remains, that the

**Supplementary Report by the Provincial Auditor
to the Standing Committee on Public Accounts
regarding the Workers' Compensation Board
July 23, 1997**

Provincial Auditor is responsible to audit all government agencies for the Assembly including those agencies where Cabinet has chosen to appoint a private sector auditor. The changes also permit the Provincial Auditor to carry out his duties by relying on the work of an appointed auditor when the Provincial Auditor chooses to do so.

Appendix 1 contains excerpts from the *Special Report by the Provincial Auditor to the Legislative Assembly: September 30, 1987*.

We think Members of the Legislative Assembly need their auditor, i.e., the Provincial Auditor to audit all government agencies. Many others share this view. For example:

On June 29, 1987, the Leader of the Opposition, Mr. A. Blakeney said:

...But the ultimate report, the report on whether or not the financial statements fairly present the state of the accounts of that corporation, and the results of the carrying on of the business of that corporation... that must be done by someone who represents the shareholders, the ultimate owners. That is the Provincial Auditor, and nobody else. Nobody else.

Appendix 2 contains a more complete text of Mr. Blakeney's comments.

Many groups and individuals emphasize the importance of strengthening the ability of the Provincial Auditor in assisting the Assembly when the Government (Cabinet) chooses to use an appointed auditor to audit a government agency. The call for strengthening the audit system comes from external groups as well as the PAC. External reports on this matter include the *Final Report of Consensus Saskatchewan* published in 1990, the *Democratic Reforms for the 1990s* report published in 1991, the *Report of the Saskatchewan Financial Management Review Commission* published in 1992, and an *Open Letter* from the Saskatchewan Chamber of Commerce sent to the Minister of Finance in 1993.

Appendix 3 contains excerpts from these documents.

In the past, PAC debated legal advice on the roles, responsibilities, and duties of auditors. Following are two legal opinions on this matter:

On April 15, 1988, our lawyer, Mr. G. J. K. Neill, provided us with his opinion on roles, responsibilities, and duties of the Provincial Auditor and appointed auditors. Mr. Neill advised the only person appointed under *The Provincial Auditor Act* is the Provincial Auditor and that appointed auditors' authority and terms of appointment are found

**Supplementary Report by the Provincial Auditor
to the Standing Committee on Public Accounts
regarding the Workers' Compensation Board
July 23, 1997**

elsewhere. As a result, the appointed auditor is not a substitute for the Provincial Auditor, but the two auditors co-exist and have different objectives. Mr. Neill also advised the appointed auditor is given no responsibility under section 11 of the Act but rather is given a direction that every appointed auditor is subject to the Provincial Auditor's examination responsibilities under section 11 of the Act.

Appendix 4 contains Mr. Neill's opinion.

To help the PAC with its discussion on June 15, 20, 22, 27 and July 6, 1989 on the roles, responsibilities, and duties of auditors, Mr. R. Cosman, Legislative Counsel and Law Clerk, provided his opinion on these matters. On June 14, 1989, Mr. Cosman, advised that under *The Provincial Auditor Act* "that it is the responsibility of the Provincial Auditor solely to report to the Legislative Assembly" and "that in no event can an appointed auditor be given the responsibility to provide an audit for the Legislative Assembly under any provision of *The Provincial Auditor Act*." Also, Mr. Cosman advised "that the relationship of an appointed auditor to the Provincial Auditor is one contemplating the Provincial Auditor as being the final authority in the resolution of any differences between them on a professional basis" because the Provincial Auditor had to be satisfied with the report of the appointed auditor.

The PAC discussed Mr. Cosman's opinion with him at the PAC meetings in June 1989.

Appendix 5 contains a copy of Mr. Cosman's opinion.

Many times in the past, the PAC discussed the roles, responsibilities, and duties of auditors when the Cabinet chose to use an appointed auditor to audit a government agency. In 1993, to reflect the principle that the Provincial Auditor is responsible to audit all government agencies, the PAC recommended to the Assembly:

...the Government work co-operatively with the Provincial Auditor by involving him in the process of choosing appointed auditors, establishing audit plans, maintaining solid communications through frequent audit updates, and ensuring that the Provincial Auditor has sufficient time to comment on the final audit report prior to its public release. (Source: Standing Committee on Public Accounts, 1993, March 17)

In response to the PAC's recommendation, my Office and the Crown Investments Corporation of Saskatchewan formed a task force to find the best way to effect the PAC's recommendation and to ensure the Government's and the Assembly's interests are well served. The task force members consisted of a professor from the University of Saskatchewan as Chair, an employee from the

**Supplementary Report by the Provincial Auditor
to the Standing Committee on Public Accounts
regarding the Workers' Compensation Board
July 23, 1997**

Crown Investments Corporation of Saskatchewan, an employee from Sask Energy, a Chartered Accountant chosen by the Institute of Chartered Accountants of Saskatchewan representing appointed auditors, and an employee from my Office.

The task force issued a report called the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. The report sets out a process that effects the PAC's recommendation. The PAC, the Treasury Board of the Government of Saskatchewan, the Crown Investments Corporation of Saskatchewan, and Saskatchewan Health support the task force's recommendations for the roles, responsibilities, and duties of auditors.

Appendix 6 contains the recommendation and conclusion of the Task Forces on Roles, Responsibilities and Duties of Auditors.

There has been much discussion by legislators about the cost of using both the Provincial Auditor and an appointed auditor to audit a Crown agency. The decision to use an appointed auditor is the Government's (Cabinet). Accordingly, Cabinet is accountable for the cost of this public policy. The Government has stated it uses appointed auditors so the Saskatchewan private sector public accounting industry can develop and retain local expertise. The Government also tries to ensure a reasonable allocation of work among the firms.

As stated earlier, the Government supports the recommendations of the Task Force on the Roles, Responsibilities and Duties of Auditors. Those recommendations are designed to ensure appointed auditors, the Government, and our Office work together so that the Assembly is served efficiently.

The Authority for Our Audit Objectives

The WCB's lawyers question the authority for our audit objectives for the WCB.

We think we have the authority to set the audit objectives for the WCB that resulted in the audit conclusions, findings, and recommendations contained in our *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan: 1996 Fall*.

Our audit objectives for the WCB are set out in paragraph .10 of our 1996 Fall Report. We set out to form an opinion on:

- the rules and procedures used by the WCB to safeguard and control its assets and ensure compliance with authorities. We limited our audit to those authorities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing activities;

**Supplementary Report by the Provincial Auditor
to the Standing Committee on Public Accounts
regarding the Workers' Compensation Board
July 23, 1997**

- the WCB's compliance with those authorities; and
- the reliability of WCB's financial statements.

These objectives are the same objectives we have for auditing every Crown agency as defined in *The Provincial Auditor Act*. Also, these objectives are the same objectives we have always had for the audit of the WCB. We note one of the WCB's lawyers incorrectly states that the objectives of our audit of the WCB are different than in the past.

We note one of the WCB's lawyers wanted to know the audit objectives of the auditor that audits our Office. Section 27 of *The Provincial Auditor Act* states the auditor appointed by Cabinet to audit our Office has the same powers and duties for auditing our Office as the Provincial Auditor has for auditing officials of the Crown and Crown agencies. The auditor that audits our Office has the same audit objectives for our Office that we have for our audit of the WCB. Our *Annual Report on Operations for the Year Ended March 31, 1997* contains our appointed auditor's reports setting out his audit objectives for our Office.

On February 7, 1994, our lawyer advised us that we have the authority to carry out whatever work we need to do following professional standards to form conclusions on our audit objectives for the WCB.

Appendix 7 contains a copy of our lawyers opinion on this matter.

WCB's Autonomy and Accountability

Much of the WCB's and its lawyers discussion seems to say that the Assembly gave the WCB a wide range of autonomy from Cabinet. At present, we agree, but note under Section 181 of *The Workers' Compensation Act, 1979* Cabinet can, at any time, decide the WCB's administrative practices.

We think the measure of the WCB's autonomy from Cabinet is irrelevant because the work that we do does not impact the WCB's autonomy to make its own decisions. Also, regardless of the measure of the WCB's autonomy from the Cabinet, under *The Provincial Auditor Act* we have a mandate to audit the WCB for the Assembly.

We think *The Workers' Compensation Act, 1979* and *The Provincial Auditor Act* should be interpreted in a spirit of co-operation so both the WCB and our Office can carry out the important work given to us by the Assembly. We think the two acts do not create confrontation and the autonomy of the WCB and our mandate to audit the WCB for the Assembly can co-exist.

**Supplementary Report by the Provincial Auditor
to the Standing Committee on Public Accounts
regarding the Workers' Compensation Board
July 23, 1997**

In our opinion, the WCB is accountable, as a Crown agency, to the Assembly for the funds it administers. Judge Muir, in the quote set out in the Woloshyn Mattison letter dated May 27, 1997, states the Board while autonomous should be accountable.

Workers' Compensation Board is a Crown Agency under *The Provincial Auditor Act*

The Department of Justice opinion makes several arguments that the Workers' Compensation Board (WCB) is not subject to audit by the Provincial Auditor based on definitions and meanings in common law and other statutes. The Department states that the WCB is not a Crown agency under common law. The Department also looks to *The Financial Administration Act, 1983* for a definition of accounts of the Government of Saskatchewan and public money.

We think using definitions in common law and other statutes to determine the Provincial Auditor's responsibilities is wrong. The interpretation of the Provincial Auditor's responsibilities or changes to his responsibilities must come from *The Provincial Auditor Act*. This view is necessary to ensure the Assembly can fully understand and assess changes or discussions about the Provincial Auditor's mandate and the resulting impact on the accountability of the Executive Government and its appointed officials (Cabinet) to the Assembly. The definitions and responsibilities contained in *The Provincial Auditor Act* are designed to ensure the Assembly can hold Cabinet fully accountable for the management of all public money administered by officials of the Crown and Crown agencies.

On May 11, 1993, the PAC discussed the *Special Report by the Provincial Auditor Saskatchewan to the Legislative Assembly on Bill 42 - The Crown Corporations Act, 1993* dated April 14, 1993. The report recommended against changing the Provincial Auditor's responsibilities through *The Crown Corporations Act, 1993*. PAC agreed with our view that it is not good legislative policy to deal with the Provincial Auditor's mandate in other legislation.

We note the Department of Justice agrees that the WCB is a Crown agency as defined by *The Provincial Auditor Act* on page 3 of its letter. However, the Department then argues WCB is not an agent of the Crown for other purposes. Those other purposes are irrelevant given the definitions contained in *The Provincial Auditor Act* which ensure Cabinet is fully accountable to the Assembly for organizations, including the WCB, handling public money.

Summary

The Provincial Auditor Act makes the Provincial Auditor responsible to audit all money administered by officials of the Crown and Crown agencies (Cabinet) and to report to the Assembly the results of his audits. The Act also provides the Provincial Auditor certain protections as an Officer of the Assembly and makes him independent of Cabinet.

**Supplementary Report by the Provincial Auditor
to the Standing Committee on Public Accounts
regarding the Workers' Compensation Board
July 23, 1997**

The objective of *The Provincial Auditor Act* is to create an Officer of the Assembly who will help the Assembly hold Cabinet accountable for the administration of public money by auditing government organizations and publicly reporting the results. This view of the Act is necessary if the Assembly is to effectively hold Cabinet accountable for the management of public money administered by officials of the Crown and Crown agencies.

Under the Act, the Provincial Auditor must decide which organizations to audit and what work he needs to do at those organizations to fulfil his responsibility. To ensure there is no interference with the work the Provincial Auditor is mandated by the Assembly to do, Cabinet and committees of the Assembly do not have the authority to decide which organizations the Provincial Auditor must audit. Also, they cannot decide how he should carry out his work to fulfil his responsibility to the Assembly. As a further protection to ensure there is no interference in doing the work required by law, the Provincial Auditor can refuse to do other work requested by the Assembly, the PAC, and Cabinet.

When a Crown agency acts in a manner that does not permit the Provincial Auditor to carry out his responsibilities, the Provincial Auditor must report that matter to the Assembly. It is up to the Assembly to decide what action, if any, it wants to take. The Provincial Auditor's future actions regarding that agency continue to be governed solely by *The Provincial Auditor Act*.

**Supplementary Report by the Provincial Auditor
to the Standing Committee on Public Accounts
regarding the Workers' Compensation Board
July 23, 1997**

Bibliography

- Consensus Saskatchewan. (1990). *Leading the Way: In blueprint for Saskatchewan: Final report of Consensus Saskatchewan*. Regina: Author.
- Financial Management Review Commission. (1992). *Report of the Saskatchewan Financial Management Review Commission*. Regina: Saskatchewan Management Review Commission.
- Legislative Assembly of Saskatchewan. (1987, June 29). First Session - Twenty-First Legislature of the Legislative Assembly of Saskatchewan. *Debates and proceedings (hansard)*, 30, 817.
- Neill Law Office. (1988, April 15). Letter to the Provincial Auditor.
- New Democratic Party, Saskatchewan, & Pringle, B. (1991). *Democratic Reforms for the 1990s*. [Regina]: Author.
- Provincial Auditor Saskatchewan. (1987). *Special report by the Provincial Auditor to the Legislative Assembly*. Regina: Author.
- Provincial Auditor Saskatchewan. (1993). *Special report by the Provincial Auditor Saskatchewan to the Legislative Assembly on bill 42 - The Crown Corporations Act, 1993*. Regina: Author.
- Provincial Auditor Saskatchewan. (1996, Fall). *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan*. Regina: Author.
- Provincial Auditor Saskatchewan. (1997). *Annual report on operations for the year ended March 31, 1997*. Regina: Author.
- Provincial Auditor Saskatchewan. (1997). *Report by the Provincial Auditor to the Standing Committee on Public Accounts regarding a request for information related to the Workers' Compensation Board*. Regina: Author.
- Saskatchewan Chamber of Commerce. (1993, February 5). *Open Letter* to the Minister of Finance.
- Saskatchewan Legislative Counsel and Law Clerk. (1989, June 14). Letter to Mr. W. Lutz.

**Supplementary Report by the Provincial Auditor
to the Standing Committee on Public Accounts
regarding the Workers' Compensation Board
July 23, 1997**

Standing Committee on Public Accounts. (1993, March 17). Standing Committee on Public Accounts. *Third report, S.P. 73*, 3.

Task Force on Roles, Responsibilities and Duties of Auditors. (1994). *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. Regina: Author.

Woloshyn Mattison. (1997, May 27). Letter to Workers' Compensation Board, Attention: Mr. Stan Cameron, Chairman.

- 3 -

1.02 In summary, with regard to consultation, I wish to point out that at no time was I shown any draft legislation or any specifics on proposed legislative changes. I also wish to state that at no time did I choose not to take advantage of any opportunity to meet with officials to discuss proposed changes to The Provincial Auditor Act.

REPORT ON THE AMENDMENTS CONTAINED IN THE BILL

1.03 I have considered Bill 41, being An Act to amend The Provincial Auditor Act, as it relates to accountability.

1.04 Section 11 of The Interpretation Act reads:

"11. Every Act and every regulation and every provision thereof shall be deemed remedial, and shall receive such fair, large and liberal construction and interpretation as best ensures the attainment of the object of the act, regulation or provision."

1.05 It is my opinion that the object of The Provincial Auditor Act is to create an officer of the Legislative Assembly, independent of the executive government, who will audit all public money administered by the executive government in order to report to the Legislative Assembly when the actions of the executive government run contrary to the expressed wishes of the Legislative Assembly.

- 4 -

1.06 My interpretation of Bill 41 is as follows:

- (i) I continue to be the officer of the Legislative Assembly responsible, as primary auditor, to audit all public money administered by the Government of Saskatchewan, including that public money administered by Crown corporations.
- (ii) The examination requirements relating to the administration of public money are unchanged.
- (iii) As the officer of the Legislative Assembly responsible to audit the Government of Saskatchewan, I will continue to have the responsibility to ensure that an appointed auditor will conduct the appropriate examination to enable me to report to the Legislative Assembly.
- (iv) I will continue to follow generally accepted auditing standards as prescribed by the Canadian Institute of Chartered Accountants where applicable and where not specifically prescribed I will continue to be guided by those standards.
- (v) As these standards apply to reliance on another auditor, they include the communication of my requirements to an appointed auditor before the audit is conducted to ensure that when his work is complete I should be in a position to rely upon his opinions, once I have conducted such other procedures as I deem necessary to justify such reliance.

- 5 -

- (vi) Where there is an appointed auditor I will continue to be entitled to require and receive from employees of Crown agencies and Crown controlled corporations or other persons any information, report or explanation that I consider necessary to report with confidence to the Legislative Assembly, without invoking section 11.1(2) of the Act, as amended, and thereby incurring unnecessary expense.
- (vii) As primary auditor of the Government of Saskatchewan I continue to have supervisory responsibility for reporting on the financial statements of Crown agencies and Crown controlled corporations audited by an appointed auditor, notwithstanding the repeal of subsection 11(6).

1.07 If my interpretation of Bill 41 is in accordance with the intention of the Legislature when it enacts these amendments, then it is my opinion that the amendments contained in this Bill will not affect the accountability of the executive government to the Legislative Assembly with the proviso that without a first hand knowledge of the financial transactions of all Crown corporations, which represent a substantial amount of all public money that is administered by the Government of Saskatchewan, my ability to report with confidence to the Legislative Assembly at some future date may be affected.

- 6 -

1.08 If my interpretation of the Amendments to The Provincial Auditor Act are not in accordance with the intention of the Legislature, then it is my opinion that the accountability of the executive government to the Legislative Assembly will be diminished.

1.09 I hold this view because private sector auditors are appointed by the executive government and enjoy no security of tenure. On the other hand, the Provincial Auditor is an officer of the Legislative Assembly who serves only the interests of and is answerable only to the Legislative Assembly. Independence in the reporting function must not only be maintained but must be seen to be maintained.

*INTERFERENCE IN THE EFFECTIVE OPERATION OF THE OFFICE OF THE
PROVINCIAL AUDITOR*

1.10 Given my interpretation of Bill 41, I still have a concern regarding accountability which is not addressed therein. This concern arises because of the conflict between the scope of my responsibilities in the Act, as I interpret it, and the ability of the executive government to limit through the Estimates what I can do.

1.11 In my 1986 annual report I reported that any attempt, by the executive government to limit, through budgetary control, the extent and nature of the inquiries that I deem necessary to carry out my duties under The Provincial Auditor Act would represent a serious attack on the independence of my office, as it would limit my ability to report with confidence to the Legislative Assembly.

I've had an occasion to discuss this matter with some people who are familiar with auditing, and I've asked them, well if somebody is appointed--Clarkson Gordon, I'll simply use a firm in whom I have every confidence--are appointed by somebody, by the cabinet or by the board of directors of the power corporation, to audit the power corporation, who is their client? And that's key--who is their client? To whom do they report? Whose interests are they protecting?

Now I ask again: in my power corporation analogy, who is the client? Who's appointing--who is appointing Clarkson Gordon? Not this legislature. I don't know who it's going to be, but not the representatives of the ultimate owners. And therefore, while there is no problem in having Clarkson Gordon do some auditing work...auditing work doesn't have to be done always for the benefit of the shareholders, it can be done for the benefit of management. But the ultimate report, the report on whether or not the financial statements fairly represent the state of accounts of that corporation, and the results of the carrying on of business of that corporation--that must be done by someone who represents the shareholders, the ultimate owners. That is the Provincial Auditor, and nobody else. Nobody else.

And there can't be any doubt about this, and it's got nothing to do with the professionalism of the auditor or anything of that kind. Anybody who operates in the profession knows--and I think of my own experience in the legal profession--an absolutely key question is: who is your client? Who is your client?

No professional person wants to get himself in a position of any sort of conflict of interest. And very clearly, if a board of directors of a Crown corporation appoints an auditing firm and the auditing firm feels that they must reflect adversely on the management in that board of directors, we set up, immediately, a potential conflict of interest. And we simply can't have it. The system doesn't work that way, and it will not work that way.

Final Report of Consensus Saskatchewan

Recommendations:

- 4.29 *The Provincial Auditor's role must be expanded to include supervision of periodic value for money audits or some similar process which is free from government influence.*
- 4.30 *The Provincial Auditor must have access to all government and crown corporation financial records.*
- 4.31 *The Provincial Auditor's role as an independent servant of the Legislative Assembly must be confirmed.*

Democratic Reforms for the 1990s

Proposals to restore and improve public accessibility and participation: (page 14)

That The Provincial Auditor Act be amended to require that private sector auditors work under the direction and authority of the Provincial Auditor, rather than the Cabinet.

That funding for the Office of the Provincial Auditor be set by an independent Committee of the Assembly. The Auditor must be provided with the financial resources to fulfil his extremely important obligation to the Legislative Assembly and to the taxpayers.

Report of the Saskatchewan Financial Management Review Commission

Recommendation 4-5:

The Commission recommends that 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.

Speech from the Throne, 1992

Excerpt

My government will amend The Provincial Auditor Act to ensure the early release of the Provincial Auditor's Annual Report, and to improve the Provincial Auditor's access to the books of all Crown agencies.

Open Letter sent to the Minister of Finance by The Saskatchewan Chamber of Commerce, February 5, 1993

Excerpt

The Report of the Saskatchewan Financial Management Review Commission stated a belief that the greatest deficiency in public accountability within the Government of Saskatchewan rests with its Crown corporations. The Report also indicates there is no reason, in principle, why Crown Corporations should not be held to the same public disclosure as Government Departments.

In addition, the Commission recommended that 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.

NEILL LAW OFFICE

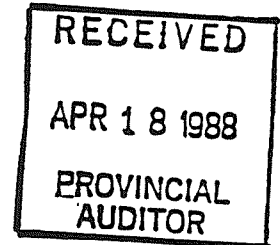
BARRISTERS AND SOLICITORS

G. J. K. NEILL

J. A. T. STRUTHERS

201 - 2114 - 11TH AVE.
REGINA, SASKATCHEWAN, S4P 0
TELEPHONE (306) 525-5284

April 15, 1988



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

Dear Sirs:

RE: PROVINCIAL AUDITOR - AMENDMENTS TO THE PROVINCIAL AUDITOR ACT

Thank you for your letter of April 6, 1988, and further to our discussion with your Messrs. Wendel and Heffernan. You are concerned that as a result of the recent amendments to The Provincial Auditor Act, that there may have been a change in the examination and reporting requirements with respect to Crown-controlled corporations, and wish me to consider and express my opinion with respect to these changes, if any.

Section 11 of The Interpretation Act provides as follows:

"11. Every Act and every regulation and every provision thereof shall be deemed remedial, and shall receive such fair, large and liberal construction and interpretation as best ensures the attainment of the object of the Act, regulation or provision."

This section is the equivalent of Section 11 of the federal Interpretation Act which was recently considered by the Supreme Court of Canada in Canadian National Railway Co. v. Canada (Canadian Human Rights Commission) (1987) 1 S.C.R. 1114 where Chief Justice Dickson, speaking for the court, said at Page 1134:

"Although it may seem commonplace, it may be wise to remind ourselves of the statutory guidance given by the federal Interpretation Act which asserts that statutes are deemed to be remedial and are thus to be given such fair, large and liberal interpretation as will best ensure that their objects are attained. See s. 11 of the Interpretation Act, R.S.C. 1970, c. I-23, as amended. As Elmer A. Driedger, Construction of Statutes (2nd ed. 1983), at p. 87 has written:

Provincial Auditor
Page 2
April 15, 1988

'Today there is only one principle or approach, namely, the words of an Act are to be read in their entire context and in their grammatical and ordinary sense harmoniously with the scheme of the Act, the object of the Act, and the intention of Parliament.'

This same quotation from Professor Driedger's book was referred to with approval in the Supreme Court decision in Vachon v. Canadian Employment and Immigration Commission and Attorney General of Canada (1985) 2 S.C.R. 417 at 431. Therefore, using this approach I will consider the effect of the recent amendments.

The scheme and object of The Provincial Auditor Act appears to be patently obvious. It is to create an officer of the Legislative Assembly, independent of the executive government, who will audit the accounts of the Government of Saskatchewan and examine all accounts related to public money and any other accounts that he is required by an Act to examine, in order to report to the Legislative Assembly as required by the Act, and so maintain the accountability of the executive government to the Legislative Assembly. The accountability of the executive government to Parliament or, in this case, the Legislative Assembly, has been basic to the parliamentary democratic system since that system began to evolve in the United Kingdom in the 17th century.

The first question, then, is who is the officer of the Legislative Assembly appointed by the Act, and what responsibility does he have where there are appointed auditors within the meaning given to that term in the Act? It should be noted that the only person appointed under The Provincial Auditor Act is the Provincial Auditor. An appointed auditor is defined as "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." Accordingly, an appointed auditor finds his authority and terms of appointment elsewhere than in The Provincial Auditor Act. He is not a substitute for the Provincial Auditor. The Provincial Auditor is appointed, pursuant to Section 11(1). He 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.

What, then, is the role of the appointed auditor under The Provincial Auditor Act? Section 11(2) provides:

"An appointed auditor is subject to the examination responsibilities prescribed in clauses (1)(a) to (d)." (emphasis added).

Provincial Auditor
Page 3
April 15, 1988

The only examination requirements, prescribed in 11(1) (a) to (d), are the responsibilities of the Provincial Auditor. Section 11(2) could not be more clear. The appointed auditor, regardless of the source of his appointment under another Act, Order-in-Council or otherwise, is subject to the Provincial Auditor's examination responsibilities.

The Concise Oxford Dictionary defines "subject", inter alia, as "In subjection, owing obedience to", and gives as an example of its use, inter alia, "We are all subject to the laws of nature, the law of the land." Accordingly, in my opinion, since an appointed auditor is subject to the examination responsibilities of the Provincial Auditor, the appointed auditor is given a direction that he is in subjection to those responsibilities, which are vested in the Provincial Auditor only. This interpretation is, in my opinion, the only possible one, but it is bolstered by the provisions of Section 11.1.. Subsection (1) reads as follows:

"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."

Since the appointed auditor is given no responsibility under Section 11, but rather a direction that he is subject to the Provincial Auditor's examination responsibilities, the word "his" before the words "responsibilities pursuant to section 11 with respect to that Crown agency or Crown-controlled corporation" in 11.1(1) must refer to the Provincial Auditor's responsibilities pursuant to Section 11. Subsection (2) of Section 11.1 reinforces the view that the responsibility for the examinations and audit required by 11(1) is vested in the Provincial Auditor.

What, then, is included in an audit of the accounts of the Government of Saskatchewan, and what will be examined when there is an examination of "all accounts related to public money"? The term "Government of Saskatchewan" is an imprecise one, and is not defined in the Act. The executive government does not own anything. In law, the title to public property is vested in the Crown. The executive government administers the property on behalf of Her Majesty the Queen, in right of Saskatchewan. However, given the object of the Act and reading the Act as a whole, in accordance with the authorities quoted above, it is my opinion that the accounts, which are to be audited or examined by you, include the accounts of Crown agencies and Crown-controlled corporations.

Provincial Auditor
Page 4
April 15, 1988

Support for this interpretation can be found in Clause 2(a.1), where an appointed auditor is defined as one appointed "to examine the accounts of a Crown agency, a Crown-controlled corporation, or accounts otherwise related to public money". If an auditor was appointed for a purpose other than to examine the accounts of a Crown agency, a Crown-controlled corporation, or accounts otherwise related to public money, he would not be an "appointed auditor", nor would he be subject to the responsibilities of the Provincial Auditor set out in Section 11(1). It follows, therefore, that the Legislature intends that the work assigned to an "appointed auditor" falls within the scope of the responsibility of the Provincial Auditor. Ergo the Provincial Auditor has a responsibility to examine the accounts of a Crown agency, a Crown-controlled corporation, or accounts otherwise related to public money. Needless to say, in fulfilling his responsibilities, the Provincial Auditor may, at his discretion exercised in accordance with the Act, rely on the reports of appointed auditors.

Accordingly, in summary, it is my opinion that the Provincial Auditor is the only person whose appointment stems from The Provincial Auditor Act, and he is the only person responsible to the Legislature with respect to the examination and audits that are required to be made. If there is another auditor appointed, he is not appointed in substitution for, but in addition to, the Provincial Auditor. The Provincial Auditor must satisfy himself that he can rely on the report of an "appointed auditor" by ascertaining that the appointed auditor has done what the Provincial Auditor would have done. If he has, the Provincial Auditor may (permissive) rely on the appointed auditor's report. If the Provincial Auditor is unable to rely on such report, he shall (obligatory) conduct additional audit work. Appointed auditors' terms of appointment are not found in The Provincial Auditor Act, but regardless of what these terms of appointment are, the appointed auditor is subject to the examination responsibilities of the Provincial Auditor. What is to be audited would, in my view, be widely interpreted to include all accounts over which the executive government exercises control, either direct or indirect, and, accordingly, is responsible for and accountable to the Legislature, including accounts of Crown agencies and Crown-controlled corporations. The Provincial Auditor's authority also extends to any accounts not related to public money that he is required by an Act to examine.

Before leaving the examination provisions, I think it is to be noted that under The Provincial Auditor Act no examinations are assigned to anyone other than the Provincial Auditor. Other than Section 11, which we have already discussed, the only provisions for an examination may arise as a result of a special assignment under Section 16, and the examination of debentures and

Provincial Auditor
Page 5
April 15, 1988

other securities under Section 18, both of which are responsibilities of the Provincial Auditor.

The reporting sections are Sections 12, 15, and 17. These sections make no distinction between the reporting responsibilities with respect to Crown agencies and Crown-controlled corporations, where applicable. What is applicable pursuant to these sections, in any given situation, is for you to decide. An appointed auditor has a reporting function in addition to, but not in substitution for, your report.

Accordingly, to answer the specific question you asked in your letter of April 6, 1988, there is no difference between the examination and reporting requirements for Crown agencies and the examination and reporting requirements for Crown-controlled corporations. Any that may have existed prior to the amendments have been eliminated.

I trust that this opinion is of some assistance to you, and enclose my account.

Yours truly,

NEILL LAW OFFICE

Per:

A handwritten signature in black ink, appearing to be a stylized name, possibly "M. Neill".

GJKN:nlh

Enclosure



Saskatchewan Legislative Counsel and Law Clerk

225 Legislative Building
Regina, Canada
S4S 0B3

(306) 787-8984

June 14, 1989

Mr. W. Lutz
Provincial Auditor
1500 - 1920 Broad Street
Regina, Saskatchewan
S4P 3V7

Dear Mr. Lutz:

Pursuant to your request of June 14, 1989, having carefully reviewed the provisions of The Provincial Auditor Act (S.S. 1983, c.P-30.01) with respect to the duties, powers and responsibilities of the Provincial Auditor in relationship to the Legislative Assembly and with respect to the relationship of an appointed auditor both to the Legislative Assembly and to the Provincial Auditor, I am able to confirm my concurrence with the opinion of your legal counsel as set out therein.

As a result of my review, I am of the opinion that it is the responsibility of the Provincial Auditor solely to report to the Legislative Assembly (save for the report of an auditor appointed pursuant to section 27 of the Act to audit the office of the Provincial Auditor). This responsibility is clearly defined throughout the Act, first at section 10, wherein the authority of the Provincial Auditor to delegate powers and duties of his office to members of his office is outlined, but the responsibility of making annual or special reports to the Legislative Assembly is expressly reserved to the Provincial Auditor. ("The provincial auditor may delegate ... any power or ... duty ... other than the duty to make his annual report or a special report to the Legislative Assembly.") Secondly, at subsection 11(1), the Provincial Auditor is specifically charged to be the auditor of the accounts of the Government of Saskatchewan. Then, at subsections 12(1.1) and (1.2), any appointed auditor, as the case may be, is directed to submit to the Provincial Auditor his (the appointed auditor's) report, which, in turn, the Provincial Auditor, as a compendium to his (the Provincial Auditor's) report, prepares and submits "...in the form of an annual report to the Legislative Assembly" (subsection 12(1.2)). Thus it is seen that the legislation clearly contemplates only the Provincial Auditor as making reports to the Legislative Assembly.

. . . 2

Mr. W. Lutz
 Page 2
 June 14, 1989

As for the appointed auditor's relationship to the Legislative Assembly directly, no reference, either requiring or permitting an appointed auditor to report directly to the Legislative Assembly, can be found in the Act, thus I am of the opinion that in no event can an appointed auditor be given the responsibility to provide an audit for the Legislative Assembly under any provision of The Provincial Auditor Act. An appointed auditor (ie. his report) may, having been appointed pursuant to another Act or body to examine the accounts of a Crown agency or Crown-controlled corporation, be relied upon by the Provincial Auditor (subsection 11.1(1)), and he (the appointed auditor) must "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" (subsections 12(1)), but these provisions of the Act are not authority for "giving responsibility to provide an audit for the Legislative Assembly".

Subsection 11(2) contemplates the case where, should an appointed auditor exist, he is subject to carrying out the "examination responsibilities" (of the Provincial Auditor) prescribed in clauses 11(1)(a) to (d), but this also is not a requirement to report to the Legislative Assembly, rather it is a direction to the appointed auditor as to what criteria he should apply in the conduct of any audit of a Crown agency or Crown-controlled corporation. Indeed, as was pointed out earlier, an appointed auditor is required to submit a report of the results of his audit to the Provincial Auditor (subsection 12(1.1)), not to the Legislative Assembly.

Based on my interpretation of the above-mentioned provisions, I am further of the opinion that the relationship of an appointed auditor to the Provincial Auditor is one contemplating the Provincial Auditor as being the final authority in the resolution of any differences between them on a professional basis. This is clearly contemplated by the provisions of section 11.1 of the Act, wherein the Provincial Auditor must be "satisfied" that the appointed auditor has carried out his responsibilities (clauses 11(1)(a) to (d)) or the Provincial Auditor may conduct "additional audit work" with respect to the audit in question. This is further reinforced by subsection 12(1.1) wherein it is stated that the "appointed auditor shall submit to the provincial auditor the report prepared (by him) pursuant to subsection 12(1) with respect to that Crown agency or Crown-controlled corporation." (Emphasis mine.)

. . . 3

Mr. W. Lutz
Page 2
June 14, 1989

Should you have any further query with respect to this matter, please feel free to contact me at your convenience.

Respectfully submitted,



Robert D. Cosman,
Legislative Counsel and Law Clerk

Report of the Task Force on Roles, Responsibilities and Duties of Auditors

Section VII Summary of Conclusions and Recommendations

Section VII Summary of Conclusions and Recommendations

1 Summary of Conclusions

The following lists the source section (**in bold**) and page number (in parenthesis) of the Task Force's conclusions.

Section II Description of the Existing Audit System (7)

1 Saskatchewan's Audit System Environment (7)

The Task Force concludes that:

- *the Legislative Assembly has created one overall auditor, the Provincial Auditor, to audit the accounts of the Government of Saskatchewan; and*
- *Appointed Auditors are not agents of the Provincial Auditor. (9)*

As a basis for its following recommendations, the Task Force concludes that:

- *"public money" includes moneys managed or administered by CIC and its Subsidiary Crown Corporations;*
- *"the accounts of the Government of Saskatchewan" include the accounts of CIC and its Subsidiary Crown Corporations; and*
- *the duties and responsibilities of the Provincial Auditor, as defined in The Provincial Auditor Act, apply to the audits of commercial Crown corporations. (i.e., CIC Subsidiary Crown Corporations) either directly or through reliance on Appointed Auditors. (13)*

Section IV Reaching a Common Understanding (19)

1 Key Expectation of the Audit System (19)

The Task Force concludes that audits, whether performed by the Provincial Auditor or the Appointed Auditors, ultimately must satisfy the needs of the Assembly. (19)

Report of the Task Force on Roles, Responsibilities and Duties of Auditors

Section VII Summary of Conclusions and Recommendations

Section V Recommended Audit System (23)

1 Professional Relationships (23)

Based on the appointment process and the resulting professional relationships, the Task Force concludes that:

- *the Provincial Auditor's client is the Assembly;*
- *because Appointed Auditors of CIC Subsidiary Crown Corporations must serve and interact with many stakeholder groups, a conventional auditor-client relationship can not be defined for Appointed Auditors.*

Instead, the Task Force chose to define the Appointed Auditors' professional relationships as follows:

- *the Appointed Auditors' appointment authority is the Crown Investments Corporation of Saskatchewan;*
- *the Appointed Auditors address their reports to the Legislative Assembly;*
- *the Appointed Auditors communicate and work cooperatively with other Stakeholder groups (i.e., CIC, CIC Subsidiary Crown Corporation's Board and Audit Committee, the Standing Committees of the Legislative Assembly on Public Accounts and on Crown Corporations); and*
- *the Appointed Auditors and the Provincial Auditor maintain good working relationships to enable the Provincial Auditor to fulfil his responsibilities.*
- *auditors must maintain and follow clear conflict of interest guidelines which reflect the complexity of the interrelationships within Government to preserve their independence on audit engagements. (25)*

Report of the Task Force on Roles, Responsibilities and Duties of Auditors

Section VII Summary of Conclusions and Recommendations

2 Summary of Recommendations

The following lists the source section (in bold) and page number (in parenthesis) of the Task Force's recommendations.

Section V **Recommended Audit System** (17)

2 **Reliance by the Provincial Auditor** (25)

The Task Force recommends the Provincial Auditor rely on the work and reports of the Appointed Auditors.

The Task Force recommends that to enable the Provincial Auditor to rely on the work and reports of Appointed Auditors and to ensure an effective audit system, procedures for reliance encompass the following:

1. *Appointed Auditors are charged with statutory responsibilities under The Provincial Auditor Act.*
2. *To enable the Provincial Auditor to rely on the reports of Appointed Auditors and to discharge his responsibilities under The Provincial Auditor Act, the Provincial Auditor communicate the following, in writing, to the Appointed Auditors upon notice of their appointments and at least annually thereafter:*
 - *The Provincial Auditor's intention to rely on the work and reports of the Appointed Auditors to assist the Provincial Auditor in discharging his statutory responsibilities related to CIC Subsidiary Crown Corporations audited by the Appointed Auditors.*
 - *The Provincial Auditor's reliance requirements. These requirements would include requesting the Appointed Auditors to provide him with:*
 - *their audit plans;*
 - *audit opinions on the reliability of the CIC Subsidiary Crown Corporation's financial statements; the Corporation's compliance with legislative authorities; and the adequacy of the Corporation's management*

Report of the Task Force on Roles, Responsibilities and Duties of Auditors

Section VII Summary of Conclusions and Recommendations

systems and practices related to financial reporting, compliance with authorities and safeguarding of assets;

- an opportunity to review their audit working papers;*
 - a representation indicating that the Appointed Auditors have no involvement or relationships with the Government of Saskatchewan, CIC, and/or its Subsidiary Crown Corporations that would impair their objectivity and that the Provincial Auditor can rely on their work and reports; and*
 - their reports (i.e., Section 12 report) to be compiled in the Provincial Auditor's Report to the Assembly.*
- *The Provincial Auditor's request that Appointed Auditors advise him of any significant issues when these issues arise during the audits. (27)*

3 Audit Planning (28)

3.1 Audit Objective and Scope (28)

The Task Force recommends that:

- *the Appointed Auditor's audit plan recognize the dual audit objectives of examining and reporting on the reliability of the CIC Subsidiary Crown Corporation's financial statements and on other matters required by The Provincial Auditor Act;*
- *the Appointed Auditor and the Provincial Auditor agree on the audit's objectives and scope;*
- *the audit plan set out how the Appointed Auditor and the Provincial Auditor will work together to complete the audit within the time frame designated by CIC, the management of the its Subsidiary Crown Corporation, and the Provincial Auditor;*
- *the Appointed Auditor and the Provincial Auditor discuss the audit plan with the CIC Subsidiary Crown Corporation's management. The Appointed Auditor will take the lead role at these meetings with the Provincial Auditor's support; and*

Report of the Task Force on Roles, Responsibilities and Duties of Auditors

Section VII Summary of Conclusions and Recommendations

- *the Appointed Auditor, the Provincial Auditor, and the CIC Subsidiary Crown Corporation's management discuss the audit plan with the CIC Subsidiary Crown Corporation's Audit Committee. The Appointed Auditor will take the lead role at this meeting with the Provincial Auditor's support. (29)*

3.2 Communication and Cooperation (29)

Because maintaining knowledge of both the individual Corporation and the Government environment is essential, the Task Force recommends that:

- *Appointed Auditors assist the Provincial Auditor in maintaining an appropriate level of knowledge of CIC Subsidiary Crown Corporations' business to enable the Provincial Auditor to fulfil his responsibilities; and*
- *the Provincial Auditor assist Appointed Auditors in maintaining an appropriate level of knowledge of the operations of the Government of Saskatchewan. (30)*

4 Audit Examination (30)

In order to maintain ongoing communications through frequent audit updates and to resolve issues in a timely manner, the Task Force recommends that:

- *the Appointed Auditor keep the Provincial Auditor informed of the audit progress and key issues;*
- *the Appointed Auditor, Provincial Auditor and management of the CIC Subsidiary Crown Corporation meet to discuss and resolve key issues as they arise. The Appointed Auditor will take the lead role in these discussions with the Provincial Auditor's support; and*
- *the Provincial Auditor complete his review of the Appointed Auditor's audit work before CIC's and its Subsidiary Crown Corporation's annual financial statements are approved. (30)*

Report of the Task Force on Roles, Responsibilities and Duties of Auditors

Section VII Summary of Conclusions and Recommendations

5 Reporting and Reporting Relationships (31)

5.1 Audit Report on the Financial Statements (31)

To ensure the Provincial Auditor has sufficient time to comment on the Appointed Auditor's report prior to its public release, the Task Force recommends that:

- *upon completion of the audit but prior to the Appointed Auditor finalizing the audit report on the reliability of the financial statements, the Appointed Auditor and the Provincial Auditor discuss the audit findings and agree on the contents of the audit report;*
- *upon finalizing the audit report on the reliability of the CIC Subsidiary Crown Corporation's financial statements, the Appointed Auditor and the Provincial Auditor discuss the audit report with the Corporation's management. The Appointed Auditor will take the lead role in these discussions with the Provincial Auditor's support; and*
- *the Appointed Auditor and the Provincial Auditor, then, discuss the audit report with the Corporation's audit committee. The Appointed Auditor will take the lead role in these discussions with the Provincial Auditor's support. (32)*

To ensure the Assembly is informed of the Provincial Auditor's participation in the audits of CIC Subsidiary Crown Corporations, the Task Force recommends that:

- *the Provincial Auditor provide to the Assembly a report listing those CIC Subsidiary Corporations in whose audits he participated; and*
- *the Provincial Auditor provide the above report in the same time frame as the tabling of those Subsidiary Crown Corporations' annual reports in the Assembly. (32)*

To ensure the Appointed Auditor and management of the CIC Subsidiary Crown Corporation are aware of the Provincial Auditor's intentions, the Task Force recommends that when the Provincial Auditor does not intend to participate in the audit of a CIC Subsidiary Crown Corporation, the Provincial Auditor advise the Appointed Auditor and the management of the CIC Subsidiary Crown Corporation that he will not be participating in the audit. (32)

Report of the Task Force on Roles, Responsibilities and Duties of Auditors

Section VII Summary of Conclusions and Recommendations

5.2 Section 12 Report (32)

To ensure the Assembly receives consistent information from the Provincial Auditor and the Appointed Auditor, the Task Force recommends that upon completing the audit examination of a CIC Subsidiary Crown Corporation and prior to finalizing reportable matters, the Appointed Auditor and the Provincial Auditor discuss the audit findings and agree on the contents of the Appointed Auditor's Section 12 report.

To ensure the Members of the Assembly and the public are aware of the Provincial Auditor's position, the Task Force recommends that when the Provincial Auditor does not participate in the audit of a CIC Subsidiary Crown Corporation that:

- *the Provincial Auditor advise the Members of the Assembly and the public in his Report of such cases where he has not participated in the audit of a CIC Subsidiary Crown Corporation; and*
- *the Provincial Auditor include the Appointed Auditor's Section 12 report, if any, in his Report along with an appropriate disclaimer of involvement in the audit. (34)*

5.3 Reliance Process and Reporting (34)

In order to facilitate reliance by the Provincial Auditor on the Appointed Auditor, the Task Force recommends that:

- *before the Appointed Auditor issues his audit opinions requested by the Provincial Auditor, the Appointed Auditor and the Provincial Auditor agree on these opinions. Matters reported in these opinions must be consistent with matters included in the Appointed Auditor's Section 12 report;*
- *after the Appointed Auditor issues his audit opinions, the Appointed Auditor and the Provincial Auditor discuss the opinions with the Corporation's and CIC's management. The Appointed Auditor will take the lead role in these discussions with the Provincial Auditor's support; and*

Report of the Task Force on Roles, Responsibilities and Duties of Auditors

Section VII Summary of Conclusions and Recommendations

- *the Appointed Auditor and the Provincial Auditor, then, discuss these opinions with the Corporation's audit committee. The Appointed Auditor will take the lead role in these discussions with the Provincial Auditor's support. (35)*

5.4 Constructive Services Letter to Management (35)

The Task Force recommends that before discussing the constructive services letters with management and the Corporation's Audit Committee, the Appointed Auditor and the Provincial Auditor agree on the contents of the letter. (35)

6 Reporting by the Provincial Auditor to the Legislative Assembly (36)

In order to improve the reporting to the Assembly, the Task Force recommends that:

- *prior to the finalization of the Provincial Auditor's Report to the Legislative Assembly, the Provincial Auditor and the Appointed Auditor agree on the contents of the applicable Chapter in the report. The Appointed Auditor must comply with the Provincial Auditor's confidentiality requirements;*
- *the applicable chapter in the Report to the Assembly recognize the contribution of the Appointed Auditor; and*
- *where there are no reportable matters with respect to CIC Subsidiary Crown Corporations, that the Provincial Auditor's Report to the Legislative Assembly identify (e.g., in an appendix) Corporations for which there are no reportable matters. (37)*

7 Auditors Serving the Standing Committees of the Legislative Assembly (37)

In order to serve the Standing Committees and to involve the Appointed Auditors in the review process, the Task Force recommends that:

- *the Provincial Auditor ensure the applicable Appointed Auditor is informed of both Committees' agendas for the review of corporation(s) they audited;*
- *the Provincial Auditor and the Appointed Auditor agree on a presentation to the Committees, if any. The Provincial Auditor takes the lead role with the Appointed Auditor's support; and*

Report of the Task Force on Roles, Responsibilities and Duties of Auditors

Section VII Summary of Conclusions and Recommendations

- *the Provincial Auditor and the Appointed Auditor agree on the protocol for responding to questions from the Committees. (38)*

Section VI Implementing and Monitoring the Task Force's Recommendations (39)

1 Responsibility for Implementation and Monitoring (39)

The Task Force recommends that at the completion of each audit, the Corporation's Audit Committee evaluate the implementation of the Task Force recommendations in their audit process, in consultation with management, the Appointed Auditor and the Provincial Auditor.

The Task Force recommends that the Corporation's Audit Committee communicate the results of this evaluation to management of the Corporation, CIC, the Appointed Auditor, and the Provincial Auditor.

The Task Force recommends that CIC and the Provincial Auditor jointly evaluate, in consultation with key constituents the implementation of the Task Force's recommendations in each of the next two years and communicate the results of each evaluation to key constituents. (40)

MERCHANT LAW GROUP

SASKATCHEWAN DRIVE PLAZA
108 - 2401 SASKATCHEWAN DRIVE
REGINA, SASK. S4P 4H8
FAX: (306) 622-3399
TEL: (306) 399-7777

GORDON J.E. NEILL, O.C.
DAVID A. HALVORSEN
ROBERT O. CROWE*
RODMALD E. SAUER
LEVIN A. CLARKE
DARRELL E. SCHOLAS
KENNETH R. SUMERS
* Resident in Saskatchewan

WILLIAM S. FURST*
MICHAEL D. TOCHOR
GERALD E. HERRMICH
L. JAMES NEUMER*
RONALD J. DUMONCEAUX*
MARK I. TOKARIE, P.Eng.*
OSWALD A. SMITH*
GEORGE EDWARD CLOVE
(1925-1989)

E.P. ANTHONY, B.Sc. HON. CLERK
HENRI P.V. BÉGIN, B.Sc. HON. CLERK
JAMES A. VOEL
TIMOTHY E. TURPLE*
DREW R. PELVE
DWAYNE Z. BRAUN*
R. NEIL SMITH*
* Member of other bars
(See Annex)

February 7, 1994

PROVINCIAL AUDITOR
1500 CHATEAU TOWER
1920 BROAD STREET
REGINA SK S4P 3V7

Dear Sir:

RE: VALUE FOR MONEY AUDITS
PROVINCIAL AUDITOR - GENERAL
OUR FILE: 550101 GKN

I have read the opinion given to the Workers' Compensation Board by MacPherson Leslie & Tyerman dated September 8, 1993 and find that while I am in substantial agreement with Mr. Andrychuk on a number of issues, there are others where I come to different conclusions.

Mr. Andrychuk is of the view that where the standards set by the Canadian Institute of Chartered Accountants are changed they cannot "expand the scope of the Provincial Auditor's obligation" under sub-section 11(1). He states "the scope of the audit required to be conducted by the Provincial Auditor (and by an appointed auditor) is found in subsection 11(1)(a) to (d) of the PAA".

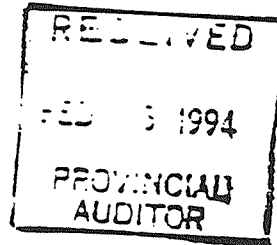
In fact, subsection 11(1) does not define the scope of the audit, as I understand it, but rather establishes the audit objectives. The scope of an audit is determined by subsection 11(3) and is "in accordance with generally accepted auditing standards as prescribed from time to time by the Canadian Institute of Chartered Accountants". When discussing the audit of financial statements, the Institute's Handbook, paragraph .12 requires a scope paragraph and says:

(...2)

CANTERBURY TOWERS
101 - 224 FOURTH AVENUE SOUTH
SASKATOON, SASK. S7N 1A6
FAX: (306) 975-1180
TEL: (306) 622-7777

SLADE MANOR
428 LANGDON CRESCENT
MOOSE JAW, SASK. S6H 6X3
TEL: (306) 665-7777

303 MAIN STREET
STOUONTON, SASK. S8G 4T8
TEL: (306) 645-9777
TEL: (306) 634-9777 SIBEVAN



FED FAX THIS END	
FAX	
To:	<i>Mr. Wemuel</i>
Dist:	<i>Provincial Auditor</i>
Fax No.:	<i>387-16789</i>
No. of Pages:	<i>5</i>
From:	<i>G.J.K. Neill</i>
Date:	<i>Feb 8/94</i>
Company:	<i>MERCHANT LAW GROUP</i>
Fax No.:	<i>387-16789</i>
Comments:	
Post-it	

- 2 -

"In the scope paragraph the auditor should state that:

- (a) the audit was conducted in accordance with generally accepted auditing standards;
- (b) those standards require that in order to be planned and performed to obtain reasonable assurance whether the financial statements are free of material misstatement;
- (c) an audit includes:
 - (i) examining on a test basis, evidence supporting the amounts and disclosures in the financial statements;
 - (ii) assessing the accounting principles used and significant estimates made by management; and
 - (iii) evaluating the overall financial statement presentation."

The Handbook goes on to explain:

"The purpose of the scope paragraph is for the auditor to inform the reader that the audit was planned and performed in accordance with professional standards, and that the auditor has made judgments in applying these standards. It is also useful to provide the reader with some explanation of the nature and extent of an audit and the degree of assurance it provides."

In value-for-money audits, because the reports vary depending on the mandate and in the scope and complexity of the particular audit, the Handbook provides in paragraph .36 of The Value-for-Money Auditing Standards contained in Public Sector Auditing Statement No. 4 the following:

"There is no standard report in current value-for-money auditing practice that is analogous to the auditor's standard report on financial statements. Value-for-money auditing reports vary between jurisdictions and audits depending on differences in audit mandates, and in the scope and complexity of the particular audit and its findings. Regardless of variations in reporting, there are some fundamental elements that should be included in any value-for-money auditing report. These are set out in the general Reporting Standard below.

.37 The auditor's report should:

- (i) describe the objectives and scope of the audit including any limitations therein;
- (ii) state that the examination was performed in accordance with the standards recommended in this Statement and accordingly included such tests and other procedures as the auditor considered necessary in the circumstances;
- (iii) identify the criteria and describe the findings which form the basis for the auditor's conclusions; and
- (iv) state the auditor's conclusions."

(...3)

- 3 -

In other words, to achieve the mandate (or objectives) set by the Legislature, the scope of the audit is a matter for your professional judgment.

What is your mandate? Section 11(1) provides:

"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."

It is for you to determine what is required to be done by your office, or what must be done by an appointed auditor if you are to rely on his work, in order to obtain these objectives. Your mandate is to formulate your opinion concerning the matters enumerated. As a professional you must do your best to meet the expectations of your client but it is for you to decide how best to achieve the required results.

Your client is the Legislative Assembly, and as its officer you answer to the Assembly as a whole. The Public Accounts Committee is the committee of the Legislative Assembly who is asked to review your reports, and although you can and do communicate directly with the Assembly itself, much of your interaction with the Legislature is through that committee. In recent years there has been increasing pressure, both from the Public Accounts Committee and from the public itself, for you to do more in the area of value-for-money auditing. Your authority to do this kind of audit has not been challenged although your resources have limited your ability to perform them in depth. Nevertheless, my understanding is that you have always performed value-for-money audits reporting on the adequacy of management systems, controls and practices including those intended to safeguard assets and that you have recently expanded these value-for-money audits into the area of economy and efficiency in connection with audits of the Department of Highways and the Annual Reports of Government Departments.

In interpreting The Provincial Auditor Act, in particular Section 11(1), I follow the dicta contained in Professor Driedger's book, The Construction of Statutes (2Ed.)(1983), at page 87:

(...4)

- 4 -

"Today there is only one principle or approach, namely, the words of an Act are to be read in their entire context and in their grammatical and ordinary sense, harmoniously with the scheme of the Act, the object of the Act and the intention of parliament."

In a number of previous opinions, I have stated the object of The Provincial Auditor Act in the following terms:

"The object of The Provincial Auditor Act is to create an officer of the Legislative Assembly, independent of the executive government, to audit accounts respecting public money and to report to the Legislative Assembly in order to enable the Legislature to effectively exercise its control over government spending and ensure that the executive government is accountable."

Needless to say, given the object of the Act, it is my opinion that subsection 11(1) in prescribing the objectives of your audit, when the words used are given their ordinary and grammatical meaning, does so in wide terms sufficient to enable you to conduct value-for-money auditing with respect to public monies.

Mr. Andrychuk, having reached a different conclusion with respect to subsection 11(3) states that subsection 11(1) does not require or authorize the Provincial Auditor to conduct value-for-money audits. My interpretation of subsection 11(3) allows for flexibility in the scope of audits and recognizes that auditing standards will vary and evolve. Incorporating the words "from time to time" in the subsection can have no other purpose but, even if those words were not there, Section 9 of The Interpretation Act provides:

"9(1) Every enactment shall be interpreted as always speaking.

(2) Where a provision in an enactment is expressed in the present tense, the provision applies to circumstances as they arise."

In my opinion, the legislature in setting objectives in subsection 11(1) does not intend to, nor does it, limit your professional judgment in determining what examinations you make to achieve the desired result. Otherwise, your opinion would be of little value and the object of the legislation frustrated.

Mr. Andrychuk finds comfort for his view in section 12(1) but in so doing he fails to quote 12(1) in its entirety and, in fact, quotes from it out of context. Section 12(1) provides that the Provincial Auditor, and every appointed auditor, shall prepare a report on the results of all examinations that they conducted. So, Section 12 does not limit the scope of the audit to be performed. The professional judgment of the Provincial Auditor determines what audits are required to meet the objective set for him by the legislation. The words used in the Act must be given such fair, large and liberal construction and interpretation that best ensures the attainment of its objects [see Section 10 of The Interpretation Act].

(...5)

- 5 -

I have, in a previous opinion, pointed out that you are the only auditor appointed by The Provincial Auditor Act. You are the auditor of the accounts of the Government of Saskatchewan and of public money. It is you who must formulate your opinion in accordance with subsection 11(1). The appointed auditor, by subsection 11(2) is made subject to your examination responsibilities. Accordingly, if in your opinion, the scope of the audit being undertaken by an appointed auditor is not sufficient to meet your reporting responsibilities then you can perform such examinations as you deem necessary in order to complete your report. This may be done at any time. The client of the appointed auditor is not the Legislative Assembly but those who appoint him. Therefore, he is limited in his enquiries to some extent by the instructions he receives. Since his client is the Crown or a Crown agency, it is not appropriate for his instructions to be used to limit your examinations on behalf of the Legislative Assembly who are seeking to hold the Crown or Crown agency accountable.

The provisions of The Workers' Compensation Act giving the Board exclusive jurisdiction to hear and determine all matters and questions arising under The Workers' Compensation Act, in my opinion, has no influence upon the scope of your audit or your right to report to the Legislature. The two Acts are not in conflict and can be read together.

In reaching some of his conclusions, Mr. Andrychuk seems to have overlooked section 24(1)(d) of The Legislative Assembly and Executive Council Act which provides as follows:

"The Assembly is a court and has all the rights, powers and privileges of a court for the purpose of summarily inquiring into and punishing:

. . . .

(d) assaults upon or interference with officers of the Assembly while in the execution of their duties;"

I trust this opinion is of some assistance to you.

Yours truly,

MERCHANT LAW GROUP

PER:


G.V. K. NEILL, Q.C.

GJKN*klw

Appendix I

NOTE:

All persons making use of this consolidation are reminded that it has no legislative sanction, that the amendments have been embodied only for convenience of reference and that the original statutes and regulations should be consulted for all purposes of interpretation and application of the law. Please note, however, that in order to preserve the integrity of the original statutes and regulations, errors that may have appeared are reproduced in this consolidation.

The Provincial Auditor Act

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;

Appendix I

(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;

(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. 1983, c.P-30.01, s.2; 1986-87-88, c.26, s.4.

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. 1986-87-88, c.26, s.5.**

(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.

Appendix I

(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. 1983, c.P-30.01, s.3; 1986-87-88, c.26, s.5.

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 that are provided to deputy ministers.

(4) The provincial auditor's salary is a charge on the consolidated fund. 1983, c.P-30.01, s.4.

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. 1983, c.P-30.01, s.5.

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. 1983, c.P-30.01, s.6.

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. 1983, c.P-30.01, s.7.

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.

Appendix I

(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 fund 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. 1983, c.P-30.01, s.8.

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 oath of secrecy required to be taken by, persons employed in that department, Crown agency or Crown-controlled corporation. 1983, c.P-30.01, s.9.

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. 1983, c.P-30.01, s.10.

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).

Appendix I

(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. 1986-87-88, c.26, s.6.

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.

(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. 1986-87-88, c.26, s.6.

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 reservation 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;

Appendix I

- (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.

(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. 1983, c.P-30.01, s.12; 1986-87-88, c.26, s.7.

13 The provincial auditor may prepare a special report to the Legislative Assembly on any matter that is, in his opinion, important or urgent. 1983, c.P-30.01, s.13.

14(1) Notwithstanding *The Tabling of Documents Act, 1991*, the provincial auditor shall submit to the Speaker, as soon as practicable:

- (a) his annual report prepared pursuant to section 12;

Appendix I

(b) any supplemental report based on the financial statements of the Government of Saskatchewan; and

(c) any special report that is prepared by him pursuant to section 13;

and the Speaker shall, as soon as practicable, lay before the Legislative Assembly each report received by him pursuant to this subsection.

(2) Where the Legislature is not in session when the Speaker is required to lay the reports referred to in subsection (1) before the Legislative Assembly, the Speaker shall submit the reports to the Clerk of the Legislative Assembly, whereupon such reports shall be deemed to be tabled.

(3) On receipt of the reports referred to in subsection (1), the Clerk of the Legislative Assembly shall:

(a) cause copies of the reports to be delivered to all members of the Legislative Assembly;

(b) make the reports available for public inspection during normal business hours of the Clerk of the Legislative Assembly.

(4) Where the Speaker submits the reports referred to in subsection (1) to the Clerk of the Legislative Assembly pursuant to subsection (2), those reports shall be deemed referred to the Standing Committee of the Legislative Assembly on Public Accounts. 1994, c.44, s.2.

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.

(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. 1983, c.P-30.01, s.15; 1986-87-88, c.26, s.9.

16(1) Where:

(a) the Legislative Assembly or the Standing Committee of the Legislative Assembly on Public Accounts:

Appendix I

- (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.

(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. 1983, c.P-30.01, s.16.

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,

Appendix I

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. 1983, c.P-30.01, s.17.

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. 1983, c.P-30.01, s.18.

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). 1983, c.P-30.01, s.19.

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. 1983, c.P-30.01, s.20.

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. 1983, c.P-30.01, s.21.

Appendix I

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 results of any audit or examination made by him. 1983, c.P-30.01, s.22.

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. 1983, c.P-30.01, s.23.

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. 1983, c.P-30.01, s.24; 1986-87-88, c.26, s.10.

25 The provincial auditor may examine any person on 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

Appendix I

exercise all the powers of commissioners under *The Public Inquiries Act*. 1983, c.P-30.01, s.25.

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. 1983, c.P-30.01, s.26; 1986-87-88, c.26, s.11.

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. 1986-87-88, c.26, s.12.

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. 1983, c.P-30.01, s.27.

28 The provincial auditor may charge a reasonable fee for professional services provided by his office. 1983, c.P-30.01, s.28.

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. 1983, c.P-30.01, s.29.

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

Appendix I

(b) shall not communicate those matters to any person, other than when he is required to 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. 1983, c.P-30.01, s.30; 1986-87-88, c.26, s.13.

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. 1983, c.P-30.01, s.31; 1986-87-88, c.26, s.14.

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. 1983, c.P-30.01, s.32.

REGINA, SASKATCHEWAN
Printed by the authority of
THE QUEEN'S PRINTER

Appendix II

List of organizations subject to an examination under *The Provincial Auditor Act*

Appendix II 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, 1997.

Departments and Secretariats:	Year End
Department of Agriculture and Food	March 31
Department of Economic Development	March 31
Department of Education	March 31
Department of Energy and Mines	March 31
Department of Environment and Resource Management	March 31
Department of Finance	March 31
Department of Health	March 31
Department of Highways and Transportation	March 31
Department of Intergovernmental Affairs	March 31
Department of Justice	March 31
Department of Labour	March 31
Department of Municipal Government	March 31
Department of Post-Secondary Education and Skills Training	March 31
Department of Social Services	March 31
Executive Council	March 31
Indian and Metis Affairs Secretariat	March 31
Women's Secretariat	March 31
Crown Agencies:	
CIC Forest Products Ltd.	April 30
Carlton Trail Regional College	June 30
Cumberland Regional College	June 30
Cypress Hills Regional College	June 30
North West Regional College	June 30
Northlands College	June 30
Parkland Regional College	June 30
Prairie West Regional College	June 30
Saskatchewan Indian Regional College	June 30
Saskatchewan Institute of Applied Science and Technology	June 30
Saskatchewan Vegetable Marketing and Development Board	June 30
Southeast Regional College	June 30
Teachers' Superannuation Commission	June 30
Canodev Research Inc.	July 31
Saskatchewan Canola Development Commission	July 31

Appendix II

Crown Agencies (continued):	Year End
Saskatchewan Flax Development Commission	July 31
Saskatchewan Grain Car Corporation	July 31
Saskatchewan Pulse Crop Development Board	August 31
National Pig Development (Canada) Co. Ltd.	September 30
Bayhurst Gas Limited	December 31
Channel Lake Petroleum Ltd.	December 31
CIC Industrial Interests Inc.	December 31
CIC Mineral Interests Corporation	December 31
CIC Pulp Ltd.	December 31
Crown Investments Corporation of Saskatchewan	December 31
DirectWest Publishers Inc.	December 31
Greystone Capital Management Inc.	December 31
KROP Transport Ltd.	December 31
Liquor Board Superannuation Commission, The	December 31
Many Islands Pipe Lines (Canada) Limited	December 31
Milk Control Board	December 31
Moose Jaw Packers (1974) Ltd.	December 31
Municipal Employees' Pension Commission	December 31
Municipal Financing Corporation of Saskatchewan	December 31
Municipal Potash Tax Sharing Administration Board	December 31
Northern Enterprises Fund Inc.	December 31
NST Network Services Inc.	December 31
Power Greenhouses Inc.	December 31
Power Corporation Superannuation Board	December 31
Saskatchewan Assessment Management Agency	December 31
Saskatchewan Auto Fund	December 31
Saskatchewan Broiler Hatching Egg Producers' Marketing Board	December 31
Saskatchewan Chicken Marketing Board	December 31
Saskatchewan Commercial Egg Producers' Marketing Board	December 31
Saskatchewan Development Fund Corporation	December 31
Saskatchewan Forest Products Corporation	December 31
Saskatchewan Government Growth Fund Ltd.	December 31
Saskatchewan Government Growth Fund II Ltd.	December 31
Saskatchewan Government Growth Fund III Ltd.	December 31
Saskatchewan Government Growth Fund IV Ltd.	December 31
Saskatchewan Government Growth Fund Management Corporation	December 31
Saskatchewan Government Insurance	December 31
Saskatchewan Housing Corporation	December 31
Saskatchewan Opportunities Corporation	December 31
Saskatchewan Pension Plan Board of Trustees	December 31
Saskatchewan Power Corporation	December 31
Saskatchewan Sheep Development Board	December 31
Saskatchewan Telecommunications	December 31

Appendix II

Crown Agencies (continued):	Year End
Saskatchewan Telecommunications Holding Corporation	December 31
Saskatchewan Telecommunications International, Inc.	December 31
Saskatchewan Transportation Company	December 31
Saskatchewan Turkey Producers' Marketing Board	December 31
Saskatchewan Water Corporation	December 31
SaskEnergy Incorporated	December 31
SaskEnergy International Incorporated	December 31
SaskPen Properties Ltd.	December 31
SaskPower Commercial Inc.	December 31
SaskTel UK Holdings Inc.	December 31
SGI CANADA Insurance Services Ltd.	December 31
South Saskatchewan River Irrigation District No. 1	December 31
SPI Marketing Group	December 31
Staff Pension Plan for Employees of the Saskatchewan Legal Aid Commission	December 31
TransGas Limited	December 31
Workers' Compensation Board	December 31
Agricultural Credit Corporation of Saskatchewan	March 31
Agricultural Implements Board	March 31
Assiniboine Valley District Health Board	March 31
Battlefords District Health Board	March 31
Board of Governors, Uranium City Hospital	March 31
Central Plains District Health Board	March 31
East Central District Health Board	March 31
Gabriel Springs District Health Board	March 31
Greenhead District Health Board	March 31
Health Services Utilization and Research Commission	March 31
La Ronge Hospital Board	March 31
Law Reform Commission of Saskatchewan	March 31
Living Sky District Health Board	March 31
Lloydminster District Health Board	March 31
Midwest District Health Board	March 31
Moose Jaw-Thunder Creek District Health Board	March 31
Moose Mountain District Health Board	March 31
New Careers Corporation	March 31
North Central District Health Board	March 31
North-East District Health Board	March 31
North Valley District Health Board	March 31
Northwest District Health Board	March 31
Parkland District Health Board	March 31
Pasquia District Health Board	March 31
Pipestone District Health Board	March 31
Prairie Agricultural Machinery Institute	March 31

Appendix II

Crown Agencies (continued):	Year End
Prairie West District Health Board	March 31
Prince Albert District Health Board	March 31
Public Employees (Government Contributory) Superannuation Plan Supervisory Board	March 31
Public Service Commission, The	March 31
Public Service Superannuation Board	March 31
Regina District Health Board	March 31
Rolling Hills District Health Board	March 31
Saskatchewan Arts Board, The	March 31
Saskatchewan Cancer Foundation	March 31
Saskatchewan Centre of the Arts	March 31
Saskatchewan Communications Network Corporation	March 31
Saskatchewan Crop Insurance Corporation	March 31
Saskatchewan Energy Conservation and Development Authority	March 31
Saskatchewan Gaming Corporation	March 31
Saskatchewan Legal Aid Commission	March 31
Saskatchewan Liquor and Gaming Authority	March 31
Saskatchewan Lotteries Trust Fund for Sports, Culture and Recreation	March 31
Saskatchewan Municipal Board	March 31
Saskatchewan Property Management Corporation	March 31
Saskatchewan Research Council, The	March 31
Saskatchewan Trade and Export Partnership Inc.	March 31
Saskatchewan Wetland Conservation Corporation	March 31
Saskatoon District Health Board	March 31
South Central District Health Board	March 31
South Country District Health Board	March 31
South East District Health Board	March 31
Southwest District Health Board	March 31
SP Two Properties Ltd.	March 31
St. Louis Alcoholism Rehabilitation Centre	March 31
Swift Current District Health Board	March 31
Touchwood Qu'Appelle District Health Board	March 31
Transportation Partnerships Corporation	March 31
Twin Rivers District Health Board	March 31
Water Appeal Board	March 31
Western Development Museum	March 31

Special Purpose and Trust Funds:

Doukhobors of Canada C.C.U.B. Trust Fund	May 31
Capital Pension Plan	December 31
Extended Health Care Plan	December 31
Northern Revenue Sharing Trust Account	December 31

Appendix II

Special Purpose and Trust Funds (continued):	Year End
Public Employees Deferred Salary Leave Fund	December 31
Public Employees Dental Fund	December 31
Public Employees Disability Income Fund	December 31
Public Employees Group Life Insurance Fund	December 31
Saskatchewan Development Fund	December 31
Saskatchewan Government Insurance Superannuation Plan	December 31
Saskatchewan Research Council Employees' Pension Plan	December 31
Saskatchewan Telecommunications Superannuation Board	December 31
Workers' Compensation Superannuation Board	December 31
Agri-Food Innovation Fund	March 31
Beef Development Board	March 31
Cattle Marketing Deductions Fund	March 31
Commercial Revolving Fund	March 31
Conservation and Development Revolving Fund	March 31
Correctional Facilities Industries Revolving Fund	March 31
Correspondence School Revolving Fund	March 31
Crop Reinsurance Fund of Saskatchewan	March 31
First Nations Fund	March 31
Fish and Wildlife Development Fund	March 31
General Revenue Fund	March 31
Highways Revolving Fund	March 31
Horned Cattle Fund	March 31
Judges of the Provincial Court Superannuation Fund	March 31
Learning Resources Distribution Centre Revolving Fund	March 31
Livestock Services Revolving Fund	March 31
Members of the Legislative Assembly Superannuation Fund	March 31
Oil and Gas Environmental Fund	March 31
Prepaid Funeral Services Assurance Fund	March 31
Private Vocational Schools Training Completion Fund	March 31
Provincial Mediation Board Trust Account	March 31
Provincial Mediation Board - Office of the Rentalsman Trust Account	March 31
Public Employees Benefit Agency Revolving Fund	March 31
Public Trustee for Saskatchewan	March 31
Queen's Printer Revolving Fund	March 31
Resource Protection and Development Revolving Fund	March 31
Saskatchewan Heritage Foundation	March 31
Saskatchewan Legal Aid Commission Client Trust Accounts	March 31
Saskatchewan Student Aid Fund	March 31
School Division Tax Loss Compensation Fund	March 31
Sinking Fund	March 31
Social Services Central Trust Account	March 31
Trust Funds at Court House, Local Registrars and Sheriff's Offices	March 31
Victims' Fund	March 31

Appendix II

Other organizations subject to examination under *The Provincial Auditor Act*:

Legislative Assembly Office	March 31
Ombudsman and Children's Advocate, Office of the	March 31
Provincial Auditor, Office of the	March 31
Saskatchewan Archives Board, The	March 31
Wanuskewin Heritage Park Corporation	March 31
University of Regina, The	April 30
University of Regina Crown Foundation	April 30
University of Regina Academic and Administrative Employees Pension Plan	December 31
University of Regina Pension Plan for Eligible Part-Time Employees	December 31
University of Regina Master Trust	December 31
University of Regina Non-Academic Pension Plan	December 31
University of Saskatchewan, The	April 30
University of Saskatchewan Crown Foundation	April 30
University of Saskatchewan Long Term Disability Fund	April 30
University of Saskatchewan Academic Employees' Pension Plan	December 31
University of Saskatchewan Clinicians Service-Side Pension Plan	December 31
University of Saskatchewan and Federated Colleges Non-Academic Pension Plan	December 31

Appendix III

Audits not completed at October 31, 1997

The Standing Committee on Public Accounts recommends an audit of every government agency every year.

This Report includes all audits completed at October 31, 1997 for government agencies with fiscal periods ended December 31, 1996 or earlier. Since 1988, we have prepared our Reports without completing all audits. This practice is necessary to improve the timeliness of the information given to the Members of the Legislative Assembly.

We will report audits completed after October 31, 1997 for government agencies with fiscal periods ended December 31, 1996 or earlier to the Legislative Assembly in a future Report.

We have not completed the audit of the following government agencies with years ended December 31, 1996 or earlier at October 31, 1997, and we will report our findings in a future Report to the Legislative Assembly.

This Report also includes several government agencies with years ended March 31, 1997. Over the next two or three years, we plan to improve the timeliness of our work so all March year ends are reported in our fall reports and December year ends are reported in our spring reports. This Report begins the transition.

Greystone Capital Management Inc. (1988 - 1996 inclusive)
Liquor Board Superannuation Commission, The
Municipal Employees' Pension Commission
Saskatchewan Broiler Hatching Egg Producers' Marketing Board
Saskatchewan Chicken Marketing Board
Saskatchewan Commercial Egg Producers' Marketing Board
Saskatchewan Flax Development Commission
Saskatchewan Pulse Crop Development Board
Saskatchewan Sheep Development Board
Saskatchewan Turkey Producers' Marketing Board
Saskatchewan Vegetable Marketing and Development Board
SaskPen Properties Ltd.
SP Two Properties Ltd.
University of Regina Academic and Administrative Employees Pension Plan (1995 and 1996)
University of Regina Master Trust (1995 and 1996)
University of Regina Non-Academic Pension Plan (1995 and 1996)
University of Regina Pension Plan for Eligible Part-Time Employees (1995 and 1996)
University of Saskatchewan Academic Employees' Pension Plan
University of Saskatchewan Clinicians Service-Side Pension Plan
University of Saskatchewan and Federated Colleges Non-Academic Pension Plan
Workers' Compensation Superannuation Board

Appendix IV

Organizations where we found no significant matters to report to the Legislative Assembly

Appendix IV lists government organizations where we have completed our work with fiscal periods ended June 30, 1997 or earlier that, in our and the organization's appointed auditor's opinion, had:

- reliable financial statements;
- adequate rules and procedures to safeguard and control their assets;
- complied with the authorities governing their activities relating to financial reporting, safeguarding of assets, revenue raising, spending, borrowing, and investing: and
- no other matters requiring the attention of the Legislative Assembly.

We report elsewhere in this Report on those government organizations where we found matters or issues requiring the attention of the Legislative Assembly.

Departments and Secretariats:

Department of Intergovernmental Affairs
Indian and Metis Affairs Secretariat

Crown Agencies:

Agricultural Credit Corporation of Saskatchewan
Agricultural Implements Board
Health Services Utilization and Research Commission
Law Reform Commission of Saskatchewan
Municipal Financing Corporation of Saskatchewan
Public Service Commission, The
Saskatchewan Cancer Foundation
Saskatchewan Communications Network Corporation
Saskatchewan Crop Insurance Corporation
Saskatchewan Energy Conservation and Development Authority
Saskatchewan Forest Products Corporation
Saskatchewan Institute of Applied Science and Technology
Saskatchewan Legal Aid Commission
Saskatchewan Municipal Board
Saskatchewan Property Management Corporation
Saskatchewan Wetland Conservation Corporation
St. Louis Alcoholism Rehabilitation Centre
South Saskatchewan River Irrigation District No. 1

Appendix IV

Crown Agencies: (continued)

Transportation Partnerships Corporation
Water Appeal Board
Western Development Museum

Special Purpose and Trust Funds:

Capital Pension Plan
Correspondence School Revolving Fund
Crop Reinsurance Fund of Saskatchewan
Doukhobors of Canada C.C.U.B. Trust Fund
Extended Health Care Plan
Learning Resources Distribution Centre Revolving Fund
Private Vocational Schools Training Completion Fund
Public Employees Benefit Agency Revolving Fund
Public Employees Deferred Salary Leave Fund
Saskatchewan Government Insurance Superannuation Plan
Saskatchewan Legal Aid Commission Client Trust Accounts
Saskatchewan Research Council Employees' Pension Plan
Saskatchewan Telecommunications Superannuation Board
Social Services Central Trust Account

Appendix V

Examples of opinions we form on departments, Crown agencies and Crown-controlled corporations

Our mission states "We encourage accountability and effective management in government operations". We do this by examining and reporting on:

- the reliability of financial information;
- compliance with authorities;
- the adequacy of management systems and practices related to financial reporting, compliance with authorities and safeguarding assets; and
- the adequacy of management systems and practices related to due regard to economy, efficiency and effectiveness.

Our examinations and reports focus on the Government as a whole, sectors or programs of government, and individual government organizations. This Appendix contains examples of the audit opinions we form to provide our assurances on financial statements, compliance with authorities, and management practices in this Report. We use the auditing standards recommended by The Canadian Institute of Chartered Accountants for the public sector to form our opinions.

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 examined the system of internal control of [Crown Agency X] in effect as at [date]. I did not examine certain aspects of internal control concerning the effectiveness, economy, and efficiency of certain management decision making processes. The criteria for the examination of this system of internal control consisted of the control environment and control systems described in The Canadian Institute of Chartered Accountants Handbook.

My examination was conducted in accordance with generally accepted auditing standards. Those standards require that I plan and perform an examination to obtain reasonable assurance whether the system of internal control established and maintained by management is sufficient to meet the control objectives referred to below. Such an examination includes obtaining an understanding of the system of internal control and performing tests of controls to determine whether the internal controls exist and operate effectively.

The management of [Crown Agency X] is responsible for establishing and maintaining a system of internal control to achieve the control objectives noted in (a) to (d) below. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits

Appendix V

and related costs of control procedures. Pursuant to my responsibilities under Section 11(1) of *The Provincial Auditor Act*, I am 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 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 [Crown Agency X] 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 [Crown Agency X].

Or if the examination disclosed conditions that, individually or in combination result in one or more material weaknesses, the opinion paragraph should be modified as follows:

My examination disclosed the following conditions in the system of internal control of [Crown Agency X] 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 [Crown Agency X] 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

Chartered Accountant

Appendix V

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 [Crown Agency X] complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding 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, [Crown Agency X] 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

Chartered Accountant

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 [Crown Agency X] as at [date] and the statements of income, retained earnings and changes in financial position for the year then ended. The [Crown Agency X]'s management is responsible for preparing these financial statements for Treasury Board's approval. 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 [Crown Agency X] 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

Chartered Accountant

**Report of the Provincial Auditor
to the Legislative Assembly
of Saskatchewan**

on

**Executive Council (Cabinet)
&
SaskPower**



SASKATCHEWAN

April 1997

Our Vision

We envision effective, open and accountable government.

We are committed to making a difference by encouraging excellence in public sector management and reporting practices.

Our Mission

Our Office serves the people of Saskatchewan through the Legislative Assembly.

We encourage accountability and effective management in government operations through our independent examinations, advice and reports on the management of public resources entrusted to the government.

Our Values

We value:

Accountability - taking responsibility for, and explaining one's actions;

Objectivity - independence, integrity and professionalism;

Open communication - understandable, fair, clear and honest;

Effectiveness - economic, efficient and effective management;

Courtesy - polite and equitable treatment for all;

Public confidence - earning and keeping the respect and confidence of the public and their elected representatives; and

Our Employees - Our employees are our strength and major resource in achieving our mission and values. We value fairness and equity, personal development, creativity, challenge and innovation, teamwork and leadership. We also value balance and harmony between work, home and community responsibilities.



SASKATCHEWAN

Provincial Auditor Saskatchewan

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

Phone: (306) 787-6360
Fax: (306) 787-6383
Internet e-mail: wayne.strelioff.pas@govmail.gov.sk.ca

April 17, 1997

The Honourable Glenn Hagel
Speaker of the Legislative Assembly
Room 129, Legislative Building
REGINA, Saskatchewan
S4S 0B3

Dear Sir:

I have the honour of submitting my *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan on Executive Council (Cabinet) & SaskPower* to be laid before the Legislative Assembly in accordance with the provisions of Section 14 of *The Provincial Auditor Act*.

Respectfully submitted,

Wayne Strelioff, CA
Provincial Auditor

/lk

Executive Council (Cabinet) & SaskPower

Table of Contents

Purpose . . . . .	.01
Background . . . . .	.03
Cabinet directs SaskPower not to record revenue . . . . .	.07
Cabinet-directed accounting rules must be assessed for appropriateness . . . . .	.13
The report of SaskPower's appointed auditor . . . . .	.25
Exhibit 1 SaskPower - 10 year financial data	Page 8
Exhibit 2 SaskPower invoice to customers	Page 9

Executive Council (Cabinet) & SaskPower

Purpose

.01 I am issuing this Special Report to advise the Legislative Assembly that SaskPower understates revenue and net income in its *1996 Annual Report*.

.02 Also, I am issuing this Special Report to express my concerns about moving to a system of accounting in which revenues and expenses are measured differently by government corporations. Such a system would make it nearly impossible to understand, compare and assess the performance of government corporations such as SaskPower, SaskTel, SaskEnergy and STC.

Background

.03 Executive Council (Cabinet) is made up of the Premier and the Ministers of Government. One of the responsibilities of Cabinet is to oversee the activities of the Saskatchewan Power Corporation (SaskPower). SaskPower supplies electrical energy in the Province.

.04 In its 1996 financial statements, SaskPower reports total revenue of \$968 million and net income of \$139 million.

.05 In my opinion, both SaskPower's 1996 total revenue and net income are understated by \$14 million. SaskPower's total revenue should be reported as \$982 million not \$968 million. SaskPower's net income should be reported as \$153 million not \$139 million.

.06 In Exhibit 1, I set out a ten year summary of SaskPower's revenue and net income.

Cabinet directs SaskPower not to record revenue

.07 In 1995, Cabinet decided that in addition to the basic monthly charge, a new monthly flat-rate charge should be paid by SaskPower customers beginning January 1, 1996. Cabinet directed SaskPower not to record the money as revenue.

.08 SaskPower calls this new flat-rate monthly charge a "reconstruction charge" (see Exhibit 2 - SaskPower invoice to customers). In 1996, SaskPower billed customers \$14 million as a result of this charge. In future years, SaskPower expects to bill its customers a similar amount.

.09 In its 1996 financial statements, SaskPower followed the accounting rules set by Cabinet. SaskPower did not report as revenue the \$14 million charged to its customers. Also,

Executive Council (Cabinet) & SaskPower

SaskPower plans to report the \$14 million as a reduction in the amount of expenses SaskPower will report in the future.

.10 In my opinion, the \$14 million “reconstruction charge” should be reported as revenue because, in 1996, SaskPower billed this amount as part of the rates it charged for the electrical energy supplied to its customers. It is a commonly understood accounting practice that what a business charges for services and products is recorded as revenue. Therefore, SaskPower’s 1996 financial statements understate both revenue and net income by \$14 million.

I recommend

.11 Cabinet should direct SaskPower to:

- record the “reconstruction charge” as revenue;
- record the revenue from the “reconstruction charge” in the year customers are charged; and
- amend and re-issue its 1996 financial statements, accordingly.

.12 Cabinet directed SaskPower to use the money collected from the “reconstruction charge” to help pay for infrastructure upgrades and reconstruction. If Cabinet wishes to demonstrate publicly that the revenue from this charge is used for infrastructure upgrades and reconstruction, that information can be disclosed in the notes to SaskPower’s financial statements.

Cabinet-directed accounting rules must be assessed for appropriateness

.13 Government officials advise that, in other provinces, industry practice is to use, and auditors to accept, accounting rules required by the body that has the authority to set the rates charged to customers.

.14 They point out, in Saskatchewan, Cabinet is the body that has the authority to set rates. Therefore, they argue I should accept, as appropriate, accounting rules specified to SaskPower by Cabinet.

.15 I do not accept this argument. My responsibility to the Legislative Assembly is to assess the appropriateness of the accounting rules used by government organizations to portray their financial performance. This responsibility is not changed

when Cabinet chooses to direct one of its organizations to use a specific accounting rule.

.16 When Cabinet tells SaskPower to account for a transaction in a specific manner, I must assess whether such an accounting is appropriate.

.17 If I did not make such an assessment, I would be encouraging an accounting system in which government corporations might account for similar transactions differently or account for similar transactions differently from one year to the next.

.18 In such a system, the important performance measures, e.g., net income and return on investment, contained within financial statements would not be useful because those measures would be calculated differently. This would make it difficult to understand, compare and assess the performance of government corporations.

.19 Financial statements contain many important measures of financial performance. Readers of those statements use those measures to help them assess the performance of organizations and to determine whether they agree with the direction provided to those organizations by the Government.

.20 I expect all Saskatchewan government corporations to follow the rules set out in the Handbook of The Canadian Institute of Chartered Accountants (CICA). The Handbook provides accounting rules for measuring revenue. Using those rules ensures the financial performance of corporations is measured in a consistent and comparable manner.

.21 Currently, all subsidiary corporations of the Crown Investments Corporation of Saskatchewan (CIC) follow the accounting rules set out in the CICA Handbook, except SaskPower. As discussed, SaskPower is following accounting rules specified by Cabinet.

.22 Over the last six years, the Government has strengthened the integrity of the financial information provided to the Assembly by moving to accounting rules set by the CICA, an independent standard-setting body. For example, accrual accounting is used by government departments. The recently created health districts prepare consistent and comparable

Executive Council (Cabinet) & SaskPower

financial statements. The Government now publishes excellent summary financial statements.

.23 In addition, CIC now ensures its performance is more transparent by publishing its own financial statements as well as those of its subsidiaries. There are other examples of good financial reporting progress.

.24 The practices followed and arguments posed by government officials with respect to SaskPower are a worrisome step backwards.

The report of
SaskPower's
appointed auditor

.25 My Office worked with SaskPower's appointed auditor, Ernst & Young, using the framework recommended by the Task Force on Roles, Responsibilities and Duties of Auditors.

.26 Ernst & Young concludes the financial statements of SaskPower are reliable. This conclusion is set out in the *1996 Annual Report* of SaskPower tabled in the Legislature on April 14, 1997. Ernst & Young told me it agrees with the views expressed by government officials. In paragraphs .13 and .14, I describe those views.

.27 In my opinion, the financial statements of SaskPower are reliable except for the failure to properly record the "reconstruction charge" as revenue. In this respect, the financial statements are not in accordance with generally accepted accounting principles.

.28 I relied on Ernst & Young's report on financial statements except for the matter of the "reconstruction charge."

.29 *The Provincial Auditor Act* requires my Office to do additional audit procedures when we cannot rely on the report of an appointed auditor. Our additional procedures included research and discussions with government officials and Ernst & Young.

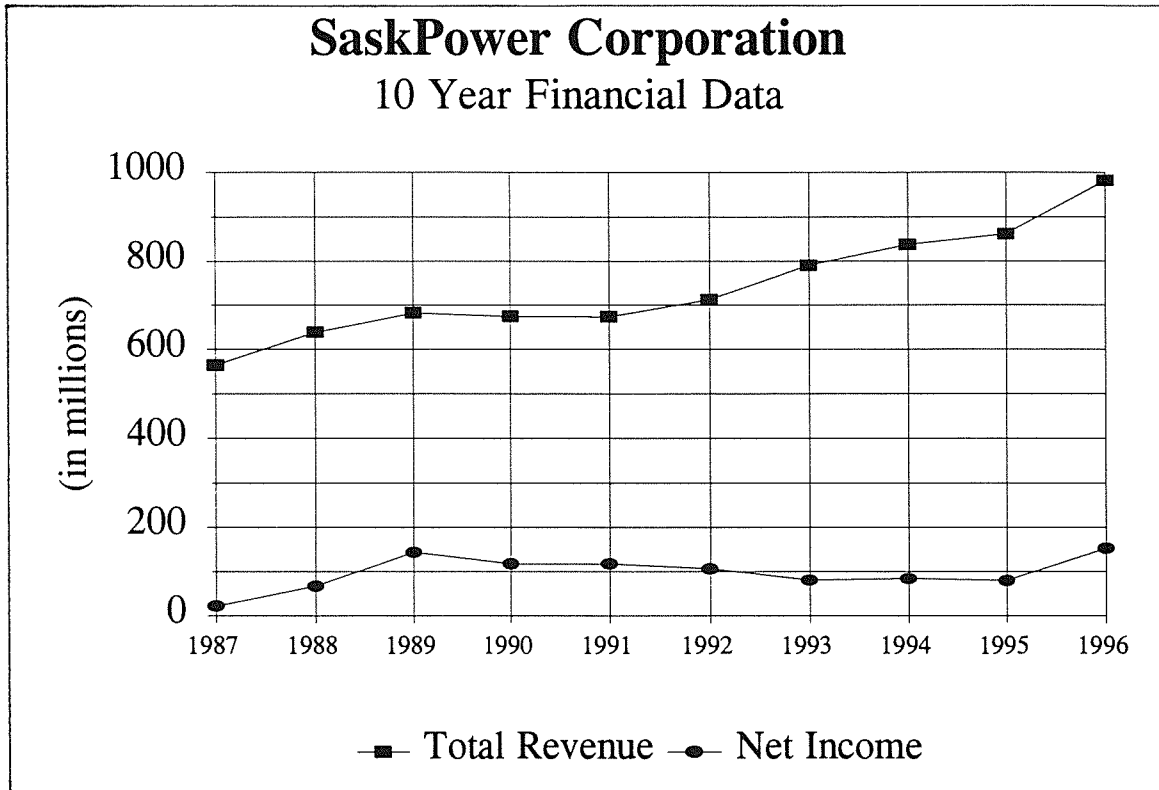
.30 During our discussions, Ernst & Young and government officials referred me to the financial statements of utility corporations in other provinces. I could not find an example of a similar "reconstruction charge." Also, I could not find an example where the Executive Council (Cabinet) of a provincial government sets the rates charged by such corporations. Unlike other provinces, Saskatchewan does not have a separate public

Executive Council (Cabinet) & SaskPower

rate regulator that has the authority to set or review rates charged to customers.

.31 However, in other provinces, utility corporations use accounting rules set by public rate regulators. Those rules vary from the general income measurement rules recommended by The CICA. As a result, the accounting measures in their financial statements are not comparable among "rate-regulated" corporations and are not comparable to other business enterprises.

.32 I have asked The CICA to consider examining practices of "rate-regulated" corporations. The CICA advises the matter is referred to the Accounting Standards Board.



Year	Total Revenue	Net Income
	(in millions)	
1996	\$ 982 *	\$ 153 *
1995	861	80
1994	837	85
1993	790	81
1992	712	107
1991	674	118
1990	675	118
1989	683	144
1988	639	68
1987	565	23

* Restated to include \$14 million reconstruction charge

Source of this data: *SaskPower's Annual Reports*

Executive Council (Cabinet) & SaskPower

Exhibit 2

SaskPower invoice to customers



2025 Victoria Avenue,
Regina, Saskatchewan
S4P 0S1

Name:

Account number:

Service address:

Customer reference:

Type of service:

Direct inquiries to your local office at:

Business hours:

Your daily electric use			
<u>Year</u>	<u>Number of days billed</u>	<u>kWh per day</u>	<u>Cost per day</u>
96	371	27	\$2.55
95	364	30	\$2.64

GST registration number: R119429678

After payment, keep this portion for your records

Bill issued Dec 12, 1996

Balance from previous bill	76.14		
Payment received Dec 04, 1996 - Thank you	-76.14		

Balance Forward	.00	...	\$0.00

Electricity billed for

Dec 12, 1996 estimated meter reading	98627		
Nov 14, 1996 estimated meter reading	97799		

Electricity billed for - 28 days	828 kW.h		

Electrical charges

Basic monthly charge \$9.87	9.87		
Cost of electricity 828 kW.h x \$.07010/kW.h	58.04		

Total electrical charges	67.91	...	67.91

Other charges

Reconstruction charge	2.00		
GST \$2.00 x 7%	.14		

Total	2.14	...	2.14



Surcharge and taxes

Municipal surcharge-REGINA-\$67.91 x 10%	6.79		
GST \$67.91 + \$6.79 = \$74.70 x 7%	5.23		

Total surcharge and taxes	12.02	...	12.02

Late Payment Charge Assessed on Amounts Unpaid as of Jan 09, 1997

Payment due upon receipt of bill
See reverse side for terms of payment

Total Due \$82.07

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

**Internet e-mail: prov.auditor.pas@govmail.gov.sk.ca
Website: www.legassembly.sk.ca/ProvAud/default.htm**