



SASKATCHEWAN

Provincial Auditor Saskatchewan



**1998 Fall Report
Volume 2**



Provincial Auditor Saskatchewan

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

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

E-mail: info@auditor.sk.ca
Website: www.auditor.sk.ca

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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.

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.



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

November 20, 1998

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 *1998 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 Strelioff

Wayne Strelioff, CA
Provincial Auditor

/dd

Foreword

I am pleased to present my *1998 Fall Report - Volume 2* to the Legislative Assembly. This Report focuses on the results of our work at government organizations with years ended March 31, 1998.

I wish to thank all the staff and officials of the government organizations audited by my Office for their co-operation and assistance. Also, I wish to thank the staff of my Office for their constant pursuit of excellence in public sector management and reporting practices.

Regina, Saskatchewan
November 20, 1998



Wayne Strelieff, CA
Provincial Auditor

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Observations

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Introduction

In this 1998 Fall Report - Volume 2 to the Legislative Assembly, I set out conclusions, findings and recommendations that relate primarily to my audits of government organizations with fiscal years ended March 31, 1998. These organizations include government departments, special purpose funds, health and educational institutions as well as many boards and commissions. I also include the results of my audit of SaskPower for its year ended December 31, 1997.

In September, I issued my 1998 Fall Report - Volume 1. Volume 1 focuses on describing the state of the Government's finances. In that Report, I state the Government's finances continue to improve but remain fragile. The Government's finances continue to improve because the economy of Saskatchewan has grown and because, during each of the past four years, the Government has spent less than it raised in revenues.

The Government's finances remain fragile because the Government's accumulated deficit and revenue demands are large when compared to the size of Saskatchewan's economy. In addition, Saskatchewan's economy is particularly vulnerable to changes in such factors as commodity prices, interest rates, foreign exchange rates, and the weather.

Volumes 1 and 2 of my 1998 Fall Report can be found at our website - www.auditor.sk.ca.

Performance measurement and accountability

For several years, I have encouraged the Government to focus more of its management and accountability efforts on achieving and reporting on measurable results. The general consensus across Canada and elsewhere is that well-performing governments are able to demonstrate they are doing the right things well. Well-performing organizations focus their efforts on achieving measurable results rather than on carrying out levels of activity within prescribed authority limits.

In my 1998 Spring Report, I note a similar consensus is emerging in Saskatchewan. I point out examples of government organizations that are beginning to rethink how they assess their performance. These leaders are also beginning to set out the goals they are working to achieve in terms of clear and measurable objectives.

I also argue in that Report that legislators need to encourage more leaders to emerge. Some government organizations seem to be reluctant to publicly disclose their goals and their plans to achieve their goals. Organizations worry they will then need to explain publicly why plans change or why actual results vary from those planned. Changing plans and explaining why is a normal and healthy part of managing any organization. In the private as well as the public sector, such explanations, when done in a timely manner, gain stakeholder confidence and trust.

In our most recent audits, I am encouraged to find more government organizations and their managers responding.

In addition, I am particularly encouraged by two recent developments.

First in their October 1998 meetings, members of the Standing Committee on Public Accounts (PAC) focused many of their questions on what organizations are trying to achieve and how government officials know if their organizations are successful. Such questions signal that legislators expect officials to achieve results.

In responding to these questions, some government officials were able to describe the purpose of their organizations in terms of clear and measurable objectives. Some described the challenges or risks they face, and the measures or indicators they monitor to determine whether their organizations are successful. Other officials said they are working on performance and accountability systems that will provide such information.

I continue to encourage all legislators to seek opportunities to ask government officials similar questions including:

- ◆ What is your organization trying to achieve in terms of clear and measurable objectives?
- ◆ What performance indicators do you use (and why) to determine whether your organization is successful in achieving its objectives?
- ◆ What are the key risks your organization must manage well to successfully achieve your objectives?

- ◆ Where can the public obtain information about the status of your organization's objectives, performance indicators and key risks?
- ◆ What are the future plans of your organization?

Second also in October, the Minister of Finance announced he is initiating a review of the Government's budget process including a review of the systems used for performance measurement and accountability.

This initiative is an important opportunity for positive and much needed change for the entire government. Government officials and legislators need a more relevant and rigorous system of resource allocation, performance management and accountability.

I suggest a two-step approach to this important Government initiative. The first step can be taken quickly because it relates to basic financial information that is or should be now available.

The first step includes three basic elements. The Government should:

1. Provide legislators with a **complete financial plan** for the entire government that sets out all planned revenues and expenses expected for each of the next two or three fiscal years.

Such a complete financial planning framework would assist all parts of the Government to work together towards shared goals and objectives.

Complete financial planning information would also be useful to legislators when they are asked by the Government to debate the estimates of those revenues and expenses the Government accounts for in the General Revenue Fund.

2. Provide legislators with an **annual financial report** comparing planned and actual results.

Such a report should be published as soon as possible after the end of the fiscal year (March 31st) and would serve as an important opportunity for the Government to explain its thinking on key underlying financial and economic issues.

3. Enable all government organizations to publish their annual performance reports in a timely manner.

Currently, many government organizations are not able to publish their annual performance reports until nearly twelve months after their year ends. The Government should endorse a change in *The Tabling of Documents Act, 1991* to enable more current reports.

The second step is more complex because it involves a broader system of performance measurement and accountability. It also means the Government needs to consider longer-term plans for the entire government and to gather new types of performance information. Key elements include:

- ◆ setting clear and measurable goals and objectives;
- ◆ identifying the risks that need to be managed to ensure successful achievement of goals and objectives;
- ◆ agreeing on key performance measures or indicators to be monitored to determine whether the Government and each of its many organizations are achieving their goals and objectives; and
- ◆ reporting on planned and actual performance.

As the Government's systems of performance measurement and accountability change, legislators might conclude it is necessary to revise key central financial legislation, e.g., *The Financial Administration Act*. Legislative revisions might be necessary to reinforce expectations that legislators want to know whether or not the Government and its many organizations are achieving results.

Fortunately, there is much good work and experience available to help the Government take this second step. In this and previous Reports, I provide examples of government organizations that have been developing stronger systems of performance measurement, management and accountability. I also have provided advice on what factors to consider when developing performance plans and reports for the entire government.

In addition, other governments across Canada and elsewhere can be looked to for advice. Many governments are also beginning to develop

broader and more relevant systems of performance measurement, management and accountability.

Progress and concerns

In this section, I highlight where progress has been made to strengthen performance measurement and accountability practices. I also note examples where more work is required.

In Chapter 2, **Towards 2000**, I note that government officials indicate much progress has been made to ensure their organizations are year 2000 prepared. I also provide advice on good practice, and recommend the government use its new Year 2000 project coordination office to help set priorities, resource needs and contingency plans.

In Chapter 3, **Education**, I report on how the Department works with its stakeholders to agree on using performance indicators to evaluate the progress of kindergarten to Grade 12 education. I also note the Department needs to work with school divisions to set public reporting requirements for reporting school division performance.

In Chapter 4, **Post-Secondary Education and Skills Training**, I encourage the Department to provide legislators with a clearer description of the accountability relationships between the Department and its key educational institutions. It is critical that all understand who is responsible for what and to whom. I also encourage the Department to bring the many planning initiatives together and form a plan for the entire post-secondary sector. Without a sector-wide plan, the Department cannot determine if costs are appropriately shared (i.e., federal, provincial and privately).

In Chapter 5, **Health**, I report on our audit of the project development system in place to develop a health information network for Saskatchewan residents. We found that processes to ensure continued stakeholder commitment to the project need strengthening.

In Chapter 5, I also report on the framework used by the Department to assist district health boards and other health providers to select performance indicators. I hope this study will promote discussion and increased use of carefully-selected indicators for performance measurement and reporting by all government organizations.

In Chapter 6, **District Health Boards**, I note that the districts continue to work on how best to report on the health needs and health status of their residents. A few districts now use performance indicators and targets. In addition, the Department of Health has provided better guidance on strategic planning and reporting. Such guidance will help districts to strengthen their performance measurement, management and accountability practices.

In Chapter 7, **Justice**, I review the Department's strategic planning efforts. Department officials advise that their plan has made a real difference in how they manage and make decisions. They state that they increasingly operate as members of a team and make decisions based more on Department-wide priorities than on the needs of an individual division or branch.

In Chapter 7, I also note that the Department needs to improve how it manages court-ordered fines.

In Chapter 8, **Social Services**, I note the Department needs to improve its procedures for ensuring that single parents who receive social assistance pursue child support. In addition, the Department needs to ensure Northern Indian Bands and community-based organizations submit required performance reports. Those reports are part of the system used by the Department to ensure funds are spent for intended purposes.

In Chapter 10, **Municipal Affairs, Culture and Housing**, I report that at one government organization I am unable to carry out my responsibilities to the Legislative Assembly. The trustees of the First Nations Fund have not yet allowed my Office to complete our audit. The Fund was established in 1996.

In Chapter 18, **Finance**, I advise the Members of the Legislative Assembly that they may not be able to properly debate the Government's spending on the pension benefits provided to government employees and teachers. The annual budget (Estimates) does not include the total costs of pension benefits to be incurred for the year.

In Chapter 19, **Executive Council**, I note that the Electoral Office has not ensured that political parties complied with *The Elections Act*. Therefore, I am unable to determine if the Electoral Office collected all anonymous donations for the year ended December 31, 1996. Anonymous donations are not to be used to finance election expenses. The Electoral Office is to

ensure all anonymous donations are identified, collected and deposited into the General Revenue Fund.

In Chapter 21, **Saskatchewan Power Corporation**, I report the results of my audit of SaskPower for the year ended December 31, 1997. As part of my audit, I examined matters related to the Channel Lake Inquiry conducted by the Standing Committee on Crown Corporations. In this Chapter, I provide advice on SaskPower's governance, organization structure, and management controls.

For several years, I have pointed out that the role and responsibilities of boards of directors are particularly complex. A key issue most boards must sort out is the nature of their decision-making and advisory roles.

In our system of government, Cabinet is accountable to the Assembly and to the public for the performance of all government organizations including Crown corporations. Cabinet makes the key decisions. It appoints the chief executive officers, and approves utility rate changes and collective bargaining agreements. Cabinet decides whether new borrowings are required, and whether new capital infrastructures or other types of investments are needed. In Saskatchewan, Cabinet also uses the Crown Investments Corporation of Saskatchewan as a mechanism to review, coordinate and provide advice on the activities of Crown corporations.

In such a system, the role of Cabinet-appointed boards of directors is often unclear. When Cabinet makes the key decisions, boards often serve more as an advisory group rather than as a decision-making group.

When boards are providing advice, they still must ensure they do what is necessary to provide the best advice possible. Boards must put in place the controls required to ensure they are able to adequately oversee and challenge management. Boards must also ensure they carry out their due diligence even when they know Cabinet might not agree with their advice. In Chapter 22, I recommend how the Board of SaskPower can ensure it carries out its due diligence by strengthening its governance, organization structure and management controls.

Control helps achieve results

A key feature of well-performing organizations is that they identify and assess the risks they face in achieving their goals and objectives. Once

this is done, such organizations establish systems, processes and other control elements to manage those risks. Well-performing organizations know that control helps achieve results.

In Chapter 1, **Control helps achieve results**, I describe a control framework my Office is exploring. The framework is developed by The Canadian Institute of Chartered Accountants. In its guidance, the Institute states:

Control is what makes an organization reliable in achieving its objectives. Control is effective to the extent that it provides reasonable assurance that the organization will achieve its objectives. Or, stated another way, control is effective to the extent that the remaining risks of the organization failing to meet its objectives are deemed acceptable.

I encourage government officials and their managers to explore the Institute's guidance to help them achieve their objectives.

In 1998, my Office issued the following Reports to the Legislative Assembly:

- ◆ *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan on the 1997 Financial Statements of CIC Subsidiary Crown Corporations* issued in April 1998;
- ◆ *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, 1997* issued in April 1998;
- ◆ *Provincial Auditor Saskatchewan: 1998 Spring* issued in May 1998;
- ◆ *Annual Report on Operations for the Year Ended March 31, 1998* issued in June 1998;
- ◆ *Provincial Auditor Saskatchewan: Understanding the Finances of the Government: 1998 Fall Report-Volume 1* issued September 1998; and
- ◆ *Business and Financial Plan for the year ended March 31, 2000* issued November 1998.

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.auditor.sk.ca

- contact our Office by internet e-mail at:

info@auditor.sk.ca

- or, write, phone or fax us at:

Provincial Auditor Saskatchewan

1500 Chateau Tower

1920 Broad Street

Regina, Saskatchewan

S4P 3V7

Phone: (306) 787-6398

Fax: (306) 787-6383

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

Ahmad, Mobashar	Kucher, Tara
Anderson, Mark	Kuntz, Linda
Atkinson, Brian	Lahti, Jay
Bachelu, Gaylene	Lowe, Kim
Beblow, Jolene	Markewich, Dale
Black, Bob	Martens, Andrew
Borys, Angèle	Matchett, Joanne
Clemett, Tara	Montgomery, Ed
Coulter, Jill	Nyhus, Glen
Creaser, Phil	Oldershaw, Mark
Dickin, Deann	Orrange, Loyd
Deis, Kelly	Pradhan, Karim
Duran, Jason	Rybchuk, Corrine
Duran, Joel	Salman, Salma
Dyck, Lisa	Schiller, Rita
Earis, Lorianne	Schwab, Victor
Ferguson, Judy	Shorten, Karen
Forgie, Leanne	Smith, Curtis
Fry, Kristen	Smith, Scott
Grabarczyk, Rod	Smith, Shana
Harasymchuk, Bill	Sturgeon, Darold
Harrison, Garnet	Talbot, Marj
Heffeman, Mike	Tomlin, Heather
Jersak, Rodd	Volk, Rosemarie
Kenny, Wade	Walker, Sandra
Kinvig, Amy	Watkins, Dawn
Klisowsky, Cathy	Wendel, Fred
Knox, Jane	Wendel, Leslie
Kodas, John	

Control Helps Achieve Results

1

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Executive summary

Our Office's goals are to foster well-managed Government, to encourage good reporting by Government, and to manage our business effectively. As we work toward these goals, we are constantly looking for ways to do things better.

We are exploring how the control framework developed by the Criteria of Control Board (CoCo) of The Canadian Institute of Chartered Accountants could assist us in achieving our goals. We think using CoCo's control framework would provide a better means of integrating a broad concept of control into our audit approach and managing our Office.

Government organizations establish control to help them achieve their objectives. When they do not have effective control, we report our findings to the Assembly and the Government. We are exploring how CoCo's guidance could assist our Office in bringing forward relevant control and governance issues for discussion. We encourage Government officials and their managers to explore CoCo's guidance to help them achieve their objectives.

Like the Government, our Office needs reasonable assurance that we will achieve our objectives. We are beginning to use CoCo's guidance to help us identify the risks we face and how we manage those risks.

Introduction

This Chapter discusses opportunities to improve the methods our Office uses to assess and report on the effectiveness of the Government's control. We explore how we might base our work and reports on the control framework developed by the Criteria of Control Board (CoCo) of The Canadian Institute of Chartered Accountants. We outline why we are considering such an approach, including its potential benefits to the Legislative Assembly, the Government and its managers, and our Office.

Background

The Legislative Assembly and the public want government spending to produce results. The Assembly and the public expect governments to deliver products, services and programs in the best manner possible. To do this, governments establish systems, processes and other control elements to help ensure they deliver those products, services and programs.

Effective control is essential to the success of all organizations, including governments. The Government is responsible for establishing effective control to help ensure it can achieve its goals and objectives.

The Assembly recognizes the importance of the Government having effective control. And, as a governing body, the Assembly plays an important role in monitoring and improving the Government's control. Our Office assists the Assembly by examining and reporting on the effectiveness of the Government's control.

Our role

The Legislative Assembly, through *The Provincial Auditor Act*, requires our Office to examine all government organizations. The Assembly wants our assurance on the reliability of the Government's reports. The Assembly

also wants our assurance on the effectiveness of the Government's control related to the objectives of:

- ◆ safeguarding and controlling public resources;
- ◆ preparing reliable information; and
- ◆ complying with authorities.

The first objective requires explanation. "Safeguarding and controlling public resources" in a broad sense means that the Government effectively directs and controls the operations of its organizations.

In the public sector, safeguarding and controlling public resources is important. The Government administers public resources in a trust relationship with the public. The public and the Assembly expect public resources to be effectively safeguarded and controlled. If government organizations have not set goals, identified and assessed their significant risks, and established and monitored control systems, we are concerned about their ability to safeguard and control public resources.

We report our findings, conclusions and advice to the Assembly, the Government and its managers. The utility of our findings, conclusions and advice depends on the relevance of issues we bring to the Assembly's and the Government's attention.

The control frameworks we use in our work influence the relevance of the issues we report. Some control frameworks are narrower in scope than others, i.e., how they define (internal) control and the underlying concepts. A control framework that considers control in a broad sense offers the best opportunity of helping to ensure the Government can meet its objectives. Using such a framework also offers our Office a better opportunity to meet our objective of assisting the Assembly, the Government and its managers. It helps ensure our examinations make a difference.

Control frameworks

Some private, public and professional bodies publish guidance on establishing, evaluating and reporting on control.

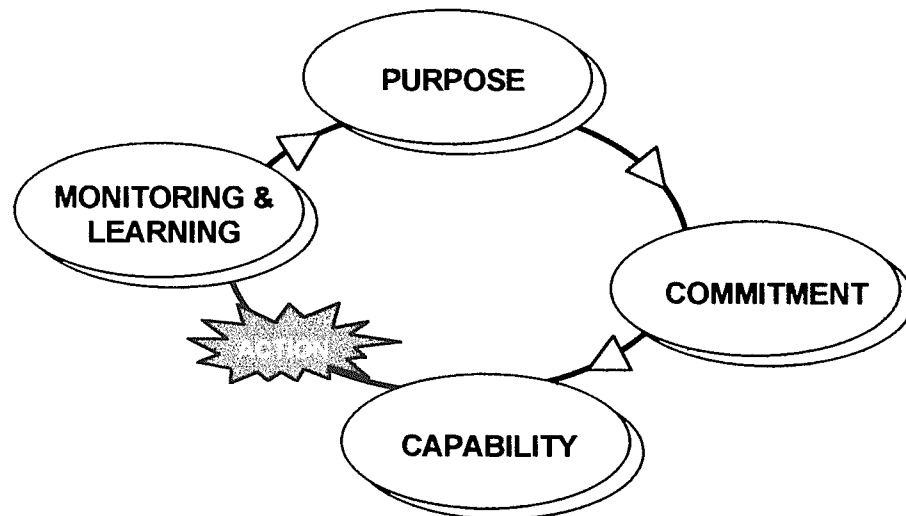
The Canadian Institute of Chartered Accountants (CICA) Handbook provides guidance for auditors assessing internal control in the context of an audit of financial statements. We use the CICA Handbook's guidance as a basis for our examination of and reporting on the Government's control systems. However, its guidance for assessing internal control is not specifically directed to the broader objectives of our work for the Assembly.

In the United States, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) published their report, *Internal Control – Integrated Framework* in 1992. It provided practical criteria, primarily directed to management, for establishing internal control and evaluating its effectiveness. COSO's report is an excellent reference on internal control. Its guidance influences our examinations of the Government's control systems. However, its scope of internal control excludes some key management activities, i.e., objective setting, strategic planning, risk management, and corrective actions.

The CICA's Criteria of Control Board (CoCo) is now developing guidance that builds on, and considerably expands, the initial work done by COSO. (See the Appendix at the end of this Chapter for a list of CoCo's publications.) CoCo's first publication in its control and governance series, *Guidance on Control* (1995), provides a framework for making judgements about control in organizations.

CoCo's *Guidance on Control* defines control as "those elements of an organization (including its resources, systems, processes, culture, structure and tasks) that taken together support people in the achievement of the organization's objectives." *Guidance on Control* includes the criteria used to assess control. The criteria are described as "the basis for understanding control in an organization and for making judgements about the effectiveness of control." The guidance indicates that the criteria can be used to assess control in any organization, regardless of its objective.

The criteria are grouped into the “CoCo model” that describes the essence of control as follows:



A person performs a task, guided by an understanding of its **purpose** (the objective to be achieved) and supported by **capability** (information, resources, supplies and skills). The person will need a sense of **commitment** to perform the task well over time. The person will **monitor** his or her performance and the external environment to **learn** about how to do the task better and about changes to be made. The same is true of any team or work group. In any organization of people, the essence of control is purpose, commitment, capability, and monitoring and learning.

Source: *Guidance on Control*

CoCo’s control model offers several benefits:

- ◆ a comprehensive framework for reviewing government operations, including monitoring the results of decision making and evaluating whether objectives are being achieved;
- ◆ a common language for communications about control between the Assembly and the Government, that would help to ensure that products, services and programs are delivered as intended;

- ◆ easily understood terminology that can be readily used by government officials and managers responsible for program delivery; and
- ◆ commitment by the CICA to an ongoing program to provide guidance based on lessons from research and experience, all aimed at improving decision making and performance.

Use of CoCo's control framework would provide a better means to integrate a broad concept of control into our audit approach. The remainder of the Chapter discusses the potential benefits for the Assembly, the Government and its managers, and our Office.

Potential use of CoCo's guidance

Our Office's vision and mission are included at the beginning of this Report. We pursue three goals to achieve our mission:

- ◆ foster well-managed government;
- ◆ encourage good reporting by government; and
- ◆ manage our business effectively.

CoCo's guidance has the potential to assist our Office as we work towards the achievement of these three broad goals. The following discussion around our three goals sets out our preliminary thoughts.

Foster well-managed government

A well-managed government is one that sets out its objectives, identifies and assesses the risks it faces in achieving those objectives, and establishes control to manage those risks. CoCo's *Guidance on Control* states:

Control is what makes an organization reliable in achieving its objectives. Control is effective to the extent that it provides reasonable assurance that the organization will achieve its objectives. Or, stated another way, control is effective to the extent that the remaining risks of the organization failing to meet its objectives are deemed acceptable.

When government organizations do not have effective control, we report our findings to the Assembly. We also report our findings to the Government and its managers.

Through our reports, we encourage better control and governance in government organizations. By using a broad concept of control, we have a better opportunity of bringing the relevant issues to the Assembly's and the Government's attention.

We are assessing CoCo's control framework and other guidance. We are exploring how it will help us direct our work and reports to the relevant control and governance issues faced by the Government and its managers. We are looking for ways to improve what and how we report to the Assembly, the Government and its managers. We want our reports to encourage discussion and debate on control and governance issues. We want to promote better decision making and performance by the Government.

We also encourage government officials and managers to analyze and assess CoCo's guidance on control, risk and governance. They have the primary responsibility for control in their organizations. Understanding and using CoCo's guidance should help them achieve their objectives.

Encourage good reporting by government

Good reporting by governments is essential for them to be accountable for their stewardship of public resources to the Assembly and, ultimately, the public. Effective accountability is also essential for governments to gain and maintain the Assembly's and the public's confidence.

Good reporting by governments includes publishing overall plans and performance reports. Chapter 2 of our *1997 Fall Report - Volume 1* includes our criteria for good overall plans and performance reports. Government performance reports could also include disclosure of governance practices and assessments of effectiveness of control related to the significant objectives of the organization.

Disclosure of governance practices is gaining acceptance in the private sector. The Report of the Toronto Stock Exchange Committee on Corporate Governance in Canada titled, "*Where Were The Directors?*":

Guidelines For Improved Corporate Governance In Canada (1994) makes recommendations and provides guidelines for effective corporate governance. One recommendation is that companies disclose their systems of corporate governance. The Committee believed this recommendation would require corporations to review their own approach to governance. This review would result in improved governance and performance. Since 1995, the Toronto Stock Exchange and the Montreal Exchange have required companies to disclose their corporate governance practices in their annual reports or information circulars.

Another recommendation of the Toronto Stock Exchange Committee is that companies report on the adequacy of internal controls related to financial reporting and regulatory compliance. The Committee called on the CICA to develop guidance to permit this recommendation to be implemented. The CICA is responding to this opportunity by publishing guidance in CoCo's control and governance series.

The Provincial Auditor Act requires our Office to form conclusions about the effectiveness of control in government organizations related to safeguarding and controlling public resources, financial reporting and compliance with authorities. Our Office reports its conclusions directly to the Assembly.

CoCo is developing guidance for organizations to report on control to external parties. Our Office is monitoring CoCo's guidance to determine how we can improve our reports to the Assembly on the effectiveness of control in government organizations.

We also encourage Government officials and managers to monitor CoCo's guidance on external reporting. Reporting on control and governance issues may improve the effectiveness of their accountability (performance) reports to the Assembly.

Manage our business effectively

To manage our business effectively we need reasonable assurance that we will achieve our objectives. Also, as described in *Guidance on Control*, we need to maintain our ability to identify and take advantage of opportunities and to maintain our Office's resilience.

We are beginning to use CoCo's guidance to identify and assess the risks related to our significant objectives. We are also beginning to use CoCo's guidance to examine the control elements and control activities that we use to mitigate those risks. We are looking for opportunities to improve how we manage our Office.

In addition, publishing good planning and performance reports on our activities helps us be accountable for our use of public resources. To be successful, we must maintain the Assembly's and the public's confidence. We are beginning to explore the potential of using CoCo's guidance to help us improve our planning and performance reports to the Assembly.

Future direction

We will continue to monitor, study and evaluate CoCo's guidance on control, risk and governance. CoCo's objective of improving control and governance in organizations is pertinent to the Assembly, the Government and its managers, and our Office. Enhancing decision making and improving performance is important to all of us.

We will continue to explore how we can use CoCo's guidance to improve the methods our Office uses to assist the Legislative Assembly. In future reports, we plan to share our experiences.

Appendix

The Criteria of Control Board (CoCo) is an ongoing initiative of The Canadian Institute of Chartered Accountants. Its mission is to enhance decision making and improve organizational performance through a better understanding of control, risk and governance. Its guidance is relevant to private, public and not-for-profit organizations. CoCo has published several documents including:

- ◆ *Guidance on Control (1995)*
- ◆ *Guidance for Directors – Governance Processes for Control (1995)*
- ◆ *Corporate Governance: A Review of Disclosure Practices in Canada (1996 and 1997)*
- ◆ *Guidance for Directors – The Millennium Bug (1998)*
- ◆ *Learning About Risk: Choices, Connections and Competencies (1998)*
- ◆ *Guidance on Assessing Control – the CoCo Principles (Draft)*

Current information on the CoCo initiative is available in the Control, Risk and Governance section of the CICA website www.cica.ca. Publications can be obtained from the Order Department of The Canadian Institute of Chartered Accountants.

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Executive summary

The Government is working hard to solve the Year 2000 issue but has much to do. The Year 2000 issue describes a design flaw in how computer chips and systems treat the year 2000 and subsequent years. The "millennium bug" and "the Y2K problem" are common terms used to describe this issue.

The Government did a survey in June 1998 of certain Crown agencies. At the October 5, 1998 meeting of the Standing Committee on Public Accounts, Government officials reported that 58% of the critical systems had been fixed.

The survey does not show the preparedness of the entire Government. For example, the survey does not include Crown corporations, health districts and post-secondary institutions. In this Chapter we report on our review of the Government's progress and highlight some best practices that could help agencies meet deadlines.

The agencies surveyed have made progress since June 1998. We commend the agencies on their hard work and ask the Government to continue its efforts to ensure the Year 2000 issue is fixed. We recommend that the Government's new Year 2000 Project Co-ordination Office (PCO) help set priorities, resource needs and contingency plans for the Government. The PCO should report regularly on Government preparedness to the Standing Committee on Public Accounts. Also, we recommend agencies develop a Year 2000 contingency plan.

Introduction

The Government is working hard to solve the Year 2000 issue but has much to do. The Year 2000 issue describes a design flaw in how computer chips and systems treat the year 2000 and subsequent years. The "millennium bug" and "the Y2K problem" are common terms used to describe this issue.

A committee established by Industry Canada called Task Force Year 2000 (Canada) wrote a report on progress being made in Canada in solving the millennium bug. The report *A Call for Action: Report of Task Force Year 2000* (<http://strategis.ic.gc.ca/year2000>) provides guidelines and recommendations. It gives the following description of the Year 2000 issue.

The cause of the problem appears deceptively simple: because computers are programmed to store dates using only the last two digits of the year, many computer systems will interpret January 1, 2000 as January 1, 1900. Also, not all computers may recognize that the Year 2000 is a leap year. As a result, when the millennium arrives, many applications may miscalculate or simply cease to function, thereby impacting on normal operations in Canada and abroad.

Computing errors will also occur before Year 2000. Values such as 99 are sometimes used for special purposes not related to the date. The number 99 is used in some systems as an expiration date for data to be archived permanently -- so some computers may lose the data when 1999 is reached.

The millennium bug affects almost all entities. It is not limited to large companies that use mainframe computers. It affects organizations of any size that use any kind of computer or any kind of data-activated device, or have key suppliers or customers that do. Even if an organization can deal with its own in-house Year 2000 problems, it may still be affected by its suppliers and customers.

The year 2000 issue is a significant issue and one the Government must manage well. There is one deadline and it cannot be changed. Our work indicates that significant resources are needed to complete the Year 2000 work. The cost of staff and consultants will increase as the deadline approaches. Government must manage the Year 2000 issue well.

Scope and objective of our work

Our objective was to review the processes used by the Government to assess and fix the Year 2000 issue. Our work included reviewing the results of a year 2000 survey done by the Department of Economic &

Co-operative Development in June 1998. This survey did not cover key segments of Government including Crown corporations, health districts, and post-secondary institutions.

We reviewed the survey results of 18 of the 40 agencies surveyed by the Department of Economic & Co-operative Development in June 1998. We selected agencies with the largest information technology (IT) budgets. This group made up 93% of the total IT budget and 95% of the Year 2000 budget of the agencies surveyed.

We also interviewed Government officials and reviewed the reports tabled and testimony given at the October 5, 1998 meeting of the Standing Committee on Public Accounts. Our work does not constitute an audit. Although our findings are based on 18 agencies, they can generally be applied to all Government agencies.

The survey

The Department of Economic & Co-operative Development contracted IBM to do a survey of Year 2000 preparedness of selected Government agencies. Our objective in writing this Chapter is to give a status report and to recommend improvements that apply to all agencies instead of individual agencies.

We report the results of our work on the agencies according to four themes:

- ◆ progress on fixing systems;
- ◆ project management;
- ◆ third parties and business partners; and
- ◆ contingency plans for the Year 2000.

Progress on fixing systems

The survey included a snap shot of the agencies' progress to June 1998.

The survey also sets out five steps needed in a Year 2000 project. They are awareness; assessment; repair, replace or retire; testing; and implementation. *A Call for Action* has guidelines on when these steps should be done.

Five steps in a Year 2000 project are:

Awareness

Awareness means making staff, business partners and third parties aware of the Year 2000 issue and what is expected. This includes development of a communication plan. *A Call for Action* recommends this step be done in 1997.

Assessment

Assessment means doing a Year 2000 risk or impact analysis. Agencies start by identifying their business functions and ranking them by importance. They should then determine which systems are critical to those functions. The systems are then ranked according to the processes they support and the potential impact the Year 2000 issue has on them. Agencies should rank a system as high when it supports key business functions and has dates and date related calculations. *A Call for Action* recommends the assessment step be done in 1997.

The Government's assessment of the Year 2000 issue is complicated because it needs a process to ensure all its agencies, including Crown corporations, are compliant. This includes the utilities that everyone is dependent on. Also, the Government needs assurance that their third parties (e.g., school boards, municipalities) and business partners (e.g., banks, suppliers) are ready. The Government, as a minimum, will want to ensure it is protecting public safety. The Government is also concerned about the readiness of the business community. If businesses fail, jobs are lost and the economy suffers.

Government agencies should start their assessment with an inventory of their key business functions. These functions are the key functions the agency perform to provide services and achieve their objectives (e.g., highway maintenance, tax collection). The business functions are usually broken down into a series of processes or steps. These functions can be impacted by the year 2000 if the processes include:

- ◆ application systems - including the financial and operational systems of the agencies;
- ◆ computer hardware and operating systems;
- ◆ facilities and infrastructure - including utilities, elevators and heating systems;

- ◆ manufacturing and service processes - including internal processes and systems used to provide services to the public; and
- ◆ customer service devices - including devices that you provide the public.

Once agencies have identified key business functions, they should do a risk assessment. The agencies should assess functions with the following issues in mind:

- ◆ health and safety of the public;
- ◆ financial impact;
- ◆ impairment of services to the public; and
- ◆ legal liability.

An assessment helps agencies rank systems to be fixed and is a key step in developing a contingency plan.

Repair, replace or retire

Once an assessment is done, agencies will need to determine the best way to fix a system. They can repair, replace or retire the system. A *Call for Action* recommended this step be done by June 1998.

Testing

Testing takes the most time and effort of the steps required. Our research indicated that testing takes about 50% of the time. Testing requires a joint effort between programmers and users. Programmers make sure the programs work and the users ensure the system meets their needs. A testing plan should include all systems even if they appear ready. A *Call for Action* recommends that all testing be done by the end of 1998.

Implementation

This is the final step in the process after a system is repaired or replaced and has been tested and approved for use. A *Call for Action* recommends that implementation should be done by the end of 1998.

We compared the progress stated in the surveys to these five steps and the deadlines recommended by A *Call for Action*.

The survey showed:

- ◆ 88% of the awareness work and 80% of the assessments were done by June 1998.
- ◆ 40% of the mission critical systems identified are ready and tested.
- ◆ Overall 40% of the Year 2000 testing was done.
- ◆ 33% of the agencies will not finish implementation until the last quarter of 1999.
- ◆ 75% of the agencies have computers that are not Year 2000 compliant and 50% of these agencies will not be compliant until June 1999 or later.
- ◆ 8% turnover in IT staff in the last year.
- ◆ 25% of the IT staff and consultants are working on the Year 2000 issue.
- ◆ 25% of the IT staff and consultants are working on major new projects that are not Year 2000 issues.

We see from these findings that a lot of the Year 2000 work needs to be done. At June 1998, the Government was behind the dates *A Call for Action* recommended. For example *A Call for Action* recommends that all assessment and awareness work should be done in 1997.

Staffing the project is key to success and therefore, human resource plans are important. Agencies with high IT staff turnover in 1998 and 1999 could have difficulties completing the Year 2000 work. Agencies must ensure their mission critical systems are fixed. The survey indicates much of the Year 2000 work will be done in the last half of 1999 and that 25% of the IT staff and consultants are working on new initiatives. The high turnover, late deadlines and competing priorities increase the risk that the Year 2000 project may be late. *A Call for Action* recommends:

12. Before introducing legislation or regulatory changes, all levels of government should consider the impact they may have in terms of reprogramming information systems and diverting resources away from Year 2000 preparedness efforts.

In most Canadian jurisdictions these risks are managed or monitored centrally by a Year 2000 project office. These offices can help ensure consistent processes are used to manage the Year 2000 issue and consistent criteria are used to assess risk and rank government functions. A Year 2000 project office can help the Government ensure:

- ◆ the key business functions at risk are given priority;
- ◆ resources are available to fix key functions;
- ◆ progress is monitored; and
- ◆ contingency plans are in place.

We commend the Government on creating a Project Co-ordination Office (PCO) to monitor the Year 2000 issue and for establishing a committee called the Y2K Forum to share information.

The Legislative Assembly needs to be aware of the progress of Executive Government on the Year 2000 issue. The Assembly has a responsibility to oversee Executive Government including its management of key risks affecting Government operations. A *Call for Action* recommended:

- 10: 1) The House of Commons Standing Committee on Public Accounts should continue to scrutinize the evolution of the state of preparedness of federal government systems.
- 2) Provincial legislative bodies, where applicable, should initiate a similar transparent process through which provincial institutions would report regularly on progress achieved.

The Standing Committee on Public Accounts in Saskatchewan (PAC) met on October 5, 1998 to discuss the Year 2000 issue and the preparedness of Executive Government. We commend PAC for addressing this challenging issue.

1. We recommend that the Government's new Year 2000 Project Co-ordination Office help set priorities, resource needs and contingency plans for the Government.
2. We recommend that the Year 2000 Project Co-ordination Office report regularly to the Standing Committee on Public Accounts on the Government's progress on the Year 2000 issue.

We understand the Crown Investments Corporation of Saskatchewan plans to work with the PCO in monitoring the Year 2000 preparedness of Crown corporations.

Project management

Good project management practices are key to the success of any project. Without good project management practices IT projects can be

late, over budget or fail. The three cornerstones of good project management are:

- ◆ management commitment to the project;
- ◆ project based on business needs; and
- ◆ good project management systems and practices.

Good practices for the Year 2000 issue include a formal, approved project plan. The plan should include a Year 2000 assessment, a detailed budget, a schedule, a testing plan and an implementation plan. The agency should have periodic reporting on progress including regular meetings of key staff.

The survey showed:

- ◆ Although nearly all agencies indicate they have a plan, 20% did not have it approved by senior management;
 - ◆ 50% did not include a detailed budget; and
 - ◆ 33% were not regularly monitoring progress against the plan.
3. We recommend that senior management approve their Year 2000 plans including detailed budgets and Year 2000 assessments and periodically report on progress to the Year 2000 Project Co-ordination Office.

Third parties and business partners

One challenge facing the Government is determining its role in ensuring third parties (organizations that receive significant funding from government) and business partners (suppliers and clients) address the Year 2000 issue. The Government, through its agencies, is an important part of the economic and social supply chain. Government agencies buy supplies and services from the public. They also provide supplies, services and utilities to the public as part of social policy or for a fee. The Government also funds programs by way of loans or transfers to third parties that provide services for the Government. The Government also provides electricity, telecommunications and natural gas to its customers, agencies and the public. *A Call for Action* recommends:

11: All levels of government should require their lending bodies/ programs to make the existence of a formal Year 2000 action plan a condition for securing grants, contributions, loans and loan guarantees, where applicable.

10: 3) Provincial authorities should ensure that municipal authorities put in place transparent reporting mechanisms.

The Government must ensure critical data exchanges (systems that move information from one organization to another) with other governments, its third parties and business partners are working. These exchanges could impact revenue collection and the accountability of third parties for the money they receive.

The survey showed:

- ◆ 20% of the agencies were not yet communicating with suppliers and customers to monitor their Year 2000 preparedness; and
 - ◆ 50% of the agencies had not yet identified data exchanges with other governments and private organizations. Of the 50% who had, they identified 125 data exchanges.
4. We recommend that the Government establishes rules and procedures for ensuring third parties and business partners know their responsibilities to become Year 2000 compliant.

Contingency plans for the Year 2000

The Government needs to know all its agencies have a Year 2000 contingency plan. The United States General Accounting Office, which audits and evaluates their Federal Government programs and activities, prepared a publication titled *Year 2000 Computing Crisis: Business Continuity and Contingency Plan* (<http://www.gao.gov/special.pubs/bcpguide.pdf>). This publication outlines the following steps to a contingency plan:

1. Business-risk analysis - assess the impact of a Year 2000 issue on key business functions.
2. Continuity planning - plan a cost effective continuity strategy for each business function including triggers for activating the plans. The plans should include listings of who is on the business resumption teams. The plan should also include specific strategies for the days around January 1, 2000.

3. Testing - design tests to ensure the plan works and their team can perform the tasks needed in the time available.

The survey showed:

- ◆ 40% of the agencies did not have a contingency plan if a major supplier failed to meet its obligations due to a Year 2000 issue; and
- ◆ 60% of the agencies did not have a plan if their own systems failed.

Contingency planning is very important as we move towards 2000. All agencies must ensure their plans are done and tested. The Government needs to ensure the plans are adequately funded and plans go into action based on government-wide priorities.

5. We recommend that all Government agencies have a formal, approved and tested Year 2000 contingency plan.

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Executive summary

Our work in the area of education focuses on the role and activities of the Department of Education. We describe in this Chapter how the Department must manage pressures and key risk areas. We explain the results of our audit of the Department. Finally, we describe how the Department successfully uses best practices to gain and maintain the commitment of key stakeholders to track and report performance indicators.

The Department has identified key areas in which it must manage risk. We explain these areas so that legislators and the public can better understand and assess the Department's performance. These key areas are:

- ◆ ensuring the provincial curriculum reflects the knowledge and skills people need;
- ◆ providing leadership to ensure that the expectations of a quality education system delivered at reasonable cost are clear and understood;
- ◆ ensuring schools have equal access to appropriate funding; and
- ◆ developing and implementing measures to address the diverse needs of children and youth at risk of doing poorly in school.

Our audit showed that reporting by school divisions still needs to improve. This applies to both performance and financial reporting. The Department should work with school divisions to set public reporting requirements for reporting school division performance. The Department should also work with school divisions to set financial reporting requirements that are up-to-date and reflect accepted standards.

Finally, we examined how the Department works with its stakeholders (such as teachers, trustees, and administrators). The Department and its stakeholders have agreed to evaluate the progress of Kindergarten to Grade 12 education using performance indicators. This is a notable achievement and we report how the Department used best practices to gain and maintain the commitment of its stakeholders.

Introduction

In this Chapter, we set out:

- ◆ The Department of Education's role, goals and the key risks it faces;
- ◆ The results of our 1998 audit of the Department including the results of our assessment of the Department of Education's 1996-97 Annual Report; and
- ◆ The results of our study of how the Department successfully uses best practices to gain and maintain the commitment of key stakeholders to track and report indicators.

Understanding the Department

It is important that legislators and the public understand the role of the Department and the risks it faces. This helps them to assess better the Department's performance.

The following provides a brief overview of the role of the Department, the risks it faces and its spending. For further information, we encourage Members of the Legislative Assembly (MLAs) and the public to read the Department's Annual Report and other key publications mentioned in this Chapter.

Role of the Department and its goals

Under *The Education Act, 1995* (Act), the Department is responsible for the overall quality of the Kindergarten to Grade 12 (K to 12) education system in Saskatchewan. Also under the Act, locally-elected boards of education and *conseils scolaires* are responsible for the administration and management of school divisions.

The K to 12 education system costs taxpayers about \$1 billion each year. The Department must ensure taxpayers' monies are used wisely. It must ensure the education system helps prepare Saskatchewan young people for full and meaningful participation in society.

Specific responsibilities of the Department include:

- ◆ developing policies and the provincial curriculum;
- ◆ regulating independent schools and home-based education;
- ◆ recommending learning resource materials and references (e.g., lists of suggested textbooks, equipment);
- ◆ changing the size or number of school divisions;
- ◆ certifying and classifying teachers;
- ◆ appointing the members of the bargaining committee responsible for negotiating teachers' salaries;
- ◆ paying for teachers' benefits; and
- ◆ working with school divisions to acquire sufficient resources to deliver the curriculum.

Directions, published in 1984, and various Saskatchewan Education Indicators reports set out the Saskatchewan goals of education. The Department, in consultation with stakeholder groups, developed the Goals of Education (*Saskatchewan Education Indicators 1997 – Kindergarten to Grade 12*, p. 3). They have also developed means to collect and report information on how the education system is functioning, and on student development.

The Department continues to work with school divisions and other stakeholder groups to develop and monitor indicators used to evaluate the achievement of the goals of the education system. Periodic public reports provide legislators and the public with information on its current state.

For further information on these goals and indicators, see *Saskatchewan Education Indicators 1997 – Kindergarten to Grade 12*.

Risks the Department faces

The environment in which the Department operates is changing. Enrolment in rural school divisions is declining. Diversity amongst student

populations is increasing (e.g., growth in the number of aboriginal students and integration of special needs students into regular classrooms). Society increasingly expects schools to help address social problems. These changes present the Department with risks and pressures. Within the context of these changes and the above goals, the Department has identified four areas of focus to help it reduce its risks. They are:

- ◆ Ensuring the provincial curriculum reflects the knowledge and skills which people need.

The provincial curriculum provides the basis for the courses of study and skills that students must learn. School divisions are bound by law to deliver this curriculum. The Department sets the provincial curriculum.

To ensure the curriculum helps school divisions equip students to live and work successfully in the future, the Department must continually identify, understand and integrate the necessary knowledge and skills into the curriculum. Also, the Department must ensure school divisions use the curriculum and that its intended outcomes are achieved.

- ◆ Providing leadership to ensure the expectations of a quality education system delivered at a reasonable cost are clear and understood.

The current system of accountability for the K to 12 education system is complex. The K to 12 education structure includes the Department, public and separate school divisions, francophone education areas, locally-elected boards of education, independent schools, and First Nations bands. (*Saskatchewan Education Indicators 1997 – Kindergarten to Grade 12*, pp. 19-20)

The Department shares its responsibility to deliver the K to 12 education system with these participants. For example, school divisions must deliver the curriculum set by the Department. They hire teachers but do not determine the rates of teachers' pay or pay all of the teacher's benefits (e.g., pensions). School divisions are managed by locally-elected boards who have the ability to tax the public within their jurisdiction. The monies raised, along with monies from the Department, pay for K to 12 education.

First Nations in Saskatchewan receive federal funds for education. Some operate their own schools but many enter into agreements with local boards of education.

Legislators and the public need a clear understanding of who is accountable for what and to whom. All participants within the K to 12 education system must also have this clear understanding. They must share this understanding with legislators and the public and show how they are fulfilling their obligations.

- ◆ Ensuring schools have equal access to appropriate funding.

School divisions receive their money from two main sources: property taxes and the Department. For the year ended December 31, 1997, property taxes for school divisions were approximately \$550 million. In 1997-98, the Department provided school divisions with approximately \$400 million.

At September 30, 1996, Saskatchewan had 119 school divisions and 807 schools (*Saskatchewan Education Indicators 1997 – Kindergarten to Grade 12*). Many of these schools are in sparsely populated areas. Factors such as local economies, enrolment levels, demographics, and access to other services vary between divisions. Some of these factors affect the value of property and in turn, the amount of money available to divisions through property taxes.

The Department must recognize and understand these factors. Since setting the basis for property taxes involves other parts of the Government, (e.g., Municipal Government), the Department must work closely with the other parts of the Government and with school divisions to manage the impact of changes on property taxes. The Department must determine the amount of money (for both capital and operating) it must give to divisions to ensure all school divisions are positioned to meet the Goals of Education and to deliver the curriculum effectively.

- ◆ Developing and implementing measures to address the diverse needs of children and youth at risk of doing poorly at school.

As identified in *Saskatchewan's Action Plan for Children*, physical, social and economic conditions impact how children learn and

their attendance in school. The Action Plan recognizes that early identification and elimination of barriers caused by these conditions increases the chances of children and youth fully participating in society. Achievement of these requires the coordination of government and society.

The Department must ensure stakeholder groups (e.g., school divisions) have the information necessary to help identify children and youth at risk. Also, it must ensure appropriate programs, services and supports are available to overcome identified barriers.

Special purpose funds and agencies

The Department is responsible for the following special purpose funds and agencies:

	<u>Year end</u>
Correspondence School Revolving Fund	March 31
Saskatchewan Learning Resources Distribution Centre Revolving Fund	March 31
School Division Tax Loss Compensation Fund	March 31
Teachers' Superannuation Commission	June 30

Overview of Department spending

The following is a list of major programs and spending reported by the Department in the *1997-98 Public Accounts – Volume 2: Details of Revenue and Expenditure*.

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Administration & shared services	\$ 3.2	\$ 4.2
Accommodation & central services	2.1	2.1
Teachers' pensions & benefits	138.5	123.4
School division grants (operating and capital)	390.3	397.1
Educational programs	<u>15.9</u>	<u>16.8</u>
	<u>\$ 550.0</u>	<u>\$ 543.6</u>

For a number of years, our Office has raised concerns about the how the Government budgets for and accounts for pension costs. This includes

costs relating to teachers' pensions. See Chapter 18 – Finance for further details.

Our audit conclusions and findings

We have not yet completed our audit of the Teachers' Superannuation Commission for the year ended June 30, 1998. We will report our results in a future report. This Chapter contains our audit conclusions and findings for the Department, including its special purpose funds, for the fiscal year ending March 31, 1998.

In our opinion:

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

We note the Department's 1996-97 Annual Report has improved over the last few years. We look forward to further improvements.

The following sets out our findings in more detail.

Better reporting on performance by school divisions needed

Good performance reports give readers an understanding of what is happening concerning finances, program operations and legal requirements. As we explain in Chapter 2 of our 1997 Fall Report – Volume 1, good performance reports for an entity contain:

- ◆ an overview of the current status of its broad goals (e.g., achieved, delayed or changed);

- ◆ a review of its objectives and performance indicators showing progress towards targets;
- ◆ a financial summary and analysis; and
- ◆ a summary of its outlook or plans.

To fulfil its responsibilities (as previously described), the Department must ensure the money it receives from the Assembly is properly safeguarded and spent. The Department needs to make sure key participants (e.g., school divisions and *conseils scolaires*) have a common understanding of the Goals of Education. It also needs to receive good performance reporting from them.

School divisions are central in achieving a quality education system. They spend the majority of the money the Assembly gives to the Department. School divisions deliver, on a day-to-day basis, the courses of study and curriculum set by the Department.

The Department, along with school divisions and other stakeholder groups, has set the Saskatchewan Goals of Education. School divisions seem to understand and accept these goals. They work with the Department to achieve them.

The Department collects various data from school divisions and works with its stakeholder groups to publicly report on progress in achieving the Goals of Education (i.e., *Saskatchewan Education Indicators 1997 – Kindergarten to Grade 12*). These reports do not address the performance of individual school divisions but rather the K to 12 education system as a whole.

The Department does not require school divisions to prepare performance reports beyond audited financial statements. Most school divisions prepare only annual financial statements. These financial statements do not show adequately the school division's financial position, results of operations or cash flows. (See the next section for further comments on school division financial statements.)

Also, financial statements do not contain sufficient information to allow one to assess performance. More comprehensive performance information is needed.

We have reported this matter in previous reports. In its April 1997 report, the Standing Committee on Public Accounts notes the Department's intentions to consult with our Office and others in its efforts to improve the accountability of K to 12 education system.

1. We recommend that the Department, working with school divisions, should set public reporting requirements for school divisions for reporting on divisions' performance in achieving the Saskatchewan Goals of Education.

In 1998, the Department set up a working group to look at an accountability framework for education. The framework will include its public reporting expectations. This group has not yet completed its work.

Proper financial statements for school divisions needed

The Department needs to set proper financial statement accounting principles (standards) for school divisions.

Good financial statements help users understand and assess how well an organization manages its financial affairs. Good financial statements describe assets and liabilities at the end of an accounting period, provide a summary of sources, allocation and use of financial resources an organization administered in the period, and provide information about how it finances its activities and meets its cash requirements. The Canadian Institute of Chartered Accountants (CICA) sets out standards for good financial statements. School divisions in other jurisdictions, (e.g., Alberta) are adopting these standards.

Under section 282 of *The Education Act, 1995*, school divisions must submit financial statements to the Minister in the form the Minister requires. School divisions follow financial reporting standards set by the Department. However, the Department's standards are not consistent with those of the CICA and are out-dated.

Use of out-dated standards causes school divisions to account for their activities different from that of other educational institutions (e.g., regional colleges, universities). For example, school divisions record the following as expenses in the current year while other institutions do not: debt repayments, and costs they may incur in the future (reserves). Also unlike

most institutions, school divisions do not show their investment in capital assets.

These practices make it difficult to assess the management of financial resources managed by school divisions and to compare the financial results of one division to another and from one educational institution to another.

We reported this matter in previous Reports to the Assembly. In its April 1997 report, the Standing Committee on Public Accounts recommends "school divisions should use the Canadian Institute of Chartered Accountant standards for financial statements."

2. We continue to recommend that the Department, working with the school divisions, should set financial reporting requirements for school divisions consistent with those recommended by the Canadian Institute of Chartered Accountants for the public sector.

Management told us they continue to work with the Saskatchewan Association of School Business Officials on this matter. They are working towards having a new financial reporting format consistent with standards recommended by the CICA.

Annual reports improving

The Department's annual reports are improving, but further improvements are needed.

To assess performance of public sector agencies, legislators and the public need adequate summary information about the plans and about the achievement of those plans. Annual reports can provide this information.

Good annual reports describe what the public agency is all about, what it has done, where it is now and what it plans to do. In addition, to ensure the information in the report is relevant and understandable, good annual reports are written clearly and available promptly after the agency's year-end.

The Department's 1996-97 Annual Report better describes what the department is all about than previous reports. It provides more information

about its key assets and working environment. The Report makes reference to two other publications entitled *Directions* and *Saskatchewan Education Indicators 1997 – Kindergarten to Grade 12*. These publications are important to understand the Department and its performance.

Directions sets out the Goals of Education. These goals describe what it means to be an educated person. *Saskatchewan Education Indicators 1997 - Kindergarten to Grade 12* describes progress in working towards education goals and indicators related to the development of students and related to the overall performance of the education system.

The Department organizes information in its Annual Report by branches and work units. This makes it difficult for the reader to link the objectives and activities of these branches or work units to its goals. To help legislators and the public, the Report could contain a summary of its goals and what the Department views as its measure of successful achievement of these goals.

Future reports could also include a discussion and analysis of the results of activities compared to the Department's budget and/or targets and the total cost to deliver the K to 12 education system. This would help the readers assess where the Department is now in achieving its goals.

The Report is written clearly. It was tabled within the timeframe required by law. The Minister tabled the Report for the year ended June 30, 1997 in February 1998. Unfortunately by then, the information contained in the Report becomes dated.

In 1994, the Standing Committee on Public Accounts (PAC) recommended that the law be changed to allow annual reports to be released when the Legislative Assembly is not in session. To date, the Government has not changed the law to comply with the PAC's recommendation.

3. We recommend that the Department continue to improve the contents of its annual reports.

Leadership in reporting

Purpose of study

As part of our Office's goals of fostering well-managed government and encouraging good government reporting, our Office encourages performance reporting. To this end, we encourage public agencies to develop, use and report performance indicators that help show the achievement of their objectives. We try to identify best practices, as well as leaders whose activities demonstrate those best practices. We do so to share their experience with others.

What are performance indicators? Performance indicators are a gauge used to monitor performance. The Department of Education describes performance indicators for education as data collected to "support decision making, planning and policy development at all levels of the education system and to demonstrate public accountability..." (Saskatchewan Education, 1997, p. 6).

The Department and its key stakeholders have worked together for more than a decade to provide the education community and the public with information about the education system. They develop, use and report publicly on indicators to better inform the education community and the public. Examples of indicators include student-educator ratios, percent of students achieving an expected level of performance, average marks of students by gender or by location.

In particular, the work of the Department demonstrates leadership in performance reporting. The objective of this study was to examine how the Department successfully uses best practices to gain and maintain the commitment of key stakeholders to track and report indicators.

Why education indicators?

Successful reporting of performance requires:

- ◆ sound planning systems involving key stakeholders;
- ◆ information systems;
- ◆ stakeholder commitment to collect accurate data;
- ◆ expert analysis of collected data; and

- ◆ the willingness of key stakeholders to report findings with accuracy and timeliness over the long term.

Stakeholder commitment is integral to successful performance reporting. The Department and its key stakeholders have agreed to evaluate the progress of K to 12 education in Saskatchewan using performance indicators. Achieving this commitment is significant given the number of stakeholders and their varied interests.

This is not a unique challenge. Public sector organizations are working with increasing numbers of stakeholders. Gaining stakeholder commitment to common goals and choosing indicators to measure progress are difficult tasks. We see from the Department's experience that these tasks are achievable.

What we looked at

Study process

This study looked at the process that the Department used during 1989-1994 to gain commitment from key stakeholders to track and report indicators, and the ongoing practices that the Department uses to maintain commitment.

In conducting this study, we reviewed documents provided by the Department, including materials such as minutes, correspondence and reports. We interviewed individuals in the Department and in key stakeholder organizations. We sought the input of the Department at key points while we planned and carried out the study.

These processes do not constitute an audit.

Best practices

We reviewed relevant literature, particularly in the area of collaboration, to identify potential best practices (a selected references list is attached). We consulted with the Department on the best practices we identified. The Department agreed with the best practices presented below.

Best practices for gaining stakeholder commitment to track and report indicators are as follows:

1. A supportive environment is established and maintained
2. Solutions emerge through constructive approaches to differences
3. Key stakeholders assume joint ownership of decisions
4. Key stakeholders assume collective responsibility for future directions

Key stakeholders

This study focuses on the following stakeholders:

- ◆ the Department of Education;
- ◆ the Saskatchewan Teachers' Federation;
- ◆ the Saskatchewan School Trustees Association; and
- ◆ the League of Educational Administrators, Directors and Superintendents.

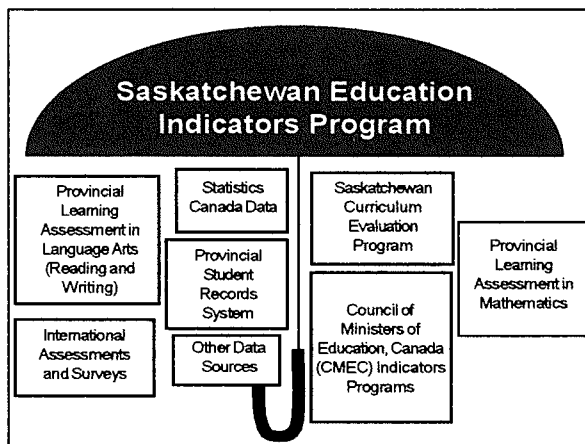
Additional stakeholders include the universities; Saskatchewan Institute of Applied Science and Technology; Saskatchewan Association of School Business Officials; Saskatchewan Association of School Councils; Saskatchewan's nine regional colleges, including Saskatchewan Federated Indian College; Gabriel Dumont Institute; Aboriginal teacher training institutions; organizations representing the Aboriginal, business and labour communities; and students and parents. Our study, however, focuses on the key stakeholders above.

How the Department gained commitment

Context

The current Saskatchewan Education Indicators Program encompasses other initiatives and evaluation and indicator programs. The accompanying figure, from the Department, identifies specific programs and initiatives under the Saskatchewan Education Indicators Program.

Figure 1



Source: Department of Education, 1998

In 1981, the Minister of Education established an Advisory Committee to assess the quality of education in the province and to set future directions. The key stakeholders in this study participated in that Committee.

The Committee identified the need for “indicators of the educational system’s ongoing effectiveness” (Saskatchewan Education, 1984, p.48). A subsequent Minister’s Advisory Committee, also involving the key stakeholders, recommended that “a framework of system program planning and effectiveness indicators be developed for education in Saskatchewan” (Saskatchewan Education, 1989, pp. 19-20).

In response to this recommendation, the Minister of Education created the Education Indicators Advisory Committee. The Committee was active from 1989 to 1993. In 1995, the Minister created a new committee called the Evaluation and Monitoring Advisory Committee. This Committee still exists. Its role is to advise the Department on a range of educational issues including indicators.

The key stakeholders participated in the Education Indicators Advisory Committee and they continue to participate in the Evaluation and Monitoring Advisory Committee. The work of these two committees forms a major part of the subject matter for this study.

Study findings

Through the use of best practices, the Department of Education succeeded in gaining key stakeholder commitment to track and report indicators. It has succeeded in maintaining that commitment.

Since 1989, when the Minister established the Education Indicators Advisory Committee, the key stakeholders have introduced a framework for indicators. The Department has published regular indicators reports, which are annual publications that use indicators to describe the performance of the education system. The use of education indicators continues to evolve with the continued participation of the key stakeholders.

This success is not attributable solely to the Department. All key stakeholders share in this achievement.

Over time, the commitment of the key stakeholders has not been absolute. The key stakeholders continue to have differing values and attitudes regarding indicators. These differences illustrate the value of what the Department and the other key stakeholders have achieved—the Department has processes to allow the key stakeholders to acknowledge their differences, debate their views, find common ground and proceed.

What is this success attributable to? The chief reasons are perseverance, a firm foundation, continuity and trust. The following highlights the best practices (identified in bold) the Department used under each of these headings.

Perseverance

When the Department established the Education Indicators Advisory Committee in 1989 it was with the overriding goal of bringing the stakeholders along in the development of indicators for the K to 12 education system. This was a continuation of the collaborative, consensual approach that had characterized their relations.

Achieving consensus about indicators proved difficult. The key stakeholders approached the issue of education indicators with differing values and attitudes. Working through those differences took time. The Education Indicators Advisory Committee reported in 1993, publishing its

Foundation Document and finalizing preparations for the first indicators report.

What kept the key stakeholders at the table through their disagreements and debate? The Department had committed to move only with the consensus of the key stakeholders. This was the key element in ***establishing a supportive environment***. It provided the foundation for the intensive collaboration that would take place.

In proceeding on the basis of consensus, the Education Indicators Advisory Committee attempted to find “wins” for key stakeholders and to find ways to live with potentially troublesome issues. Not all decisions were equally acceptable to all key stakeholders. From time to time, disagreement arose over the value of particular indicators and their appropriateness. The key stakeholders did not let their agreement on the framework for looking at educational quality be overshadowed by disagreement on specific indicators that fit into the framework. They adopted a ***constructive approach to differences***.

Once decisions were reached, the key stakeholders worked together to promote their joint decisions to their own constituencies, other stakeholders and to the public. Through the collaborative process, the key stakeholders assumed ***joint ownership*** over the indicators program and they collectively planned to carry out their decisions.

There is some indication that the collaboration that characterized the relationship among the key stakeholders has lessened in recent years. This may be attributable to the current stage of the use of indicators. Looking at the “lifecycle” of the development and use of indicators suggests that in the early years, intensive collaboration was needed to make progress. Once major hurdles were overcome, and the use of indicators accepted, the collaborative processes have tended to be relaxed.

However, it is clear that, in recent years, the key stakeholders have identified the need to renew their collaboration to face new pressures. They have advanced this need in the current Evaluation and Monitoring Advisory Committee. The Department has responded by emphatically re-committing to collaborative and consensual processes.

A Firm Foundation

The key stakeholders succeeded in building a firm foundation for the development and use of education indicators. As noted above, a key element in that foundation was the *supportive environment*.

The key stakeholders worked within that environment to collectively agree on a framework for indicators and on means to implement that framework. This is evident in the work done by the Education Indicators Advisory Committee in developing the *Foundation Document* published in 1993 and in developing the first indicators report. In recommending and pursuing steps to promote the use of indicators, the key stakeholders *assumed collective responsibility for future directions*.

This framework put in place by the *Foundation Document* has held up well. Although there has not been unanimity regarding every indicator used, agreement on the framework remains solid. Where the key stakeholders have disagreed, they have found ways of moving past their disagreement to find common ground. The key stakeholders continue to use the *Foundation Document* to assist them in finding that common ground.

Continuity

The work of the Education Indicators Advisory Committee built upon earlier work in which all the key stakeholders had participated. In turn, the Evaluation and Monitoring Advisory Committee (formed in 1995) built upon the earlier work of the stakeholders in the earlier committee. Throughout, there has been continuity in the participation of key stakeholder organizations, but also continuity in the involvement of individuals representing those organizations.

This continuity has fostered each key stakeholder's understanding of the others' points of view. The key stakeholders know each other's values and can anticipate sensitivities. This has allowed them to *approach differences constructively*. The firm foundation described above has been a further significant contribution to this continuity.

Trust

Key stakeholders identify trust as an important facet of their work with indicators. Due in part to the stability among the participants (both individuals and stakeholder organizations), a significant level of trust has arisen among the key stakeholders. Key stakeholders attribute this trust to the individuals involved and to the tradition of discussion and collaboration that exists.

Close communication between the key stakeholders has fostered this trust. While the existing Evaluation and Monitoring Advisory Committee is one forum for communication among the key stakeholders, they use numerous other opportunities for interaction. The key stakeholders use these opportunities to ensure that their organizations do not become "accidental adversaries" and to work through ***constructive approaches to differences***.

The key stakeholders regard their relationship as unique in Canada. The trust that exists between the key stakeholders has permitted them to have a higher comfort level with decisions that challenge their values and beliefs and to ***assume collective responsibility for future directions***.

Conclusion

The Department of Education used best practices and succeeded in gaining and maintaining key stakeholder commitment to the tracking and reporting of education indicators. In doing so, the Department has demonstrated leadership in reporting.

As the key stakeholders have developed and implemented indicators, and as the program has moved to a more mature stage, new pressures are coming to bear. There are new issues and the expectations of key stakeholders are changing.

Forums exist to raise and debate these new issues and changing expectations. Agreement on the framework remains solid. The key stakeholders have expressed their desire to continue to work collaboratively. It appears that the key stakeholders will continue to use the processes in place to reach agreement upon future directions.

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Post-Secondary Education and Skills Training

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Executive summary

The post-secondary education and training system must pick up where the kindergarten to grade 12 system ends. The system is comprised of numerous educational institutions funded federally, provincially, privately or in combination thereof. While the Department of Post-Secondary Education and Skills Training is not responsible for the day-to-day management of various post-secondary educational institutions, it has overall responsibility for the post-secondary system.

In this Chapter, we provide the legislators and the public with information to help them better understand the Department. We note the environment in which the Department operates is changing in terms of demographics, public expectations and federal government involvement. We highlight three areas the Department needs to manage well to ensure its success. The Department must:

- ◆ coordinate the efforts of key post-secondary institutions to deliver post-secondary education efficiently and effectively;
- ◆ ensure post-secondary education and skills training responds to the needs of the public and of employers; and
- ◆ ensure reasonable access to quality education and training opportunities.

Noting the complex nature of the post-secondary sector, we recommend that the Department provide legislators and the public with a clearer description of the accountability relationships between it and its key educational institutions. It is critical that all understand who is responsible for what and to whom.

There are many planning initiatives underway within this sector (e.g., Provincial Training Strategy, University Revitalization). We encourage the Department to bring these efforts together and form a plan for the entire post-secondary sector. This would enable the Department to report publicly against such a plan in the future. Without a sector-wide plan, the Department can not determine if costs of post-secondary education and skills training are appropriately shared (i.e., provincial, federal and privately). Such a plan would also help legislators and the public determine how the various initiatives fit together.

We note that legislators and the public continue to receive limited information about how well the universities safeguard and spend public money. In the past, we asked the Department to require the universities to report on how well they safeguard and spend public money and for the Department to provide legislators with this information. In 1997, the Standing Committee on Public Accounts agreed with our recommendations. Although there has been much discussion and dialogue, little progress has been made to date in effecting these recommendations.

We encourage the Department to use our recommendations to improve its rules and procedures to safeguard and control public money.

Introduction

In this Chapter, we set out:

- ◆ The Department of Post-Secondary Education and Skills Training's role, goals and the key risks it faces;
- ◆ The results of our 1998 audit of the Department, and of various funds and agencies; and
- ◆ The results of our assessment of the *Department of Post-Secondary Education and Skills Training 1996-97 Annual Report*.

Understanding the Department

It is important that legislators and the public understand the role of the Department and the risks it faces. This will enable them to assess better the Department's performance.

The following provides a brief overview of the role of the Department and the risks it faces. For further information, we encourage Members of the Legislative Assembly (MLAs) and the public to read the Department's annual reports and other key publications mentioned in this Chapter.

Role of the Department and its goals

The Department is established under *The Government Organization Act* by the Lieutenant Governor in Council. While the Department is not responsible for the day-to-day management of various institutions involved in the delivery of the post-secondary system, it has overall responsibility for the post-secondary education and skills training system. The system currently costs taxpayers about \$750 million each year.

The post-secondary education and skills training system must pick up where the kindergarten to grade 12 system ends. The post-secondary system is comprised of numerous provincially funded institutions like universities, regional colleges and the Saskatchewan Institute of Applied Science and Technology (SIAST), privately funded vocational schools like Robertson Business College and federally-funded institutions like Saskatchewan Indian Federated College. The system also includes programs like student loans and bursaries.

Specific responsibilities of the Department include:

- ◆ developing and implementing policies for post-secondary education and skills training;
- ◆ regulating the operation of private vocational schools and the training of apprentices and trades people;
- ◆ overseeing the operations of institutions delivering post-secondary education and skills training;
- ◆ administering post-secondary student assistance (e.g., loans and bursaries);
- ◆ administering various training and education programs; and
- ◆ working with provincially-funded post-secondary institutions to acquire sufficient resources to deliver their public policy objectives.

The Department, in collaboration with its key stakeholder groups, has developed some strategies and discussion papers for various parts of the post-secondary sector (e.g., training institutions, student assistance, and the universities). These initiatives provide the Department with broad direction to operate.

The following briefly discusses three key initiatives of the Department – the Saskatchewan Training Strategy, the University Revitalization process and student assistance reform.

In April 1997, the Department issued *The Saskatchewan Training Strategy*. The Strategy sets out the Department's vision, goals, principles, and objectives along with a three-year implementation plan. The Strategy provides the Department, educational institutions and industry with a clear framework to enable them to work together to achieve a common vision and goals.

Under the Training Strategy, the common vision is:

Saskatchewan people will have access to flexible, relevant, quality training opportunities that respond to their needs and the needs of the labour market. Governments, institutions, industry and communities will work together to enable people to enhance their employability and to contribute to the economic and social development of the province.

The three goals set out in the Training Strategy are:

- ◆ to develop a skilled workforce relevant to Saskatchewan's labour market;
- ◆ to enhance access and support opportunities for all learners; and
- ◆ to create a coherent, effective and sustainable delivery system.

The Department publishes annual progress reports on the Training Strategy setting out achievements to date.

The Department has undertaken various initiatives within the university sector. A number of key publications document these initiatives. Key publications include the 1996 *Report of the Minister's Special Representative on University Revitalization*, various reports on the DesRosiers Operating and Capital Funding Review, and *Public Interest and Revitalization of Saskatchewan Universities – November 1996*. This work provides a basis to clarify the role of the Department relative to the universities. However, more work is needed to ensure the expectations of each party are clear and the accountability relationships are understood and operating. The Department continues work in this area.

The *Student Assistance Task Group Report* dated June 1997 sets out concerns about current student assistance programs and recommended actions. In the January 1998 *Response from the Minister of Post-Secondary Education and Skills Training to the Student Assistance Task Group Report*, the Minister agrees, in general, with the Task Group. The Response also sets out the Department's priorities for student financial assistance reform. These include:

- ◆ Adequate support – ensuring programs provide sufficient levels of assistance to students to prevent undue difficulty in completing an education.
- ◆ Debt prevention – ensuring programs provide adequate employment and counselling to avoid excessive reliance on student loans, and so that students with the least financial means are not subject to unmanageable levels of debt.

- ◆ Debt repayment assistance – ensuring programs provide help with the management of repayment of student debt after post-secondary schooling.

The Department is working with the Federal Government to consider changes to the current student financial assistance programs.

We encourage MLAs and the public to obtain more detailed information about the Department. Publications are available from the Department or from the internet at www.sasked.gov.sk.ca/training.

The risks the Department faces

The environment in which the Department and post-secondary institutions operate is changing in terms of demographics, public expectations and Federal Government involvement.

Statistics Canada's data show workers make more frequent job changes that often require new sets of skills. It also shows the higher the level of your education, the more likely you are to participate in the work force. Also, Saskatchewan's population includes a large and growing segment of young aboriginals. This segment may require different post-secondary education and job training.

The public continues to express concerns. Key concerns include the rising costs of post-secondary education and training and the extent to which their tax dollars subsidize these costs, whether programs offered really make students more employable, and whether their tax dollars are directed to the right places (e.g., degree or vocational programs).

Now, the Federal Government more often provides money directly to the student as opposed to educational institutions. It expects more local involvement in the delivery of related programs and services. For example, under the Canada-Saskatchewan Labour Market Development Agreement, effective April 1, 1998, the Department will deliver career and employment services previously provided by the federal government.

These changes present risks and pressures for the Department. To reduce these risks, the Department needs to:

- ◆ Coordinate the efforts of the key post-secondary institutions to deliver post-secondary education and skills training efficiently and effectively.

The cost of post-secondary education and skills training is growing. The public pays for these costs through federal and provincial taxes and tuition fees. Public funds continue to be limited. As previously stated, the post-secondary system is comprised of many different institutions. This makes coordination more complex and more important. Without coordination, the risk of duplication, inefficiencies and overlap among the key post-secondary institutions (e.g., universities, regional colleges, SIAST, department-delivered programs) increases. The Department must take a lead role to ensure the costs of post-secondary education and skills training are reasonable and are appropriately shared.

A necessary prerequisite to successful coordination is to ensure each post-secondary institution has a clear understanding to whom they are accountable and for what. The Department must ensure this understanding exists and share this understanding with legislators and the public. Based on this shared understanding, the Department must show legislators and the public that the Saskatchewan system of post-secondary education and skills training is delivered efficiently and effectively.

- ◆ Ensure post-secondary education and skills training responds to the needs of the public and of employers.

The programs and services offered by the various post-secondary institutions and by the Department must be relevant to both the current and future needs of society. This is necessary to ensure Saskatchewan is competitive.

The Department must take steps to ensure the continued relevance of programs and services on a system-wide basis. The Department must use system-wide information to develop and implement its policies and to determine the appropriate level and type of funding. Key information would include a listing of current programs and services offered, and the current and future cost of these programs and services. In addition, the Department must have a means to track, monitor and project the needs of society and of employers.

To gather this information, the Department must work closely with post-secondary institutions, the Federal Government and employer groups.

- ◆ Ensure reasonable access to quality education and training opportunities.

An individual's access to quality education and training opportunities is impacted by many factors. Key factors include: status of secondary education, awareness of opportunities, program prerequisites required, enrolment limits, cost of program, access to financial resources including student assistance, program-delivery methods used and proximity to institution delivering programs.

Achieving reasonable access with limited public resources is challenging. The Department needs programs directed at students and potential students, e.g., student assistance, career and employment counselling programs. It also needs to ensure post-secondary institutions identify and address barriers to access appropriately.

Related special purpose funds and agencies

The Department is responsible for the following special purpose funds and 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
Training Completion Fund	March 31
Saskatchewan Indian Regional College	June 30
SIAST	June 30
Saskatchewan Communications Network Corporation	March 31
Southeast Regional College	June 30
Student Aid Fund	March 31

Also, the Department is responsible for the University of Saskatchewan and the University of Regina. The universities have an April 30 year end.

Department spending

In 1998, the Department received \$386.1 million (1997 - \$344.8 million) from the General Revenue Fund and spent this money on its programs. Also, the Department raised \$12.8 million (1997 - \$15.5 million) of revenue. Of these revenues, 95% (1997 - 97%) are from the Federal Government. The *Public Accounts 1997-98: Volume 2: Details of Revenue and Expenditure* (1997-98 Public Accounts - Volume 2) reports information about the Department's revenues and expenses.

The following is a list of major programs and spending as reported in 1997-98 Public Accounts - Volume 2:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Administration & shared services	\$ 2.4	\$ 2.8
Accommodation & central services	1.4	1.7
Student support & employment programs	64.3	57.9
Post-secondary education	270.7	273.0
Training programs	40.0	43.4
Distance education	7.3	7.3
Total	<u>\$ 386.1</u>	<u>\$ 386.1</u>

Our audit conclusions and findings

This section contains our audit conclusions and findings for the 1998 year ends of the following:

- ◆ Department;
- ◆ New Careers Corporation;
- ◆ Training Completion Fund (Completion Fund);
- ◆ SIAST; and
- ◆ Saskatchewan Communications Network Corporation (SCN).

It also contains our audit conclusions on our audits of the 1998 financial statements of Student Aid Fund, and of eight of the nine regional colleges. We have not completed the audit of the 1998 financial statements for Southeast Regional College.

Also, we have not completed the 1998 audits on the rules and procedures for the nine regional colleges and the Student Aid Fund on how they safeguard and control public money or on their compliance with authorities. We will report our results in a future report.

In our opinion:

- ◆ The financial statements of New Careers Corporation, SIAST, the Completion Fund, Student Aid Fund, SCN and the above eight regional colleges are reliable;
- ◆ The Department, New Career Corporation, SIAST, and SCN had adequate rules and procedures to safeguard and control public money and comply with authorities governing their activities except for matters described elsewhere in this Chapter;
- ◆ The Department, the Completion Fund, New Careers Corporation, SIAST, and SCN complied with the authorities governing their activities; and
- ◆ The Department's annual reports could be improved to make them better reports on the Department's performance.

We limited our audit to authorities governing financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing activities.

In our audits of the regional colleges and SCN, we work with their appointed auditors using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.

For the eight regional colleges where the audit of the financial statements is completed, the colleges' appointed auditors and our Office formed those opinions above relevant to the colleges. For SCN, our Office and the appointed auditor formed those opinions relevant to SCN.

KPMG and our Office audit SIAST jointly. We formed those opinions above relevant to SIAST.

The following lists the regional colleges, SCN and their appointed auditors.

Carlton Trail Regional College	E.J.C. Dudley & Co.
Cumberland Regional College	Neumann & Neumann
Cypress Hills Regional College	Stark & Marsh
North West Regional College	Downie Johnson Svenkeson
Northlands College	Woodhouse, Tucker & Partners
Parkland Regional College	Skilnick Robertson Besler Miller & Co.
Prairie West Regional College	Gilchrist & Co.
SCN	Hill McKillop
Saskatchewan Indian Regional College	KPMG
Southeast Regional College	Hillstead, Melanson

Detailed audit findings - Department

In this section, we describe areas where the Department can improve its rules and procedures used to safeguard and control public money. In addition, we set out the results of our assessment of the Department's 1997-98 Annual report.

Sector-wide plan needed

The Department needs a plan for the entire post-secondary education and skills training sector.

A plan for the post-secondary education sector should describe the Department's broad direction for the entire post-secondary education and skills training sector. It would set out the goals, objectives and the related performance targets and indicators for the entire sector and for its key components. It would also set out the cost of this plan over the short and longer term.

As previously described in this Chapter, the post-secondary education and skills training sector is complex. It involves both the private and public sector. The public sector involves both the federal and provincial governments. A number of provincial public sector institutions operate under their own legislation. Recent changes make the Department directly

responsible for the delivery of a broader range of career and employment programs.

The complex nature of the sector makes a clear understanding of the responsibilities and the accountability relationships critical to the preparation of an overall plan. Clear accountability relationships set out to whom each party is accountable, for what and when. Without this understanding, the Department cannot decide what is the appropriate level of public funding over the short and longer term. Also, it is more difficult for legislators and the public to determine if monies are spent for the purposes intended and the public policy objectives for this sector are met.

To date, the Department's planning efforts focus on individual components of the post-secondary sector (e.g., training, student assistance, universities) and how it plans to use funds from the General Revenue Fund. Each initiative sets out important aspects that will contribute to and provide a foundation for the creation of a system-wide plan.

For example, *The Saskatchewan Training Strategy* sets out goals, objectives and actions planned for training opportunities. The Department is working with its key stakeholder groups to set related performance indicators and targets and to decide how to track and measure these.

However, plans for other components of the sector are not yet as well defined. In Chapter 19 of our 1997 Fall Report – Volume 2, we discussed accountability concerns about how the universities reflect the status of the Department's planning.

Our Office notes work within the universities continues. Both universities improved their 1997 annual reports, but more improvements are needed. Further discussions and dialogue has also taken place. However, the accountability relationships between the Department and each university remain unclear. The Department has not yet set out its expectations. The incompleteness of these two key parts (i.e., accountability relationship and expectation) makes the universities' annual reports less meaningful.

Without a sector-wide plan, the Department can not determine if costs of post-secondary education and skills training are appropriately shared (e.g., provincial government, federal government, industry or students). A plan for the entire post-secondary sector would help legislators and the public to determine how the various initiatives fit together. It would also help them to evaluate better the Department's performance.

1. We recommend that the Department provide legislators and the public with a clearer description of the accountability relationships between the Department and the key provincial post-secondary institutions.
2. We recommend that the Department bring its planning efforts that focus on individual components of the post-secondary sector together to form a plan for the entire post-secondary education and skills training sector, and then report publicly against this sector-wide plan.

PAC recommendations not yet complied with

In April 1997, the Standing Committee on Public Accounts (PAC) concurred with our following recommendations and reported to the Assembly that progress was being made to ensure compliance.

The related recommendations are:

- ◆ We recommended the Department should require universities to report on how well they safeguard and spend public money.
- ◆ We recommended the Department should table reports on how well the universities safeguard and spend public money in the Assembly.

As previously mentioned, there has been much discussion and dialogue between the Department and the Universities. However, little progress has been made as yet to comply with the above recommendations.

Legislators and the public continue to receive limited information about how well the universities safeguard and spend public money. Current information is limited to the audited financial statements.

We audit the universities and report to their Boards of Governors our findings on the reliability of their financial statements, on the adequacy of their rules and procedures to safeguard and control their assets and on their compliance with the law. We provide the Minister with a copy of our reports.

To date, neither the Minister nor the universities have provided these additional assurances to legislators and the public. We continue to encourage them to do so.

Annual Reports need improvement

The Department's annual reports need improvement to make them better reports on the Department's performance.

To assess performance of public sector agencies, legislators and the public need adequate summary information about the plans and about the achievement of those plans. Annual reports can provide this information. To be good accountability documents, annual reports should describe what the public agency is all about, what it has done, where it is now and what it plans to do. In addition, to ensure the information in the report is relevant and understandable, the annual report should be written clearly and be available within 90 days after the agency's year-end.

The Department's 1996/97 Annual Report provides good information on what the Department is all about and its future plans. This information includes the Department's mandate, legislation, key assets, the Department's broad goals for training and its future objectives. The 1996/97 Report does not discuss all of the Department's goals, e.g., goals for the universities.

The 1996/97 Report mentions other Department publications that contain information on its goals and objectives, e.g., *Saskatchewan Training Strategy: Bridges to Employment* and *The Public Interest and Revitalization of Saskatchewan's Universities*.

The 1996/97 Report could provide better information on what the Department has done and where it is now. Future reports could include a summary of its broad goals and the key performance indicators the Department used to measure success. The 1996/97 Report could also include a discussion and analysis of actual activities to budget and/or targets. This information would help the readers assess the Department's success in achieving its goals.

The 1996/97 Report is clearly written. The Minister tabled the annual report for the period ending June 30, 1997 on March 4, 1998. This was within the time frame required by law.

In 1994, the Standing Committee on Public Accounts (PAC) recommended that the law be changed to allow annual reports to be released when the Legislative Assembly is not in session. To date, the Government has not changed the law to comply with the PAC's recommendation.

3. We recommend that the Department should continue to improve its annual reports.

Detailed audit findings - New Careers Corporation

New Careers Corporation (the Corporation) 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.

In 1998, the Corporation had revenues of \$12.4 million, spent \$12.3 million and held assets of \$3.7 million at March 31, 1998. In addition, it administered provincial training allowances of \$937,597 on behalf of the Department. The Corporation's annual report includes its audited financial statements.

The following sets out an area where the Corporation could improve the rules and procedures it used to safeguard its public money.

System to ensure adequate funds received needed

The Corporation has an agreement with the Department to administer, on behalf of the Department, part of the Provincial Training Allowance Program. Under the agreement, the Corporation is expected to pay provincial training allowances to approved applicants with funds received from the Department for this purpose. The agreement anticipates the Corporation will receive funding prior to making payments and as such will not use its own money for the Department's program.

During 1997/98, the Corporation made payments of \$937,597 for provincial training allowances on behalf of the Department. The Corporation did not ensure it received funds from the Department prior to making all of these payments. At times, it used its own monies to make these payments. At March 31, 1998, the Corporation had a receivable of

\$269,884 from the Department relating to payments made for provincial training allowances for which it had not received funding.

4. We recommend that the Corporation should establish a system to ensure it receives adequate funds prior to making payments for provincial training allowance.

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Executive summary

The Department of Health's mandate is to protect and improve the health of Saskatchewan people. In carrying out its important and complex mandate, the Department faces many risks. On page 73 , Part A, we identify five key risks the Department must manage well to successfully protect and improve the public's health.

The Department annually spends about \$ 1.7 billion. Sixty-five percent of this money is given to health districts to deliver health services for the Department. Department management must receive good information from its staff and from districts to meet its mandate. We found that the information management receives is improving, but more must be done to ensure the information is complete and timely (see Part A).

The Saskatchewan Health Information Network (Corporation) is developing a health information network for the residents of Saskatchewan. Our objective was to determine if the Corporation had adequate processes to manage the project development. While the Corporation had many strong processes, we found that processes to ensure continued stakeholder commitment to the project need to be strengthened (see Part B).

We did a study of the Department's framework to assist districts and other health providers to select performance indicators. We found that the Department has demonstrated leadership by developing a framework for performance reporting information and for defining performance indicators. We hope this study will promote discussion and increased use of carefully selected indicators for performance reporting by Saskatchewan's Government agencies (see Part C).

We are examining whether the Department of Health had adequate processes to allocate resources among health districts based on provincial health needs. How the Department of Health allocates resources among the districts is critical to the success of the Government's ability to address health needs and to control health care costs. At this time, we are discussing the audit findings with the Department. We plan to report the results of this audit in a future report (see Part D).

Glossary

Comorbidities – risk factors or illnesses that occur together.

Core indicators – key measures of health system performance that all health districts will collect to provide essential information and allow inter-district and inter-province comparisons.

Determinants of health – factors known to influence the physical, mental and emotional well-being of individuals and families (e.g., income, education, genetics, employment, social networks and health care).

Goals – general or broad statements of desired results, e.g., improve health of the public.

Health needs – variation from the usual or commonly accepted level of health as measured by health status (based on analysis of statistics about injury, illness, death or lack of well-being) combined with analysis of community opinion expressed by the public, service providers and decision-makers.

Health outcomes – the result of health care programs or services as measured by the health status of the population receiving the services (e.g., bicycle related head injuries of children and youth reduced by 50%).

Objectives - specific statements of results to be achieved, e.g., reduce the population's injuries by 30%.

- ◆ **Financial objectives** - statements of planned financial results (e.g., budgets for revenues or financial ratios such as working capital ratio).
- ◆ **Compliance objectives** - statements of the expected degree of compliance with governing laws, regulations, bylaws and key agreements (e.g., compliance with *The Health Districts Act*).
- ◆ **Operational objectives** - statements of expected non-financial results (e.g., measurable improvement in the public's health).

Outputs - the visible products or services of the activities (e.g., number of gall bladder surgeries).

Partner – an organization inside or outside of government which has agreed to work together with others to achieve a common objective (e.g., health district, municipality, Department).

Performance indicators – variables used to help monitor changes that show whether an organization is achieving its objectives (e.g., rate of unintended injuries).

Performance report – information about the activities of an organization (e.g., service volumes provided), the inputs required to do the activities (e.g., staff employed, dollars expended) and the result of the activities (e.g., number of people served or the health outcomes achieved); usually performance reports explain progress toward the achievement of annual or long-term objectives.

Population health – an approach to better health for entire populations that acknowledges many factors determine health (e.g., education, employment, social networks, genetics, health care) and works in partnership with other sectors to influence the health of large groups of people.

Provincial health need – highest priority health needs for the province as determined by the Department of Health on the basis of analysis of the significance of various health needs (i.e., magnitude, impact, sensitivity).

Provincial objective – a specific and measurable statement of what the Department and its partners intend to achieve in terms of improved provincial health status or improved provincial systems for delivering care to address health needs.

Resource – supply of money or time assigned to accomplish a goal (e.g., money for service delivery or research, time for policy development).

Stakeholders – organizations or individuals who will feel the results of actions toward achieving stated provincial objectives.

Part A - Financial management systems

5

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Introduction

The Department of Health's mandate is to protect and improve the health of Saskatchewan people. To do this, the Department provides policy direction, direct services and funding.

In 1997-98, the Department received \$1.7 billion from the General Revenue Fund and spent this money on its programs. The Department also raised revenue of \$12 million. The Department's annual report contains information about the Department's revenues and expenses.

Government spending on health

Table 1 shows total health costs of \$1.84 billion by program. Table 2 shows total health revenues of \$1.86 billion by source. We obtained the information from the *Public Accounts 1997-98 Volume 2* and the March 31, 1998 financial statements of the District Health Boards and the agencies listed below. We restated amounts obtained from some districts' financial statements to present comparable information. These costs do not include Federal Government "Indian and northern health services" costs or what individuals pay for private health services.

Crown agencies

During 1997-98, the Department was responsible for several Crown agencies:

	<u>Year End</u>
Board of Governors, Uranium City Hospital	March 31
Health Services Utilization and Research Commission	March 31
La Ronge Hospital Board	March 31
Saskatchewan Cancer Foundation	March 31
St. Louis Alcoholism Rehabilitation Centre	March 31
Saskatchewan Health Information Network	March 31

The Department is also responsible for 32 district health boards (see Chapter 6- District Health Boards).

Table 1

Health Costs by Program
(in millions of dollars)

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Acute services	\$ 989	\$ 908	\$ 844
Specialized hospital services	10	10	na
Supportive care services	299	336	371
Home based services	92	84	75
Health improvement initiatives	29	26	79
Community care initiatives	4	2	na
Emergency response services	21	21	22
Alcohol and drug services	74	68	69
Community health services	55	58	48
Mental health services	46	42	40
Rehabilitation services	37	38	36
Ancillary operations	10	10	2
Research	5	4	4
Northern health services	14	13	12
Laboratory and disease control	8	8	13
Medical education	17	16	16
Other	<u>130</u>	<u>130</u>	<u>106</u>
Total expenses	<u>\$ 1,840</u>	<u>\$ 1,774</u>	<u>\$ 1,737</u>

Table 2

Health Funding by Source
(in millions of dollars)

	<u>1998</u>	<u>1997</u>	<u>1996</u>
General Revenue Fund (GRF)	\$ 1,677	\$ 1,608	\$ 1,555
GRF received in prior years	(4)	6	(10)
Patient and agency charges	99	95	94
Ancillary and dietary revenue	15	15	15
Local government taxes	3	13	12
Donations	15	9	12
Investment income	9	10	11
Other	37	40	36
Prior years' surplus	<u>11</u>	<u>0</u>	<u>12</u>
Total revenues	<u>\$ 1,862</u>	<u>\$ 1,796</u>	<u>\$ 1,737</u>

Key risks the Department faces

To assess the performance of the Department, it is important for legislators and the public to understand the Department's key risks and how it manages these risks.

We identify five key risks facing the Department. The Department needs to:

- ◆ identify the public's health needs;
- ◆ decide the types, volumes and standards of services required to meet the public's health needs, make those services available, and monitor how those services are delivered;
- ◆ influence public policy decisions and public attitudes on health to improve the public's health and to help control the cost of the health system;
- ◆ have sufficient resources to deliver the required health services; and
- ◆ ensure the Legislative Assembly and the public know whether the Department is doing the right things well.

For additional discussion of these key risks and the Department's systems and practices to manage them, see our 1997 Fall Report – Volume 2.

Our audit conclusions and findings

We have not completed our audit work of the Health Services Utilization Commission and the St. Louis Alcoholism Rehabilitation Centre. We will report the results in a future report.

In our opinion, for the year ended March 31, 1998:

- ◆ the financial statements for the agencies listed on page 71 are reliable;

- ◆ 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 its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing, except where we report otherwise in this Chapter.

We also include our assessment of the Department's annual report.

Service agreements need improvement

The Department needs to improve its service agreements with district health boards.

The Department carries out many of its responsibilities through districts. Therefore, the Department needs service agreements with districts to ensure that the delivery of health care by districts achieves the Department's objectives.

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 verified periodically by the Department or the districts' independent auditors. To meet its responsibilities, the Department must know that the districts have systems to ensure the proper use of public money entrusted to the districts.

Some districts' annual reports (e.g., Saskatoon) describe their systems and practices to achieve their financial, operational and compliance objectives. We encourage the Department to examine these reports and prepare a model for districts to follow in reporting on their systems to achieve the Department's objectives.

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 that the Department will need time to decide how to obtain this assurance at a reasonable cost.

We also reported this matter in previous years. In 1997, the Standing Committee on Public Accounts (PAC) agreed with the following recommendation.

1. We recommend that the Department 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.

Department needs to approve district plans on time

The Department should receive and approve all districts' health plans before their fiscal year begins (April 1).

Each year, the Department requires districts to prepare health plans outlining their financial and operational targets. These plans are prepared in consultation with the Department. The Department uses these plans to help evaluate the districts' performance.

The Health Districts Act requires the districts to submit their 1997-98 budget to the Department for approval. The Department asked the districts to submit their health plans for April 1997 to March 1998 by May 15, 1997. We think the Department should receive and approve the health plans before the year begins. The Department approved the health plans after May 15, 1997.

While the Department regularly discusses plans with districts, timely approval of the plans is important so that the Department and the districts have a common understanding of annual and long-term priorities and goals. Making decisions without a common understanding on the priorities and goals may result in the Department and districts making inappropriate decisions.

We also reported this matter in previous years. In 1997, PAC agreed with the following recommendation and recommended that the Department should, to the best of its ability, provide the districts with an indication of their funding levels for the next two or three years. We are pleased to note that the Department now provides this information to districts.

2. We recommend that the Department work with the health districts to ensure the approval of all district health plans before the fiscal year begins (April 1).

Department needs better reports from Districts

The Department needs complete and timely information to ensure the proper use of public money entrusted to the districts.

Several districts did not submit their quarterly financial reports to the Department on time. In addition, district annual reports do not adequately show program performance compared to plan.

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. The Department has issued guidelines to help districts prepare their annual reports.

Several districts did not prepare the required financial reports on time.

In addition, the districts' annual reports do not adequately report on 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 effective as they could be in enabling the Department to assess the effectiveness of the districts' services on the health status of residents.

We also reported this matter in previous years. However, we note the districts have significantly improved the timing and quality of their financial reports. In 1997, PAC agreed with the following recommendation.

3. We recommend that the Department work with health districts to ensure they submit complete and timely performance reports.

Policies needed for the Department's internal financial reporting

Department management needs to clearly document policies and procedures for preparing sound internal financial reports.

Management needs timely, complete and accurate financial reports throughout the year to help them make sound decisions. Inadequate guidance increases the risk of inaccurate internal reports. This in turn may result in adverse management decisions.

The Deputy Minister should approve the internal financial reporting policies and procedures to ensure senior management receives the information they need to manage the Department.

We reported a similar matter in previous years. In 1997, PAC agreed with the following recommendation.

4. We recommend that:
- ◆ the Department document policies and procedures to prepare sound internal financial reports; and
 - ◆ the Deputy Minister approve the Department's internal reporting policies and procedures.

Management is drafting an Expenditure Forecast Policy and Procedure Manual. The manual is not yet complete.

Annual report needs improvement

We reviewed the Department's annual report for the year ended March 31, 1997. We think the report should explain the key risks 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 risks. We have set out what we think are the Department's key risks on page 73.

The annual report does not specifically address the key risks set out on page 73 or explain the systems and practices the Department uses to manage these risks. The report sets out five key principles to guide Saskatchewan's health system. In some respects, these principles are similar to the key risks identified on page 73. The report also presents how the Department acted on each principle during the year and what objectives were achieved.

The annual 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 and/or controls and owes. For example, the Minister is responsible for the state of finances of the overall public health system including \$800 million of infrastructure owned by the districts.

The report sets out the Department's operating goals, objectives, and activities to achieve them. It does not state whether the Department achieved its goals and objectives. It does not set out the Department's performance measures and targets.

The annual report was tabled within the time frame required by law. It was tabled 12 months after the Department's year end. In 1994, PAC recommended that the law be changed to allow annual reports to be released when the Legislative Assembly is not in session. To date, the Government has not changed the law to comply with the PAC's recommendation.

Public confidence in the health system is important to the Department's success. While many factors are involved, public confidence will improve if the Department improves the contents and timing of its annual report.

We also reported this matter in previous years. We recognize that the Department has significantly improved the quality of its annual report. In 1997, PAC agreed with a similar recommendation.

5. We recommend that:

- ◆ the Department's annual report to the Legislative Assembly describe how the Department manages the key risks it faces;
- ◆ the annual report show the Department's performance targets and actual results compared to plans; and
- ◆ the annual report show what the Department owns and controls.

La Ronge Hospital Board

The La Ronge Hospital Board (Hospital) provides health care services to people in Northern Saskatchewan.

In 1998, the Hospital had revenue of \$3.9 million and held assets of \$14.3 million at March 31, 1998. The Hospital plans to include its financial statements in its annual report.

Our audit conclusions and finding

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 this Chapter; and
- ◆ the Hospital complied with authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

Better financial reports for the Board needed

The Board of Directors needs better financial reports to safeguard and control the Hospital's assets. The financial reporting policies documented in the Hospital's policy manual are good, but management does not follow all of the policies when it prepares the monthly reports.

Inadequate financial reports can lead to incorrect decisions. We also reported a similar matter in more detail in our 1996 Spring Report. In 1997, PAC agreed with the following recommendation.

6. We recommend that the Hospital improve its internal financial reports to include:
 - ◆ an explanation of major variances between year-to-date actual and year-to-date budget.

- ◆ financial information on all activities of the Hospital, including the capital fund and fund-raising activities;
- ◆ a comparison of current period amounts with the same period for the previous year;
- ◆ a projection of revenues and expenses to the end of the year; and
- ◆ a statement showing the Hospital's financial position (assets and liabilities).

Year 2000 plan needed

The Hospital needs to develop and implement processes to ensure both information technology and non-information technology systems are Year 2000 compliant.

The Hospital must ensure its systems properly recognize 2000 as the year that follows 1999. Failure to do so may cause unpredictable results.

We set out criteria to address the Year 2000 issue in Chapter 2.

7. We recommend that the Hospital prepare a plan to address the Year 2000 issue and carry out corrective action on critical systems before December 31, 1999.

Management told us it will begin work on the Year 2000 problem soon.

Board of Governors, Uranium City Hospital

The Board of Governors, Uranium City Hospital (Hospital) provides health care services to people in northern Saskatchewan.

In 1998, the Hospital had revenue of \$2.0 million and held assets of \$0.6 million. The Hospital plans to include its financial statements in its annual report.

Our audit conclusions and findings

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 this Chapter; 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 matter reported in this Chapter.

We also report the Hospital needs to include a comparison of planned results to actual results in its annual financial statements.

Directors need to define required periodic financial information

The directors have not defined what financial reports they need to receive from management and when to ensure they receive suitable and timely financial reports for decision making.

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 also reported this matter in our 1997 Fall Report - Volume 2.

8. We recommend that the directors, with the help of senior management, define and document their periodic financial reporting requirements to ensure they receive suitable and timely financial reports for decision making.

Financial reports and records need to be complete and accurate

Internal financial reports provided to the directors need improvement to ensure directors receive suitable and timely financial reports for decision

making. In addition, the Hospital's internal financial reports are inaccurate because the Hospital used inaccurate accounting records to prepare them.

The Hospital needs rules and procedures that ensure its financial reports and accounting records are complete, accurate and timely. Inadequate financial reports and inaccurate financial records can lead to incorrect decisions.

We also reported this matter in our 1997 Fall Report - Volume 2.

9. We recommend that the Hospital improve its internal financial reports to include:
 - ◆ a full set of financial statements including reports that show what the Hospital owns and what it owes, and its revenues and its expenditures;
 - ◆ 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.
10. We recommend that the Hospital establish a process to ensure the accuracy and reliability of its accounting records.

Year 2000 plan needed

The Hospital needs to develop and implement processes to ensure both information technology and non-information technology systems are Year 2000 compliant.

The Hospital must ensure its systems properly recognize 2000 as the year that follows 1999. Failure to do so may cause unpredictable results.

We set out criteria to address the Year 2000 issue in Chapter 2.

11. We recommend that the Hospital prepare a plan to address the Year 2000 issue and carry out corrective action on critical systems before December 31, 1999.

External reporting requirements

The Hospital did not submit to the Minister information required by *The Hospital Standards Act*.

Section (4) of this Act requires the Hospital to submit the following information to the Minister monthly:

- ◆ statement of its financial transactions; and
- ◆ a summary of the hospital services provided by it during the preceding month.

12. We recommend that the Hospital submit the monthly information to the Minister required by *The Hospital Standards Act*.

Comparison of planned results to actual results needed

The Hospital's annual financial statements issued to the Minister and the public do not include a comparison of planned results to actual results.

Accountability for financial performance is improved when actual results can be compared to planned results.

13. We recommend that the Hospital's annual financial statements include a comparison of actual results with planned results.

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Executive summary

The Saskatchewan Health Information Network (Corporation) is developing a health information network for the Government. When fully implemented, the network should connect all health care providers and provide them with the information necessary to deliver better health care services to the residents of Saskatchewan.

Our audit objective was to determine if the Corporation had adequate processes to manage the project. Strong project management processes reduce the risk of project failure.

The Corporation is responsible for the project's development. By focusing on the Corporation's project management processes, our audit provides information on the strengths and weaknesses of its processes. This information will permit management to take timely corrective action. Our audit also provides the Corporation, the Legislative Assembly and the public with assurance on the project's management and the use of public funds.

While we found areas that need strengthening, we found many strong project management processes. We recommend the Corporation:

- ◆ strengthen its processes for ensuring that the project is driven by a development plan that shows, for each phase, what will be achieved for the money spent; and
- ◆ strengthen its monitoring and control processes by:
 - obtaining an independent assessment on its development partner's quality management practices;
 - obtaining an independent assessment on the project's technical risks; and
 - obtaining progress reports from its development partner that provide more measures on the status of the project.

Introduction

The Saskatchewan Health Information Network (Corporation) is developing a health information network for the Government.

In 1992, the Department of Health (Department) began making significant changes to the health care system. At that time, the Department concluded that new information systems were necessary to support the delivery of health services under its client-focused wellness model.

The new information systems are referred to as the Saskatchewan Health Information Network (SHIN). When fully implemented, SHIN should connect all health care providers and give them the information necessary to deliver better health care services to the residents of Saskatchewan.

SHIN is being developed in phases. The cost of the first phase is \$40 million. Work began in August 1997 and is targeted for completion in December 1999. The work in the first phase consists of:

- ◆ confirming the information needs of health care providers;
- ◆ establishing the development priorities;
- ◆ developing SHIN's initial information technology (IT) infrastructure;
- ◆ implementing an electronic health records system; and
- ◆ providing this technology, including the electronic health records capability, secure e-mail, and word processing, to a limited number of users.

The Corporation is responsible for building SHIN. To help it with this task, it has entered into a strategic partnership with a company (development partner) specializing in developing large IT projects. Our Office audited the strategic partner selection process and concluded that the best proposal was selected. Our Report is contained in Chapter 3 of the *1997 Spring Report of the Provincial Auditor*.

The development partner assists the Corporation. It provides this assistance on a cost-plus basis. The assistance consists of providing the Corporation with a project management and development team.

Our audit and recommendations

The objective of our audit was to determine if the Corporation had adequate processes to manage the project. We focused on the Corporation's project management controls in place between August 15, 1998 and September 30, 1998.

We conducted our audit in accordance with the assurance standards established by the Canadian Institute of Chartered Accountants. These standards require us to plan our work; use reasonable and attainable criteria to evaluate the subject matter; and obtain reasonable assurance to support our conclusions.

Criteria are standards used to assess performance. For this audit, we evaluated the Corporation's project management processes against the criteria set out in the next section.

We used the criteria to guide us in gathering our evidence. When applying the criteria we referred to various IT publications for IT best practices (Selected references). We also obtained advice from an external expert. We interviewed key managers; reviewed documents, reports, contracts, and minutes; and obtained other evidence of the project development process. We corroborated evidence gathered in interviews with key managers.

We found many project management strengths. We also found project management processes that need strengthening. We describe our findings on the following pages. Except for the processes that need strengthening, it is our opinion that the Corporation has adequate project management processes to manage the SHIN project as at September 30, 1998.

1. We recommend that the Corporation should:
 - ◆ prepare a development plan for each phase of SHIN that shows the benefits that will be achieved for the money spent;
 - ◆ clearly set out when its development partner is to meet its expected performance level, obtain an independent assessment of its development partner's

performance, and ensure differences, if any, between the expected and actual performance levels are remedied;

- ◆ obtain an independent assessment of the project's risks; and
- ◆ obtain progress reports from its development partner that provide more measures on the status of the project.

Our audit criteria

Successful projects require a strong project management climate. Literature shows that over thirty percent of large IT projects are cancelled before they are complete. It also shows over fifty percent of large IT projects are over budget. A strong project management climate from the start of a project to its completion can reduce these risks.

The three cornerstones of a strong project management climate are:

- ◆ management commitment to the project;
- ◆ that the project is based on business needs; and
- ◆ good project management systems and practices.

The three cornerstones are the general criteria for successful projects. We chose, as our audit criteria, the eight project management processes set out in the publication: *A Guide to the Project Management Body of Knowledge*. These processes provide the management framework needed to support the three cornerstones of a strong project management climate. The eight processes are:

- ◆ *Scope management* - the processes involved in determining what the users need, how the needs will be met and verifying if they are met.
- ◆ *Time management* - the processes of planning, scheduling and controlling the project's activities to help get the project done on time.

- ◆ *Cost management* - the processes of planning, estimating and controlling the project costs.
- ◆ *Quality management* - the processes needed to ensure the project is well managed and satisfies the stakeholders' needs.
- ◆ *Human resource management* – the processes required to make the most effective use of people involved in the project, including stakeholders.
- ◆ *Communication management* – the processes, including organizational structure, to ensure the timely and complete creation, movement and storage of information.
- ◆ *Risk management* – the processes to identify, evaluate, plan, and respond to risks.
- ◆ *Procurement management* - the processes to decide what to contract for: tendering and selecting the best contractor; and negotiating, managing and closing the contract. (For this audit, we exclude the procurement processes pertaining to tendering and selecting the best proposal for developing a province-wide health information network. We audited and reported on these processes in Chapter 3 of our 1997 Spring Report.)

We reached our audit findings by comparing the performance of the Corporation's project management processes against the eight management processes listed earlier. However, we use the three cornerstones of a strong project management climate as our reporting criteria. We do this because the eight management processes all closely interrelate with each other. Therefore, reporting by each management process would lead to extensive repetition of audit findings.

The following groups the eight management processes under our reporting criteria.

Management Commitment: scope management, human resource management, communication management, and risk management;

Project is based on business needs: scope management, communication management, and risk management; and

Good project management systems and practices: all eight project management processes.

Our findings

Criterion 1: Management commitment to the project

We expected the Corporation to have project management processes to obtain and maintain strong senior management commitment to the project. Senior management commitment includes actively overseeing, funding, and promoting the merits of the project. This commitment is crucial from the project's start to its finish.

Maintaining senior management commitment to IT projects is a challenging task. It is challenging even when senior management belong to the same organization and are accountable to one governing body. For SHIN, the challenge is much greater. Senior management crosses many organizational boundaries. Senior management includes senior officials in the Department, the thirty-two district health boards, Saskatchewan Association of Health Organizations, various professional medical organizations, as well as Cabinet. As a result, the senior management for SHIN are accountable to different governing bodies having different needs and priorities.

The Corporation has processes to reduce the risk of losing senior management commitment to the project. For example:

- ◆ its Board consists of representatives from the Department and from key health care organizations and groups;
- ◆ it has structured its development processes to ensure the health care organizations and groups affected by SHIN are actively involved in setting SHIN's development priorities, its performance requirements, its implementation plans, and its training programs for users; and
- ◆ it has designed a communication strategy to determine the information needs of all parties with an interest in SHIN and to keep them informed of SHIN's progress and successes.

Privacy concerns over the protection of health records also pose a risk to maintaining senior management commitment. SHIN will change how health records are accessed, stored, and protected. The Department is drafting legislation to govern the protection and use of health records stored in SHIN. This is a sensitive issue. If the legislation does not receive general acceptance, senior management could lose commitment. Delays in getting this legislation in place may slow the pace of SHIN's development and increase costs. This also undermines commitment.

The Corporation has identified the risks posed by the absence of legislation and has strategies to reduce the impact this has on the project's costs and its momentum.

In summary, the Corporation has processes to maintain senior management commitment to the project. Maintaining senior management commitment in an environment of multiple governing bodies is challenging. The Corporation must remain on guard for signs of waning commitment and for the emergence of new threats to commitment.

Criterion 2: Project based on business needs

We expected the Corporation to have a long-term plan for the project that shows the health care needs or benefits that will be gained for the money spent on each project phase. We expected this information to be presented in detail for SHIN's next phase and to be more general for successive phases. Also, we expected this plan to identify indicators to measure the success of each phase.

Since the start of health reform in 1992, much work has been done on demonstrating the need for SHIN and getting user input. The active participation of Saskatchewan's health care community in its development to date continues to support the need for the project. In addition, a benefit analysis done in 1997 showed its annual benefits were in the tens of millions of dollars when fully implemented.

The Government committed \$40 million to SHIN's first phase. The Government has not yet said what its monetary commitment is for SHIN's next phase.

SHIN's complete development will span many years and many phases. As a result, the project faces additional risks. Health needs may change,

technology may change making completed work obsolete, and stakeholders may lose sight of the reasons for the project. The challenge for the Corporation is to ensure its development plan continues to be driven by sound and visible reasons for developing SHIN.

The pace of SHIN's development is largely determined by the amount of its funding. Although, Cabinet determines SHIN's funding, the Corporation needs to demonstrate that money spent on SHIN is a good investment. If it does not, the risk increases that the project loses momentum, loses direction, and/or become obsolete before it is completed.

The Corporation has prepared a communication plan to inform all stakeholders, including Cabinet, of SHIN's continued merits and its progress. It is also preparing support for its budget submissions to Treasury Board. However, it has not prepared a development plan for SHIN's successive phases that clearly shows what will be achieved for the money spent, including the alternatives available and their risks. This is necessary for attracting sufficient project funding and to reduce the risks noted in the previous paragraph. Also, a summary of the project's development plan should be included in the Corporation's annual report. This promotes accountability and helps ensure strong senior management commitment and public support for the project.

In summary, we conclude that the Corporation needs to ensure SHIN's development continues to be supported by sound and visible reasons for the project. The Corporation should prepare a development plan for each phase of SHIN that shows the benefits that will be achieved for the money spent.

Criterion 3: Good project management systems and practices

We expected SHIN to have good project management systems and practices. Good project management systems and practices require project teams with the necessary experience, skills and leadership to manage the projects. Also, the project teams must use project management practices that meet best practice standards.

When project management systems and practices are weak, deadlines pass, costs increase, and product quality suffers. In short, the risk of

project failure dramatically increases and senior management commitment may be lost.

The challenge for the Corporation is to ensure it has a capable project team that follows best practice standards.

The Corporation has a small but capable staff with proven leadership abilities and expertise in management, communication, finance and IT development. It also has a development partner with a proven track record in developing large IT projects.

To direct and control the project, the Corporation has processes that address the eight project management processes (described earlier). It also has tailored these processes to work effectively with its development partner.

Our audit disclosed three areas where the Corporation's project management processes need strengthening. They include quality management, risk management, and cost management.

Quality management

The Corporation needs to assess the performance of its development partner and work to improve its performance, where warranted.

There are several internationally recognized best practices models for assessing the performance of IT development processes. One of these is the Software Engineering Institute's (SEI) Capability Maturity Model. This model permits an assessment of an organization's IT development processes against standards called maturity levels. The maturity levels are structured like steps on a ladder. As organizations improve their development processes, they move up the ladder to a higher level of maturity. Experience shows that organizations performing at higher maturity levels are more successful in completing IT projects and they do so in less time and for less money. Also, they produce higher quality products.

One of the contributing factors for the selection of the Corporation's development partner was its experience and its ability (assessed using SEI's maturity model) in developing large complex IT projects. In the health

technology sector, it had achieved level two maturity and was planning to be at level three early in 1996.

The Corporation has set SEI's maturity level two as the performance level it expects from the development and management team supplied by its development partner. However, it has not set when the team is to achieve this performance level. It should not assume the team is operating at a maturity level of two. A team brought together to develop a new project typically starts off at a maturity level of one. How quickly it gets to a higher maturity level depends on the experience of the team members, their training, the quality of the organization's development standards, and on the priority given to getting better. It can take several months to a year or even longer to move from a lower level to a higher level.

The Corporation needs to know the performance level of its development partner. Without this information, the Corporation does not have sufficient assurance that the services provided by its development partner, on a cost-plus basis, are being performed efficiently and/or will produce a quality product.

Risk management

The Corporation needs to obtain an independent assessment of the project's risks.

Risk management involves processes to identify, evaluate, plan, and respond to risks. It is crucial to the success of IT projects. To be effective, risk management information must be reliable and timely. This is because taking corrective action early costs far less than corrective action taken late in a project's development. Also, early corrective measures increase product quality.

Obtaining independent risk assessments during a project's development represents best practices. The frequency of the assessments depends on project size, length, technical risks, and the project team's quality practices.

The Corporation and its partner have risk assessment processes. However, the Corporation has not had an independent risk assessment performed on the project. Also, because the Corporation's management team works very closely with its development partner, it is not sufficiently

independent to thoroughly assess the project's risks. The Corporation needs independent assurance that development decisions taken to date do not adversely affect the project's success, cost, and product quality.

Cost management

The Corporation's progress reports from its development partner should provide more measures on the status of the project.

To manage a project, managers need accurate and timely information. The information obtained should keep them informed on the project's time, costs and risks. For example, they need to know:

- ◆ where the project is at now (actual compared to budget);
- ◆ what has been accomplished since the last reporting period (actual compared to budget);
- ◆ the estimated time and costs needed to complete the project;
- ◆ how efficiently the development team is turning costs into progress (efficiency rate);
- ◆ the estimated efficiency rate to complete the project; and
- ◆ the status of risks, new risks, and how risks are being managed.

The Corporation receives reports from its development partner. These reports contain much of the information described in the preceding paragraph. However, these reports do not show measures on how efficiently the development team is turning costs into progress. For example, the Corporation does not receive reports showing the budgeted costs of work completed to the actual costs of the work completed (efficiency rate). Also, the reports do not show the efficiency rate the development team needs to achieve in order to complete the project on budget.

When reports do not provide complete information, their usefulness decreases. This increases the risk that corrective action is not taken or is unduly delayed.

In summary, we conclude that the Corporation has many good project management systems and practices. However, some systems and practices need strengthening. The Corporation should:

- ◆ clearly set out when the development partner is to meet the expected performance level;
- ◆ obtain an independent assessment of the development partner's performance;
- ◆ ensure differences, if any, between the expected and actual performance levels are remedied;
- ◆ obtain an independent assessment of the project's risks; and
- ◆ obtain progress reports from its development partner that provide more measures on the status of the project.

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Part C - Selecting performance indicators

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Executive summary

Performance reporting is a new name for an old responsibility. Elected officials have always expected managers to keep them informed about revenues and expenses, actions and results. Around the world, governments now try to report this type of information to the public as well as to elected officials.

The trend to report performance information more widely creates many challenges for governments. One of the most difficult challenges is selecting useful information to report.

The Department of Health has demonstrated leadership in this area. The Department developed a framework for performance reporting information and defined criteria to select specific information called performance indicators. We studied best practices for selecting performance indicators and compared them to the Department of Health's activities in this area.

We hope this study will promote discussion and increased use of carefully selected indicators for performance reporting by all Saskatchewan Government agencies. We encourage all public agencies to select, monitor and report performance indicators.

Introduction

Our Office encourages performance reporting to help the Government improve its information for decision making and to help others assess the Government's performance. Reporting how an agency performs in key areas is an important element of accountability. Performance reporting also helps an agency monitor and continually improve its performance.

To report performance, an agency selects "indicators" of performance. These indicators help explain performance (e.g., what gets done, the way things get done, the amount that gets done, the result of actions taken). We encourage public agencies to select, monitor and report performance indicators. In particular, we encourage the use of performance indicators that show progress toward the Government's objectives.

Saskatchewan's public sector has several leaders in performance reporting. This Chapter reports a study that highlights best practices for selecting performance indicators and describes the experience of the Department of Health.¹ We hope this Chapter will promote discussion and increased use of carefully selected indicators for performance reporting by Saskatchewan's Government agencies.

Saskatchewan Health's Framework & Selection Criteria

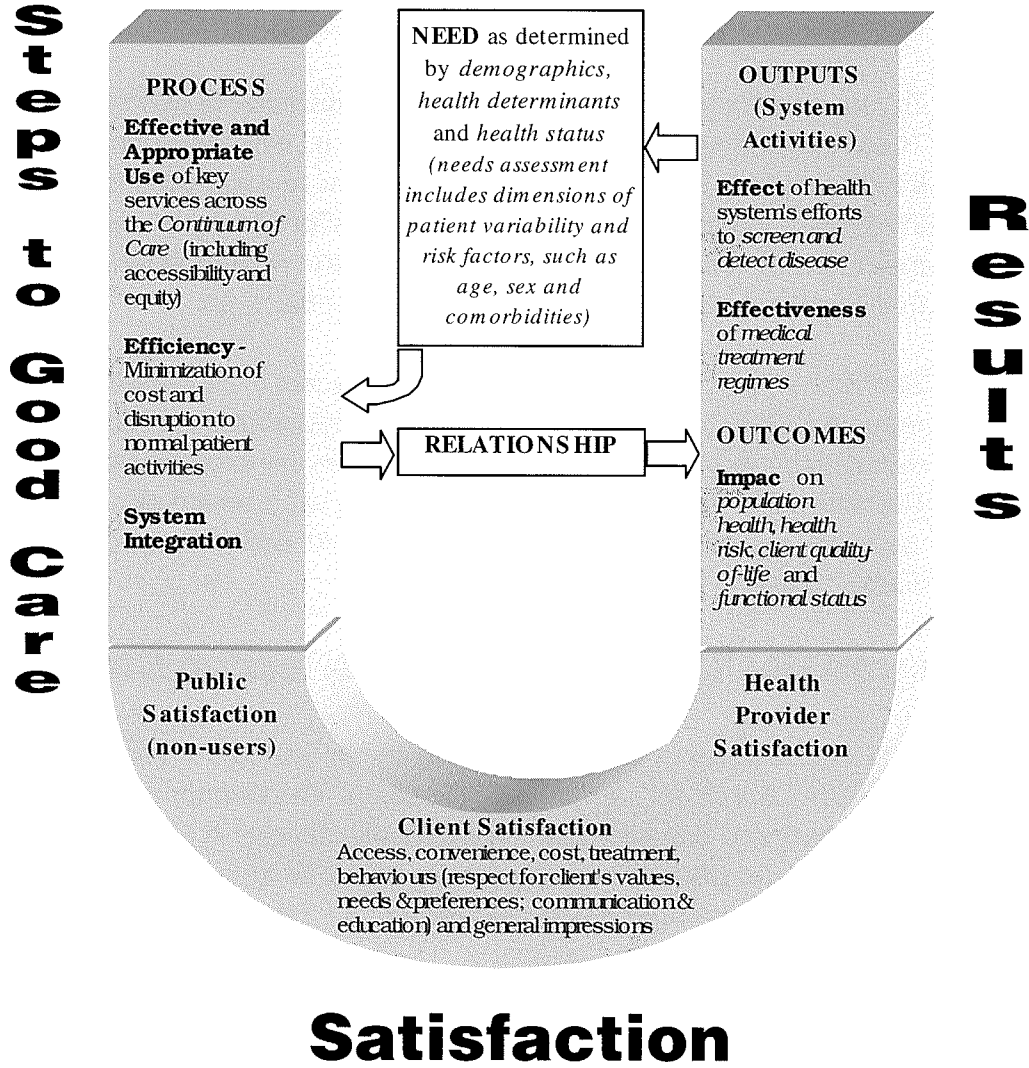
In 1997, the Department of Health (Department) set out a "Framework and Selection Criteria" for performance indicators. The Department shared the Framework and Selection Criteria with health districts in a document titled: *Provincial and District Reporting on Program Effectiveness and Health Status: A Discussion Paper on Measuring the Effectiveness of Saskatchewan's Health System*.

The Department showed leadership by identifying criteria to help select indicators that will improve understanding of the health system and its effectiveness. The Framework (see Figure 1) also displays the Department's leadership by presenting health care as a process with related health outcomes and client satisfaction levels. The Department plans to use this Framework to guide the selection of performance indicators to monitor and report the health system's performance.

¹ Please also see our Chapter 3. It describes the experience of the Department of Education in gaining stakeholder commitment for performance reporting.

Figure 1:

The Saskatchewan Health Framework



Source: Saskatchewan Health. (1997). *Provincial and District Reporting on Program Effectiveness and Health Status: A Discussion Paper on Measuring the Effectiveness of Saskatchewan's Health System.*

Useful performance reports depend on the selection of useful indicators. Specific guidelines for selecting performance indicators allow consistently accurate and meaningful reports of performance over time and improve information for decision making. If poor indicators are selected, what is measured may not be meaningful, reports may be inaccurate and poor decisions may be made.

Poor indicators also could reduce the Department's ability to obey laws and regulations. For example, *The Health Districts Act (s.35)* requires health districts to report on the effectiveness of health services and programs related to population health status. In health district service agreements, the Minister accepts responsibility to evaluate the health system's objectives for health services. Without useful performance indicators, the Department (on behalf of the Minister) would find it hard to monitor and report performance toward each objective. Useful indicators set out information that should be monitored and reported to show whether the health system is effective and to evaluate progress toward objectives.

The Department's Framework uses the Canadian Council on Health Services Accreditation definition of quality: "doing the right thing, doing it well and satisfying the customer." The Framework's focus is on services and providers in the context of four population age groups: maternal/infant, child/youth, adults and seniors.

The Department's Framework states the dimensions of quality in a client-centred health system (see Figure 1) and includes:

- ◆ steps to good care;
- ◆ satisfaction of clients, service providers and the public; and
- ◆ impact on health needs, health status, quality of life and infrastructure.

Best practices

Ideally, performance indicators relate to key aspects of an organization's desired results and the processes known to contribute to those results (Gift & Mosel, 1994, p.67). The indicators must be important strategically and be accepted as important by all stakeholders.

Indicators may measure the quality, cost or timeliness of performance. Indicators may also monitor outcomes whether these are a direct result of

services (e.g., improved hearing) or are supported by but not caused by the health system. For example, infant mortality could be influenced by prenatal care but also by the mother's diet and environment.

Our Office reviewed current literature and set out best practices to ensure that indicators selected would successfully measure and report performance (see Figure 2). The Department agreed these are important best practices.

Figure 2:

Best Practices

To demonstrate best practices, the Department's Framework and Selection Criteria should ensure the selection of performance indicators that:

- 1. Are relevant to achievement of long-term objectives**
 - 1.1 Measure the factors most critical to achieving long-term objectives.
 - 1.2 Monitor data that contribute to a broad understanding of objectives.
 - 1.3 Create awareness of the changing environment and context for achieving objectives.

- 2. Are measurable**
 - 2.1 Data are obtainable at a reasonable cost.
 - 2.2 Data are available on a timely basis.
 - 2.3 Data are reliable.
 - 2.4 Data are valid.

- 3. Are useful to interpret performance and make improvements**
 - 3.1 Enable analysis of relationships among critical factors.
 - 3.2 Enable comparisons within and among jurisdictions.
 - 3.3 Facilitate decision making and program planning.

Our study and findings

Our study's objective was to compare the Department's Framework and Selection Criteria to best practices for selecting indicators. To do this, our Office interviewed officials and examined documents covering the period

January 1997 to April 1998. Our examination included committee minutes and advice provided by external experts and health districts.

Our examination focused on the discussion paper *Provincial and District Reporting on Program Effectiveness and Health Status: A Discussion Paper on Measuring the Effectiveness of Saskatchewan's Health System*. This Discussion Paper sets out the Department's plans for selecting indicators and for placing them in the Department's Framework. The Framework shows relationships between quality of care and health outcomes and helps explain what inputs (e.g., personnel) and services will be effective to produce the desired outcomes. Thus the Framework helps analyze performance.

We found the Department used committees and expert advice to guide the selection of indicators. The Information Needs Working Group coordinated the process and acted as a steering committee. A number of other senior management decision-making groups were also involved. Expert advice was received from health professionals, epidemiologists, the Health Services Utilization and Research Commission, other government departments and national health-information networks. Health district representatives were invited to discuss and comment on the proposed Framework and Selection Criteria.

We compared the results of these combined efforts to best practices identified in current literature. Our study focused more on the resulting characteristics of indicators than on the precise processes used to achieve relevant, useful and measurable indicators.

Best Practice #1 – Select indicators that are relevant to achievement of long-term objectives.

Best practices for selecting relevant indicators require the inclusion of factors related to the understanding and achievement of long-term objectives. Best practices also require indicators to create awareness of the context in which objectives must be achieved. In this way, the relative ease or difficulty of achieving objectives can be taken into account by decision makers.

The Department plans to select significant indicators that signal the need for action and make a difference in achieving the broad, long-term goal of "improving health." In addition, the Department considers other broad

goals set for health reform and those set out by the Provincial Health Council (e.g., equity in access to services, right service at right time). All of these are very high-level goals rather than specific objectives.

Usually, broad goals and specific objectives are set by a board or management before selecting indicators to monitor those objectives. This might be described as a “top down” approach to selecting indicators. In keeping with the goal of involving communities in health care, the Department is using a “bottom up” approach to selecting indicators with early input from health districts. The Information Needs Working Group plans to get agreement on core indicators and then publish information showing the current status of these core indicators for the province as a whole. This information will assist the Department and health districts to set reasonable, informed objectives.

The Framework and Selection Criteria direct attention to determinants of health (i.e., factors influencing health). The Framework balances these factors with key elements of effective care supported by research. The Framework also strives to show when there is a known relationship between care and health outcomes. For example, committees discussed the need for screening programs to be timely for effective care. This approach contributes to understanding of what makes care effective and ensures that data collected will be useful for improving care as well as assessing health status.

The Department, districts and experts all considered what selection criteria would ensure indicators could explain the complexities of the environment in which the health system operates. Participants emphasized the need to use indicators to explain how the health sector works with partners in other sectors to achieve objectives and support positive health outcomes in the long term. For example, immunization is a health service but it can be provided much more efficiently in co-operation with schools.

The Department explored ways to select indicators that create awareness of the changing environment and how that environment influences the health system’s ability to achieve its long-term goal. For example, demographics will draw attention to the changing needs of specific population groups. The Framework and Selection Criteria focus on assessing the quality of the health system’s response to these changing needs. Overall, these selection criteria will help the Department select

indicators that are relevant to achieving the long-term goal of improving health.

Best Practice #2 – Select indicators that are measurable.

Best practices for selecting measurable indicators require the selection of indicators for which data is available at a reasonable cost and in a timely way. Further, the data must meet scientific requirements for reliable and valid information. That is, the indicators must consistently measure what they are intended to measure.

The Department outlines three main criteria for selecting indicators: usefulness, feasibility and validity/reliability. Specific screening questions are identified for each selection criteria. *Usefulness* is assessed by the importance of the health issue being measured, evidence of a link to district goals and the ability to improve the health outcome or service. To select *feasible* indicators, a committee considers both timely access to information and the cost of collecting it. For *valid* and *reliable* indicators, the Framework requires standardized measurement methods that will be published after recommendation by stakeholder committees and experts. These Selection Criteria will help the Department select indicators that are measurable.

Best Practice #3 – Select indicators that are useful to interpret performance and make improvements.

Best practices suggest that selection criteria should ensure indicators produce useful information for management and governing boards. Useful information helps explain relationships, enables comparison over time or between jurisdictions, and guides program planning and decision making.

Districts and the Department agreed on the importance of selecting indicators that help to explain relationships. For example, the Selection Criteria ensure that some indicators will allow analysis of differences among specific populations such as First Nations people. The Selection Criteria also encourage the Department to choose indicators that help interpret relationships between a service and the resulting health outcome where such relationships are confirmed by research.

Because Saskatchewan has a small population, data must be grouped so that meaningful interpretation is possible. In considering the feedback

received from districts and other stakeholders, the Department consciously decided on groupings that allow reliable data. In this way the data can be interpreted and used effectively to inform district and Department decisions.

The Department planned a core set of indicators for all districts to monitor. Using core indicators makes it possible to provide consistent, comparable performance information. This will help explain performance among similar districts. It also allows the Department to prepare provincial reports and to compare Saskatchewan's performance information with other provinces. In addition, core indicators will contribute to the development of an increasingly accurate national picture of health status.

Beyond the core indicators, the Framework and Selection Criteria also gives health districts the flexibility of choosing additional indicators relevant to their specific needs and their ability to collect and interpret the information. Use of the Framework and Selection Criteria will promote the selection of indicators providing useful information for program planning or accountability.

The Department intends to select indicators that will contribute to resource allocation decisions as well as provide information for public accountability. For example, a committee discussed the importance of using low-infant-birthweight rates rather than infant-death rates to provide more useful information. Birthweight data helps project future demand for health services while data about deaths helps explain the past. Until the Department sets specific objectives for improving health, it will be difficult to know which indicators will provide the most useful information.

Ensuring performance indicators contribute useful information is a challenging task requiring input from stakeholders like governing boards, managers and experts. The Department's Framework and Selection Criteria for indicators establishes a foundation. It will help ensure stakeholders receive useful performance information that allows comparisons, analysis and efficient decision making.

Summary

To use "best practices" means to continuously strive for excellence and innovation. It means doing more than the ordinary organization. Our Office is pleased to recognize the accomplishments of the Department of Health

as it moves toward best practices. The Department has sound criteria to select performance indicators (e.g., feasible, valid/reliable and useful). The Department presents their indicators in a framework that helps explain how health care services contribute to health outcomes.

Selecting effective performance indicators is one way of focusing attention on areas where improvement is both desirable and possible. Selecting useful performance indicators may also help improve performance reports. Better performance reports improve accountability to legislators and the public.

The Department's focus on indicators that will support continuous improvement is encouraging. Good indicators provide good information that inspires good questions. With better information, the Department, governing boards and managers will be better able to plan and implement improvements so that the health system responds to changing health needs.

Performance reporting is complex. Setting objectives for improvement and selecting indicators to monitor progress toward those objectives can be hard. Many Government agencies find it difficult to set objectives in a constantly changing and sometimes unpredictable Government environment. In spite of the challenges, the Department of Health, is making good progress toward useful performance reports.

The support of legislators and senior officials is important to help Government agencies select strong performance indicators. Useful performance indicators provide relevant information for making decisions. When the indicators relate to Government's objectives, legislators and officials can use them to monitor the Government's progress. In this way performance reporting with useful indicators contributes to well-managed government and improved public accountability.

We hope this Chapter will stimulate discussion among Government agencies and legislators. Ultimately, we hope Government agencies will use processes that result in the selection of useful, relevant and measurable performance indicators and in the creation of useful performance reports.

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Part D - Resource allocation criteria

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Executive summary

Saskatchewan spends a large proportion of its annual revenues on health and the majority of this public money is spent through health districts. How the Department of Health allocates resources among the districts is critical to the Government's success in addressing health needs and controlling health care costs. We recognize that the process of allocating resources based on health needs requires a complex matrix of decisions. The process is influenced by many factors inside and outside the Department.

We are examining whether the Department of Health had adequate processes, during the planning cycle for 1998-99, to allocate resources among health districts based on provincial health needs. In late October 1998, we provided the Department with our detailed report of audit findings. We rely on the Department to confirm the facts of our report before we form our conclusions and make our findings public.

We plan to keep legislators and other stakeholders informed about our progress in auditing this important area. The purpose of this Chapter is to explain the significance of the Department's processes for resource allocation among districts and to outline the criteria we are using to assess the Department's practices. In the future, we will report our findings and conclusions relative to these criteria.

Introduction

The Government of Saskatchewan spends over \$1.7 billion on health as reported in the Government's summary financial statements (*Public Accounts 1997-98: Volume 1: Main Financial Statements*, p. 40). The Department of Health (Department) distributes 65% of the \$1.7 billion among the province's 32 health districts.

Our Office continues to monitor decision-making processes that influence spending of this public money and other public resources. We define resource allocation to include how a supply of money or time is assigned to accomplish a goal. For example, time for policy development is a resource, as is money for research or illness prevention or service delivery.

In 1996, we reported how districts assessed health needs, and in 1997, we reported how districts allocated resources based on health needs. The districts told us they depend heavily on the Department to identify provincial priorities and allocate resources to help districts improve health in priority areas. In 1998, we are examining how the Department accomplishes this difficult task.

The **audit objective** for our 1998 audit is to assess whether the Department of Health had adequate processes, during the planning cycle for 1998-99, to allocate resources among health districts based on provincial health needs.

We provided our *Detailed Audit Findings* to the Department in late October 1998. We depend on the Department to confirm the accuracy and completeness of our detailed report before we make our findings public. The Department is currently considering our detailed report of audit findings.

This Chapter explains some of the challenges of resource allocation in the health sector. The Chapter also describes the criteria we are using to assess the Department's practices for allocating resources among districts based on health needs. A report of our audit findings and conclusions will be made public at a future date when we have completed our examination.

The resource allocation challenge

Resource allocation is a long-term process. Decisions made by the Department of Health influence public spending on health in the immediate and long-term future. The Department's decisions also influence the distribution of resources elsewhere in Government.

In Saskatchewan, health spending consumes a large proportion of total Government revenues. The Department of Health distributes the majority of these public resources among health districts. Lack of ability to set priorities and direct these resources to address health needs could have negative impact on health and on access to health care. It also could result in higher debt and/or fewer resources for other sectors like education or transportation.

The National Forum on Health recognized the complexity of allocating finite resources to improve health and provide health care. This Forum of expert Canadians published several important reports after an extensive study of health and health spending in this country. The Forum highlighted the value judgements inherent in resource allocation. It suggested that limits on health spending might need to be set. The Forum believed that these limits should be reasonable, affordable and ethical as well as meeting the health needs of the population (National Forum on Health, 1995, p. 10).

Higher health care spending does not necessarily result in better health. More than ever before, decision makers now try to direct health funding in ways that improve the health of large groups of the population. This is a challenging task for the Department and for the whole Government. It requires balancing the health needs of various parts of the population. It also requires tremendous co-ordination inside the health system and with many partners outside the health system.

We recognize that the process of allocating resources based on health needs requires a complex matrix of decisions. The process is influenced by many factors inside and outside the Department. For example, the Department must allocate resources in a way that maintains the districts' infrastructure for health care as well as addressing health needs.

As part of health reform, the Department revised its resource allocation processes. For example, funding methodology changed to consider

“needs-based” population characteristics rather than past service use. The Department published three goals for its new needs-based funding system (Saskatchewan Health, 1994, p. 6):

- ◆ to shift attention to people’s health in addition to service provider activity levels;
- ◆ to direct health resources toward areas of greatest health need (i.e., priorities); and
- ◆ to encourage cost-effective health services.

The Department’s ability to guide resource allocation among districts is critical to achieve the goals of improved health and successful health system reform. Weak resource allocation processes increase the risk of wasted public funds, inadequate access to needed health services, and deteriorating health.

Our audit criteria

Audit criteria are reasonable and attainable standards. To develop the criteria, we studied relevant literature, consulted an advisory committee and an external advisor, and reviewed our earlier work in this area. The Department accepted our criteria.

In our audit, we compare the Department’s processes to our criteria. The criteria anticipate the Department will use the following processes to allocate resources among health districts based on provincial health need:

1. prioritize health needs for the province;
2. set direction for priority provincial health needs;
3. select approaches to achieve provincial objectives;
4. assign resources among health districts to achieve provincial objectives; and
5. monitor resource allocation to achieve provincial objectives.

We are using these criteria to guide us as we gather audit evidence and analyze the Department’s practices to allocate resources among districts based on health needs. This Chapter describes the nature of the processes we expect to find.

Criterion 1: Prioritize health needs for the province

We expect the Department to identify the most important health needs for the province. We anticipate that the Department will analyze the health needs most significant to the province in terms of:

- ◆ protecting or improving people's health; and
- ◆ controlling future costs.

To do this, we anticipate the Department will use its wealth of information from statistics and from the comments of citizens, service providers and legislators. After selecting priority health needs, we expect the Department will validate the priorities it recommends with stakeholders.

Criterion 2: Set direction for priority provincial health needs

We expect the Department to set direction for priority provincial health needs by setting goals and objectives. We expect the Department to set at least two types of objectives:

- ◆ service delivery objectives that set out how the province should address health needs to achieve its goals; and
- ◆ health status objectives that explain what level of health status would be reasonable and acceptable for Saskatchewan's highest priority health needs.

Most serious health needs require a unified effort to gain improved health. As a result, we also expect the Department to obtain comments from stakeholders including legislators, and then communicate the goals and objectives to districts, other Departments and other service provider groups.

Criterion 3: Select approaches to achieve provincial objectives

The Department has a mandate to allocate resources among health districts for the purpose of achieving provincial objectives based on priority health needs. We expect the Department to identify and analyze optional approaches (e.g., policies, program development or funding). We expect the Department will seek comments about the most useful approaches from service providers, citizens, legislators and others.

We expect the Department's processes will ensure that some options come from research as well as from citizen requests, and that the Department's strategic direction will be considered. We expect the analysis will identify what works, what it costs and the service providers or experts required. In addition, we expect the Department to analyze whether the approach will be acceptable to stakeholders such as the users of the planned service or policy.

Criterion 4: Assign resources among health districts to achieve provincial objectives

We expect the Department to identify partner districts to help them achieve provincial objectives. We anticipate the Department will find partner districts with priority health needs similar to provincial priorities. We also expect the Department will look for partner districts with the capacity to carry out or support the planned approaches.

We expect the Department to assess the financial and human resources required for approaches to be effective. We anticipate the Department's routine decision-making processes will allot resources among partner districts considering:

- ◆ the district's role in supporting the chosen approaches; and
- ◆ the Department's needs-based funding formula.

Criterion 5: Monitor resource allocation to achieve provincial objectives

We expect the Department to set up a process to monitor whether its resource allocation decisions help to achieve its provincial objectives. We expect the Department to make choices about:

- ◆ what information to collect;
- ◆ how to analyze information to evaluate the impact of assigned resources; and
- ◆ how to report the impact of its resource allocation on provincial objectives.

We also expect the Department to consider who should receive reports to allow them to make more informed decisions. For example, Department managers, the Minister, health districts and the public all have an interest in resource allocation and how it contributes to achieving provincial objectives.

Summary

This Chapter explains the importance of resource allocation among health districts based on health needs and presents our audit's objective and criteria. We are using the criteria presented here to audit the resource allocation processes the Department used in 1997 and 1998.

In the future, we will report our key findings and our audit conclusions about the Department's processes to allocate resources among health districts based on provincial health needs.

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Glossary

Goals are general statements of desired results, e.g., improve health of the public.

Health needs are variations from the usual or commonly accepted level of health as measured by health status (based on analysis of statistics about injury, illness, death or lack of well-being) combined with analysis of community opinion expressed by the public, service providers and decision makers.

Objectives are specific statements of results to be achieved, e.g., reduce the population's injuries by 30%.

- ◆ **Financial objectives** are statements of expected financial results, e.g., budgets for revenues, expenses, assets and liabilities.
- ◆ **Operational objectives** are statements of expected results, e.g., measurable improvement in the public's health.
- ◆ **Compliance objectives** are statements of the expected degree of compliance with governing laws, regulations, bylaws and key agreements, e.g., compliance with *The Health Districts Act*.

Outcomes are the results or consequences of an organization's activities, e.g., bicycle related head injuries of children and youth reduced by 50%.

Outputs are the visible products or services of the activities, e.g., number of gall bladder surgeries.

Performance indicators are variables that help monitor change to show whether an organization is meeting its objectives, e.g., rate of teenage pregnancies.

Introduction

In 1997-98, the expenses of all 32 District Health Boards were \$1.3 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;
- ◆ promoting health and wellness; and
- ◆ reporting publicly on the health status of the districts' residents and the effectiveness of the districts' programs.

Financial summary

We obtained the following financial information from the audited financial statements of all 32 districts. The combined revenue and expenses of the districts for the years ended March 31, 1998 and 1997 are:

	Operating Fund	Capital Fund	Restricted Fund	Total 1998	Total 1997
(in thousands of dollars)					
Revenue	\$ 1,197,008	\$ 72,008	\$ 2,394	\$ 1,271,410	\$ 1,253,592
Expense	1,203,027	77,807	313	1,281,147	1,239,082
Surplus (Deficit)	(6,019)	(5,799)	2,081	(9,737)	14,510

The total assets and liabilities of the 32 districts at March 31, 1998 and 1997 are:

	1998	1997
(in thousands of dollars)		
Assets	\$ 1,065,119	\$ 1,057,807
Liabilities	241,830	224,803
Equity:		
Operating funds	12,605	32,728
Capital funds	781,621	768,978
Restricted funds	29,063	31,298
Total Equity	\$ 823,289	\$ 833,004

District challenges

In carrying out their important and complex mandates, districts face many challenges. In this Chapter, we discuss some of those challenges and identify issues districts need to address.

One challenge districts must meet is their legal responsibility to report to the Minister of Health and the public on the health status of their residents and the effectiveness of their programs.

Districts are working to prepare reports on the health needs and health status of their residents. For example, the Saskatoon Health District has prepared a report on the health status and needs of its children and youth population (see *'A Call to Action': Report from the Children and Youth Population Health Advisory Group to the Saskatoon District Health Board, February 1997*). This report contains outcome performance indicators and targets for measuring and reporting on improvements to the health of the District's children and youth. The Regina Health District, among others, is in the process of developing performance indicators and targets. We commend the districts for these efforts and encourage them to continue.

The Department and districts are preparing a framework to guide the districts and other health providers to set performance indicators. We have studied this framework and report the results in Part C of Chapter 5. Also, the Department of Health has issued guidelines for the preparation of the districts' annual reports and guidelines for the preparation of three-year strategic plans for districts. Following the framework and guidelines will help districts to report their performance to residents and the Minister of Health.

Our audit conclusions and findings

For 1997-98, we audited 10 of the 32 district health boards. For nine of those districts, we carried out our audit responsibilities by working with the accounting firms engaged by the districts. We audited the Regina Health District directly.

We followed the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. Together with the accounting firms engaged, we formed the opinions referred to below.

Exhibit 1 describes our reasons for moving to rotational audits of districts. It lists the 10 districts we audited in 1997-98, and the basis for our selection of those districts. Exhibit 1 also shows the districts we plan to audit in 1998-99, how we selected those districts and the basis for our selection of districts in future years.

At the date of this report, the audits of the two new Northern districts are not complete. We will report the results of these audits in a future report.

In our opinion, for the audits of the eight districts we completed:

- ◆ the districts' financial statements for the year ended March 31, 1998 are reliable;
- ◆ the districts had adequate rules and procedures as at March 31, 1998 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 for the year ended March 31, 1998, except where we report otherwise in this Chapter.

The districts' appointed auditors and our Office formed the opinions referred to above with one exception. We disagree with the reports of the appointed auditor of the Saskatoon Health District who did not report the matters on pages 127 and 131. In the appointed auditor's opinion, the district's internal and external reports are adequate.

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 District's internal financial reports and other accountability reports, and discussing areas of concern with management.

We also report the need for one district to publicly report a list of persons who received money from it and the amounts on page 133.

Exhibit 1: Audit rotation for health districts

Reason for moving to rotation of district audits

In previous reports to the Assembly, we reported that when the basic financial management issues are in hand, we would rotate our financial audits of districts, i.e., we would not audit every district each year. Many districts now have sound financial systems. Accordingly, for the year ended March 31, 1998, we audited only ten districts.

Districts selected for 1997-98

We selected ten districts based on significance and risk. We audited Regina and Saskatoon because they account for over 50% of total district spending. We audited Battlefords and East Central because they are relatively large and because their financial systems needed improvement. We examined Living Sky, Pipestone, South Country and Swift Current because their financial systems needed to improve.

Districts selected for 1998-99

We plan to audit Regina and Saskatoon; two of the four mid-sized districts (Moose Jaw-Thunder Creek and Prince Albert); and six smaller districts (Keewatin Yathe, Mamawetan Churchill River, Gabriel Springs, Greenhead, Northwest, and Prairie West). We selected the six smaller districts from a review of our most recent audit reports.

Districts selected for audit in 1999-2000 and future years

We plan, each year, to audit the two largest districts, two of the four mid-sized districts; and six smaller districts.

We organize our audit findings and recommendations into three 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; and
- ◆ complying with authorities and ensuring adequate accountability to district residents and the Minister.

Setting direction and monitoring performance

The boards of directors of all eight districts we examined need to improve how they set direction and monitor their districts' performance. To set direction and monitor performance, the boards need to tell management what health outcomes the boards expect and the measures and targets needed to monitor progress in achieving the outcomes.

To establish the desired outcome measures and targets, districts need to continue to work on determining the health needs and health status of residents. Once the boards have set desired outcome measures and targets, the boards will have to consider the effect this will have on the type, cost and volume of district services.

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.

As yet, the reports that the eight boards received do not contain all of the information listed above. Generally, the reports show the cost and volume of services the districts provide compared to their plans. However, the reports do not show the expected long-term health outcomes and the districts' progress in meeting outcome targets. As a result, boards are unable to fully assess the effectiveness of their services in improving the health status of residents. We recognize measuring and reporting on the health status of residents will take time and resources.

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. As noted on page 124, districts are also working on assessing and reporting publicly the health status and health needs of residents. We commend the districts for these efforts.

Preparing good internal reports for the boards will help the boards to govern better, and also will provide a sound basis for reporting to the Minister and the public. The districts' internal reports would provide a sound basis for external reporting (see page 131) to the Minister of Health and the public.

We also reported this matter in previous years. In 1996, the Standing Committee on Public Accounts (PAC) agreed with a similar recommendation.

1. We recommend that:

- ◆ boards of directors formally define and document what health outcomes the boards expect and the measures and targets needed to monitor progress in achieving the outcomes; and
- ◆ districts' internal reports compare actual performance and costs for services delivered to planned performance and costs.

Safeguarding assets

Written rules and procedures needed

For 1997-98, five of the eight districts we examined (Battlefords, East Central, Living Sky, South Country and Swift Current) need better written rules and procedures to help safeguard their assets.

Each board of directors must ensure management has established adequate written rules and procedures to safeguard and control the districts' assets.

Written rules and procedures provide for the orderly and efficient conduct of business. They also reinforce the boards' delegation of authority and the responsibilities of all employees. Adequate written rules and procedures help reduce the risk of errors, fraud, breakdowns in control and unauthorized transactions.

The Department and districts have prepared a model set of rules and procedures that districts can adapt to their own circumstances.

We also reported these matters in more detail in Chapter 4 of our 1997 Spring Report. In 1996, PAC agreed with the following recommendation.

2. For each of the districts named in parenthesis, we recommend that management establish, and boards approve,

written rules and procedures to safeguard and control health districts' assets to govern the:

- ◆ proper recording of transactions and preparation of monthly financial reports (Living Sky and Pipestone);
- ◆ control of bank accounts (Battlefords, East Central and Living Sky);
- ◆ authorized changes to computer records used to pay suppliers (Battlefords);
- ◆ preparation of written and tested contingency plans (East Central, Living Sky and South Country);
- ◆ control of patient billings (Battlefords);
- ◆ controls of payroll records to ensure they are accurate and authorized (Battlefords and Living Sky);
- ◆ control of client trust accounts (Battlefords);
- ◆ control of inventory (East Central);
- ◆ compliance with restricted funds contracts (Living Sky);
- ◆ hiring of staff and designing of training plans (Living Sky); and
- ◆ control of capital assets (Swift Current).

System development policies and controls needed

Four districts of the eight districts we examined (Battlefords, East Central, Living Sky and South Country) require written policies and controls for developing information systems.

Developing new systems is risky. If the development of new systems is not managed well, costs increase, deadlines pass, and systems fail. Because districts are changing many of their systems and practices, they

must have appropriate system development policies and controls. The boards should approve the policies and controls.

We set out criteria for sound system development policies and controls in Chapter 23 of our 1997 Fall Report, Volume 2. In 1996, PAC agreed with our recommendation.

3. We recommend that management establish, and boards approve, written policies and controls for developing information systems (Battlefords, East Central, Living Sky and South Country).

Year 2000 plans needed

Three districts (East Central, Living Sky and South Country) need to develop and implement processes to ensure both information technology and non-information technology systems are year 2000 compliant.

Health districts must ensure their systems properly recognize 2000 as the year that follows 1999. Failure to do so may cause unpredictable results.

We set out criteria to address the Year 2000 issue in Chapter 2.

4. We recommend that health districts prepare plans to address the Year 2000 issue and carry out corrective action on critical systems before December 31, 1999 (East Central, Living Sky and South Country).

Written operating agreements need improvement

The Regina Health District needs to improve its operating agreements with affiliated organizations that provide services for the District.

In 1997-98, the District had agreements with affiliates (special-care homes) that provide services for the District. Written agreements help to ensure the affiliates effectively deliver health services to achieve the District's objectives.

The District's agreements with its affiliates are adequate except the agreements do not require the affiliates to establish and report on their

systems to achieve the District's financial, operational and compliance objectives.

As a result, the District cannot ensure the affiliates effectively deliver health services to achieve the District's objectives. In 1996, PAC agreed with our recommendation.

5. We recommend that health districts' agreements with affiliated organizations require the affiliates to establish and report on their systems to achieve the district's financial, operational and compliance objectives (Regina).

Complying with authorities and ensuring adequate accountability to district residents and the Minister

Complying with authorities

East Central and Living Sky need to improve their compliance with the laws and regulations we describe below in our recommendations. We also reported this matter in more detail in Chapter 4 of our 1997 Spring Report. In 1996, PAC agreed with the following recommendations.

6. We recommend that health districts obtain the Minister's prior approval to borrow money as required by *The Health Districts Act* (East Central).
7. We recommend that health districts obtain the Minister's prior approval before purchasing hospital equipment costing more than the limits set out in the Hospital Standards Regulations (East Central and Living Sky).

Reporting required by The Health Districts Act

All eight districts need to continue to improve the information they submit to the Minister and the public to fully comply with *The Health Districts Act*.

Section 35(2) of the Act requires districts to report annually to the Minister on:

- ◆ their services and activities;

- ◆ the costs of their services and activities;
- ◆ the health status of their residents; and
- ◆ the effectiveness of their programs.

As stated earlier, districts have started to give more information to the Minister and the public. Districts' annual reports and health plans now provide information about the cost of services and activities, and some information on the health status of residents and the effectiveness of district programs.

However, these reports do not meet the requirements of the Act. To fully report on the health status of residents and the effectiveness of programs, we think districts need to set outcome performance measures and targets. Once they set measures and targets, districts will need to design information and reporting systems to compare actual results to targets. We recognize this will take time and resources. Many publicly funded organizations face this challenge.

The Department of Health has issued guidelines for the preparation of the districts' annual reports and guidelines for the preparation of three-year strategic plans for districts. These guidelines should help districts to meet the reporting requirements of section 35(2) of the Act. We commend the Department for preparing these guidelines.

As we noted earlier, districts also need to improve their internal reports. These internal reports would provide a sound basis for the preparation of the external reports to the Minister and the public required by the Act. In 1996, PAC agreed with our recommendation.

8. We recommend that health districts continue to work with the Department to ensure they can provide the Minister and the public with the full range of information required by *The Health Districts Act*.

The Department and districts are preparing a framework to guide districts in measuring and reporting the health status of residents and the effectiveness of district programs. We have studied this framework, and report the results in Part C of Chapter 5.

Budgets submitted late and need approval

East Central and Swift Current District Health Boards did not submit their 1997-98 annual budgets to the Minister on time. East Central did not receive approval for its projected operating deficit.

The Health Districts Act requires districts to submit their 1997-98 budgets to the Minister "prior to the day fixed by the Minister". The Minister set May 15, 1997 as the 1997-98 budget deadline. The Act also requires districts to obtain approval from the Minister for any planned operating deficit.

We think it is important that the Minister receive and approve district budgets before the year begins (April 1). All eight districts we audited submitted their budgets to the Minister after the date set by the Minister.

We note that districts are submitting, and the Minister is approving, budgets several months earlier than in previous years. In 1996, PAC agreed with our recommendation that districts submit their budgets on time.

9. We recommend that health districts:

- ◆ submit their budgets to the Minister on time (East Central and Swift Current); and
- ◆ obtain approval for planned operating deficits (East Central).

Payee Lists

For 1997-98, South Country District Health Board did not publicly report a list of persons who received money from the District and the amounts received. It is usual practice for government organizations to publicly report a list of persons who received public money and the amounts.

Public disclosure is important for three reasons. First, it serves to remind officials that 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, it ensures the public knows who has received their money.

In 1996, PAC recommended that the Department consult with districts on the issue of preparing lists of payees and that the Government report the results of the consultation to the Standing Committee on Public Accounts. The Department has consulted with districts on this matter, and most districts now provide this information publicly.

10. We recommend that health districts publicly report a list of persons who received money from them and the amounts (South Country).

For further discussion of this important matter, see Chapter 19, Executive Council.

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Executive summary

The Department of Justice's mandate 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.

In this Chapter, we highlight five areas the Department must manage well to ensure its success. The Department needs to:

- ◆ deal seriously with crime;
- ◆ contribute to Aboriginal justice reform;
- ◆ promote social justice;
- ◆ resolve disputes appropriately and effectively; and
- ◆ provide effective and efficient services and support economic development.

One of our Office's goals is to foster better planning throughout government and improved performance reporting on results compared to plan. Therefore, we studied the Department's Strategic Plan.

The Department's varied and complex mandate and the many challenges it faces require sound long-term planning. We are pleased with the Department's significant strategic planning efforts. We found Department officials to be enthusiastic about their Strategic Plan. They feel the Plan has made a real difference in how they manage and make decisions. For example, they think management and staff increasingly operate as members of a team and make decisions based more on Department-wide priorities than on the needs of an individual division or branch.

The Department's challenge is to adopt the performance indicators and targets created by its Core Strategy Teams and design information and reporting systems to compare actual results to targets. We recognize this will take much effort and time. Many other Government organizations face this challenge.

Our audit conclusions and findings result in a series of recommendations specific to the Department.

We note some concerns with the management of court-ordered fines. We recommend that the Department should:

- ◆ improve its procedures for ensuring the accuracy and integrity of its court information system;
- ◆ review its procedures for collecting fines; and
- ◆ record its bad debt expense in the year it occurs.

Introduction

The Department of Justice's mandate 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.

The Department administers justice services, 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.

For the year ended March 31, 1998, the Government's summary financial statements show protection of person and property expenses of \$203 million. The following table shows the expenses of Government agencies for the protection of persons and property.

(in millions of dollars)

Department of Justice	\$ 197
Less payments by Justice for purposes other than the protection of persons and property	(12)
Department of Labour	9
Department of Municipal Affairs, Culture and Housing	4
Other Government agencies	5
	<u>\$ 203</u>

The Department received \$197 million from the General Revenue Fund and spent this money on its programs. Also, the Department raised \$68 million of revenue. Information about some of the Department's revenues and expenses appears in the *Public Account 1997-98: Volume 2: Details of Revenue and Expense* (1997-98 Public Accounts – Volume 2) and in the Department's annual report. The revenues and expenses of the Department's special purpose funds and Crown agencies are reported in the *Financial Statements – Compendium 1997-98*.

The following is a list of major programs and spending as reported in 1997-98 Public Accounts - Volume 2:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Community justice	\$ 67	\$ 66
Adult corrections	44	44
Court services	22	25
Registry and regulatory services	12	14
Accommodation and central services	13	14
Legal services	12	13
Administration	6	6
Boards and commissions	14	15
	<u>\$ 190</u>	<u>\$ 197</u>

The Department is also responsible for the operations of several trust and special purpose funds and Crown agencies. These are:

	<u>Year End</u>
Agricultural Implements Board	March 31
Correctional Facilities Industries Revolving Fund	March 31
Judges of the Provincial Court Superannuation Plan	March 31
Law Reform Commission of Saskatchewan	March 31
Office of the Rentalsman Trust Account	March 31
Provincial Mediation Board Trust Account	March 31
Public Trustee for Saskatchewan	March 31
Queen's Printer Revolving Fund	March 31
Saskatchewan Legal Aid Commission	March 31
Trust accounts for courts, local registrars, and sheriffs	March 31
Victims' Fund	March 31

Key issues the Department faces

The Department of Justice must promote and provide protection, security and order by:

- ◆ providing legal and policy services to and for government;
- ◆ providing mechanisms for resolving and reconciling differences;
- ◆ fostering an understanding and ownership of the justice system;

- ◆ ensuring appropriate enforcement of the law;
- ◆ creating an environment for rehabilitation;
- ◆ providing a framework for property and commercial transactions;
and
- ◆ assisting in crime prevention and in addressing those adverse conditions which bring people into contact with the justice system.

To assess the performance of the Department, it is important for legislators and the public to understand the Department's vision and mission and how it manages risk. The Department has documented its vision, mission and core strategies in its strategic plan and in its annual reports. Its annual report and internet website (www.gov.sk.ca/govt/justice) set out its core strategies, but do not describe how it manages risk. We encourage the Department to describe how it manages its key risks in its annual reports and on its website. To identify key issues, we reviewed various departmental reports and documents. We discussed our understanding of those issues with management and confirmed we have identified the right issues. We have not assessed the adequacy of the Department's systems and strategies to address its key risks.

To be successful, the Department needs to:

- ◆ deal seriously with crime;
- ◆ contribute to Aboriginal justice reform;
- ◆ promote social justice;
- ◆ resolve disputes appropriately and effectively; and
- ◆ provide effective and efficient services and support economic development.

Deal seriously with crime

The justice system must promote public safety by maintaining law and order, reducing and preventing crime, and creating an environment in which citizens and communities feel safe.

The Department's reports and documents indicate that Saskatchewan has one of the highest reported violent crime and property crime rates in Canada. While national crime rates are declining, Saskatchewan's crime rates are increasing. Saskatchewan has one of the highest arrest, conviction and incarceration rates in Canada, and one of the lowest rates of stays (i.e., usually a permanent postponement) and withdrawals of prosecutions.

The Department has, or is developing, strategies and systems to address crime and promote safe communities. For example, the Department works with the Royal Canadian Mounted Police (RCMP) and municipalities to help ensure adequate police services. It also works with local citizens to create safer communities that hold offenders accountable to support community values, and to help ensure criminal justice systems are, and are seen to be, effective and responsive to victim, family and community needs.

Other strategies include: a Serious Crime Task Force to respond to and to prevent organized crime; taking a tough approach to the small group of serious and habitual young offenders; providing tools and infrastructure needed by prosecutors to do their jobs; a community-based crime prevention program targeted primarily at Aboriginal and other youth; community-based family violence programs targeted at high risk urban Aboriginal families; and a communications strategy to explain to the public how the Department addresses serious crime.

Contribute to Aboriginal justice reform

There has been a growing realization that the criminal justice system has not served the needs of Aboriginal people. The Department has made a commitment, through its Strategic Plan, to foster a justice system relevant to, respectful of, and respected by Aboriginal people. The Department plans to achieve this through measures, both within the existing system and measures developed by Aboriginal people.

The Aboriginal Justice Strategy includes funding to support community-based justice programs in which communities take part in developing justice programs and providing justice services such as public education, crime prevention, and services for victims and offenders. In some communities, these programs may involve Community Justice Workers, Elders, and Community Justice Committees.

Promote social justice

To achieve social justice, choices relating to policy and programming in the justice system must be developed which identify and address the social, economic and legal needs of individuals, families and communities.

The Department is taking measures to attempt to enable all people to participate in a fair, equitable and safe society. The Department has a special responsibility to vulnerable people and has undertaken to work together to establish processes, policies and programs to provide appropriate services and support from the justice system.

The Department has a number of strategies to improve the quality of life for Saskatchewan citizens and to complement the Government's Child Action Plan and Poverty Reduction strategies. The Department continues to develop programs to protect children and families from the trauma and dislocation resulting from family breakdown. It is implementing the national child support guidelines to ensure adequate, consistent and equitable levels of child support.

The Department has additional strategies and programs to protect or advance the interests of vulnerable groups. These include: the Public Trustee; the Maintenance Enforcement Program; the Consumer Protection Branch; the Victims' Program; the Family Violence Strategy; the Saskatchewan Legal Aid Commission, and the Office of the Rentalsman.

Resolve disputes appropriately and effectively

The justice system must provide the means to resolve criminal and civil disputes in a way that is effective, timely and fair. The Department has made a commitment to provide individuals and communities with access to a greater range of dispute resolution processes.

The Department has several strategies and action plans intended to enhance the effectiveness and accessibility of the existing court process. As well, it encourages and facilitates a range of options in civil and criminal cases that can be more efficient and effective than the adversarial court system. These include: expanding mediation programs to deal with family law disputes, non-family civil matters, and small claims. The

Department is also implementing initiatives which bring non-violent offenders, victims and the community together to promote offender accountability, victim restitution and offender integration into the community.

Provide effective and efficient services and support economic development

The Department provides critical and wide-ranging services to Saskatchewan residents such as the administration of justice and police services, adult corrections and the registry systems. Failure to provide effective, efficient justice services can have serious social and economic consequences. These consequences include: the deterioration of public order and safety; inadequate protection of persons and property; reduced access to courts and other justice services; lack of compensation for crime victims; inadequate rehabilitation of criminals; and economic development and job creation being unnecessarily impeded by regulatory processes.

The Department has several strategies and initiatives to support economic development and improve service outcomes. Some of those strategies are: automation of land title records (currently a manual system); a one-stop business registration pilot project; renovating and expanding court facilities; a plan to automate judges' information systems; and addressing the Year 2000 problem (see Chapter 8 of our 1997 Spring Report).

Our audit conclusions and findings

We have not completed our audits of the Correctional Facilities Industries Revolving Fund; the 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; and Victims' Fund due to established priorities. We will report the results of these audits in a future report.

We have completed our audits of the Department of Justice; Agricultural Implements Board; Judges of the Provincial Courts Superannuation Plan; Saskatchewan Legal Aid Commission; and the Trust accounts for the courts, local registrars, and sheriffs, We report the results of these audits in this Chapter.

In our opinion, for the year ended March 31, 1998:

- ◆ the financial statements for the funds and agencies listed above are reliable;
- ◆ 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.

Court information system needs improvement

The Department needs to improve its court information system to ensure court decisions are carried out.

Courts decisions are made for numerous offences under various provincial and federal statutes.

The Department records court decisions, including fines assessed, for each offender in the Justice Automated Information Network (JAIN). The Department also records monetary and non-monetary fine "payments". Non-monetary payments can occur when persons elect the fine option program alternative to payment (i.e., community service) or when they serve time rather than pay their fines.

The Department must ensure the accuracy and integrity of the JAIN system to ensure court decisions are carried out. To do this, the Department must ensure what is supposed to get recorded in the JAIN system is recorded, changes to the information in the system are authorized and properly made, and the information stays in the system until the court order is carried out.

The Department does not ensure every change to information in the JAIN system is properly authorized. Also, the Department does not know if all authorized changes are made and made properly.

To ensure all changes to information in the JAIN system are made properly, the Department should reconcile monthly revenue, receipts, adjustments and uncollected fines recorded in the JAIN system to the Department's financial records. The Department does not do this.

Also, the Department does not ensure adequate segregation of duties in court offices. Staff who receive and record cash for fines also have access to the records of fines owed to the Department. As a result, staff can mishandle money without timely detection.

In our opinion, the above weaknesses could affect the accuracy and integrity of the JAIN system and could result in court decisions not being carried out.

1. We recommend the Department should improve its procedures for ensuring the accuracy and integrity of its court information system.

Fine collection procedures should be reviewed

The Department should review its procedures for collecting court-ordered fines.

In 1996, the Department told us it changed its collection procedures as a result of federal Bill C-41 and the recommendations made by its Fine Collection Review Committee. The Department uses the following collection procedures to collect unpaid fines. When a court orders a fine, the court usually states when the fine is to be paid. If the fine is not paid by the date on the court order, the Department sends a letter requesting payment. If the fine is still unpaid, the Department relies on other collection procedures depending on the type of fine. The Department may use driver license suspensions and collection agencies.

During 1997-98, the Department recorded revenue of \$11.1 million for court-ordered fines and voluntary payments (i.e., payments made without going to court). The Department does not have reports that show separately the amount of revenue from court-ordered fines and voluntary payments. Total revenue has increased by 4% since 1995-96.

From 1995-96 to 1997-98, the amount of revenue not collected from court ordered fines has doubled. In 1995-96, the total uncollected fines

increased by \$1.2 million. In 1997-98, the total uncollected fines increased by \$2.7 million. At March 31, 1998, the Department had not collected a total of \$9.7 million of court-ordered fines. The Department estimates it will not collect \$7.3 million of these fines.

Offenders can pay their court ordered fines with money, fine options (community service), and time served in jail. During the period 1995-96 to 1997-98, the "payment" of fines by non-monetary means such as fine options and time served has decreased by 50%. In 1995-96, the Department recorded \$2.4 million for fine options and time served. In 1997-98, the Department recorded \$1.1 million for fine options and time served.

2. We recommend the Department should review its procedures for collecting fines.

Bad debts expense not recorded

The Department did not properly record its bad debt expenses resulting from unpaid fines.

At March 31, 1998, the Department's records showed unpaid fines owed to the Department of \$9.7 million. The Department estimated it would not collect \$7.3 million of these fines, but recorded only \$4.8 million as uncollectible. The Department failed to record \$2.5 million of its uncollectible fines as bad debt expense. As a result, the Department's expenses as reported in 1997-98 Public Accounts - Volume 2 are understated by \$2.5 million.

3. We recommend the Department should record its bad debt expense in the year it occurs.

Security policies and procedures need strengthening

The Department needs to continue strengthening its information technology (IT) security policies and procedures.

Organizations need clearly defined security policies and procedures. When organizations do not have clearly defined security policies and procedures, their security needs may not be met. Organizations may be

over secured, leading to increased costs, or under secured, thus placing their goals and objectives at risk.

In Chapter 21 of our 1997 Fall Report - Volume 2, and in previous reports, we recommend:

- ◆ The Department should prepare security policies and procedures and senior management should approve them; and
- ◆ The Department should set password standards for all its IT systems and applications.

The Standing Committee on Public Accounts (PAC) agreed with our recommendation on October 8, 1998.

The Department is implementing these recommendations. It assigned responsibility for security to a senior official, approved and implemented several security policies including password standards, and drafted a computer information security plan for the Department.

We will monitor the Department's progress in approving and implementing its computer information security plan. We will report on the results of our work in a future report.

Contingency plans required

The Department needs a written, tested and approved contingency plan for its Information Technology (IT) systems.

The Department depends on its IT systems (e.g., JAIN) 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 miss commitments, need to delay decisions and lose essential data; and
- ◆ it may face increased program and service costs and a weakening in the public's confidence in the Department.

We also reported this matter in our 1997 Spring Report and 1997 Fall Report - Volume 2. We recommended that the Department needs to prepare a written, tested and approved contingency plan for its IT systems.

PAC agreed with our recommendation on October 8, 1998.

The Department is currently 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.

For smaller systems, the Department has started to analyze risks and draft contingency plans.

We will monitor the Department's progress in developing contingency plans. We will report on the results of our work in a future report.

Study of the Department's strategic plan

One of our Office's goals is to foster better planning throughout government and improved performance reporting on results compared to plan. This section focuses on the Department of Justice's strategic plan.

To successfully carry out its varied and complex mandate and to meet its many challenges, the Department requires sound long-term planning. On pages 139 to 142, we describe the Department's mandate and its key risks.

The Department has for several years focused on planning and managing strategically. Simply put, strategic planning determines where you are now, where you want to go, how you are going to get there and how you will know you have arrived. Strategic planning encourages the Department's managers and staff to take time to step back from day-to-day challenges to think about the future. The process requires managers and staff to work as a team, to make difficult choices, and to set priorities.

We hope this study will encourage the Department and other Government organizations to continue in their efforts to plan long term.

Key elements of a sound strategic plan

In recent years, our Office has done research on government-wide planning and on assessing the strategic planning processes in individual organizations and our Office. For this study, we built on this research to determine the characteristics of sound strategic plans. We call these characteristics *key elements*. The Department agreed with the key elements presented in Exhibit 1.

Exhibit 1:

The key elements of a strategic plan answer the following questions:

1. **What is the organization doing now?**
 - ◆ What is its mission
 - ◆ What is the environment in which it operates
2. **Where does the organization want to go?**
 - ◆ What are its vision, guiding principles and core values
 - ◆ What is it trying to achieve
3. **How does the organization want to get there?**
 - ◆ What strategic actions are planned to accomplish each goal and objective
 - ◆ What are the financial and human resources needed to carry out the strategic actions
4. **How will the organization know it has been successful?**
 - ◆ How will performance be measured
 - ◆ How will performance be monitored

Our findings

We compared the Department's Strategic Plan to the key elements of a sound strategic plan. To do this, we examined the 1995 Strategic Plan and other planning documents prepared by the Department up to June 1998. We also interviewed several key personnel who were involved in the planning process and in preparing the strategic planning documents. We examined documents and minutes of strategic planning committees and teams during the period of October 1993 to June 1998. These procedures do not constitute an audit.

In the fall of 1993, the Department began a strategic planning process. After extensive consultations with Department staff and stakeholders, the

Department produced a Strategic Plan in February 1995. The Plan identifies six overall goals (core strategies) for the Department and strategic actions to help the Department achieve its core strategies.

A Strategic Planning Team, consisting of the Department's executive and senior managers, guided the Department through the planning process. In addition, six Core Strategy Teams of managers and staff worked to develop objectives, outcomes, and performance measures and targets for each core strategy on a Department-wide basis. Each Department division and branch implemented the strategic actions that flow from the Department's overall plan.

Our findings are divided into the four key elements.

What is the Department doing now?

We expected the Department's Strategic Plan to describe *what the Department is doing now*. This includes setting out the Department's mission and the environment in which the Department operates.

The Strategic Plan contains a mission statement. The mission describes what the Department is and why it exists, what it intends to do and for whom, and how it will be done.

Explaining the environment clarifies the external forces and trends the Department operates within and identifies the key risks the Department faces. The Department did a major review of its external environment (scan) in 1993. This scan, which involved key stakeholders, identified six common themes or core strategies that pertain to all divisions of the Department. The environmental scan is updated regularly to assess whether changes to the environment affect the Strategic Plan.

While the Department's environmental scan was sound, the Strategic Plan only briefly describes the scan process, the stakeholders involved, and the major findings. The Plan could be improved by including more information about the stakeholders, the environment the Justice System operates in and why the identified core strategies are key to the Department's success.

Where does the Department want to go?

We expected the Department's Strategic Plan to describe *where the Department wants to go*. This includes setting out the Department's vision, guiding principles/core values, and its overall goals and objectives. Goals should be consistent with the Department's mission and vision, and with government-wide priorities.

The Strategic Plan sets out a vision, guiding principles and core values. The vision states the desired future the Department would like to help create, externally and internally. The guiding principles and core values clearly indicate the essential character of the Department, and form a framework that provides ethical guidance and inspiration to management, staff and key stakeholders.

The Strategic Plan describes six overall goals (core strategies) for the Department. The core strategies are consistent with the stated mission, vision and core values. Objectives are set out in the strategic actions for each core strategy.

The Plan could be improved if it explained how the Department's core strategies relate to government-wide goals.

How does the Department want to get there?

We expected the Department's Strategic Plan to outline *how the Department wants to get there*. This includes describing its strategic actions to accomplish each goal and objective. The Plan must set out expected outputs and outcomes for each objective. Also, the Plan should be consistent with the Department's financial plan. Finally, the Plan should describe how these key elements will be communicated to stakeholders and staff.

Core Strategy Teams have prepared plans to implement the Department's overall Strategic Plan. These plans outline objectives and actions for each core strategy, and when the actions will be accomplished. The plans also describe outcomes for each objective.

The Department has shared the overall Strategic Plan with its staff and key stakeholders. Supporting plans, prepared by Core Strategy Teams, are not so widely available. As the Department adopts the objectives and

outcomes recommended by its Core Strategy Teams, we encourage the Department to share this information with its staff and stakeholders.

The Strategic Plan is consistent with the Department's budget requests. In recent years, the Department has requested and received additional resources to carry out the priorities in its Strategic Plan.

How will the Department know it has been successful?

We expected the Department's Strategic Plan to show *how the Department knows if it has been successful*. This includes describing how performance will be measured and monitored. This also includes setting out performance indicators and targets, comparing actual results and taking corrective action where targets are not achieved.

Plans of Core Strategy Teams recommend outcome performance indicators and targets for the Department. We encourage the Department to adopt these indicators and targets. Once adopted, the Department should design information and reporting systems to compare actual results to its targets. We recognize this will take much time and resources.

Summary

We are pleased with the Department's significant strategic planning efforts. Managers and staff continue to implement and update strategic planning documents. We found Department officials to be enthusiastic about the Plan. They feel it has made a real difference in how they manage and make decisions. For example, they think management and staff increasingly operate as members of a team, and make decisions based more on Department-wide priorities than on the needs of an individual division or branch.

The Department's challenge is to adopt the performance indicators and targets created by its Core Strategy Teams and design information and reporting systems to compare actual results to targets. Many other Government organizations face this challenge.

Our Office has recently studied the work being done on performance indicators by two Government departments. We are examining the framework the Department of Health is using to guide the development of

performance indicators by health districts and other health providers. We are also examining the processes used by the Department of Education to gain and maintain commitment from key stakeholders to track and report indicators. We report on this work in Chapters 5 and 3. We plan to examine the Department of Justice's work on performance indicators and to report the results in our 1999 Fall Report - Volume 2.

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Glossary

Goals are general statements of desired results.

Mission describes the broad, long-term purpose of an organization and its primary focus including the stakeholders to be served.

Objectives are specific statements of results to be achieved.

Outcomes are the results or consequences of an organization's activities.

Outputs are the visible products or services of the activities.

Performance indicators are variables used to help monitor changes that show whether an organization is achieving its objectives.

Strategic actions are specific plans of action that can be used to meet objectives and achieve goals.

Stakeholders are those who have an interest an organization's decisions.

Vision is a description of the preferred future.

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Glossary

Financial objectives are statements of expected financial results for revenues, expenses, assets and liabilities.

Operational objectives are statements of expected results, e.g., measurable increase in the public's health.

Compliance objectives are statements of the expected compliance with governing laws, regulations, bylaws and key agreements.

Performance measures are measurable evidence of accomplishment.

Introduction

The Government's summary financial statements show "social services and assistance expenses" of \$688 million for the year ended March 31, 1998 (March 31, 1997 - \$586 million).

The following table shows the social services expenses of various Government agencies.

	(in millions of dollars)	
	<u>1998</u>	<u>1997</u>
Department of Social Services	\$ 536	\$ 525
Department of Municipal Government	119	42
Other Government agencies (excluding grants from the Departments of Social Services and Municipal Government)	<u>33</u>	<u>19</u>
	<u>\$ 688</u>	<u>\$ 586</u>

The Department of Social Services' mandate is to:

- ◆ help families care for and support their members;
- ◆ provide basic income support to people 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 daycare; and
- ◆ support independent community-based services for people with mental and physical disabilities.

The Department received \$536 million from the General Revenue Fund and spent this money on its programs. The Department also earned revenues of \$17 million for the year ended March 31, 1998.

The following is a list of major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Social Assistance Plan	\$ 297	\$ 319
Family and Youth Services	63	67
Community Living	52	52
Regional Service Centres	37	39
Child Care	18	17
Saskatchewan Income Plan	14	12
Accommodation and Central Services	13	13
Family Income Plan	9	5
Other	9	12
Total	<u>\$ 512</u>	<u>\$ 536</u>

Key risks the Department faces

It is important that legislators and the public understand the key risks facing government organizations and how those risks are managed. Sharing our understanding with legislators and the public will help them better understand and assess government organizations' performance.

We identify five key risks facing the Department. To be successful, the Department needs to:

- ◆ identify, for Saskatchewan residents, the long-term social service needs that fall within its mandate;
- ◆ decide the types, volumes and standards of essential social services the Department needs to provide to meet those long-term needs, make those services available, and monitor service delivery;
- ◆ contribute to public policy decisions and influence public attitudes on people's social well-being;
- ◆ obtain sufficient resources to deliver its services; and
- ◆ ensure the Assembly and the public know whether the Department is doing the right things well.

In Chapter 22 of our 1997 Fall Report - Volume 2, we describe more fully these risks and the Department's systems and practices to manage these risks.

Our audit conclusions and findings

In our opinion, for the year ended March 31, 1998:

- ◆ 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 financial reporting, safeguarding assets, revenue raising, and spending except for the matters reported in this Chapter.

We also reported our assessment of the Department's annual report.

Maintenance (child support) enforcement needs improvement

The Department needs to improve its records and document its procedures to ensure single parents receiving social assistance pursue child support.

The Department requires recipients of social assistance to pursue other means of support before being eligible for assistance. A single parent is required to pursue child support from the other parent, if obtaining such support is possible. The Department reduces the amount of assistance it gives to the recipients by the amount of child support received by the other parent.

We found there was insufficient evidence that case workers ensured recipients made a reasonable effort to pursue child support from the other parent. The Department needs to document its follow-up of these cases to ensure recipients are pursuing child support.

Also, the computer records used by staff to monitor the pursuit of child support were not always accurate. This could result in case workers not ensuring recipients pursue child support.

1. We recommend the Department should improve its records and document its procedures to ensure single parents receiving social assistance pursue child support.

The Department has advised us that it plans to modify its computer systems to improve its ability to track these cases.

Indian Bands' reports required

The Department needs to ensure the five Northern Indian Bands submit required reports to the Department.

The Department paid \$6 million to the Bands for social assistance to off-reserve Indians.

Service agreements require the Bands to provide the Department with a number of reports including:

- ◆ monthly financial reports including a comparison of actual to budget and an explanation of variances;
- ◆ a report on internal controls to ensure the Bands comply with the Department's financial, operational, and compliance objectives; and
- ◆ a report on compliance with legislative authorities and Department policy.

We commend the Department and the Bands for having these sound agreements. We note, however, that the Bands did not submit the required reports to the Department.

As a result, the Department cannot ensure the Bands are achieving the Department's financial, operational, and compliance objectives for social assistance to off-reserve Indians.

Also, without the reports on compliance with legislative authorities, we are unable to determine whether the Bands complied with the *Social Assistance Act* and *Social Assistance Regulations*.

2. We recommend that the Department ensure the Northern Indian Bands submit performance reports required by agreements.

The Department is in the process of obtaining the required reports.

Community-based organizations' financial reports required

The Department needs to ensure community-based organizations (CBOs) submit financial reports to the Department and submit them on time.

CBOs are non-profit organizations that provide a wide range of programs to local communities on behalf of the Department. Some of these programs include group homes, services to enable people to live in their own homes or apartments (who otherwise could not), early childhood intervention, and foster care.

The Department paid \$35 million to over 200 CBOs that provide social services on behalf of the Department. Service agreements require CBOs to submit annual financial statements and quarterly financial reports to the Department. The Department also has community program consultants that monitor the CBO's to ensure the Department's funds are spent as intended.

Some CBOs did not submit their quarterly reports and annual financial statements. Other CBOs failed to submit these reports on time.

As a result, the Department is unable to use the reports to ensure CBOs spent the Department's money for the intended purpose.

3. We recommend that the Department should ensure that CBOs submit financial reports to the Department and submit them on time as required by agreements.

Annual Report needs improvement

We reviewed the Department's annual report for the year ended March 31, 1997. We think the report should explain the key risks the Department needs to 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 risks. We have set out what we think are the Department's key risks on page 158.

The Department's annual report does not specifically address the key risks set out on page 158 or explain the systems and practices the Department uses to manage these risks. One of the key risks is that the Assembly and the public do not know whether the Department is doing the right things well. Public confidence would increase if the Department published its performance targets and results.

The annual report shows a comparison of the current year's expenses to budget and the current year's revenues, but not for past or future years. The report shows the Department's investment in capital assets, but it does not show what else the Department owns and owes. For example, the report does not disclose the Department's accounts receivable or financial commitments. In addition, the report does not give a summary of the Department's future financial plans.

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 its goals and objectives. Also, the report does not show the Department's performance measures and targets.

The annual report was tabled within the time frame required by law. It was tabled 12 months after the Department's year end. In 1994, the Standing Committee on Public Accounts (PAC) recommended that the law be changed to allow annual reports to be released when the Legislative Assembly is not in session. To date, the Government has not changed the law to comply with the PAC's recommendation.

Public confidence in the Department's policies and procedures is important to the Department's success. We think public confidence will strengthen if the Department improves its annual report.

We also reported this matter in our 1997 Fall Report - Volume 2, regarding the 1996 annual report. At its October 1998 meetings, PAC agreed with our recommendation, while recognizing the difficulty of setting measurable performance target indicators in a single year.

4. We recommend, in its annual report to the Legislative Assembly, the Department should describe how the Department manages the key risks it faces.
5. We recommend the annual report should provide a summary of the Department's financial and operational plans, performance targets and actual results.

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Executive summary

The Saskatchewan Liquor and Gaming Authority (Authority) regulates liquor and gaming activities in the Province. It also manages and operates retail liquor stores and video lottery terminal gaming.

In this Chapter, we describe the background and structure of the gaming industry in the Province, identify the key areas of risk that the Authority faces, and the results of our audit.

We identify the following key areas of risk. These areas of risk are consistent with the goals identified in the Authority's corporate plan.

- ◆ The Authority needs to ensure the responsible use of liquor and gaming products while optimizing net income from these products.
- ◆ The Authority needs to ensure there is a balance between equitable licensing and revenue opportunities for charities and businesses.
- ◆ The Authority needs to ensure the integrity of the liquor and gaming industries.
- ◆ The Authority must develop and maintain policies and operating agreements that are fair, clear, and contemporary. The Authority must also ensure compliance with legislation and operating agreements.

We found the Authority's financial statements for the year ended March 31, 1998 are reliable. The Authority complied with the authorities governing its activities. The Authority had adequate rules and procedures to safeguard and control its assets except for the following:

- ◆ the Board needs to define and document the financial and operational information it requires;
- ◆ the Authority needs to update its written and tested contingency plan to ensure continuous operations if computer processing is interrupted; and
- ◆ the Authority needs to fully document its rules and procedures for computer system operations including security and ensure staff understand the rules and procedures.

Also, we have not yet completed our work on the Authority's systems and practices to monitor and regulate the Saskatchewan Indian Gaming Authority (SIGA) casinos.

Introduction

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

For 1997-98, the Authority had revenues of \$526.2 million and net income of \$285.2 million. The Authority held assets of \$442.8 million (including \$352.8 million on deposit with the General Revenue Fund) at March 31, 1998. The Authority plans to include its financial statements in its annual report.

Background and structure of gaming industry in the Province

Under *The Criminal Code of Canada* the Province must own, conduct and manage any electronic gambling devices. These devices are located in casinos and elsewhere in the Province. Until 1995, exhibition associations ran the only form of casino gaming in the Province. In 1995 the Government and the Federation of Saskatchewan Indian Nations (FSIN) made a partnership agreement called "Casino Development Framework Agreement" for commercial casino development.

Currently, in addition to exhibition association casinos in Saskatoon and Moose Jaw, there are five commercial casinos in the Province. These casinos are located in Regina, North Battleford, Yorkton, Prince Albert and on the White Bear Reserve.

The Saskatchewan Gaming Corporation (SGC), a Crown corporation, operates Casino Regina. SGC operates with its own legislation and in compliance with casino regulations developed by the Authority. Net profit of Casino Regina flows to the General Revenue Fund. We report our audit findings and conclusions for SGC in Appendix 4.

The Authority made a Casino Operating Agreement (Agreement) with the Saskatchewan Indian Gaming Authority (SIGA). SIGA operates the other four casinos under that Agreement. In 1997-98, all of SIGA's casinos operated for the full year. SIGA is a non-profit corporation established under *The Non-Profit Corporation Act, 1995*. The Agreement addresses the issues of the management of slot machines and table games. The Authority licenses table games. Under the Agreement, all table game

profits from these casinos must be allocated by SIGA for charitable purposes. The Authority owns the slot machines and all profits from the slot machines.

The Casino Development Framework Agreement with FSIN established a revenue sharing formula. The Agreement with FSIN and *The Saskatchewan Gaming Corporation Act* require a portion of the slot machine profits from all commercial casinos and table game profits from Casino Regina to be distributed to the First Nations Fund (FNF) and the Associated Entities Fund (AEF). The Assembly provides money to the Department of Municipal Affairs, Culture and Housing to pay the Funds for their share of the profits. The FNF and the AEF are both Crown agencies created under *The Saskatchewan Gaming Corporation Act*. We report our audit findings and conclusions for these funds in Chapter 10.

All casinos must comply with the Casino Regulations established by the Authority. These regulations deal with the following matters:

- ◆ conduct and management of games of chance;
- ◆ restrictions on who can play games of chance;
- ◆ internal management and control;
- ◆ internal security and surveillance;
- ◆ employees and gaming supplies;
- ◆ reporting requirements;
- ◆ dealing with individuals evidencing a problem with gaming;
- ◆ existence and placement of banking machines;
- ◆ marketing; and
- ◆ hours of operation.

The Authority also operates a Video Lottery Terminal (VLT) program and contracts with approved liquor-permitted sites in the hospitality sector for placement of VLTs.

The Criminal Code of Canada also allows charities to obtain a license to operate gaming. The Authority licenses charities to run bingos, raffles, sports betting pools, breakopen ticket sales, and various European or North American casino table games.

In this Chapter, we set out the key areas of risk the Authority faces and the results of our audit of the Authority.

Key areas of risk

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

The Authority regulates establishments selling liquor (e.g., taverns) and all gaming activities in the Province. The recent growth of the gaming industry has led to an increased workload for the regulation of this industry.

The Authority has identified its goals in its corporate plan. The key areas of risk we identify in this Chapter are consistent with the goals identified in the Authority's corporate plan.

The following are the key areas of risk that the Authority faces:

- ◆ The Authority needs to ensure the responsible use of liquor and gaming products while optimizing net income from these products.
- ◆ The Authority needs to ensure there is a balance between equitable licensing and revenue opportunities for charities and business.
- ◆ The Authority needs to ensure the integrity of the liquor and gaming industries.
- ◆ The Authority must develop and maintain policies and operating agreements that are fair, clear, and contemporary. The Authority must also ensure compliance with legislation and operating agreements.

The Authority needs to ensure the responsible use of liquor and gaming products while optimizing net income from these products.

The growth of the gaming industry over the last few years has prompted increased focus from special interest groups on the negative social impacts of gaming on Saskatchewan's society. Also, the steady consumption of beverage alcohol in Saskatchewan continues the pressure on the Government to promote responsible use of beverage alcohol by citizens. Research shows that the growth in the gaming industry is likely to continue given national economic conditions. Research also suggests that increased use of modern technology allows individuals more leisure time and thus more time to patronize the liquor and gaming industries. As a result of increased patronage, the gaming industry has grown significantly in recent years while liquor consumption has been stable. The growth and stability in these industries has provided the Government with increased revenues to maintain its current programs.

The net income for the Government for liquor and gaming products amounted to \$285.2 million in 1997/98. This is a significant amount of revenue to the Government. The Government faces a challenge to balance its need to optimize this source of revenue with the responsible use of these products by its citizens.

To achieve this balance, the Government, through the Authority and other health and welfare agencies, must gather information from the public about the negative social impacts of liquor and gaming products. The Authority can then adjust, and co-ordinate with other health and welfare agencies, its programs to promote responsible use of these products. The Authority together with other public sector agencies, liquor and gaming industries, and the hospitality industry should explain to the public how they are reducing the negative social impact of liquor and gaming. Also, the Authority must work with the liquor and gaming industries to ensure the Authority's pricing and marketing policies meet its revenue expectations within the boundaries set for social responsibility.

The Authority has processes to set prices for liquor products to meet revenue expectations within the boundaries set for social responsibility. For example, the Authority maintains set profit margins, does not give discounts, and does not sell liquor products to minors or people who appear to be intoxicated. Also, the Authority has a process to manage its gaming operations within the limits set by the Government. To enhance

responsible use of beverage alcohol and gaming, the Authority, in partnership with the hospitality industry, liquor and gaming industries, and government agencies, sponsors the designated driver program and the fetal alcohol syndrome program. Also, video lottery terminals are restricted to establishments that have liquor permits and do not allow minors. Further, the number of video lottery terminals is capped at 3,600 for the Province.

The Authority needs to ensure there is a balance between equitable licensing and revenue opportunities for charities and businesses.

The Authority is responsible for licensing, registration, monitoring, and enforcing compliance with the rules by all parties involved in the liquor and gaming industries. These industries contribute toward general economic development and to charities. Many charities rely heavily on the income generated from gaming activities (e.g., bingos, raffles).

In an effort to assist charities, the Authority continues to work to ensure the licensing of charities is effective, efficient, accountable and fair. Given the increase in activities in some areas of the gaming industry, the Authority has begun to develop policies that will protect and stabilize charities' revenues.

The Authority must balance between equitable licensing for charities and businesses to ensure both have fair opportunities to raise revenue. To do this, the Authority inquires about the financial needs of the charities before providing them licenses for gaming activities. The Authority also has processes to ensure the charities use income from gaming activities for charitable purposes only.

The Authority needs to ensure the integrity of the liquor and gaming industries.

Expansion of the gaming industry in recent years has created various anti-gambling interest groups in the Province. Also, the steady consumption of beverage alcohol in the Province continues the pressure on the Government to promote responsible use of beverage alcohol by citizens. Further, the Authority, as regulator of the liquor and gaming industries, has a responsibility to maintain and ensure the integrity (legality, honesty, fairness, consistency, and transparency) of these industries.

The growth in the gaming industry has been significant. The introduction of various partners in the liquor and gaming industries makes it challenging for the Authority to ensure the integrity of these industries. Citizens expect the Government to ensure the integrity of the liquor and gaming industries operating in the Province. The public needs confidence in the integrity of the liquor and gaming industries.

To ensure the integrity of the liquor industry, the Authority issues permits to establishments that sell liquor. These permits stipulate the conditions of liquor operations. The Authority also issues licenses for gaming operations. These licenses stipulate the conditions of gaming operations. Also, the Authority requires that all gaming employees in the Province meet the Authority's standards of integrity. The Authority conducts inspections/audits of liquor and gaming establishments for the purpose of ensuring the operators comply with the conditions of their permits/licenses.

The Authority must develop and maintain policies and operating agreements that are fair, clear, and contemporary. The Authority must also ensure compliance with legislation and operating agreements.

The Authority is responsible for regulating all casinos, establishments selling liquor (e.g., taverns) and gaming activities of charitable organizations.

The Authority should develop and maintain policies and operating agreements that are fair to all parties involved in the liquor and gaming industries. Compliance with laws and operating agreements by all parties is essential to effectively operate the liquor and gaming industries.

The Authority continuously reviews laws relating to regulation and operation of liquor and gaming industries to ensure those laws are fair and clear. When it considers necessary, the Authority recommends to the Government changes to those laws. To ensure operators understand the laws, the Authority educates permittees, licensees, and stakeholder groups about compliance requirements and available assistance. Also, the Authority does inspections/audits and carries out investigations to ensure the operators comply with the laws and the terms of permits/licenses and operating agreements.

The opening of the Saskatchewan Indian Gaming Authority (SIGA) casinos requires the Authority to ensure that those casinos, their suppliers and their employees meet the Authority's standards of integrity. The Authority also has agreements with SIGA to share in the profits of SIGA casinos. The Authority must monitor the SIGA casinos to ensure they comply with the Authority's standards. Also, the Authority needs to ensure it receives all revenues it is entitled to receive under the agreements.

The Authority does regular inspections/audits of the SIGA casinos for the purpose of ensuring those casinos comply with the terms of the Agreement with SIGA and that the Authority receives all the revenues it is entitled to receive under the Agreement.

Our audit conclusions and findings

In our opinion:

- ◆ the Authority's financial statements for the year ended March 31, 1998 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 several matters set out in the next section of this Chapter.

We have not yet completed all of our work on the Authority's rules and procedures to safeguard and control its assets. We have not yet completed our in-depth examination of the Authority's specific systems and practices for regulating and monitoring SIGA's casinos. We decided to do this in-depth examination because this was the first full year of operation for SIGA's casinos. Later in this Chapter, we set out the criteria we are using to assess the Authority's systems and practices for regulating and monitoring SIGA's casinos. We will report our conclusions, findings and recommendations, if any, from this in-depth examination in a future report.

Also, 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 the financial and operational information it requires

To oversee operations, the Board of Directors needs to define and document the financial and operational information it requires and tell management what performance it expects. In 1997/98 the Board consisted of the Minister responsible for the Authority and the Minister of Environment and Resource Management.

We noted management provided some financial and operational reports for the Board's November 1997 and March 1998 meetings. The Board minutes noted approval of the reports presented.

1. 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.

Current contingency plan needed

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

Management told us they continue the development of a contingency plan for computer processing and information system activities.

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

Documented rules and procedures for computer system operations needed

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

Management told us they continue to improve and refine the Authority's operating rules and procedures.

3. We continue to recommend the Authority should fully document its rules and procedures for its computer systems operations and ensure staff understand those rules and procedures.

Criteria for regulating and monitoring SIGA's casinos

As stated earlier, we have not yet completed our in-depth examination of the Authority's systems and practices for regulating and monitoring SIGA's casinos. However, we have developed criteria we will use for our in-depth examination.

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.

We developed criteria after reviewing relevant literature on gaming management and regulation. We discussed the criteria with the Authority's management, made necessary changes and obtained management's agreement that the criteria are reasonable and attainable.

The agreed upon criteria are as follows. The Authority should have systems and practices to ensure:

- ◆ SIGA operates in a manner that maintains gaming integrity and thus the public confidence;
- ◆ SIGA manages and conducts licensed games in accordance with the license issued by the Authority;
- ◆ appropriate operating policies and procedures for SIGA are approved on a timely basis;
- ◆ SIGA is adhering to the operating policies and procedures; and
- ◆ the revenue received from SIGA is complete.

**Municipal Affairs, Culture and Housing
(Formerly: Municipal Government)**

10

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Introduction

The Department of Municipal Affairs, Culture and Housing (formerly Municipal Government) is responsible for supporting and maintaining a viable system of municipal government in Saskatchewan.

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.

In 1998, the Department reported expenditures of \$182 million and revenue of \$22 million in *Public Accounts 1997-98: Volume 2: Details of Revenue and Expenditure* (1997-98 Public Accounts – Volume 2). The revenues and expense of the Department's special purpose funds and Crown agencies will be reported in the *Financial Statements – Compendium 1997-98*.

The following is a list of major programs and spending reported by the Department in the 1997-98 Public Accounts – Volume 2:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Municipal financial assistance	\$ 62	\$ 65
Housing	40	40
Infrastructure assistance	30	22
Heritage and culture	14	15
Provincial library	8	8
Municipal services and public safety	7	8
Gaming funds	6	18
Other	<u>6</u>	<u>6</u>
	<u>\$ 173</u>	<u>\$ 182</u>

Financial background

For 1997-98, the Government's summary financial statements show community development expenses of \$152 million. Table 1 sets out community development expenses as shown in the Government's

financial statements reconciled to community development spending by the Department.

Table 1
(in millions of dollars)

Department of Municipal Government expenses	
per General Revenue Fund financial statements	\$ 182
Deduct expenses shown as:	
Transportation - Municipal financial and infrastructure assistance	(41)
Social services and assistance – Housing and municipal financial assistance	(42)
Others	(4)
Add expenses funded by:	
Saskatchewan Lotteries Trust Fund	26
Indian and Métis Affairs Secretariat - Treaty land entitlement	23
Others	8
Community development expenses per the Government's financial statements	\$ 152

Special purpose funds and Crown agencies

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

	<u>Year End</u>
Associated Entities Fund	March 31
First Nations Fund	March 31
Municipal Potash Tax Sharing Administration Board	December 31
Northern Revenue Sharing Trust Account	December 31
Saskatchewan Archives Board	March 31
Saskatchewan Arts Board	March 31
Saskatchewan Centre of the Arts	March 31
Saskatchewan Heritage Foundation	March 31
Saskatchewan Housing Corporation	December 31
Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation	March 31
Saskatchewan Municipal Board	March 31
Wanuskewin Heritage Park Corporation	March 31
Western Development Museum	March 31

Our audit conclusions and findings

We reported our audit conclusions and findings in our 1998 Spring Report for the following special purpose fund and Crown agencies for their years ended December 31, 1997:

Northern Revenue Sharing Trust Account
Municipal Potash Tax Sharing Administration Board
Saskatchewan Housing Corporation

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.

Saskatchewan Archives Board
Saskatchewan Arts Board
Saskatchewan Centre of the Arts
Saskatchewan Municipal Board
Wanuskewin Heritage Park Corporation
Western Development Museum

Accordingly, this Chapter includes our audit conclusions and findings for the Department and the following special purpose funds and Crown agencies:

Associated Entities Fund
Saskatchewan Heritage Foundation
Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation

A separate section in this Chapter explains our inability to discharge our duties relating to the First Nations Fund.

In our opinion:

- ◆ the financial statements for the funds and agencies where we have completed our work are reliable;
- ◆ the Department and its agencies where we have completed our work 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 where we have completed our work complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

We made several recommendations in Chapter 17 of our 1997 Fall Report - Volume 2. In this Chapter, we summarize those recommendations and note progress.

Assurance needed for conditional grants

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

The Department has begun to obtain additional assurance for conditional grants made to libraries. Management told us the Department has taken the following initiatives to achieve this objective.

- ◆ The Department introduced new legislation, *The Public Libraries Act, 1996* and *The Public Libraries Regulations, 1996* which became effective December 31, 1996. This new legislation sets out the eligibility criteria libraries must meet to qualify for a grant. The Department told us it ensures criteria are met before paying grants. The new legislation applies for grants provided in 1998/99.
- ◆ The Department requires public libraries to report holdings to the Provincial Library for listing in the Saskatchewan Union Catalogue. The Provincial Library is a branch of the Department responsible to work with libraries in Saskatchewan to ensure equitable access to library resources and services for all Saskatchewan residents. Public libraries also must participate in reciprocal borrowings and in the interlibrary loan systems.
- ◆ The Department's staff attend annual meetings and semi-annual meetings of library systems. The Provincial Library receives planning documents and reviews them to ensure the goals and objectives of a library system are congruent with the whole library system. If the goals and objectives are not congruent, the Provincial Library uses the meetings as a forum to facilitate changes to the goals and objectives.

- ◆ The Department plans to require libraries to follow The Canadian Institute of Chartered Accountants' (CICA) local government standards for financial reporting beginning in 1999/2000.

The Department's additional efforts are important first steps. We commend the Department for these efforts. However, the Department needs to do more work to ensure the libraries have adequate rules and procedures to safeguard and control their assets and to comply with legislative and related authorities. Also, the Department needs to do more work to ensure that money it gives the libraries is used for the purposes intended.

In October 1998, the Standing Committee on Public Accounts (PAC) considered this matter and concurred with our recommendations.

We continue to recommend:

- ◆ 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;
- ◆ the Department should require the libraries to use standards for financial statements recommended by the CICA;
- ◆ the Department should tell the libraries what performance it expects from the libraries to meet the Department's objectives; and
- ◆ the Department should receive and verify reports on how successful the libraries were in meeting the Department's objectives.

Proper financial statement standards required

The Department needs to set proper financial statement accounting principles (standards) for local governments.

The Department told us it proposes to start requiring local governments to follow the CICA local government financial reporting standards after 1998.

In October 1998, PAC considered this matter and concurred with our recommendation.

We continue to recommend the Department should require local governments to prepare their financial statements following the standards for local governments recommended by the CICA.

Saskatchewan Heritage Foundation

The Saskatchewan Heritage Foundation (Foundation) provides support for community-based heritage projects. These projects conserve, restore, develop and interpret Saskatchewan's rich heritage resources.

The Foundation had revenue of \$0.4 million in 1998 and held assets of \$0.7 million at March 31, 1998. The Foundation's financial statements are included in its annual report.

Rules and procedures needed to monitor projects

The Foundation needs to establish rules and procedures to monitor the progress of projects and to ensure the recipients of financial support comply with prescribed terms and conditions.

The Foundation provides financial support for community-based heritage projects. The Board of Directors of the Foundation review and approve applications for financial support and stipulate terms and conditions for financial support. The terms and conditions specify the amount of financial support, nature of the work recipients must do, documentation required as proof of the work done, and the date for completion of the work. Management of the Foundation makes an agreement with the applicants detailing terms and conditions for the projects. The Foundation does not have rules and procedures to monitor the progress of the projects and to ensure the recipients of the financial support comply with the prescribed terms and conditions.

The Foundation needs these rules and procedures to ensure the recipients of the financial support use the money for the purposes intended.

We noted the Foundation did not monitor 17 projects although the agreed completion date for some of these projects was more than a year ago. The Foundation had paid approximately \$31,000 for these projects and has approximately \$57,000 additional commitment for these projects.

1. We recommend the Foundation should establish rules and procedures to monitor the progress of projects and to ensure that recipients of financial support comply with prescribed terms and conditions.

Management told us it is now monitoring the progress of projects.

First Nations Fund

The Saskatchewan Gaming Corporation Act established the First Nations Fund (Fund). The Fund is responsible for carrying out economic development, social development, justice, health, and other initiatives related to Indian Bands. The Fund is a Crown agency accountable for how it carries out its responsibilities to the Minister of Municipal Affairs, Culture and Housing (Minister).

The Assembly makes money available to the Department for the Fund.

For the year ended March 31, 1997 and 1998 the Department paid \$2.5 million and \$9.5 million to the Fund.

Order in Council 725/95 appointed the Board of Trustees for the Fund. Order in Council 189/97 appointed KPMG as the auditor for the Fund.

Inability to discharge our duties

The Fund's Trustees restricted our ability to obtain the information and explanations we require to properly carry out our duties to the Legislative Assembly.

The Assembly wants us to report whether:

- ◆ the Fund's financial statements are reliable;
- ◆ the Trustees had adequate rules and procedures to safeguard and control public money;

- ◆ the Trustees complied with the authorities governing the Fund's activities related to financial reporting, safeguarding assets, spending, borrowing, and investing;
- ◆ the Fund lost any public money from fraud, default, or mistake of any person;
- ◆ any officer or employee of the Fund has wilfully or negligently omitted to collect or receive public money; and
- ◆ the Trustees made any expenditure from the Fund that was not properly vouchered or certified.

We are unable to report to the Assembly on the above matters because the Trustees have refused to co-operate with our Office.

KPMG, the Fund's appointed auditor, told us the Trustees have refused to allow us access to KPMG's files. Accordingly, we have not yet audited the Fund's accounts for the years ended March 31, 1997 and 1998.

When Government appoints private sector auditors to audit the accounts of special purpose funds and Crown agencies, we work with the appointed auditors using the process recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. This process requires us to have access to the appointed auditor's files

We reported this matter in Chapter 9 of our 1998 Spring Report.

On October 6, 1998, PAC considered this matter and concurred with our recommendation.

2. We continue to recommend the Department should direct the trustees to allow our Office to carry out our responsibilities to the Legislative Assembly following the recommendations of the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.

On October 16, 1998, our Office met with the Chair of the Trustees of the Fund to explain the objectives of our audit and the audit process we use. The Chair proposed a meeting between the First Nations executive committee and our Office. The Chair has not yet fixed a date for this meeting.

Highways and Transportation

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Introduction

The Department of Highways and Transportation (DHT) contributes to the social and economic well-being 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.

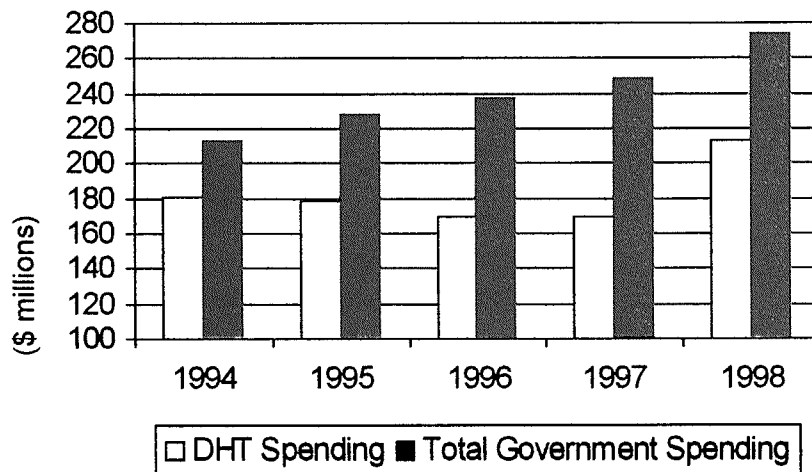
The DHT has two special purpose funds to help manage its business. The DHT uses the Highways Revolving Fund to allocate its costs to programs and custom-work projects. The DHT uses the Transportation Partnerships Fund to generate revenue to be spent on highway improvements. The Fund generates revenue from trucking partnership agreements and through marketing of transportation-related technology and expertise. The DHT is also responsible for the Saskatchewan Grain Car Corporation.

The *Financial Statements Compendium 1997-98* will include the financial statements of the Funds and the Saskatchewan Grain Car Corporation.

Government spending on transportation

In 1997/98, the Government spent \$272.7 million on transportation (p. 40 of *Public Accounts 1997-98: Volume 1: Main Financial Statements*). This spending is made up of \$212.9 million by DHT, \$40.6 million by the Department of Municipal Government, \$0.2 million by the Department of Intergovernmental and Aboriginal Affairs and \$19.0 million by the Saskatchewan Transportation Company.

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*

Significant issues facing the DHT

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).

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.

The DHT's goals and objectives are in line with the Strategy. We look forward to the DHT providing Members of the Legislative Assembly (MLAs) and the public with periodic and annual reports on its progress on achieving the Strategy and, in turn, its goals and objectives.

We encourage MLAs and the 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.

Department spending

In 1997/98, the DHT received \$212.9 million from the General Revenue Fund and spent this money on its programs. The DHT also earned revenues of \$20.1 million. Information about the DHT's spending and revenues will appear in Volume 2 of the Public Accounts.

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	\$ 56.2	\$ 57.6
Preservation and maintenance	125.2	137.0
Administration	4.9	5.1
Accommodation and central services payments	6.6	6.4
Logistics, planning and compliance	<u>5.9</u>	<u>6.8</u>
	<u>\$ 198.8</u>	<u>\$ 212.9</u>

In 1997/98, the Transportation Partnerships Fund earned revenue of \$1.5 million and spent \$0.6 million on its operations.

Our audit conclusions and findings

This Chapter contains our audit conclusions and findings on the DHT, the Highways Revolving Fund and the Transportation Partnerships Fund for the year ended March 31, 1998, and the Saskatchewan Grain Car Corporation for the year ended July 31, 1997. We have not completed our audit of the financial statements of the Highways Revolving Fund. We will report our opinion on these financial statements in a future report.

In our opinion:

- ◆ the financial statements of the Transportation Partnerships Fund and the Saskatchewan Grain Car Corporation are reliable;
- ◆ the DHT complied with the authorities governing its, its Funds' and the Saskatchewan Grain Car Corporation's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing; and

- ◆ the DHT had adequate rules and procedures to safeguard and control its, its Funds' and the Saskatchewan Grain Car Corporation's assets except for the matters reported in this Chapter.

In our audit of the Saskatchewan Grain Car Corporation we worked with their appointed auditor, Skilnick Robertson Besler Miller & Co. We used the framework recommended by the *Report of the Task Force on the Roles, Responsibilities and Duties of Auditors*. Our Office and the appointed auditor formed the opinions set out above.

Accurate financial reporting required for decision making

The Deputy Minister is responsible for the integrity of the DHT's financial processes including the Highways Revolving Fund and the Transportation Partnerships Fund. Also, the Deputy Minister must deliver the activities assigned to the DHT within established spending limits.

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.

In the following two sections, we describe rules and procedures by which the DHT can improve how it manages its affairs.

Management direction required for interim financial reporting

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

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 Exhibit 1.

Exhibit 1:

Management should provide staff with 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; and
- ◆ who is responsible for preparing those reports (i.e., specific position or work area within the department).

Sound interim financial reports:

- ◆ use proper accounting policies (i.e., 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.

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 clear. Currently, direction is provided through course materials, e-mails, various memoranda and verbally. Clear policy and procedure 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; and
- ◆ direction provided does not define the nature of variances (e.g., 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 decide which

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

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

1. We recommend the DHT should clearly document systems and practices necessary to prepare sound interim financial reports.

We also reported this matter in our 1997 Fall Report - Volume 2.

On October 7, 1998 the Standing Committee on Public Accounts (PAC) considered this matter and agreed with our recommendation.

The DHT is developing a new financial reporting system for all of its operations. It will document its systems and practices for preparing interim financial reports as part of the new system. Management told us they implemented the part of the new system related to the Highways Revolving Fund in April 1998. They plan to have the remainder of the new system operational by April 1, 1999.

More effective financial reporting system needed

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

Management needs adequate financial reporting systems to help them monitor and assess the performance of the Revolving Fund. We assessed the adequacy of the Revolving Fund's financial reporting system against the criteria set out in Exhibit 2.

Exhibit 2:

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.

The current financial reporting system comprises several manual and computer systems. These systems do not work well together to ease efficient record keeping. Staff must do much of the record keeping manually. This requires considerable human resources and increases the risk staff may record transactions incorrectly and late. Also, the current system does not respond well to management's needs or give them the necessary information. For example, the inadequacies in the Revolving Fund's reporting system contributed to the following:

- ◆ the Revolving 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; and
 - ◆ the DHT did not prepare the Revolving Fund's annual financial statements by the date that Treasury Board required.
2. We recommend the DHT should continue to develop a financial reporting system that meets management's information needs efficiently.

We also reported this matter in our 1997 Fall Report - Volume 2.

The PAC considered this matter on October 7, 1998 and agreed with our recommendation.

The DHT recognizes the weaknesses of its current system. The DHT has assessed its needs and is developing a new financial reporting system that should meet its needs. Management told us that financial reports prepared using the new system will include its assets and liabilities and be easier to prepare.

Management told us they started using the part of its new system related to the Revolving Fund in April 1998. We will assess the adequacy of that new system next year.

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Introduction

The Department of Environment and Resource Management is responsible for managing, enhancing and protecting the province's natural resources and sustaining them for future generations. Information about the Department's mandate and its organization structure are available at the Department's website (www.gov.sk.ca/govt/environ).

The Department received \$98 million from the General Revenue Fund for its programs. Also, the Department collected revenue of \$31 million. In addition, the Department collects revenue and incurs expenses through its special purpose funds.

Information about the Department's total revenue and expenses is not available in any one document. Volume 2 of The Public Accounts contains information about some of the Department's revenues and expenses. *The Public Accounts Compendium of Financial Statements* contains information about the revenue and expenses of the Department's special purpose funds.

The following is a list of expenses reported in Volume 2 of the 1997-98 Public Accounts:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Forest fire management	\$ 28	\$ 26
Operations	22	25
Forestry, fish and wildlife	12	13
Environmental protection	11	11
Administration	11	14
Other	9	9
	<u>\$ 93</u>	<u>\$ 98</u>

Special purpose funds

The Department is responsible for managing the following special purpose funds:

- Big Game Damage Compensation Fund
- Commercial Revolving Fund
- Fish and Wildlife Development Fund
- Resource Protection and Development Revolving Fund

The purpose of the Big Game Damage Compensation Fund is to compensate commercial agricultural producers for damage or losses caused by big game. This Fund was established on April 1, 1997.

The purpose of the Commercial Revolving Fund is to conduct commercial activity required for the promotion, development and management of provincial parks. The Fund had revenue of \$7.4 million in 1997 and held assets of \$1.1 million at March 31, 1997.

The purpose of the Fish and Wildlife Development Fund is to conduct fish and wildlife habitat conservation and enhancement projects. The Fund had revenue of \$2.8 million in 1997 and held assets of \$15 million at March 31, 1997.

The purpose of the Resource Protection and Development Revolving Fund is to provide resource protection and development services. The Fund had revenue of \$1.9 million in 1997 and held assets of \$2.7 million at March 31, 1997.

Financial background

For 1997-98, the Government's summary financial statements show environment and natural resource expenses of \$119 million. Table 1 sets out environment and natural resource expenses as shown in the Government's summary financial statements reconciled to environment and natural resource spending reported by the Department.

Department of Environment and Resource Management (<i>Public Accounts 1997-98</i>)	\$ 98
Deduct expenses shown as:	
Economic development related to forests	(7)
Add expenses incurred by:	
SaskWater	19
Agriculture	9
Environment and natural resources expenses per the Government's summary financial statements	<u>\$ 119</u>

Our audit conclusions and findings

In our opinion for the year ended March 31, 1998:

- ◆ The Department had adequate rules and procedures to safeguard and control its assets, except for the matters relating to internal reporting and the Department's capital assets as described in this Chapter; and
- ◆ The Department complied with authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matter relating to the Department's capital assets as described in this Chapter.

We have not yet completed our work on the financial statements of the special purpose funds. We will report our conclusions and findings in a future report to the Assembly.

We also note another matter for the Legislative Assembly's attention in this Chapter regarding public disclosure.

We made several recommendations in our 1998 Spring Report. We realize that the Department did not have sufficient time to address these matters. Therefore, we did not repeat the details of these matters in this Chapter. Instead, the following paragraphs summarize our recommendations and note progress.

Internal reporting needs improvement

The Department needs better internal reports to monitor its activities.

In addition to its regular internal financial reports, the Department should define and document its operational and compliance reporting requirements.

Operational reports should show the effectiveness of programs (i.e., what did the Department expect to accomplish and how is it performing toward that expectation). Compliance reports should describe the Department's compliance with its legislative and related authorities (e.g., legislation or policy manuals).

The Department is working on defining its operational and compliance reporting needs. The Department is also developing a new financial reporting system. This system will assist the Department in preparing its required internal financial reports in accordance with its established rules and procedures.

We continue to recommend:

1. The Department should define and document its operational and compliance reporting requirements.
2. The Department should follow its established rules and procedures for preparing all of its internal financial reports.

Complete capital assets records needed

The Department needs better rules and procedures to safeguard and control its equipment (capital assets). The Department's financial records show the cost of capital assets totals approximately \$15 million.

Section 640 of the Provincial Comptroller's financial administration manual provides guidance to departments regarding capital assets.

The Department is developing a new internal financial reporting system that will help the Department safeguard and control its capital assets.

We continue to recommend:

3. The Department should keep complete records of its capital assets.
4. The Department should also:
 - ◆ periodically reconcile its capital assets records to its financial records; and
 - ◆ include information about its capital assets in its annual report.

List of persons who received money from the Fish and Wildlife Development Fund required

The Department did not provide a list of persons who received money from the Fish and Wildlife Development Fund.

In March 1993, the Standing Committee on Public Accounts recommended all entities reporting to Treasury Board should provide a list of persons who have received money.

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 rigor 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.

5. We recommend the Department should make public a list of persons (e.g. employees, suppliers) who have received money from the Fish and Wildlife Development Fund and the amounts received.

The Department told us, in the future, it will provide a list of persons who received money from the Fund and the amounts received.

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Introduction

The Department of Agriculture and Food's mandate is to foster a commercially viable, self-sufficient, sustainable agriculture and food industry. In 1997-98, it reported expenditures of \$204 million and revenue of \$46 million in Volume 2 of the Public Accounts. The revenues and expenses of the Department's special purpose funds and Crown agencies are reported in the Public Accounts Compendium, except for agencies under the Agricultural and Food Products Development and Marketing Council. We are currently working with the Department to determine how best to report those revenues and expenses.

Financial overview

The Department's major programs and spending reported in Volume 2 of the Public Accounts are:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Payments to Saskatchewan Crop Insurance Corporation	\$ 107	\$ 93
Payments for farm income stability and development	38	41
Payments to Agricultural Credit Corporation	24	24
Agricultural research	10	10
Agricultural development	14	11
Other	21	25
	<u>\$ 214</u>	<u>\$ 204</u>

The Department's major sources of revenue reported in Volume 2 of the Public Accounts are:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Sales, services and service fees	\$ 30	\$ 29
Transfers from the Federal Government	14	13
Other	1	4
	<u>\$ 45</u>	<u>\$ 46</u>

The following table sets out total spending by the Government on agricultural programs compared to spending by the Department:

	<u>1998</u>
	(in millions of dollars)
Spending by the Department	\$ 204
Additional expenses incurred by the Saskatchewan	
Crop Insurance Corporation	42
Other	<u>5</u>
Total spending by the Government on agricultural programs (per the Summary Financial Statements)	<u>\$ 251</u>

Special purpose funds and Crown agencies

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

	<u>Year End</u>
Agri-Food Equity Fund	March 31
Agri-Food Innovation Fund	March 31
Cattle Marketing Deductions Fund	March 31
Horned Cattle Fund	March 31
Conservation and Development Revolving Fund	March 31
Livestock Services Revolving Fund	March 31
Agricultural Credit Corporation of Saskatchewan	March 31
Beef Development Board	March 31
Milk Control Board	December 31
Prairie Agricultural Machinery Institute	March 31
Saskatchewan Crop Insurance Corporation	March 31
Crop Reinsurance Fund of Saskatchewan	March 31

Agencies under the Agricultural and Food Products Development and Marketing Council

	<u>Year End</u>
Saskatchewan Alfalfa Seed Producers' Development Commission	July 31

	<u>Year End</u>
Saskatchewan Broiler Hatching Egg Producers' Marketing Board	December 31
Saskatchewan Canola Development Commission	July 31
- Canodev Research Inc.	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	September 30
Saskatchewan Turkey Producers' Marketing Board	December 31
SPI Marketing Group (now known as Sask Pork)	December 31
- KROP Transport Ltd.	December 31
- Moose Jaw Packers (1974) Ltd.	December 31
- SPI Producers' Trust Fund	December 31

Our audit conclusions and findings

This Chapter contains our audit conclusions and findings for the fiscal years ending on or during the year to March 31, 1998, except for:

- ◆ The Saskatchewan Canola Development Commission and its subsidiary for the year ended July 31, 1997. We reported on the Commission in our 1998 Spring Report.
- ◆ Other agencies under the Agricultural and Food Products Development and Marketing Council, except SPI Marketing Group, its subsidiaries and its trust fund. We comment later in this Chapter about the status of our work on these agencies.
- ◆ The Saskatchewan Crop Insurance Corporation and the Crop Reinsurance Fund of Saskatchewan for the year ended March 31, 1998. We are completing our work on the Corporation's claims system and will report the results in a future report.

- ◆ The Conservation and Development Revolving Fund, the Livestock Services Revolving Fund, and the Agri-Food Equity Fund for the year ended March 31, 1998. We will report the results in a future report.

Our Office worked with the following appointed auditors:

KPMG

- ◆ SPI Marketing Group
- ◆ Saskatchewan Crop Insurance Corporation
- ◆ Saskatchewan Crop Re-insurance Fund

Garth H. Hetterly

- ◆ KROP Transport Ltd.
- ◆ Moose Jaw Packers (1974) Ltd.

Price Waterhouse

- ◆ Agricultural Credit Corporation of Saskatchewan

We used the framework recommended by the *Report of the Task Force on the Roles, Responsibilities and Duties of Auditors*. Our Office and the appointed auditors formed the opinions set out below.

In our opinion, for the audits we have completed:

- ◆ the financial statements of the Department's special purpose funds and Crown agencies are reliable;
- ◆ the Department and its Crown 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 Crown agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

Estimating bad debt costs needs improvement

The Department needs to continue improving its procedures to estimate the amount it will not collect from clients who lease, rent or buy Crown land.

At March 31, 1998, the Department estimated it would not collect \$11.3 million from clients for leases, rentals and instalment land sales. However, it could not explain how it calculated \$4.9 million of this estimate relating to instalment land sales.

In our 1997 Fall Report - Volume 2, we reported the Department could not properly explain how it calculated the entire estimate for bad debt costs. In 1998, the Department developed procedures to estimate bad debt costs for leases and rentals. We encourage the Department to continue to develop procedures to estimate the bad debt costs for instalment land sales.

1. We recommend that the Department continue its work on developing a system to estimate its bad debt costs.

Contingency plan needs to be completed

The Department needs to complete its written contingency plan and test the plan. This is an essential element of a business continuity plan.

The Department depends on computer systems to keep most of its records and to monitor and control its business. The Department needs an adequate contingency plan to ensure it can operate effectively if a major loss or destruction of its computer systems or records occurs.

Good contingency plans set out the following:

- ◆ which system programs and data are significant (i.e., a risk analysis);
- ◆ assignment of responsibilities;
- ◆ procedures to make electronic copies (backups) of the significant system programs and data;
- ◆ procedures for the safe offsite storage of the backups and contingency plan;
- ◆ necessary recovery time for each system;

- ◆ arrangements to replace or rent essential computer equipment;
- ◆ a requirement for the Department to review and approve the plan;
- ◆ procedures to periodically test the contingency plan in an alternative environment to ensure the recovery results are satisfactory;
- ◆ training of staff in contingency plan procedures; and
- ◆ procedures to ensure key processes continue in the event that the Department or its partners have a year 2000 failure.

Management told us it will complete work on the contingency plan in October 1998 and test the plan by December 1998.

2. We recommend that the Department complete its written contingency plan and test the plan.

Manuals needed

The Department needs complete accounting policies and procedures manuals for the entities it administers.

Department staff do the accounting and prepare year-end financial statements for several entities. In our 1997 Fall Report - Volume 2, we recommended that the Department prepare accounting policies and procedures manuals for the entities it administers. In addition, we recommended that the Department and the boards of the entities approve the policies and procedures as they are completed.

The Department has begun a major initiative to prepare manuals for the entities it administers. A project team lead by Administrative Services in the Department will oversee the project. They plan to have the manuals completed by March 31, 2000. We support this project.

We plan to monitor the Department's progress on this important initiative.

3. We continue to recommend that the Department prepare accounting policies and procedures manuals for the entities it administers.
4. We continue to recommend that the Department and the boards of the entities approve these policies and procedures as they are completed.

Agricultural and Food Products Development and Marketing Council

The Department, through the Agricultural and Food Products Development and Marketing Council (Council), is responsible for supervising various agricultural marketing and development agencies.

In our 1998 Spring Report, we reported that the Department and our Office developed joint recommendations to improve the accountability and reporting practices for these agencies. We will continue to monitor and work with the Department in implementing these recommendations. We will report on the progress of these recommendations in a future report.

SPI Marketing Group

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 Agricultural and Food Products Development and Marketing Council. Thus, SPI is a Crown agency.

On April 6, 1998, the Government took away SPI's monopoly to sell hogs produced in Saskatchewan and continued SPI as a development board known as Sask Pork. After April 6, 1998, Sask Pork's only major revenue source is a levy charged on all hogs produced in Saskatchewan.

In 1997, SPI had revenues of \$4.7 million. At December 31, 1997, it held assets of \$5 million. SPI's annual report includes its consolidated financial statements.

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.

Moose Jaw Packers (1974) Ltd. operates a hog slaughter business and specializes in producing pork for export and recovering hides. In 1997, it had revenues of \$5.3 million. On October 6, 1997, the plant facility was sold and subsequently Moose Jaw Packers (1974) Ltd. has been inactive.

KROP Transport Ltd. operates a trucking business. In 1997, it had revenues of \$1.0 million. At December 31, 1997, it held assets of \$0.2 million.

SPI uses the SPI Producers' Trust Fund to account for the purchase and sale of hogs. In 1997, the Trust Fund had revenues of \$158.7 million. At December 31, 1997, it held assets of \$3.8 million. SPI's annual report includes the Trust Fund's financial activities.

Written governance policies needed

In our 1997 Fall Report - Volume 2, we recommended the directors should document their governance policies. 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.

We realize SPI was in the process of organizational change during the year. Therefore, we did not repeat the details of this matter in this Chapter. We will continue to monitor SPI's progress.

5. We continue to recommend that the directors document their governance policies.

In February 1998, PAC considered this matter and concurred with our recommendation.

Prairie Agricultural Machinery Institute

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

In 1997-98, PAMI had revenue of \$4.1 million and held assets of \$2.8 million. PAMI's annual report includes its financial statements.

Contingency plan needs to be completed

PAMI needs to complete a written contingency plan and test the plan. This is an essential element of a business continuity plan.

PAMI depends on computer systems to keep most of its records and to monitor and control its business. PAMI needs an adequate contingency plan to ensure it can operate effectively if a major loss or destruction of its computer systems or records occurs.

Good contingency plans set out how to be ready in case a disaster occurs as well as detailed directions on how to restore operations. One of the elements that the plan should address is the possible effect of the Year 2000 date change on computer systems. Plans should be tested periodically to ensure the recovery results are satisfactory. PAMI's Council should review and approve the plan.

During the year, management began work on a contingency plan by developing a written backup and disaster recovery policy. The policy includes a general outline of the procedures to follow in case of a disaster. The policy notes that staff need to document additional matters in detail such as:

- ◆ the identification of all critical programs and data files;
- ◆ the specific steps staff must follow in the event of a disaster;
- ◆ a list of key contacts to assist in the recovery process;
- ◆ the offsite location of backup copies (electronic and paper copy) of critical programs, data files, and recovery plans for the head office and each station;
- ◆ a list of hardware requirements and location of the alternate processing site; and
- ◆ the procedures for periodic testing of the recovery plan.

Management has not yet documented the detailed procedures for recovering operations, or tested those procedures. This is essential for PAMI to ensure the plan will be effective in the event of a disaster.

Management also needs to document what they have done to address the Year 2000 issue. For example, management should document what hardware and software have date-sensitive components and whether they can operate with Year 2000 dates.

6. We recommend that PAMI complete its written contingency plan and test the plan.

Milk Control Board

The purpose of the Milk Control Board is to control and regulate the marketing of milk in the province. To do so, the Board purchases milk from producers and sells it to processors. Also, the Board manages a quota exchange where producers can buy or sell production quota.

The Board had revenue of \$114.7 million in 1997 and held assets of \$8.6 million at December 31, 1997.

Performance monitoring

To effectively monitor the Board's performance, the directors need to receive complete interim financial reports on the Board's activities.

The Directors should receive timely financial reports prepared in accordance with generally accepted accounting principles. Also, they should receive adequate operational reports. The reports should compare plans to actual results, and provide explanations for significant variances.

During the year, the directors received detailed operational reports. However, they did not receive complete financial reports prepared in accordance with generally accepted accounting principles. The financial information they get does not show the full extent of what is owned and what is owed. Also, the financial reports do not compare plans to actual results or include explanations for significant variances.

7. We recommend that the directors receive complete interim financial reports on the Board's activities.

The Directors agree with the recommendation and indicate they will use complete interim financial reports in 1998.

Written policies and procedures needed

The Board needs written policies and procedures to ensure the financial information it produces is complete and accurate.

The Directors need adequate financial information to make proper decisions. In addition, a record of policies and procedures, approved by the directors, will help in the orderly and efficient conduct of business.

This record can be a useful guide to staff as they carry out their duties. It is especially useful during transitions resulting from staff turnover.

Examples of policies and procedures that should be recorded are:

- ◆ procedures to ensure the proper recording of financial transactions;
- ◆ balancing and reconciling routines to check the integrity of financial records; and
- ◆ policies defining the financial reports to be provided to the directors.

During the year, we noted:

- ◆ a procedure to check sales data was discontinued when a staff member left the Board; and
- ◆ improperly recorded milk purchases resulted in underpayments to producers totalling \$588,000 and in an incorrect revenue-sharing allocation under a new inter-provincial agreement. The Board has corrected these errors.

Having written procedures would help to reduce the risk of errors occurring.

8. We recommend that the Board develop written policies and procedures for preparing accurate financial information.

The Directors agree with the recommendation and indicate the Board will be establishing written policies and procedures.

Contingency plan needed

The Board needs to prepare a written contingency plan and test the plan. This is an essential element of a business continuity plan.

The Board depends on computer systems to keep most of its records and to monitor and control its business. The Board needs an adequate contingency plan to ensure it can operate effectively if a major loss or destruction of its computer systems or records occurs.

The components of a good contingency plan are set out earlier in this Chapter.

9. We recommend that the Board prepare a written contingency plan and test the plan.

Management is in the process of revising the Board's information systems. A written and tested contingency plan will be included in the new information system.

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Introduction

In this Chapter, we set out:

- ◆ The Department of Labour's role, goals and key risks it faces;
- ◆ The results of our 1998 audit of the Department; and
- ◆ The results of our assessment of the Department of Labour's 1996-97 Annual Report.

Understanding the Department

It is important Members of the Legislative Assembly (MLAs) and the public understand the role of the Department and the risks it faces. This enables them to assess better the Department's performance.

The following provides a brief overview of the role of the Department, the risks it faces and an overview of its spending. For further information, we encourage MLAs and the public to read the Department's Annual Report and its other key publications.

Role of the Department and its goals

The Department is created by regulation under *The Government Organization Act*. The Department's core businesses are set out in the regulation. Its core businesses are:

- ◆ setting, promoting and enforcing occupational health and safety laws;
- ◆ setting, promoting and enforcing employment standards; and
- ◆ promoting and maintaining stable labour relations.

The Department administers provincial laws governing these core businesses in Saskatchewan workplaces. It has developed a mission and objectives to guide its work. The Department's mission is to ensure the needs of working people are met and protected while contributing to the creation of a vibrant Saskatchewan economy of full employment.

The Department has four major objectives:

- (i) promote fair, safe and equitable treatment of workers;
- (ii) encourage co-operative and effective labour management relations;
- (iii) promote and encourage labour market policies that contribute to full employment and effective labour force adjustment; and
- (iv) use limited departmental resources effectively.

Due to changes in responsibilities, the Department plans to reconsider its mission and objectives in 1999.

The Minister uses the Department and several different boards to carry out his objectives. These boards include the Labour Relations Board and the Minimum Wage Board. The Labour Relations Board is an independent, quasi-judicial tribunal charged with the responsibility of adjudicating disputes that arise under *The Trade Union Act*. The Minimum Wage Board is authorized to make orders respecting certain minimum employment standards, e.g., minimum wage and maximum work periods.

Risks the Department faces

The globalization of business, increased competitive pressures, and new technology are changing the workplace. The work environment must be well managed for both employers and workers to benefit from these changes. The Department must ensure its policies appropriately reflect these changes so it can effectively monitor and influence Saskatchewan workplaces.

Within the context of these changes and the above goals, we have identified four areas of risks. The Department agrees with them. They are:

- ◆ The Department's policies may not reflect the changing work environment and new technologies.

The Department must ensure that Saskatchewan's occupational health and safety laws and employment standards are keeping pace with technology. The Department must be aware of changes

in laws and standards elsewhere in Canada and other jurisdictions.

Employers and workers must have confidence that Government policies are keeping current with the changing work environment. As new work places emerge, the Department must assess whether its standards appropriately cover those workers, e.g., large hog farm operations. The Department must also keep abreast of changing technologies and acceptable employment and workplace safety standards. The Department must act to accommodate and facilitate positive change, while still ensuring the safety and health of workers.

- ◆ The Department's policies may not provide timely resolution processes for labour disputes.

The Legislative Assembly created the Labour Relations Board to adjudicate disputes and render decisions that are binding and final upon all parties. The Department must provide necessary resources to the Board to carry out its work. The Department must also provide conciliation and mediation services for unionized employers and employees. The Department must request sufficient resources to ensure timely resolution of labour disputes.

- ◆ The Department's policies may not contribute to full employment and an effective labour force while protecting the rights of workers.

The Government's *Partnership for Growth* strategy is intended to provide a positive environment for economic growth. One of the objectives of the strategy is to reduce the regulatory and administrative burden on businesses. The Government is also committed to the National Child Benefit program and has policies to help families gain independence from welfare. Issues surrounding welfare include minimum wage rates. The Minimum Wage Board sets the minimum wage rate.

The Department must balance the actions it takes to protect Saskatchewan workers with fostering economic growth.

- ◆ The Department may not obtain sufficient resources to regulate employers effectively to protect workers' rights.

The Minister is responsible for laws that protect workers' health and safety. The Department needs to effectively monitor workplaces by educating employers and workers regarding the law and ensuring they comply with it. Changing technologies and processes create challenges to ensure industries are appropriately regulated. The Department must have clear policies and programs. It must be able to communicate and promote its policies and programs to address both traditional and new technology needs.

The Department needs to ensure that it limits the Government's risk of litigation by ensuring appropriate inspections of workplaces.

Overview of the Department's spending

The following is a list of major programs and spending funded by the General Revenue Fund for 1997/98:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Administration	\$ 1.2	\$ 1.2
Accommodation & central services	0.9	1.0
Labour standards	1.6	1.6
Labour relations board	0.5	0.5
Labour support service	1.4	1.2
Occupational Health and Safety	3.3	3.4
Labour relations and conciliation	0.5	0.4
	<u>\$ 9.4</u>	<u>\$ 9.3</u>

Source: *Public Accounts 1997-98 Volume 2: Details of Revenue and Expense* (1997-98 Public Accounts – Volume 2)

Our audit conclusions and findings

The following are our audit conclusions and findings for the Department for the fiscal year ending March 31, 1998.

In our opinion:

- ◆ The Department of Labour had adequate rules and procedures to safeguard and control public money and comply with authorities governing its activities;
- ◆ The Department of Labour complied with the authorities governing its activities; and
- ◆ The Department's Annual Report has improved over the last few years.

We limit our audit to authorities governing its financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing.

In the following section, we set out, in more detail, our findings on our assessment of the Department's 1996-97 Annual Report.

Annual report needs improvement

The Department's 1996-97 Annual Report has improved over the last few years. These improvements include improved descriptions of goals and the working environment. However, further improvements are needed to make it a better report on the Department's performance.

To assess performance of public sector agencies, Members of the Assembly and the public need adequate summary information about their plans and about the achievement of those plans. Annual reports can provide this information. To be good accountability documents, annual reports should describe what the public agency is all about, what it has done, where it is now and what it plans to do. In addition to ensure the information in the report is relevant and understandable, the annual report should be written clearly and be available promptly after the agency's year-end.

The 1996-97 Annual Report provides limited information on how the Department measures its performance. Future reports could include a summary of its key performance indicators and targets compared to actual results. A discussion and analysis of this comparison would help the readers assess the Department's success in achieving its goals.

The 1996-97 Annual Report does not provide the future intentions or outlook of the Department. Future reports could include a discussion of the future direction the Department plans to take. Such a discussion would help readers understand how the Department intends to achieve its goals.

Two expense amounts shown in the 1996-97 Annual Report do not agree with the amounts for the same matters shown in the 1996-97 Public Accounts Volume 2. The Department should take care to ensure financial information provided in future reports agrees with that provided in the Public Accounts.

The Annual Report is written clearly. The Annual Report was tabled within the time frames required by law. It was tabled eleven months after the Department's year-end.

In 1994, the Standing Committee on Public Accounts (PAC) recommended that the law be changed to allow annual reports to be released when the Legislative Assembly is not in session. To date, the Government has not changed the law to comply with the PAC's recommendation.

1. We recommend that the Department of Labour should continue to improve its annual report.

The Department told us it would consider our suggestions when preparing future annual reports.

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Introduction

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

It is important legislators and the public understand the role of the PSC and the risks it faces. This helps them to assess better the PSC's performance.

The following provides a brief overview of the role of the PSC and its four priorities strategies. The PSC developed these strategies to address its risks. For further information, we encourage Members of the Legislative Assembly (MLAs) and the public to read the PSC's Annual Report and its strategic plans mentioned in this Chapter.

The PSC has published its plan, *1995-1999 Strategic Plan*. The plan 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.

The PSC has recently revisited its plan. A new document entitled *PSC Strategic Plan 1998-2003* should be available soon.

Financial overview

In 1997-98, the PSC received \$8.3 million from the General Revenue Fund and spent this money on its programs. Also, PSC raised \$16 thousand in revenue. The *PSC 1997-98 Annual Report* will provide further information about its expenses. Information about PSC's expense and revenues also appears in the *Public Accounts 1997-98: Volume 2: Details of Revenue and Expenditure*.

The following is a list of major programs and spending for 1997-98:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Administration	\$ 2.0	\$ 2.0
Accommodation & central service	1.0	1.0
Staffing & development	2.6	3.2
Employee relations	<u>2.1</u>	<u>2.1</u>
	<u>\$ 7.7</u>	<u>\$ 8.3</u>

Our audit conclusions and findings

In our opinion for the year ended March 31, 1998:

- ◆ the PSC had adequate rules and procedures to safeguard and control public money and comply with authorities governing its activities;
- ◆ the PSC complied with the authorities governing its activities; and
- ◆ the PSC's Annual Report has improved over the last few years.

We limited our audit to authorities governing its financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing.

In the following section we set out in more detail our findings on our assessment of PSC's 1996-97 Annual Report.

Annual report needs improvement

The PSC's annual reports have improved over the last few years.

To assess performance of public sector agencies, legislators and the public need adequate summary information about the agencies' plans and about the achievement of those plans. Annual reports can provide this information. To be good accountability documents, annual reports should describe what the public agency is all about, what it has done, where it is now and what it plans to do. In addition, to ensure the information in the report is relevant and understandable, the annual report should be written clearly and should be available promptly after the agency's year-end.

The PSC's 1996-97 Annual Report (1996-97 Report) describes what the PSC is about and what it plans to do. It provides information on the PSC's mandate, key assets, structure, broad goals and future activities. It could provide better information on the working environment, e.g., training plans.

The 1996-97 Report could improve its reporting on what the PSC has done and where it is now. The 1996-97 Report sets out the goals and objectives of each division. Because the report is structured by branches, it is difficult for the reader to link the goals of the divisions to the broad goals of the PSC. To help readers, it would be useful if future reports would contain a summary of the broad goals of the PSC.

The 1996-97 Report does not provide any information on what the PSC views as its measure of successful achievement of its broad goals. It would be useful for the PSC to develop goals that are measurable and include target dates. Future reports could also include a discussion and analysis of actual activities to budget program plans. This would help readers assess where the PSC is now in achieving its goals.

The 1996-97 Report is written clearly. The 1996-97 Report was tabled within the time frame required by law. It was tabled eleven months after the PSC's year-end.

In 1994, the Standing Committee on Public Accounts (PAC) recommended that the law be changed to allow annual reports to be released when the Legislative Assembly is not in session. To date, the Government has not changed the law to comply with the PAC's recommendation.

1. We recommend the PSC continue to improve its annual report.

Management's response

Management advised us that they are developing performance measures for the new Strategic Plan, 1998-2003. These measures will assist the PSC in reporting yearly progress, accomplishments and shifting priorities.

Management also intends to include information on the PSC's working environment in future annual reports.

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Introduction

The Saskatchewan Government Growth Fund Management Corporation (Management Corp) manages government administered venture capital funds under the Federal Government's Immigrant Investor Program.

Management Corp set up active fund companies to manage investors' funds. These are:

Saskatchewan Government Growth Fund Ltd. (SGGF I),
Saskatchewan Government Growth Fund II Ltd. (SGGF II),
Saskatchewan Government Growth Fund III Ltd. (SGGF III), and
Saskatchewan Government Growth Fund IV Ltd. (SGGF IV)

In addition, 617275 Saskatchewan Ltd. was created to be an eligible business investment that would enter into an operating lease or leases with Saskatchewan Crown corporations with respect to infrastructure – related assets (e.g., equipment and vehicles). The fund companies and 617275 Saskatchewan Ltd. are government corporations. Management Corp provides operating and financial services to SGGF I, SGGF II, SGGF III, SGGF IV and 617275 Saskatchewan Ltd. Management Corp charges the fund companies a fee for these services.

The December 31, 1997 financial statements report the following results:

	1997 (in thousands of dollars)	
	<u>Revenues</u>	<u>Assets</u>
Management Corp	\$ 1,700	\$ 291
SGGF I	6,800	29,500
SGGF II	5,700	35,600
SGGF III	1,200	30,300
SGGF IV	213	15,800
617275 Saskatchewan Ltd.	335	3,589

The annual reports of Management Corp, SGGF I, SGGF II, SGGF III, and SGGF IV contain their respective financial statements.

Our audit conclusions and findings

Our Office worked with Deloitte & Touche, the appointed auditor for Management Corp, SGGF I, SGGF II, SGGF III and SGGF IV, using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. Deloitte & Touche and my Office formed the following opinions.

In our opinion:

- ◆ The Management Corp, SGGF I, SGGF II, SGGF III, and SGGF IV's financial statements are reliable;
- ◆ The Management Corp had adequate rules and procedures to safeguard and control its and SGGF I, II, III, IV and 617275 Saskatchewan Ltd.'s assets; and
- ◆ The Management Corp complied with authorities governing its and SGGF I, II, III, IV, and 617275 Saskatchewan Ltd.'s activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing, except where we report otherwise in this Chapter.

We also note other matters relating to improving public accountability for the Assembly's attention.

Order in Council needed for borrowing

Management Corp needs to obtain an Order in Council before it borrows money.

SGGF I is winding down its operations by selling its investments and repaying its investors. By December 31, 1997, SGGF I had only 33 investors left to repay of the original 651 investors who invested in SGGF I. The remaining investors will be repaid in 1998. After the investors are repaid, any profit remaining in the fund is to go to charities. After paying out all the investors SGGF I is expected to have accumulated profits of approximately \$20 million.

Currently, Management Corp is developing strategies to invest the accumulated profits of SGGF I. In developing these strategies to invest the

accumulated profits of SGGF I, Management Corp incurred additional operating costs. To finance the additional costs, the Board of Management Corp authorized management to borrow up to \$250,000 from SGGF III. At December 31, 1997, Management Corp had a short-term interest-bearing loan of \$105,000 from SGGF III.

Section 41 of *The Crown Corporations Act* requires Management Corp to obtain an Order in Council before borrowing any money.

In our opinion, Management Corp needed to obtain an Order in Council before it borrowed money from SGGF III.

1. We recommend that Saskatchewan Government Growth Fund Management Corporation should obtain an Order in Council before borrowing money.

On November 10, 1998, Order in Council 660/98 gave Management Corp the authority to borrow up to \$500,000. Also, the Order gave Management Corp the right to receive the accumulated profits of SGGF I.

Improving public accountability

In this section, we discuss two areas where Management Corp could provide the Members of the Legislative Assembly (MLAs) and the public with more or better information. These areas relate to Management Corp and its fund companies and include:

- ◆ comparisons of planned to actual results in annual reports; and
- ◆ publishing lists of persons who received money from them.

Public disclosure of information 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.

With these three fundamental principles in mind, we encourage Management Corp and its fund companies to work with the Committees of the Assembly to improve the information they make public.

Comparison of planned and actual results required

The annual reports for Management Corp and its fund companies do not include comparisons of planned to actual results.

To assess performance of public sector agencies, MLAs and the public need adequate summary information about plans and about the achievement of those plans. All public sector agencies should provide their vision, long-range goals, specific objectives, key performance targets, and main strategies for achieving those targets. They should also describe the extent to which they achieve those plans.

Disclosing clear and meaningful comparisons of planned performance to actual results helps MLAs and the public to understand and assess the extent to which Management Corp and the fund companies achieve their plans.

2. We recommend that Saskatchewan Government Growth Fund Management Corporation should include comparisons of planned to actual results in its own annual report and in the annual reports of the fund companies.

Payee lists required

Management Corp and its fund companies do not give the Legislative Assembly a complete list of persons who received public money.

Currently, the fund companies provide a partial list of persons who receive money from them. They provide information on companies they invest in. However, Management Corp and its fund companies pay money to other individuals or corporations that provide goods or services. This information is not provided to the Assembly.

In 1993, 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.

The PAC has also specified the required details of disclosure for government agencies. The PAC wants agencies to provide a list of persons who received money from the agencies and the amount each

person received if the person received more than a prescribed amount in a fiscal year. Currently, the PAC wants agencies to disclose any person receiving money for salaries, supplying goods and services, or receiving transfer payments if they receive more than the following amounts:

Salaries	\$	2,500
Suppliers of goods and services		20,000
Transfers		5,000

The PAC has also recommended different disclosure for certain kinds of payments on an ad hoc basis when the PAC thinks different disclosures will not impair achieving its initial objective for wanting payee information. If Crown Investments Corporation of Saskatchewan (CIC) and its subsidiaries think they need different public disclosure, they should discuss those requirements with the PAC.

In February 1998, the PAC discussed its previous recommendation regarding agencies making public lists of persons who have received money from them. The PAC agreed the spirit of accountability is an important fundamental of government. Also, the PAC noted that the circumstance for every government agency may be unique and may vary, and that broad sweeping recommendations that blanket all agencies are not appropriate. For Crown corporations, the PAC intends to ask the Assembly to refer this issue to the Standing Committee on Crown Corporations (CCC) for its consideration.

3. We recommend Saskatchewan Government Growth Fund Management Corporation should:

- ◆ Publish a list of persons who received money from it and its fund companies and the amounts received following the PAC's current minimum disclosure amounts; or
- ◆ Discuss different public disclosure requirements with the PAC or, if the Assembly so directs, the CCC.

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Introduction

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

SRC prepares consolidated financial statements to report on its activities. These statements include the financial activities of SRC and its subsidiary TecMark International Commercialization Inc. (TecMark). TecMark provides money and technical assistance to investors, entrepreneurs and small business in commercializing technology.

In 1998, SRC had revenue of \$19.8 million and expenses of \$18.1 million. At March 31, 1998, SRC held assets of \$9.3 million. SRC's 1997-98 Annual Report contains its consolidated financial statements.

SRC also manages the Saskatchewan Research Council Employees' Pension Plan (Plan). At December 31, 1997, the Plan held assets of \$22.9 million and had a surplus of \$2.0 million.

Our audit conclusions and findings

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 where we report otherwise in this Chapter; 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.

We also note in this Chapter that SRC should give the Legislative Assembly separate financial statements for its subsidiary.

Contingency plan needed

SRC needs to complete a written contingency plan and test the plan. This is an essential element of a business continuity plan.

SRC depends on computer systems to keep most of its records and to monitor and control its business. SRC needs an adequate contingency plan to ensure it can operate effectively if a major loss or destruction of its computer systems or records occurs. The components of a good contingency plan are set out in our Chapter on the Department of Agriculture and Food.

We reported this matter in our 1997 Fall Report – Volume 2. The Standing Committee on Public Accounts (PAC) discussed this matter in October 1998 and concurred with the following recommendation.

1. We recommend that SRC should complete its contingency plan and test the plan.

Management agrees with the recommendation and has begun to prepare a contingency plan. The plan will be completed in the 1998-99 year.

Subsidiary's financial statements

SRC should give the Assembly separate financial statements for its subsidiary.

Financial statements are key accountability documents. Financial statements help legislators and the public to understand and assess the performance of government agencies.

In 1993, PAC recommended "... all Government corporations table annual financial statements in the Assembly...." Accordingly, most Government corporations have since tabled financial statements.

In February 1998, PAC discussed its previous recommendation regarding government corporations tabling annual financial statements in the Assembly. PAC agreed the spirit of accountability is an important fundamental of government. Also, PAC noted that circumstances for every government agency may be unique and may vary, and that broad sweeping recommendations that blanket all agencies are not appropriate. Further, PAC recommended that for agencies other than CIC Crown corporations, the issue of tabling financial statements should be dealt with on an individual basis as the Provincial Auditor raises this matter in his future reports.

In 1996, SRC incorporated a wholly-owned subsidiary, TecMark International Commercialization Inc. (TecMark). TecMark was set up under *The Business Corporations Act* (Saskatchewan). TecMark provides money and technical assistance to inventors, entrepreneurs and small businesses in commercializing technology. TecMark's 1997-98 revenue and expenses are \$214,000 each.

SRC has not given the Assembly separate financial statements for TecMark. However, the financial results of TecMark are included in the consolidated financial statements of SRC.

2. We recommend that SRC should table separate financial statements for its subsidiary in the Assembly.

SRC's Board has reviewed this issue and does not feel that disclosure is warranted at this time. The Board will revisit this issue each year.

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Introduction

The Department helps the Government and the Assembly to manage and account for public money. It controls spending from the General Revenue Fund (GRF) and ensures the GRF receives all revenue due to it. In addition, it prepares the Government's Summary Financial Statements.

The Department of Finance:

- ◆ administers various tax, grant and refund programs;
- ◆ arranges Government financing, banking, investing and borrowing;
- ◆ provides policy and financial analysis 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.

In 1998, the Department spent \$1.379 billion on its programs. It collected revenue of \$4.588 billion. Revenue includes \$458 million of debt costs recovered from Crown corporations. Information about the Department's revenues and expenses is in the *Public Accounts 1997-98 Volume 2*. Additional information is in the *Public Accounts 1997-98 Volume 1* on page 13.

Special purpose funds and Crown agencies

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

Year end: December 31

Extended Health Care Plan
 Extended Health Care Plan for Certain Other Employees
 The Liquor Board Superannuation Commission
 Municipal Employees' Pension Commission
 Public Employees Deferred Salary Leave Fund
 Public Employees Disability Income Fund
 Public Employees Dental Fund
 Public Employees Group Life Insurance Fund
 Saskatchewan Pension Plan
 Workers' Compensation Board Superannuation Plan

Year end: March 31

General Revenue Fund
 Sinking Fund
 Members of the Legislative Assembly Superannuation Plan
 Public Employees Benefits Agency Revolving Fund
 Public Employees Pension Plan
 Public Service Superannuation Plan
 Saskatchewan Pension Annuity Fund

Financial overview

The following is a list of the Department's major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Interest – GRF debt	\$ 765	\$ 754
Interest – Crown corporation debt	464	458
Total interest on debt	1,229	1,212
Pensions and benefits	145	145
Administration	24	22
	<u>\$ 1,398</u>	<u>\$ 1,379</u>

The following is a list of the Department's major revenue sources:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Individual income taxes	\$ 1,271	\$ 1,328
Interest recovered from Crown corporations	464	458
Sales tax	673	753
Transfers from Government of Canada	550	470
Fuel taxes	339	377
Corporation capital and income taxes	501	485
Tobacco taxes	118	124
Transfers from Government entities	444	412
Motor vehicle fees	94	99
Other	95	82
	<u>\$ 4,549</u>	<u>\$ 4,588</u>

Key issues

It is important that Members of the Legislative Assembly (MLAs) and the public know the key issues facing departments. Also, they should receive information on these issues to understand and assess a department's performance. We think sharing our understanding with MLAs and the public will help them to better understand and assess the Department's performance.

Information on how a department is managing its key issues can increase public confidence. Annual reports are often used to provide this information to MLAs and the public.

We identified the following key issues the Department must manage well to be successful. It must:

- ◆ give Treasury Board accurate and useful information to enable it to develop, manage and evaluate the Government's fiscal plan;
- ◆ manage the Government's debt;
- ◆ manage investments;
- ◆ collect revenues due to the Department;

- ◆ publish useful planning and performance reports;
- ◆ manage several government pension and benefit plans; and
- ◆ ensure designated government entities comply with Treasury Board's directives.

To identify these key issues, we reviewed *The Financial Administration Act, 1993* and other legislative authorities. We also reviewed the Estimates, the Public Accounts, the Budget Address and prospectus documents. In addition, we discussed these issues with key Department officials. For a detailed description of these issues, readers should refer to Chapter 13 of our 1998 Spring Report.

Our audit conclusions and findings

This Chapter contains our audit conclusions and findings on the Department, special purpose funds, and Crown agencies with years ending March 31, 1998.

In our 1998 Spring Report, we reported on the funds and Crown agencies with years ending December 31, 1997 except for:

Municipal Employees' Pension Commission;
Public Employees Disability Income Fund;
Public Employees Group Life Insurance Fund; and
Workers' Compensation Board Superannuation Plan.

We have now completed our audits of these funds and the Commission and include our conclusions and findings in this Chapter.

Our Office worked with Ernst & Young, Saskatchewan Pension Plan's appointed auditor, and KPMG, the Workers' Compensation Board Superannuation Plan's and the Public Employees Pension Plan's appointed auditor. We used the framework recommended by the *Report of the Task Force on the Roles, Responsibilities, and Duties of Auditors*. Our Office, Ernst & Young and KPMG formed the following opinions.

In our opinion:

- ◆ the Department and its Crown agencies had adequate rules and procedures to safeguard and control their assets except where we report otherwise in this Chapter;
- ◆ the Department and its Crown agencies complied with authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this Chapter;
- ◆ the Government's statements, i.e., the Government's summary financial statements, included in the *Public Accounts 1997-98 Volume 1* are reliable;
- ◆ the financial statements of the special purpose funds and Crown agencies listed earlier in this Chapter are reliable; and
- ◆ the GRF financial statements included in the *Public Accounts 1997-98 Volume 1* are reliable except that all pension costs are not recorded.

We also note matters on performance reporting, special warrants and legislative changes for the Assembly's attention in this Chapter.

Annual pension costs not properly budgeted or reported

The Assembly and the public are unable to properly debate the Government's spending on pensions from the GRF because the annual budget (Estimates) does not include the GRF's total pension costs for the year.

Pensions form part of the salaries and benefits paid to employees for services rendered. Pension benefits, and thus pension costs, accumulate each year that employees work. The GRF is responsible for certain pension costs and liabilities. However, the Estimates and the GRF financial statements do not include the full amount of pension costs incurred by the Government in the year. The Estimates only include the amount the Government expects it will pay to retired members or to a

pension fund that year. Pensions are the only costs that are included in the Estimates on the cash basis.

When the GRF's total pension costs are not included in the Estimates, the Assembly and the public do not know the total cost of salaries and benefits that the Government expects to pay from the GRF.

When preparing the 1997-98 Estimates, the Department included pension costs of \$234 million. This amount does not reflect all the pension costs expected to be incurred by the GRF for 1997-98. It includes only the cash amount the Government expected to pay to retirees or pension funds in the year. At the end of the 1997-98 fiscal year, the Department determined the total amount of pension costs incurred by the GRF for the year was \$366 million. Therefore, in 1997-98, the difference between the amount included in the Estimates and the total cost incurred by the GRF was \$132 million.

The effects of not including the GRF's total pension costs in the 1997-98 Estimates are as follows:

- ◆ the GRF's budgeted surplus of \$24 million is overstated by \$132 million (i.e., the Estimates should reflect a budgeted deficit of \$108 million);
- ◆ budgeted expenditures are understated by \$132 million; and
- ◆ the GRF's budgeted accumulated deficit of \$7.2 billion is understated by \$3.67 billion.

The Government uses the amount of the GRF's budgeted surplus or deficit as one of its key performance indicators. Therefore, we think it is important that this key indicator be measured accurately.

1. We recommend that the Department include the GRF's total pension costs for the year in the Estimates.

Our auditor's report on the GRF financial statements

Our auditor's report on the 1997-98 GRF financial statements warns readers that they do not include all of the Government financial activities. Therefore, readers should not use the GRF statements to understand and

assess the Government's overall performance. The appropriate financial statements to use for that purpose are the Government's *Summary Financial Statements*.

In addition, our auditor's report on the 1997-98 GRF financial statements includes a reservation. In our opinion, the financial statements are significantly misstated because the GRF's pension costs are not properly recorded. The effects of not properly recording pension costs in those financial statements are as follows:

- ◆ the GRF's surplus, reported as \$35 million, is overstated by \$142 million. The financial statements should show a deficit of \$107 million for the year;
 - ◆ actual expenditures are understated by \$142 million; and
 - ◆ liabilities and accumulated deficit are understated by \$3.67 billion.
2. We recommend that the Department properly account for pension costs in the GRF financial statements.

In previous reports, we recommended that Treasury Board should record the GRF's pension costs and liabilities in its financial statements. In October 1998, the Standing Committee on Public Accounts (PAC) considered this matter. PAC did not concur with this recommendation, noting the information is readily available and reported in the Government's summary financial statements.

Essential accountability information needed

The Department needs to provide important accountability information about its activities to the Assembly and the public.

The Department prepares several planning and performance reports that provide important information about the GRF or the Government as a whole. These reports include the Estimates, the Budget Speech, the Mid-Year Financial Report and the Public Accounts. However, the Department does not provide important accountability information about its own activities. Providing information on how the Department manages its key issues is essential for adequate public accountability. We observed that

other provincial finance departments publish reports on their activities. Examples include Alberta, British Columbia and Manitoba.

To be fully accountable, the Department needs to report information about:

- ◆ key issues (or risks) facing the Department;
 - ◆ the Department's major goals and objectives;
 - ◆ the Department's organization structure and how it is designed to ensure the Department meets its goals and objectives efficiently and effectively;
 - ◆ major activities undertaken or planned by the Department to accomplish its objectives;
 - ◆ financial and human resources used by the Department, with explanations for significant variances between plans and actual results;
 - ◆ the achievement of its goals and objectives; and
 - ◆ the Department's future and on-going priorities.
3. We recommend that the Department report important accountability information about its performance.

In previous reports, we recommended that the Department should prepare an annual report on its activities. At a hearing held in October 1998, PAC did not concur with that recommendation.

Special warrants

The law requires us to report when a special warrant approved the payment of public money. In 1997-98, the Government approved the spending of \$114.8 million by special warrant. It later included these special warrants in an appropriation act.

Municipal Employees' Pension Commission

The Department, through the Municipal Employees' Pension Commission (Commission), is responsible for the Municipal Employees' Pension Plan (Plan). The Plan consists of a defined benefit pension plan, a money accumulation plan, annuity underwriting activities, and supplementary benefits activity.

In 1997, the Plan received contributions of \$9.8 million from municipal employees and \$9.8 million from municipal employers. At December 31, 1997, the Plan had assets of \$726.0 million and liabilities of \$619.2 million. The Commission's annual report includes the Plan's financial statements.

Complete policies and procedures manual needed

The Department's accounting policies and procedures manual for the Plan is not complete. This increases the risk of errors, fraud and unauthorized transactions occurring.

The Department should ensure it has adequate written policies and procedures to safeguard the Plan's assets. Written rules and procedures provide for the orderly and efficient conduct of business. Usually, senior management communicates its delegation of authority and responsibility to employees by way of a policies and procedures manual. Such a manual can be a guide to staff as they carry out their duties.

An accounting policies and procedures manual should include:

- ◆ the information needs of the Commission and senior management;
- ◆ job descriptions including delegated authority levels;
- ◆ significant accounting policies; and
- ◆ administrative control procedures for all accounting systems. This includes processing and balancing routines and procedures for recording transactions. An example is procedures for calculating the obligation for pension benefits.

4. We recommend that the Department prepare a complete accounting policies and procedures manual for the Plan.
5. We recommend that the Commission approve the policies and procedures as they are completed.

Management told us an accounting policies and procedures manual is currently being developed and it anticipates that the manual will be substantially complete by December 31, 1998.

Pension payments made incorrectly

The Department did not calculate defined benefit pensions correctly for members whose salaries were paid on a biweekly basis.

The Municipal Employees' Pension Act requires that pensions be calculated based on monthly earnings. The Department incorrectly calculated monthly earnings for members who were paid biweekly. As a result, it also calculated their pensions incorrectly. The Department detected this error during 1997. We estimate that pension overpayments total \$405,000 to December 1997.

6. We recommend that the Commission calculate pensions in accordance with *The Municipal Employees' Pension Act*.

Subsequently, the Legislative Assembly amended the legislation to allow those who received overpayments to keep the money. It also allowed the Department to continue paying the additional benefits to those persons whose pensions were calculated incorrectly. The Department has not determined the total cost of these additional benefits.

Management told us it plans to change its systems to ensure calculations are correct for those who retire in the future.

Members of the Legislative Assembly Superannuation Plan

The Members of the Legislative Assembly Superannuation Plan receives contributions from Members and the GRF and receives investment income. The Department uses the money to pay pensions and

administrative costs. In 1998, the Plan paid pensions of \$2.2 million. At March 31, 1998, it held net assets of \$18.5 million.

Spousal payments require authority

The Department paid more allowances to surviving spouses of deceased members than required by *The Members of the Legislative Assembly Act, 1979 (Act)*.

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.

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.

We reported this matter in our 1997 Fall Report and previous Reports.

7. The Department should pay allowances to surviving spouses as required by the Act or seek changes to the Act to allow these payments.

In June 1994, the Deputy Minister of Finance told us the Department would seek a legislative change to clarify Section 26.1. In November 1997, the Department told us it continues to seek legislative changes.

In October 1998, PAC considered this matter and concurred with the recommendation.

Act needs change

The Members of the Legislative Assembly Superannuation Act, 1979 needs to set out how the Department should administer profits or losses from underwriting annuities.

The Department underwrites annuities for Members and pays these annuities out of the Plan. When the Department writes annuity contracts, it should ensure it has 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.

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, 1998, the annuity activity has accumulated losses of \$55,950.

We reported this matter in our 1997 Fall Report and previous Reports.

8. The Department should seek changes to the law to provide direction for the handling of profits or losses from annuity underwriting.

In 1989, the Minister responsible for the Act told us the Department would seek a change to the law. In November 1997, the Department told us it continues to seek legislative changes.

In October 1998, PAC considered this matter and concurred with the recommendation.

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Introduction

The purpose of the Office of the Executive Council (Department) is to facilitate and communicate decisions of the Executive Council. Executive Council is also known as Cabinet. The Department:

- ◆ provides research, analysis, and policy advice to Cabinet and its committees;
- ◆ coordinates policy development and government communications; and
- ◆ manages Cabinet records.

The Department 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.

During the year, the Department's operations included an Electoral Office. As a result, the Department was responsible for ensuring compliance with *The Elections Act* and *The Elections Act, 1996* (which replaced the former Act on January 1, 1997).

After year end, the Chief Electoral Officer became an officer of the Legislative Assembly. Accordingly, the Department will no longer be responsible for the Electoral Office.

The Department received \$7.4 million from the General Revenue Fund and spent this money on its programs. *The Public Accounts 1997-98 Volume 2: Details of Revenue and Expenditure* contains information about the Department's expenses.

The following is a list of major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Administration	\$ 2.8	\$ 2.9
Communications coordination	1.4	1.5
Cabinet and policy and planning secretariats	1.0	0.9
Accommodation and central services	0.9	0.8
Members of Executive Council	0.7	0.7
Electoral Office	0.6	0.6
	<u>\$ 7.4</u>	<u>\$ 7.4</u>

Our audit conclusions and findings

In our opinion, for the year ended March 31, 1998:

- ◆ 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 authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing, except for the matters reported in this Chapter.

We also report two other matters for the Legislative Assembly's attention. These are the need for government agencies to make public lists of persons who received money from them and the need for an annual report.

Electoral Office

The Electoral Office is responsible for collecting public money from political parties and candidates. *The Elections Act* (and *The Elections Act, 1996*) requires political parties and candidates to disclose who made contributions to them. If political parties and candidates do not disclose who gave contributions to them, those contributions are called anonymous donations. The Act does not allow political parties or candidates to benefit from anonymous donations of more than \$100 in a fiscal year (\$250 in *The Elections Act, 1996*). The Electoral Office must collect anonymous donations from the political parties and candidates and forward the

donations to the Minister of Finance for deposit in the General Revenue Fund.

Also, the Electoral Office is responsible for spending public money. These expenditures include reimbursements to political parties and candidates for the election expenses they incur.

To ensure compliance with the Act, the Electoral Office needs rules and procedures to ensure it can identify anonymous donations. Also, the Electoral Office needs to know that reported election expenses are accurate and complete.

The Act requires political parties and candidates to submit audited returns to the Electoral Office. Political parties must submit annual returns that show their contributions and expenses other than elections expenses. Also, they must submit election expense returns.

Candidates must submit election expenses returns. These returns must show all contributions received by and all election expenses incurred by candidates.

In our 1997 Fall Report - Volume 2, we report the results of our audit of the Department for the year ended March 31, 1997. In that Report, we recommended improvements to the Electoral Office's rules and procedures regarding anonymous donations and election expenses. These include the Electoral Office issuing directives to political parties and candidates that provide improved guidance to political parties and candidates for preparing returns.

During the year, the Electoral Office issued directives to political parties and candidates. The directives provide improved guidance to political parties and candidates for preparing their returns accurately.

Following are our remaining concerns regarding anonymous donations and directives to political parties and candidates.

Identification and collection of anonymous donations

In our 1997 Fall Report - Volume 2 we recommended the Electoral Office should improve its rules and procedures for identifying anonymous donations to political parties and candidates. To do this, we reported the

Electoral Office should do two things. First, the Electoral Office should issue directives to political parties and candidates setting out the Electoral Office's interpretation of the Act. The Electoral Office addressed this recommendation by issuing directives that set out its interpretation of *The Elections Act, 1996* to political parties and candidates in 1998. Later in this Chapter, we comment on our assessment of those directives.

Second, the Electoral Office should review political parties' and candidates' returns for donations that may be anonymous, e.g., donations that appear to be from special funds or related parties, or are unusually large. If the Electoral Office identifies such donations, it should ask for more information from political parties and candidates to decide if the donations are from agents or political parties. If the donations are from agents or political parties, the returns must show the names of the original donors. If the returns do not show the names of original donors, political parties and candidates cannot use the money and must remit the donations to the Electoral Office. The Electoral Office must then deposit this money in the General Revenue Fund.

We reported in our 1997 Fall Report - Volume 2 that the Electoral Office did not ensure political parties and candidates complied with *The Elections Act*. When the Electoral Office reviewed political party returns for the year ended December 31, 1995 and the five prior years, it found anonymous donations. In June 1997, the Electoral Office made a report to the Legislative Assembly. The Electoral Office's report concludes that political party returns included donations from agents of the parties. However, the Electoral Office did not require the political parties to submit revised returns showing the original donors. As a result, there are anonymous donations that the Electoral Office should have collected from the political parties and deposited in the General Revenue Fund. If the Electoral Office does not wish to collect these anonymous donations, it should follow Treasury Board directives and ask the Board of Revenue Commissioners to cancel the collection of these anonymous donations. Because the Electoral Office has not collected these anonymous donations or had the collection of them cancelled, the Electoral Office did not comply with *The Elections Act* for these years.

The Electoral Office did not improve its procedures for reviewing political party and candidate returns during 1997/98. During 1997/98, political parties submitted returns for the year ended December 31, 1996 to the Electoral Office. These returns were prepared under *The Elections Act*. These returns include donations that may be anonymous. The Electoral

Office did not pursue additional information on these donations to determine if they are anonymous. Therefore, the Electoral Office has not ensured the political parties complied with *The Elections Act*. Accordingly, we are unable to determine if the Electoral Office collected all anonymous donations for the year ended December 31, 1996.

1. We recommend the Electoral Office should:
 - ◆ complete its review of donations for 1996 and the six prior years, collect anonymous donations from the political parties and deposit them in the General Revenue Fund; or
 - ◆ request the Board of Revenue Commissioners to cancel the collection of these anonymous donations.

The Electoral Office told us it intends to apply improved rules and procedures under *The Elections Act, 1996*. This Act applies to the returns for political parties and candidates for the year ended on December 31, 1997 and future years. The Electoral Office's review of political party annual returns is in progress.

Also, there were no elections in 1997-98. As a result, there were no candidate returns for the Electoral Office to review.

Therefore, we are unable to report whether the Electoral Office's new procedures for reviewing political parties and candidate returns are adequate. We will assess the Electoral Office's rules and procedures for reviewing returns in a future report.

Directives to political parties and candidates need improvement

The Electoral Office needs to ensure political parties and candidates disclose all of the contributions they receive and all of their expenses.

The Electoral Office is responsible to ensure compliance with *The Elections Act, 1996*. The Act:

- ◆ requires political parties and candidates to submit audited returns that show all contributions they received and all expenses they incurred;
- ◆ requires the Electoral Office to collect anonymous donations received by political parties and candidates and to forward them to the Minister of Finance for deposit in the General Revenue Fund;
- ◆ limits the amount political parties and candidates can spend on elections; and
- ◆ requires the Electoral Office to reimburse eligible election expenses incurred by political parties and candidates.

To ensure compliance with the Act, the Electoral Office needs to know whether political parties' and candidates' returns show all of their contributions and expenses. The Electoral Office can determine whether the returns are accurate and complete by:

- ◆ issuing directives requiring political parties' auditors to report whether the returns include all contributions received and all expenses incurred; and
- ◆ issuing directives to candidates that set out required procedures for receipt and disbursement of money. The directives would also require the candidates' auditors to report whether the candidates complied with those directives.

The Electoral Office has issued directives to political parties and candidates. These directives do not require political parties' and candidates' auditors to report that the returns include all contributions and expenses. The Electoral Office has not established additional procedures to determine that all contributions and expenses are included in the returns.

As a result, the Electoral Office will not have sufficient information to identify anonymous donations. Also, the Electoral Office will not know if the political parties' and candidates' election expenses are within the legal spending limits.

2. We recommend the Electoral Office should issue directives:
 - ◆ requiring political parties' auditors to submit audit reports to the Electoral Office that indicate whether all contributions received and all expenses incurred by the political parties are reported in their returns; and
 - ◆ requiring candidates to use specific procedures to receive and disburse money and to submit audit reports to the Electoral Office that indicate whether candidates have complied with those procedures.

List of persons who receive money from government agencies required

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.

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

However, the Assembly has not enacted any laws requiring government agencies to provide a list of persons (e.g., employees, suppliers) who received money from those agencies.

Many government agencies now make public a list of persons who received money from those agencies. There are, however, still many government agencies that do not do so. As a result, the public does not have this information for approximately 40% of all government spending. Most of this spending is through Crown corporations.

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 (PAC) considered the need for this information. The PAC has recommended to the Assembly and the Assembly has agreed:

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

In February 1998, the PAC discussed these previous recommendations regarding agencies making public lists of persons who have received money from them. The PAC agreed the spirit of accountability is an important fundamental of government. Also, the PAC noted that circumstances for every government agency may be unique and may vary, and that broad sweeping recommendations that blanket all agencies are not appropriate. For Crown corporations, the PAC also intends to ask the Assembly to refer this issue to the Standing Committee on Crown Corporations for its consideration.

The Appendix lists those government agencies that do not make public a list of persons who (e.g., employees, suppliers) received money from those agencies.

Also, in Chapter 20 of this Report, 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.

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

Improved public accountability required

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

The Government Organization Exemption Regulations exempt the Department from preparing an annual report.

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

We also reported this matter to the Assembly in our 1997 Fall Report – Volume 2. In February 1998 the PAC considered this recommendation and did not agree.

We continue to recommend the Department should publish an annual report to help the public understand and assess the performance of the Department.

Appendix

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

Entity

Crown Investments Corporation of Saskatchewan and companies it controls

(Based on the most recent information available which is as at December 31, 1997)

Crown Investments Corporation of Saskatchewan and its share capital subsidiaries

CIC Industrial Interests Inc.

CIC Forest Products Corporation

CIC Pulp Ltd.

National Pig Development (Canada) Co. Ltd.

Northern Enterprise Fund Inc.

Saskatchewan Development Fund Corporation

Saskatchewan Development Fund

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 and its subsidiary

SGI CANADA Insurance Services Ltd.

Saskatchewan Opportunities Corporation

Saskatchewan Power Corporation and its subsidiaries

Power Greenhouses Inc.

SaskPower Commercial Inc.

SaskEnergy Incorporated and its subsidiaries

Bayhurst Gas Limited

SaskEnergy International Inc.

Many Islands Pipe Lines (Canada) Limited

TransGas Limited

Saskatchewan Telecommunications Holding Corporation and its subsidiaries

Saskatchewan Telecommunications

Saskatchewan Telecommunications International Inc.
SaskTel Telecommunications Consulting Inc.
SaskTel U.K. Holdings Inc.
SaskTel Holding (New Zealand) Inc.
SaskTel New Media Fund Inc.
3339807 Canada Ltd.
3364381 Canada Ltd.
DirectWest Publishing Partnership
604408 Saskatchewan Ltd.
Hollywood at Home Inc.
620064 Saskatchewan Ltd.
Saskatchewan Transportation Company
Saskatchewan Water Corporation

Agencies created under *The Health Districts Act*

(Based on the information available at March 31, 1996)

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

(Based on the most recent information available which is for the years
ending December 31, 1996 or March 31, 1997)

Fish and Wildlife Development Fund
Greystone Capital Management Inc.
New Careers Corporation
Saskatchewan Auto Fund
Saskatchewan Indian Regional College

SaskPen Properties Ltd.
SP Two Properties Ltd.
Wanuskewin Heritage Park Corporation
Workers' Compensation Board

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Introduction

The Board of Internal Economy (Board) assists Members of the Legislative Assembly (MLAs) to perform their responsibilities. It provides funding and support services to MLAs, and to the Legislative Assembly and its committees. It also informs the public of the Legislature's activities. The Board provides administrative services for the Office of the Ombudsman, the Information and Privacy Commissioner and the Conflict of Interest Commissioner.

In 1997-98, the Board received \$14.3 million from the General Revenue Fund and spent this money on its programs. Information about the Board's appropriation appears in Volume 2 of the Public Accounts.

The following is a list of major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Payments and allowances to MLAs	\$ 8.7	\$ 8.3
Legislative Assembly services	3.1	3.0
Administration	1.8	1.7
Caucus operations	1.0	1.0
Other	0.4	0.3
	<u>\$ 15.0</u>	<u>\$ 14.3</u>

Key risks the Board faces

The Board plays a key role in helping MLAs perform their important responsibilities. How MLAs carry out their duties influences public confidence in our parliamentary system of government. Responsibilities of MLAs include:

- ◆ determining the laws that govern people and the Executive Government;
- ◆ holding the Executive Government accountable for how it carries out its activities; and
- ◆ representing their constituencies in the Assembly.

In assisting MLAs to carry out their important responsibilities, the Board faces many risks. Four key risks the Board needs to manage are:

- ◆ to ensure the Legislative Assembly and its committees can function effectively;
- ◆ to ensure MLAs can access from the Board appropriate resources, information, and advice to enable them to effectively carry out their responsibilities in the Assembly;
- ◆ to ensure MLAs can access from the Board appropriate resources to carry out their activities in their constituencies and are accountable for the use of those resources; and
- ◆ to ensure the public can assess whether the work of the Assembly and MLAs is relevant and done well.

For additional discussion of these key risks, and the systems and practices the Board must have to manage those risks, see our 1998 Spring Report.

In the remainder of this Chapter, we set out the results of our audit of the Board.

Our audit conclusions and findings

In our opinion:

- ◆ the Board had adequate rules and procedures to safeguard and control its assets except for payments made to caucus offices and the need for better internal reports; and
- ◆ the Board complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing, except for payments made to caucus offices.

We also discuss our view that the Board should provide the Assembly with an annual report.

Better control over the expenses of caucus offices required

The Board needs to further improve its rules and procedures to know if caucus offices manage public money appropriately. The Board provides public money to caucus offices for research, secretarial, and other general expenses. A caucus office consists of two or more MLAs who belong to the same political party.

The Board paid the following money to caucus offices:

	<u>Estimates</u>	<u>Actual</u>
Government Caucus	\$ 412,000	\$ 419,432
Opposition Caucus	353,000	333,809
Third Party Caucus	214,000	238,203
Independent	<u>7,000</u>	<u>14,883</u>
	<u>\$ 986,000</u>	<u>\$1,006,327</u>

The Board is accountable to the Assembly for how caucus offices manage public money and must ensure the public money it gives to the caucus offices is spent for the purposes intended by the Board.

The Board has improved its rules and procedures for monitoring how caucus offices manage public money. The Board requires all caucus offices to submit audited financial statements and audited schedules of capital assets to the Board each year. The Board makes the reports available for public viewing and tables the reports in the Legislative Assembly.

However, the Board needs more information to ensure caucus offices spend the money for the intended purposes. The Board should require caucus offices to provide reports from their appointed auditors indicating whether the caucus offices:

- ◆ have adequate rules and procedures to safeguard and control public money; and
- ◆ used the money in compliance with the Board's directives.

We were unable to determine whether caucus offices have adequate rules and procedures to safeguard and control public money or whether they used the money in compliance with the Board's directives. As described above, appointed auditors were not asked to report to the Board on these matters, and we do not audit caucus offices directly.

We also reported this matter in previous years.

1. We recommend that the Board establish rules and procedures to ensure the money provided to caucus offices is spent for the purposes intended by requiring caucus offices to have their auditors report to the Board on:
 - ◆ the adequacy of the caucus offices' rules and procedures to safeguard and control public money; and
 - ◆ whether the caucus offices used the money given to them in compliance with the Board's directives.

Better internal reports required

The Board needs to define what performance reports it requires from management.

The Board must have sound performance reports to monitor management's performance and to ensure the Board is meeting its goals and objectives.

The Board has not defined the performance reports (financial, operational, and compliance) it requires. The Board approves an annual budget, but does not receive any financial or other performance reports from management.

Financial reports would show the Board's assets, liabilities, revenues and expenses, and whether the Board is achieving its expected financial results (budget). Financial reports should be prepared in accordance with generally accepted accounting principles.

Operational reports would show the effectiveness of the Board's programs and services (i.e., what results the Board expects and how it is performing towards those expectations).

Compliance reports would show whether the Board is complying with its governing authorities.

We also reported this matter in previous years.

2. We recommend the Board should:

- ◆ define and document the financial, operational, and compliance reports it expects to receive from management; and
- ◆ regularly receive and approve financial, operational, and compliance reports. These reports should compare actual results to planned results for the year to date and explain significant differences.

The Board told us it agrees with our recommendation and "the best way to provide this information to Board members will be considered in the near future."

List of persons who received public money required

The Board did not provide the Assembly with a list of persons who received public money from caucus offices and the amounts received. The Board is responsible for the money spent by caucus offices.

The Standing Committee on Public Accounts (PAC) has specified the required details of disclosure for organizations that spend public money.

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

We also reported this matter in previous years.

3. We recommend the Board should:
 - ◆ publish a list of persons who received money from caucus offices and the amounts received following PAC's current minimum disclosure amounts; or
 - ◆ discuss different public disclosure requirements with the PAC.

The Board told us it:

prefers to monitor the effectiveness of the new caucus disclosure provisions (see page 279) before determining whether further details such as payee lists ought to be tabled. The Board is concerned that in our system of parliamentary democracy, the Caucus' need for confidentiality must be respected. This pertains to the development of their adversarial strategies related to legislation and public policy.

Annual report needed

The Board does not prepare an annual report on its performance.

The Legislative Assembly and Executive Council Act does not require the Board to prepare an annual report. However, almost all government organizations provide the Assembly with an annual report. In addition, the Standing Committee on Public Accounts recommended that all government departments provide timely annual reports on their activities.

An annual report would help legislators and the public to understand and assess the Board's performance. The annual report should describe how the Board manages its key risks. We have set out our understanding of the Board's key risks on page 278.

The annual report should describe what the Board planned to achieve and how, and what performance indicators and targets it used to measure its performance. The report should also set out the Board's actual results compared to its plan, and show whether it met its goals and objectives.

The Board plays a key role in fostering public confidence in our parliamentary system of government. An annual report would contribute to public confidence.

We also reported this matter in previous years.

4. We recommend that the Board prepare an annual report on its performance and provide the report to the Legislative Assembly.

The Board told us it:

believes that direct public access to Members and to the proceedings of the Assembly is the best form of communicating to the public what the Assembly and Members do. This enables the public to assess performance directly without having it filtered, packaged and massaged in a glossy report.

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Executive summary

In this Chapter, we report the results of our audit of SaskPower for the year ended December 31, 1997.

As part of our audit, we also examined the documentation provided to the Channel Lake Inquiry conducted by the Standing Committee on Crown Corporations and the testimony of witnesses who appeared before the Committee.

We found significant deficiencies regarding governance, organization structure, and management controls. The lessons learned from SaskPower's management of its subsidiary Channel Lake Petroleum Ltd. are useful for most organizations and are set out below.

- ◆ The roles and responsibilities of boards need to be clearly defined.
- ◆ Boards need to ensure their views on accountability are established and communicated to management.
- ◆ Boards need representation on boards of subsidiary corporations.
- ◆ Boards need to review their policies and procedures to ensure their direction is fully and appropriately documented.
- ◆ Boards should receive reports that advise whether management is operating in compliance with the boards' direction and policies.
- ◆ Boards need regular training to enhance board governance.
- ◆ Boards should ensure their policies include rules and procedures to safeguard and control assets and to comply with the law.
- ◆ Internal audit functions should report directly to the Board.

Introduction

The Saskatchewan Power Corporation (SaskPower) provides electrical energy in the Province.

SaskPower prepares consolidated financial statements to report its activities. The consolidated financial statements include the financial activities of SaskPower and its subsidiaries. The Government's summary financial statements for the year ended March 31, 1998, include the financial results of SaskPower.

In 1997, SaskPower reported consolidated revenue of \$915 million and consolidated net income of \$132 million. At December 31, 1997, it held consolidated assets of \$3.3 billion. SaskPower's *1997 Annual Report* includes its consolidated financial statements. In our opinion, the consolidated financial statements understate SaskPower's 1997 revenue and net income by \$15 million.

In our 1998 Spring Report, we reported our concerns with the understatement of SaskPower's revenue and net income in SaskPower's consolidated financial statements. We also reported the results of our audits of SaskPower Commercial Inc., Power Greenhouses Inc., Northern Enterprise Fund Inc. and the Power Corporation Superannuation Plan. In addition, we reported that we had not completed our audit work on SaskPower for the year ended December 31, 1997 and would report our audit work and conclusions as soon as the work was completed.

We have now completed our audit of SaskPower for the year ended December 31, 1997 and report the results of our work in this Chapter.

Background

In our 1997 Fall Report Volume 2, we reported on the internal control weaknesses and substantial losses incurred by SaskPower from the gas marketing arbitrage trading business carried out by SaskPower's wholly-owned subsidiary Channel Lake Petroleum Ltd. (Channel Lake). Also, we noted SaskPower sold Channel Lake in 1997.

In our 1998 Spring Report, we reported that we had not yet completed all our work regarding the audit of SaskPower for the year ended December 31, 1997. Also, we reported that Ernst & Young, SaskPower's appointed

auditor, had not yet completed its audit work on SaskPower. As part of our audit work on SaskPower, we were examining SaskPower's sale of Channel Lake. The completion of our audit was affected by the diverse disclosures being made at the meetings of the Standing Committee on Crown Corporations.

During 1998, there have been many reports and findings on SaskPower's management of its subsidiary Channel Lake. Reports were completed by legislators, accountants, lawyers and individuals. These reports contain many facts about SaskPower's management of Channel Lake. The significance of these facts is subject to interpretation as can be seen by the varying legal opinions.

None of these reports relieve our Office from our statutory responsibility to form our opinion on SaskPower's rules and procedures to safeguard and control its assets and to comply with legislative authorities. Accordingly, we have now completed our audit of SaskPower for the year ended December 31, 1997 and report the results of our work in this Chapter.

In completing our audit, we examined the documentation provided to the Channel Lake Inquiry conducted by the Standing Committee on Crown Corporations and the testimony of witnesses who appeared before the Committee.

Our audit conclusions and findings

Our Office worked with Ernst & Young using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.

Ernst & Young has completed its audit reports on SaskPower's internal controls and compliance with authorities for the year ended December 31, 1997. Our Office relied on the work performed by Ernst & Young in the course of its audit. However, in completing its audit reports for the year ended December 31, 1997, Ernst & Young have not considered the documentation and disclosures provided to the inquiry into SaskPower's management of its subsidiary Channel Lake conducted by the Standing Committee on Crown Corporations. Ernst & Young's reports do not include the matters reported in this Chapter. Therefore, we have not relied on the reports of Ernst & Young. Our Office formed the opinions set out below.

In our opinion:

- ◆ SaskPower had adequate rules and procedures to safeguard and control its assets, except for the matters reported in this Chapter; and
- ◆ SaskPower 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 this Chapter.

We also report two other matters for the Legislative Assembly's attention. We report about legislation that needs to be strengthened and financial statements that should be tabled in the Assembly.

Overview of findings

Our audit findings and conclusions raise significant concerns regarding governance, organization structure, and management controls at SaskPower. In the following paragraphs, we set out our main areas of concern. We include examples to illustrate why these areas need to be strengthened. These examples are taken from the more detailed analysis that follows this overview section. The lessons learned are useful for most organizations.

The roles and responsibilities of Boards need to be clearly defined. The roles of the Channel Lake Board and the SaskPower Audit and Finance Committee were not clearly defined. Because the roles were unclear, these Boards were less effective.

Boards need to ensure their views on accountability are established and communicated to management. The SaskPower Board needs to decide what level of public accountability it thinks is appropriate for SaskPower. To make this decision the SaskPower Board should seek advice from the Crown Investments Corporation of Saskatchewan. The Board should communicate its views to management to guide management's decisions. The financial statements of Channel Lake were not tabled in the Assembly until the Standing Committee on Crown Corporations began its inquiry into Channel Lake. The sale of Channel Lake was rushed to balance negative publicity relating to Channel

Lake's gas marketing arbitrage trading losses with somewhat more positive news about the sale of Channel Lake.

Boards need representation on the boards of subsidiary corporations. The Board of Channel Lake did not include members of the SaskPower Board and the SaskPower Board was unaware of significant problems with the management of Channel Lake. For example, the SaskPower Board was not aware that Channel Lake had entered into the gas marketing arbitrage business and was not aware of the risks and the losses arising out of that business.

Boards need to review their policies and procedures to ensure their direction is fully and appropriately documented. Several SaskPower Board members were unaware the Board had placed limits on the activities of Channel Lake. SaskPower senior management did not agree that the Board had placed limits on Channel Lake's activities.

Boards should receive reports that advise whether management is operating in compliance with the boards' direction and policies. The gas marketing arbitrage trades were not in compliance with the limits placed by the SaskPower Board.

Boards need regular training to enhance board governance. Regular training enhances the skills of Board members. Such training would help SaskPower Board members to challenge management proposals and recommendations and ask sufficient questions to fully understand the risks facing SaskPower and management's plan to deal with those risks.

Boards should ensure their policies include rules and procedures to safeguard and control assets and to comply with the law. SaskPower had no policies or procedures to cover the sale of significant assets such as Channel Lake or for making long-term gas supply agreements. SaskPower also lacked policies for negotiating significant contracts and for reviewing such contracts prior to the signing of the contracts.

Internal audit functions should be independent of senior management and should report directly to the Board. The SaskPower Internal Audit Group reported to senior management. The SaskPower Board did not receive key internal audit reports outlining significant problems with the management of Channel Lake and the sale of Channel Lake.

In the following paragraphs we set out our findings in more detail and include recommendations to improve SaskPower's governance, organization structure, policies and management controls.

The sale process

With any sale of public assets, our concern is whether the sale process is designed to ensure the best value is received for the assets sold. The process for the sale of Channel Lake was significantly flawed; contained many errors of judgement and miscommunication; and raised many concerns relating to the internal controls within SaskPower. As a result, we do not know if SaskPower received the best price for the sale of Channel Lake or the best deal for the ten-year exclusive gas contract it made with the purchaser of Channel Lake.

Tendering of public assets

SaskPower chose not to publicly tender the sale of Channel Lake. Also, SaskPower did not publicly tender the ten-year exclusive contract to supply SaskPower with natural gas. Therefore, we do not know if an alternative buyer for Channel Lake would have paid more than SaskPower received. Also, we do not know if SaskPower received the best deal for its gas contract.

The sale of Channel Lake and the purchase of a ten-year gas supply are significant contracts. Channel Lake's assets were valued at approximately \$20 million. Also, the magnitude of SaskPower's natural gas usage over a ten-year period is substantial.

Further, had Channel Lake and the ten-year gas supply contract been publicly tendered much of the controversy surrounding the sale of these assets may not have occurred.

SaskPower had no policies or procedures requiring public tender of its Channel Lake assets or the ten-year exclusive gas contract made with the purchaser of Channel Lake.

It is important to ensure the best value is received. In our opinion, public assets should be sold through public tender unless public tender will not result in the best value. When assets are to be sold without public tender the Board should require management to identify the advantages and the

risks involved and provide a plan to manage those risks for Board approval.

Sale process was rushed

One of management's objectives for the sale of Channel Lake was to complete the sale by March 31, 1997.

The Assembly expects Crown corporations to table their annual reports, including financial statements, in the Legislative Assembly. Recently, Crown corporations have also tabled the financial statements of subsidiary corporations. The Assembly expects that these financial statements be completed within ninety days of their year-end. Channel Lake's year-end was December 31.

It appears the objective of completing the sale by March 31, 1997 was to balance negative publicity relating to Channel Lake's arbitrage trading losses with somewhat more positive news relating to the sale.

This tight deadline meant SaskPower management focused on purchasers that could complete the deal by March 31, 1997.

The process of finding a buyer lacked rigour

The process of finding a buyer for Channel Lake lacked rigour and the offers received were not comprehensively evaluated.

SaskPower management obtained an independent valuation of the Channel Lake assets. Management then approached several parties based on its knowledge of the industry. This process did not include other potential buyers. Also, the process did not involve SaskEnergy. As a Crown corporation with a mandate to supply natural gas, SaskEnergy might have been interested in buying the Channel Lake assets or the ten-year exclusive gas supply contract.

Further, what was being offered for sale varied. For example, one party tied its offer to purchase the Channel Lake assets to a proposal to supply and deliver SaskPower's natural gas requirements. A key ingredient in the ultimate sale was the ten-year exclusive gas supply contract offered to the purchaser.

As a result of the process used, SaskPower received several competing offers. However, no evidence was found to show that all offers received by SaskPower were comprehensively evaluated. SaskPower management believed only one group could close the deal by March 31, 1997.

SaskPower created the potential for a conflict of interest

SaskPower's decision to select the CEO of Channel Lake as its negotiator created the potential for a conflict of interest.

SaskPower selected a highly qualified team of individuals to oversee the sale of Channel Lake. However, SaskPower chose the CEO of Channel Lake as its negotiator. Because this individual would lose his job when Channel Lake was sold and because it was possible that the purchaser of Channel Lake would hire this individual, SaskPower placed this individual in a potential conflict of interest position.

The other individuals of the team could have reduced the potential conflict of interest risk if they had been more involved in the sale negotiations. However, these individuals did not sufficiently involve themselves directly in the sale negotiations. SaskPower had no policy or procedures to require at least two representatives from SaskPower to be involved in the negotiation of key contracts.

Too much reliance was placed on one individual

SaskPower gave too much authority to the individual it had placed in a potential conflict of interest situation.

As a result, this individual sought out and met with interested parties, obtained offers, analyzed the offers and made recommendations on the purchaser to be selected. The same individual then operated as SaskPower's sole negotiator to make the sale.

The placement of too much authority with this individual is even more significant because it shows that SaskPower failed to learn from the mistakes it made in its gas marketing arbitrage business. The failure to segregate this individual's duties had been a significant weakness in the internal controls over that business.

As SaskPower's sole negotiator, this individual negotiated many of the key clauses of the sale agreement directly with the purchaser without involving other SaskPower officials.

During this process, SaskPower's negotiator failed to keep management clearly and sufficiently informed. Poor reporting by this individual was also a significant weakness in the gas marketing arbitrage business. Also, management failed to enquire or ask questions to sufficiently understand the negotiations.

Confusion over price

SaskPower management and its negotiator had different views of the price SaskPower management was authorized to accept.

SaskPower management thought the sale price was \$20.8 million after deducting arbitrage trading losses. However, SaskPower's negotiator thought the sale price was \$20.8 million before deducting the arbitrage trading losses. At that time, SaskPower estimated the arbitrage trading losses to be \$5.2 million.

SaskPower management had received an independent valuation report on the Channel Lake assets. This report suggests a value of approximately \$20.3 million for these assets.

We do not know why SaskPower management expected to receive \$5.7 million more than the valuation report. We do know that in the end SaskPower management recommended that the SaskPower Board of Directors ratify the sale of Channel Lake for approximately \$15 million after deduction of the arbitrage trading losses. In reviewing the sale, management concluded that the deal was a good one for SaskPower and that SaskPower got fair value for its assets.

Sale agreement signed without checking key clauses

SaskPower management failed to review key clauses in the sale agreement before signing it.

SaskPower's system of internal control had no policies or procedures to ensure significant legal agreements were appropriately reviewed prior to signing these agreements.

As a result, SaskPower management signed the sale agreement without reviewing key clauses and with no evidence to show that the agreement it signed was consistent with what it intended to sign.

Sale agreement price was \$5.2 million less than authorized

The sale agreement signed by SaskPower management committed SaskPower to sell Channel Lake for \$5.2 million less than management had intended. Also, the price was \$5.2 million less than the price the SaskPower Board had authorized.

Changes were made to the sale agreement without the authorization of SaskPower

SaskPower's negotiator made changes to the sale agreement without the authorization of SaskPower.

The terms of the sale agreement signed by SaskPower management were not acceptable to the purchaser. The purchaser wanted to limit its exposure to losses arising from SaskPower's gas arbitrage trades. SaskPower's negotiator continued negotiations with the purchaser and made changes to the sale agreement.

SaskPower's negotiator and the purchaser agreed to change the sale agreement. The parties agreed to share equally trading losses incurred above \$5.2 million and below \$6 million. SaskPower was responsible for all trading losses incurred up to \$5.2 million and all trading losses in excess of \$6 million.

The SaskPower Board of Directors had not authorized this change.

SaskPower's negotiator signed the amendment to the sale agreement on behalf of SaskPower. SaskPower's negotiator did not have authority to sign the amendment to the sale agreement on behalf of SaskPower.

Governance and role of boards of directors

Boards of directors are responsible for the stewardship of their organizations. The direction provided by boards of directors to management should be clear and unambiguous. Also, boards need clear information to make key decisions and to provide guidance to

management. The arbitrage losses incurred by Channel Lake and the subsequent sale process show the need for improvement in communication between the SaskPower Board of Directors and management.

Also, the responsibilities and duties of boards of directors need to be carefully defined and set out clearly. When these roles are unclear, it is difficult to determine who has responsibility for decisions and whether they are making fully informed decisions with due diligence.

Roles and responsibilities need to be clearly defined

The SaskPower Board of Directors received inadequate information to carry out its overall stewardship responsibilities for Channel Lake.

Effective governance requires all participants to clearly understand their roles and responsibilities. It is essential that these roles and responsibilities be clearly documented to provide guidance.

Channel Lake was a wholly-owned subsidiary of SaskPower. Channel Lake commenced operations in 1993 when it acquired petroleum and natural gas properties. The SaskPower Board of Directors authorized Channel Lake to acquire these properties.

The SaskPower Board of Directors appointed the Board of Directors of Channel Lake. The President of SaskPower was appointed chair of the board and two SaskPower vice-presidents were appointed directors. The SaskPower Board of Directors did not appoint any of its members to the Board of Channel Lake.

The role and responsibilities of the Channel Lake Board and the SaskPower Audit and Finance Committee were not clearly defined and documented. Also, none of the members of the SaskPower Board of Directors were directors of Channel Lake. As a result, the SaskPower Board received inadequate information to properly carry out its overall stewardship responsibilities for Channel Lake.

Limits on mandate of Channel Lake were not clearly communicated

The Board of Directors of SaskPower intended to limit the business to be carried out by Channel Lake. The Board's minutes for April 22, 1993 stated "... The Board does not want SaskPower to enter the gas business beyond activities necessary to provide security of supply and predictability of price...."

However, the SaskPower Board's intentions were not clearly documented or communicated to management or to SaskPower Board members who were subsequently appointed. No policy or procedure was documented to clearly set out the Board's direction and provide guidance for management and future Board members.

Due to the lack of clear direction by the SaskPower Board, senior management of SaskPower was unaware that Channel Lake was prohibited from entering into the gas marketing arbitrage trading business. These senior managers included the Board of Directors of Channel Lake.

Further, not all members of the SaskPower Board of Directors were aware or sufficiently understood the limits placed on Channel Lake's activities. These included members who were appointed before and after April 22, 1993. In particular, the Chair of the SaskPower Audit and Finance Committee was unaware of the Board's limits on Channel Lake's activities.

In February 1994, the SaskPower Board considered a management recommendation for the disposal of natural gas by sale, exchange or trade when such natural gas was surplus to SaskPower's requirements. The Board approved a recommendation allowing the President to approve sales of natural gas of a value less than \$1 million, but requiring Board approval for all sales, exchanges or trades of a value greater than \$1 million.

Again no policy or procedure was documented to provide guidance and clear direction for management. Also, there was no documentation to ensure all Board members were aware that gas sales greater than \$1 million required the approval of the SaskPower Board. In particular, the Audit and Finance Committee was unaware of this direction. In 1996, SaskPower entered into 104 gas arbitrage trades totalling about \$150

million. Many of these gas arbitrage trades exceeded \$1 million. The SaskPower Board was not asked to approve these trades.

Board governance during the sale process

From November 1996 to June 1997, there were a number of significant issues arising out of Channel Lake. These included the large arbitrage trading losses, the decision to sell, the method of sale, the exclusive gas supply contract and the negotiation of the sale.

The SaskPower Board of Directors should have been more involved in these issues to fully understand the issues and provide guidance. The Board placed too much reliance on management to handle these issues.

In addition, the SaskPower Board relied on the Audit and Finance Committee to keep it informed of significant issues. However, the SaskPower Board did not provide clear direction to its Audit and Finance Committee. Also, the Audit and Finance Committee failed to keep the Board informed of significant issues arising out of Channel Lake.

Neither the Audit and Finance Committee nor the Channel Lake Board provided the SaskPower Board with key information regarding the gas arbitrage trading losses incurred by Channel Lake. The SaskPower Board was not aware that Channel Lake had entered into the gas marketing arbitrage business. Neither the SaskPower Board of Directors nor the Audit and Finance Committee were provided with a business plan to compare the risks and rewards of the gas marketing arbitrage business or management's plan to deal with these risks.

Also, the Audit and Finance Committee should have been more involved in the operations of Channel Lake from the onset of the trading losses until the ultimate sale of Channel Lake. The Committee should have been more involved in the process to understand:

- ◆ why Channel Lake was to be sold;
- ◆ the impact of the arbitrage trading losses;
- ◆ the impact of the ten-year exclusive gas supply agreement; and
- ◆ the key risks surrounding the sale and to ensure management had adequate controls to manage the risks.

The Committee should have required management to set out the key risks surrounding the sale and provide a plan to manage those risks. The Committee should have required management to:

- ◆ explain how their proposed method of sale was designed to obtain the best value;
- ◆ propose a timetable for the sale which was orderly and not rushed;
- ◆ explain and fully evaluate all offers received;
- ◆ minimize the impact of the arbitrage trading losses;
- ◆ explain the rationale for the ten-year exclusive gas supply agreement and why the agreement was the best deal for SaskPower; and
- ◆ keep the Committee informed on the progress of the sale negotiations.

The Committee should have been sufficiently involved to provide advice and guidance to management on the above matters. Also, the Committee should have provided clear information to the SaskPower Board to ensure the SaskPower Board was sufficiently informed to make decisions and ensure SaskPower received the best possible value for its assets.

About six weeks after arbitrage trading losses were incurred by Channel Lake, the issue of selling Channel Lake was raised for the first time at a SaskPower Board Meeting. On January 13, 1997, the SaskPower Board of Directors approved a recommendation from management to sell Channel Lake by way of a royalty trust offering with final pricing and other material conditions to be agreed by the Channel Lake Board and the Audit and Finance Committee.

This approval shows that the SaskPower Board wanted the Audit and Finance Committee to be involved in the decisions relating to the sale of Channel Lake. However, the Audit and Finance Committee was not sufficiently involved to ensure it understood all the risks relating to the sale and management's plan to manage those risks.

The matter of selling Channel Lake had not been previously reviewed by either the Channel Lake Board or the Audit and Finance Committee. The

management topic summary provided to the SaskPower Board did not mention the arbitrage trading losses incurred by Channel Lake. Both the Channel Lake Board and the Audit and Finance Committee were aware of these losses, but there is no documented evidence these losses were clearly brought to the attention of the SaskPower Board. Had these losses been clearly brought to the attention of the SaskPower Board, the SaskPower Board may have asked more questions about the rationale for the sale of Channel Lake and the sale process.

On March 13, 1997, management raised the matter of selling Channel Lake again. The Audit and Finance Committee reviewed a management recommendation to sell Channel Lake by way of a share sale or asset sale. The Audit and Finance Committee recommended that the SaskPower Board approve management's recommendation.

Later the same day the SaskPower Board gave approval for SaskPower to sell Channel Lake by way of a share sale or asset sale with final pricing and material conditions to be approved by the Channel Lake Board and the Audit and Finance Committee.

On March 26, 1997, the Channel Lake Board met and agreed to recommend that SaskPower sell Channel Lake for a total price of \$20.8 million and enter into a ten-year gas supply contract with the purchaser. There was no meeting of the Audit and Finance Committee to review these decisions. The Audit and Finance Committee had not been involved in the sale process.

On March 27, 1997, the SaskPower Board held a conference call and reviewed management's recommendation for the sale of Channel Lake and the gas supply agreement. The Board agreed with management's recommendations. It approved the sale of Channel Lake for a total price of \$20.8 million and the ten-year gas supply agreement with the purchaser on such terms and conditions as management would approve.

It is significant that the SaskPower Board would be asked to approve the price of \$20.8 million at this time. The sale proposed was a sale of shares. This meant that the purchaser would also assume responsibility for Channel Lake's liabilities. However, SaskPower had not yet provided the purchaser with the details about Channel Lake's arbitrage trading loss liabilities. Without this key information, the purchaser would not be able to make a final offer on the price. Indeed, when this information was later provided to the purchaser the price was revised.

The SaskPower Board and the Audit and Finance Committee did not receive any more information on the sale until they met on June 20, 1997. On June 20, 1997, the Audit and Finance Committee reviewed a recommendation from the President of SaskPower. The President recommended that the Board ratify and confirm the agreement for the sale of Channel Lake dated April 2, 1997.

The topic summary pointed out that the price was \$5.2 million less than that previously understood due to the effect of “trading losses”. It noted the termination of SaskPower’s negotiator because of “potential issues raised with respect to the transaction” and concluded that the deal remained a good deal for SaskPower and that SaskPower got fair market value for the sale.

The Audit and Finance Committee recommended the Board ratify and confirm the sale agreement for Channel Lake. A few hours later, the SaskPower Board, via a conference call, reviewed the same topic summary and ratified and confirmed the agreement to sell Channel Lake. The SaskPower Board ratified the sale agreement because of the potential for legal action against SaskPower by the purchaser and because they were assured the sale was still a good deal for SaskPower.

Topic summaries were inappropriate, incomplete and unclear

The topic summaries prepared by management to the SaskPower Board were inappropriate, incomplete and unclear.

SaskPower management prepared five topic summaries for the SaskPower Board relating to the sale of Channel Lake. The SaskPower Board made key decisions regarding Channel Lake based on the information provided in these topic summaries. These topic summaries did not set out the key risks regarding the sale of these assets or management’s plan to manage these risks.

- ◆ The first topic summary was presented to the SaskPower Board on January 13, 1997. This topic summary was inappropriate and incomplete.

The topic summary was inappropriate because it recommended the SaskPower Board approve the sale of Channel Lake assets by way of a royalty trust offering with final pricing and other material

conditions to be approved by the Channel Lake Board and the Audit and Finance Committee. The decision on price and material conditions was the responsibility of the SaskPower Board. It was not appropriate for the SaskPower Board to delegate its authority to make these key decisions. A more appropriate course of action would have been to ask for the Audit and Finance Committee's recommendation to the SaskPower Board on the final pricing and other material conditions. The SaskPower Board would then make the final decision on pricing and other material conditions.

The topic summary was also inappropriate because management had not sufficiently investigated the method of sale to determine if a sale by way of a royalty trust offering would result in the best value for these assets.

The topic summary was incomplete because it did not provide the Board with relevant information about Channel Lake's arbitrage gas trading losses.

- ◆ The second topic summary was presented to the SaskPower Board on March 13, 1997. This topic summary was inappropriate because it recommended that the SaskPower Board approve the sale of Channel Lake by way of a share or asset sale with final pricing and material conditions to be approved by the Channel Lake Board and the Audit and Finance Committee. Again, it was inappropriate to recommend that the SaskPower Board delegate the authority of approving the final price and material conditions. A more appropriate course of action would have been to ask for the Audit and Finance Committee's recommendation to the SaskPower Board on the final price and material conditions. The SaskPower Board would then make the final decision on price and material conditions. Ultimately, on June 20, 1997, the SaskPower Board approved the final price and material conditions for the sale of Channel Lake.

This topic summary was also incomplete because it did not provide relevant information on Channel Lake's arbitrage gas trading losses. Also, it did not mention the purchaser's interest in a ten-year exclusive gas contract. Further, the topic summary did not set out the process management proposed to ensure the best value would be obtained for the sale.

- ◆ The third and fourth topic summaries were presented to the SaskPower Board on March 27, 1997.

The third topic summary recommended the SaskPower Board sell Channel Lake for a total purchase price of \$20.8 million. This topic summary was inaccurate. It was inaccurate because it said management “has negotiated a Share Purchase and Note Sale Agreement which is satisfactory to both parties”. In fact, both parties were far apart on the price. Also, SaskPower had not yet provided the purchaser with sufficient information regarding Channel Lake for the purchaser to be able to commit to a final price.

The topic summary was also incomplete. It did not provide relevant information on Channel Lake’s gas arbitrage trading losses. It did not provide the SaskPower Board with details of other offers received, or an explanation of the process used to obtain the offers, or why this deal would be the best value. Also, the topic summary did not mention the ten-year exclusive gas contract and the linkage of this contract to the sale. The effect of this omission was reduced by the fourth topic summary, which stated the sale of Channel Lake was conditional upon SaskPower making the ten-year gas supply contract with the purchaser.

The topic summary was also unclear and subject to interpretation. For example, it said the sale would result in a gain to SaskPower of approximately \$5 million, but did not sufficiently explain how this figure was determined. Also, the lack of information on the impact of the gas arbitrage losses and the phrase “total purchase price” left room for interpretation as to the selling price. It was not clear whether the \$20.8 million was the gross price or the net price.

The fourth topic summary asked the SaskPower Board to approve the ten-year natural gas supply agreement with the purchaser of Channel Lake and was presented to the Board at the same meeting as the third topic summary. This topic summary was incomplete because it did not provide sufficient details on the magnitude of the contract. Because this was a significant contract, the Board should have been provided with more information on the estimated gas purchases expected over the ten-year period so that it could better understand the contract that it was asked to

approve. Also, the topic summary did not provide other supply options e.g., SaskEnergy.

- ◆ The fifth and final topic summary was presented to the Board on June 20, 1997 and asked the Board to approve the final sale agreement and price amendment with the purchaser of Channel Lake. This topic summary provided details about the confusion as to price with regard to the trading losses and about ending the employment of the SaskPower negotiator. The topic summary mentioned the review of the sale by Internal Audit and independent counsel but did not provide full details in the topic summary. The topic summary stated that these reviews found no negligence on the part of SaskPower management or its negotiator.

More information on the findings of SaskPower Internal Audit is provided in the following paragraphs.

SaskPower Internal Audit

The SaskPower Board was not given key internal audit reports that noted significant problems and weaknesses in SaskPower's management of its gas marketing arbitrage business and its handling of the sale of Channel Lake.

The SaskPower Internal Audit group completed an extensive report on the management of Channel Lake's gas marketing arbitrage business and also on the sale process for Channel Lake. These reports noted significant matters which should have been brought to the attention of the SaskPower Board in a timely manner. These matters were not brought to the attention of the SaskPower Board.

On January 22, 1997, SaskPower Internal Audit completed an extensive audit report for the President and senior management on Channel Lake's gas marketing arbitrage trading. The matters raised in this audit report were significant and the report should have been provided to the Audit and Finance Committee at its meeting on January 24, 1997. In turn the Audit and Finance Committee should have provided this audit report and its observations on the report to the SaskPower Board at its earliest opportunity.

Three months later, on April 23, 1997, this report was given as information to the Audit and Finance Committee. The Audit and Finance Committee did not provide this report to the SaskPower Board. In addition, the Audit and Finance Committee did not follow up on the significant matters contained in the audit report.

On Friday June 13, 1997, the President requested the Internal Audit group to examine the sale of Channel Lake and complete its report by Monday, June 16. On June 16, the first draft of the report was provided to the President. This draft audit report was ten pages long and contained many significant matters about the sale. This draft report should have been finalized and presented to the Audit and Finance Committee at its next meeting on June 20, 1997.

After receiving the draft ten-page audit report, the President directed the Internal Audit group to prepare a two-page report focusing on whether due diligence was exercised by SaskPower officials in making the sale agreement. Internal Audit completed a two-page report and issued it to the President on June 18, 1997. The first paragraph of this shorter report noted this was a “summarized version of the audit report”.

This two-page report had a narrower scope and was somewhat more complimentary and less critical than the ten-page draft report. The two-page report excluded many observations made in the ten-page draft report including the following:

- ◆ all offers received for Channel Lake were not comprehensively evaluated;
- ◆ the topic summaries presented to the SaskPower Board were not clear and were subject to interpretation;
- ◆ the topic summaries presented to the SaskPower Board made no mention of trading losses;
- ◆ the criteria for selecting the purchaser were based on the purchaser’s ability to close the deal by March 31, 1997 and the potential to handle SaskPower’s gas requirements; and
- ◆ there were no checks and balances to compensate for the concentration of responsibilities held by the negotiator and to support the fast track negotiations required by the tight time frame.

Both the shorter two-page report and the more comprehensive ten-page internal audit reports should have been presented to the Audit and Finance Committee at its next meeting on June 20, 1997. In turn the Audit and Finance Committee should have provided these reports and its observations to the SaskPower Board.

Instead neither report was given to the Audit and Finance Committee on June 20th. On July 3, 1997 the Audit and Finance Committee received as information only the two-page shorter and more complimentary report. The Audit and Finance Committee did not provide the report to the SaskPower Board. The Audit and Finance Committee did not discuss the report with the Internal Audit group or request the more detailed report.

Recommendations

There are many lessons to be learned from SaskPower's experience with Channel Lake. These lessons range from key governance issues to basic management control issues and ultimately to the need to improve accountability both within SaskPower and from SaskPower to other levels of government, the Legislative Assembly and the public.

We make the following recommendations relating to SaskPower's governance, organization structure, policies and management controls.

Governance

1. We recommend that the SaskPower Board of Directors should:
 - ◆ review SaskPower's existing policies and procedures to ensure the Board's direction is fully and appropriately documented.
 - ◆ receive periodic audit reports directly from SaskPower's internal auditor on whether management is operating in compliance with the Board's direction and policies.
 - ◆ provide clear direction on the role and responsibilities of its Audit and Finance Committee.

- ◆ provide clear direction on the role and responsibilities of the boards of its subsidiary corporations.
- ◆ include representation from the SaskPower Board of Directors on boards of its subsidiary corporations.
- ◆ ensure Board members receive regular training to enhance board governance.
- ◆ challenge management proposals and recommendations and ask sufficient questions to fully understand the risks facing SaskPower and management's plan to deal with those risks.
- ◆ embrace and promote a corporate culture for SaskPower that provides a more appropriate level of public accountability consistent with its public ownership and the public policy role of SaskPower.

Organization Structure

2. We recommend that the SaskPower internal audit group should report directly to the SaskPower Board of Directors and its plans and reports should be referred to the Audit and Finance Committee.

Policy

3. We recommend SaskPower should adopt a policy requiring that the sale of significant public assets such as Channel Lake or the ten-year gas supply contract be tendered unless such tendering will not ensure the best value. When significant assets are to be sold without public tender the Board should require management to identify the advantages and the risks involved and provide a plan to manage those risks for Board approval.
4. We recommend SaskPower should adopt a policy requiring at least two representatives from SaskPower be involved in the negotiation of all key contracts.

5. We recommend SaskPower should adopt a policy requiring that management appropriately examine all significant contracts with the results of such examination to be documented and reviewed prior to the signing of the contracts.

Management Controls

6. We recommend SaskPower should ensure there is proper segregation of duties among its staff.

Officials of the Crown Investments Corporation of Saskatchewan told us SaskPower is making progress in addressing some of the matters raised above.

Legislation needs to be strengthened

Current legislation concerning the purchase and sale of shares should be strengthened.

Currently, legislation provides accountability for the purchase of shares by Crown corporations. For example, both section 29 of *The Crown Corporations Act, 1993* and section 12 of *The Power Corporation Act* require Crown corporations to obtain an Order in Council before they can buy shares or other securities of any corporation. This ensures these purchases are approved by Cabinet and that the purchases are publicly disclosed.

However, neither Act requires Crown corporations to obtain an Order in Council before selling shares or securities of any corporation. This means there is no requirement for Cabinet approval or public disclosure for Crown corporations to sell shares. We believe the need for public disclosure applies equally to the purchase and sale of shares by Crown corporations. Therefore, we believe legislation should be strengthened to require Crown corporations to obtain an Order in Council when selling shares or securities of any corporation.

7. We recommend that the Government should consider strengthening current laws governing the purchase and sale of shares to require Crown corporations to obtain an Order

in Council when selling shares or securities of any corporation.

Financial statements should be tabled

The Government has not tabled the financial statements of the Northern Enterprise Fund Inc. (Fund) in the Assembly.

SaskPower established the Fund in 1988 to provide economic and educational support to the residents of northern Saskatchewan. The Fund had assets of \$6.6 million at December 31, 1997. During 1997, it had revenues of \$1.4 million.

SaskPower created the Fund as a not-for-profit organization under *The Non-Profit Corporations Act*. SaskPower controls the Fund. Two employees of SaskPower are members of the Fund's three member Board of Directors.

Public accountability is strengthened when the Government tables the financial statements of all government organizations. We believe the Government should table the financial statements of the Fund. This way, the Assembly and the public can review the performance of the Fund.

We have reported this matter in previous years. In March 1994, and again in April 1997, the Standing Committee on Public Accounts (PAC) tabled reports concurring with our recommendation.

In February 1998, PAC discussed its previous recommendation regarding government corporations tabling annual financial statements in the Assembly. PAC agreed the spirit of accountability is an important fundamental of government. Also, PAC noted that circumstances for every government agency may be unique and may vary, and that broad sweeping recommendations that blanket all agencies are not appropriate. Further, PAC recommended that for agencies other than CIC Crown corporations, the issue of tabling financial statements should be dealt with on an individual basis as the Provincial Auditor raises this matter in his future reports. For CIC agencies, PAC noted it intends to ask the Assembly to refer these agencies to the Crown Corporations Committee for their consideration of this matter.

8. The Government should table the financial statements of the Northern Enterprise Fund Inc. in the Legislative Assembly.

SaskPower told us the financial statements of the Fund are made available to the members of the Legislative Assembly.

Our future audit plans

SaskPower's experience with Channel Lake raises many issues and concerns about the governance and operations of SaskPower.

Because of the significance of these issues, we plan to be more involved in the audit of SaskPower for the year ended December 31, 1998.

As part of our audit for the year ended December 31, 1998 we intend to ensure the key issues that affect SaskPower are identified and reported to the Assembly. Also, we plan to examine SaskPower's process for implementation of its new information systems (Delta project). Our objective is to determine if SaskPower has good practices to ensure the successful implementation of its Delta project.

In addition, as part of a cross-government audit, we intend to ensure SaskPower's international operations are identified and reported to the Assembly.

We will report on these matters in a future report.

Glossary

Arbitrage - the simultaneous purchase and sale of the identical securities, commodities or foreign currencies in different markets to profit from price discrepancies.

Royalty trusts - investment vehicles whereby unit holders receive a flow-through of cash and tax benefits from commodities such as oil, gas, or coal.

Topic summaries - reports prepared by SaskPower management for the Board of Directors providing information and recommendations for decisions at Board meetings.

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

Short Title

1 This Act may be cited as *The Provincial Auditor Act*.

Interpretation

2 In this Act:

(a) “**acting provincial auditor**” means the acting provincial auditor appointed pursuant to section 5;

(a.1) “**appointed auditor**” means an auditor appointed pursuant to an Act or other authority by the Lieutenant Governor in Council or another body to examine the accounts of a Crown agency or Crown-controlled corporation or accounts otherwise related to public money;

(b) “**audit**” means an audit or examination of accounts of public money that may be made by the provincial auditor pursuant to this Act;

(c) “**Crown**” means Her Majesty the Queen in right of Saskatchewan;

(d) “**Crown agency**” means an association, board, commission, corporation, council, foundation, institution, organization or other body, whether incorporated or unincorporated, all the members of which or all of the board of management or board of directors of which:

- (i) are appointed by an Act or by the Lieutenant Governor in Council; or
- (ii) are, in the discharge of their duties, public officers or servants of the Crown;

and includes a corporation that has at least 90% of its issued and outstanding voting shares vested in the Crown;

(e) **“Crown-controlled corporation”** means a corporation that is not a Crown agency and that has less than 90% and more than 50% of its issued and outstanding voting shares vested in the Crown;

(f) **“fiscal year”** means the period commencing on April 1 in one year and ending on March 31 in the next year;

(g) **“provincial auditor”** means the Provincial Auditor for Saskatchewan appointed pursuant to section 3;

(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

Appointment of provincial auditor

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.

(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.

Salary

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.

Acting provincial auditor

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.

Qualifications of provincial auditor, acting provincial auditor

6 No person is eligible to be appointed as provincial auditor or as acting provincial auditor unless he is a member in good standing of the Institute of Chartered Accountants of Saskatchewan. 1983, c.P-30.01, s.6.

Advisors, etc.

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.

Office of the provincial auditor

8(1) The provincial auditor may employ any persons that he considers necessary to assist him in carrying out his duties and fulfilling his responsibilities under this Act.

(2) Employees of the office of the provincial auditor are employees of the Legislative Assembly and are not members of the public service of Saskatchewan.

(3) The disability income plan, the public employees dental plan and the group insurance plan applicable to the public servants of Saskatchewan and any plan introduced to replace or substitute for those plans apply or continue to apply, as the case may be, to the provincial auditor and the employees of the office of the provincial auditor.

(4) *The Public Service Superannuation Act and The Superannuation (Supplementary Provisions) Act* apply to the provincial auditor and the permanent and full-time employees of the office of the provincial auditor, and all credits in any superannuation plan or 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.

Confidentiality

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.

Delegation of authority

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

Examination of accounts

11(1) The provincial auditor is the auditor of the accounts of the government of Saskatchewan and shall examine all accounts related to public money and any accounts not related to public money that he is required by an Act to examine, and shall determine whether, in his opinion:

- (a) the accounts have been faithfully and properly kept;
- (b) public money has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;
- (c) public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and
- (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money.

(2) An appointed auditor is subject to the examination responsibilities prescribed in clauses (1)(a) to (d).

(3) For the purposes of this section, where an auditor, including an appointed auditor, is required to examine accounts and render an opinion on those accounts, he shall do so in accordance with generally accepted auditing standards as prescribed from time to time by the Canadian Institute of Chartered Accountants. 1986-87-88, c.26, s.6.

Reliance on report of appointed auditor

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.

Appendix 1

(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.

Annual Report

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;
- (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.

Special report

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.

Tabling of reports

14(1) Notwithstanding *The Tabling of Documents Act, 1991*, the provincial auditor shall submit to the Speaker, as soon as practicable:

Appendix 1

- (a) his annual report prepared pursuant to section 12;
- (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.

Certification of Statements

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.

Special assignments

16(1) Where:

(a) the Legislative Assembly or the Standing Committee of the Legislative Assembly on Public Accounts:

(i) requests the provincial auditor to perform a special assignment; and

(ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and

(b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor shall perform the special assignment.

(2) Notwithstanding *The Tabling of Documents Act*:

(a) the provincial auditor shall submit to the Speaker, as soon as is practicable, the report of any special assignment prepared pursuant to subsection (1) on the request of the Legislative Assembly; and

(b) the Speaker shall, as soon as is practicable, lay before the Legislative Assembly each report received by him pursuant to clause (a).

(3) The provincial auditor shall submit to the Clerk of the Assembly a special report prepared pursuant to subsection (1) on the request of the Standing Committee of the Legislative Assembly on Public Accounts, and the clerk shall make the special report available to the members of that committee.

(4) Where:

(a) the Lieutenant Governor in Council:

(i) requests the provincial auditor to perform a special assignment; and

(ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and

- (b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor may perform the special assignment.

- (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.

Improper retention of public money

17 Whenever, in the opinion of the provincial auditor or another auditor who is appointed to undertake an audit of Crown agencies or Crown-controlled corporations, any public money or revenues or money collected or held by employees of Crown-controlled corporations have been improperly retained by any person, the provincial auditor or the other auditor, as the case may be, shall immediately report the circumstances of that case to the member of the Executive Council who is responsible for the department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation and the Minister of Finance. 1983, c.P-30.01, s.17.

Cancelled securities

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.

Attendance before Public Accounts Committee

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

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.

Meetings of audit committee

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.

Information on scope and results of audits

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.

Availability of reports

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

Right to information, accommodation

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.

Inquiries

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 exercise all the powers of commissioners under *The Public Inquiries Act*. 1983, c.P-30.01, s.25.

Working papers

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.

Change in auditor

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.

Auditor to audit office of provincial auditor

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.

Fees

28 The provincial auditor may charge a reasonable fee for professional services provided by his office. 1983, c.P-30.01, s.28.

Limitation of liability

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.

Information confidential

30 The provincial auditor, any employee in his office, an appointed auditor, any employee of an appointed auditor or any advisor, specialist or consultant engaged pursuant to section 7:

- (a) shall preserve secrecy with respect to all matters that come to his knowledge in the course of his employment or duties under this Act; and
- (b) shall not communicate those matters to any person, other than when he is required to 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.

Appropriation

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.

Transitional

32(1) The person appointed on the day before the coming into force of this section as provincial auditor pursuant to *The Department of Financial 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.

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List of organizations subject to an examination under *The Provincial Auditor Act*

Appendix 2 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, 1998.

Departments and Secretariats:	Year End
Department of Agriculture and Food	March 31
Department of Economic and Co-operative 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 and Aboriginal Affairs	March 31
Department of Justice	March 31
Department of Labour	March 31
Department of Municipal Affairs, Culture and Housing (formerly: Municipal Government)	March 31
Department of Post-Secondary Education and Skills Training	March 31
Department of Social Services	March 31
Executive Council	March 31
Women's Secretariat	March 31

Crown Agencies:

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
Southeast Regional College	June 30

Crown Agencies (continued):**Year End**

Teachers' Superannuation Commission	June 30
Canodev Research Inc.	July 31
Saskatchewan Alfalfa Seed Producers' Development Commission	July 31
Saskatchewan Canola Development Commission	July 31
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
Saskatchewan Sheep Development Board	September 30
3339807 Canada Ltd.	December 31
3364381 Canada Ltd.	December 31
604408 Saskatchewan Ltd.	December 31
620064 Saskatchewan Ltd.	December 31
Bayhurst Gas Limited	December 31
CIC Forest Products Ltd.	December 31
CIC Industrial Interests Inc.	December 31
CIC Pulp Ltd.	December 31
Crown Investments Corporation of Saskatchewan	December 31
DirectWest Publishing Partnership	December 31
Greystone Capital Management Inc.	December 31
Hollywood at Home 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 Enterprise 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

Crown Agencies (continued):

Year End

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	December 31
Saskatchewan Power Corporation	December 31
Saskatchewan Telecommunications	December 31
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 Holding (New Zealand) Inc.	December 31
SaskTel New Media Fund Inc.	December 31
SaskTel Telecommunications Consulting Inc.	December 31
SaskTel U.K. Holdings Inc.	December 31
SGI CANADA Insurance Services Ltd.	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
Agri-Food Innovation Fund	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

Crown Agencies (continued):	Year End
Health Services Utilization and Research Commission	March 31
Keewatin Yathe District Health Board	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
Mamawetan Churchill River 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
Prairie West District Health Board	March 31
Prince Albert District Health Board	March 31
Public Employees Pension Plan	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 Gaming Corporation	March 31
Saskatchewan Health Information Network	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

Crown Agencies (continued):**Year End**

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
Extended Health Care Plan for Certain Other Employees	December 31
Northern Revenue Sharing Trust Account	December 31
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 Plan	December 31
Workers' Compensation Board Superannuation Plan	December 31
Agri-Food Equity Fund	March 31
Associated Entities Fund	March 31
Beef Development Board	March 31
Big Game Damage Compensation Fund	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

Special Purpose and Trust Funds (continued):	Year End
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 Plan	March 31
Learning Resources Distribution Centre Revolving Fund	March 31
Livestock Services Revolving Fund	March 31
Members of the Legislative Assembly Superannuation Plan	March 31
Office of the Rentalsman Trust Account	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
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	March 31
Saskatchewan Legal Aid Commission Client Trust Accounts	March 31
Saskatchewan Pension Annuity Fund	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
Transportation Partnerships Fund	March 31
Trust Accounts at Court House, Local Registrars and Sheriff's Offices	March 31
Victims' Fund	March 31
 Other organizations subject to examination under <i>The Provincial Auditor Act</i>:	
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

**Other organizations subject to examination under
The Provincial Auditor Act (continued):**

Year End

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
Pension Plan for the Eligible Employees of the University of Saskatchewan, 1974	December 31
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

Audits not completed at October 31, 1998

The Standing Committee on Public Accounts recommends an audit of every government agency every year.

This Report includes all audits completed at October 31, 1998 for government agencies with fiscal periods ended June 30, 1998 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, 1998 for government agencies with fiscal periods ended June 30, 1998 or earlier to the Legislative Assembly in a future Report.

We have not completed the audit of the following government agencies with years ended June 30, 1998 or earlier at October 31, 1998, and we will report our findings in a future Report to the Legislative Assembly.

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 continues the transition.

- Agri-Food Equity Fund
- Big Game Damage Compensation Fund
- Carlton Trail Regional College
- Commercial Revolving Fund
- Conservation and Development Revolving Fund
- Correctional Facilities Industries Revolving Fund
- Crop Reinsurance Fund of Saskatchewan
- Cumberland Regional College
- Cypress Hills Regional College
- Doukhobors of Canada C.C.U.B. Trust Fund
- First Nations Fund (1997 and 1998)
- Fish and Wildlife Development Fund
- Greystone Capital Management Inc. (1988 - 1998 inclusive)
- Health Services and Utilization Research Commission
- Highways Revolving Fund
- Keewatin Yatthe District Health Board
- Law Reform Commission of Saskatchewan

Livestock Services Revolving Fund
Mamawetin Churchill River District Health Board
North West Regional College
Northlands College
Parkland Regional College
Pension Plan for the Eligible Employees of the University of Saskatchewan, 1974
Prairie West Regional College
Provincial Mediation Board - Office of the Rentalsman Trust Account
Provincial Mediation Board Trust Account
Public Trustee for Saskatchewan
Queen's Printer Revolving Fund
Resource Protection and Development Revolving Fund
Saskatchewan Alfalfa Seed Producers' Development Commission
Saskatchewan Archives Board, The
Saskatchewan Arts Board, The
Saskatchewan Broiler Hatching Egg Producers' Marketing Board
Saskatchewan Centre of the Arts
Saskatchewan Chicken Marketing Board
Saskatchewan Commercial Egg Producers' Marketing Board
Saskatchewan Crop Insurance Corporation
Saskatchewan Flax Development Commission
Saskatchewan Indian Regional College
Saskatchewan Liquor and Gaming Authority
Saskatchewan Pulse Crop Development Board
Saskatchewan Sheep Development Board
Saskatchewan Student Aid Fund
Saskatchewan Turkey Producers' Marketing Board
SaskPen Properties Ltd.
Southeast Regional College
SP Two Properties Ltd.
St. Louis Alcoholism Rehabilitation Centre
Teachers' Superannuation Commission
University of Saskatchewan
University of Saskatchewan Academic Employees' Pension Plan
University of Saskatchewan and Federated Colleges Non-Academic Pension Plan
University of Saskatchewan Clinicians Service-Side Pension Plan
University of Saskatchewan Crown Foundation
University of Saskatchewan Long Term Disability Income Plan
Victims' Fund
Waneskewin Heritage Park Corporation
Western Development Museum

Organizations where we found no significant matters to report to the Legislative Assembly

Appendix 4 lists government organizations where we have completed our work with fiscal periods ended June 30, 1998 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 Economic and Co-operative Development
Department of Energy and Mines
Department of Intergovernmental and Aboriginal Affairs

Crown Agencies:

Agricultural Credit Corporation of Saskatchewan
Agricultural Implements Board
Associated Entities Fund
KROP Transport Ltd.
Moose Jaw Packers (1974) Ltd.
Municipal Financing Corporation of Saskatchewan
Public Employees Pension Board
Public Service Commission, The
Saskatchewan Cancer Foundation
Saskatchewan Communications Network Corporation

Crown Agencies (continued):

Saskatchewan Forest Products Corporation
Saskatchewan Gaming Corporation
Saskatchewan Institute of Applied Science and Technology
Saskatchewan Legal Aid Commission
Saskatchewan Lotteries Trust Fund for Sports, Culture and Recreation
Saskatchewan Municipal Board
Saskatchewan Property Management Corporation
Saskatchewan Wetland Conservation Corporation
Water Appeal Board

Special Purpose and Trust Funds:

Capital Pension Plan
Correspondence School Revolving Fund
Judges of the Provincial Court Superannuation Plan
Learning Resources Distribution Centre Revolving Fund
Oil and Gas Environmental Fund
Public Employees Benefit Agency Revolving Fund
Public Employees Disability Income Fund
Public Employees Group Life Insurance Fund
Public Service Superannuation Board
Saskatchewan Legal Aid Commission Client Trust Accounts
Saskatchewan Pension Annuity Fund
Saskatchewan Research Council Employees' Pension Plan
School Division Tax Loss Compensation Fund
Social Services Central Trust Account
Training Completion Fund
Workers' Compensation Board Superannuation Plan

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 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

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 investing 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

Reports of appointed auditors

Appendix 6 contains the reports of appointed auditors that we have not relied on and the report of the appointed auditor indicates a matter or issue that should be reported to the Assembly.

Appendix 6 does not contain the reports of appointed auditors that indicate a matter or issue to report to the Assembly when we have not done our work. Appendix 3 contains a list of work not done.

Crown Agency

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**SASKATCHEWAN POWER CORPORATION
YEAR ENDED DECEMBER 31, 1997**

We have audited the consolidated financial statements of **Saskatchewan Power Corporation** for the year ended December 31, 1997 and have issued our report thereon dated February 13, 1998. We have examined the system of internal control of **Saskatchewan Power Corporation** as at September 30, 1997 and have issued our report to you dated February 13, 1998. We have also made an examination to determine whether **Saskatchewan Power Corporation** complied with specified legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended December 31, 1997 and have issued our report to you dated February 13, 1998.

Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In those instances, if any, that our study and evaluation of internal control disclosed conditions indicating that internal controls were inadequate or not complied with, substantive tests were performed to detect any cases in which: 1) any officer or employee of **Saskatchewan Power Corporation** has wilfully or negligently omitted to collect or receive public money belonging to the Crown; 2) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person; and 3) an expenditure was made which was not properly vouchered or certified.

During the course of these examinations, nothing came to our attention that would indicate to us that: 1) any officer or employee of **Saskatchewan Power Corporation** has wilfully or negligently omitted to collect or receive public money belonging to the Crown; 2) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person; and 3) an expenditure was made which was not properly vouchered or certified.

Subsequent to the completion of our audit, the Standing Committee on Crown Corporations conducted an inquiry into matters concerning SaskPower's former subsidiary, Channel Lake Petroleum Ltd. The Standing Committee on Crown Corporations has not yet published its findings. We have not conducted a separate investigation into the matters considered at the inquiry.

Regina, Canada,
February 13, 1998
except for the matter with respect
to Channel Lake Petroleum Ltd.
which is as at November 9, 1998

Chartered Accountants

**SASKATCHEWAN POWER CORPORATION
YEAR ENDED DECEMBER 31, 1997**

To the Provincial Auditor, Province of Saskatchewan

We have made an examination to determine whether **Saskatchewan Power Corporation** complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1997:

- The Power Corporation Act
- The Power Corporation Superannuation Act
- The Superannuation (Supplementary Provisions) Act
- The Crown Corporations Act, 1993
- The Financial Administration Act, 1993
- Treasury Board Accounting and Reporting Policies
- Order-in-Council

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, **Saskatchewan Power Corporation** has complied, in all material respects, with the provisions of the aforementioned legislative and related authorities during the year ended December 31, 1997.

Regina, Canada,
February 13, 1998.

Chartered Accountants

**SASKATCHEWAN POWER CORPORATION
YEAR ENDED DECEMBER 31, 1997**

To the Provincial Auditor, Province of Saskatchewan

We have examined the system of internal control of **Saskatchewan Power Corporation** in effect as at September 30, 1997. We 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.

Our examination was conducted in accordance with generally accepted auditing standards. Those standards require that we 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.

Management of **Saskatchewan Power Corporation** 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 judgment by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor Act, you are required to determine if there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

- a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;
- b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;
- c) transactions are executed in accordance with management's authorization, public money expended is applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and
- d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent 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.

Subsequent to the completion of our audit, the Standing Committee on Crown Corporations conducted an inquiry into matters concerning SaskPower's former subsidiary, Channel Lake Petroleum Ltd. The Standing Committee on Crown Corporations has not yet published its findings. We have not conducted a separate investigation into the matters considered at the inquiry.

In our opinion, based upon the above criteria, the system of internal control of **Saskatchewan Power Corporation** in effect as at September 30, 1997, taken as a whole, was, except for the inherent limitations described in the second preceding paragraph, sufficient to meet with 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 **Saskatchewan Power Corporation**.

Regina, Canada,
February 13, 1998
except for the matter with respect
to Channel Lake Petroleum Ltd.
which is as at November 9, 1998

Chartered Accountants

**SASKATOON DISTRICT HEALTH BOARD
YEAR ENDED MARCH 31, 1998**

We have examined the system of internal control of Saskatoon District Health Board in effect as at March 31, 1998. We 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.

Our examination was conducted in accordance with generally accepted auditing standards. Those standards require that we 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 the Saskatoon District Health Board 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 and related costs of control procedures. Pursuant to our responsibilities under Section 11(1) of The Provincial Auditor Act, we are required to determine if 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, projections of any evaluation of the system of internal control to future periods is subject to risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our examination disclosed the following conditions in the system of internal control of the Board and affiliates as at March 31, 1998 which in our opinion, based upon the above criteria, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to the Board may occur and not be detected within a timely period.

Affiliates Reporting

The following items represent internal control weaknesses identified for organizations affiliated with the Board:

Segregation of Incompatible Functions

Three affiliated organizations reported inadequate segregation of responsibility between cash handling and accounting functions.

Reconciliation and Review

Two affiliated organizations reported weaknesses in reconciliation and review procedures in the areas of payroll, revenue and receivables and purchases and payables.

Financial Reporting

Three affiliated organizations reported that accounting procedures were inadequate to generate accurate monthly financial reports.

Policies and Procedures

Two affiliated organizations reported that documentation of accounting and authorization policies and procedures was insufficient.

Chartered Accountants
Saskatoon, Saskatchewan
June 5, 1998

**SASKATOON DISTRICT HEALTH BOARD
YEAR ENDED MARCH 31, 1998**

We have made an examination to determine whether the Saskatoon District Health Board complied with the provisions of the following legislative and related authorities pertaining to it financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended March 31, 1998:

- The Health Districts Act
- The Health Districts Amalgamation Regulations
- The Hospital Revenue Act
- The Hospital Standards Act
- St. Paul's Hospital (Grey Nuns) of Saskatoon Act
- The Housing and Special Care Homes Act
- The Trustee Act
- The Hospital Standards Regulations
- The Hospital Comprehensive Purchasing Regulations
- The Housing and Special Care Homes Regulations
- The Housing and Special Care Homes Care and Rates Regulations
- Orders-in-Council issued pursuant to the above legislation

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the Saskatoon District Health Board has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended March 31, 1998 except as described in the following paragraphs:

Program reporting requirements

Subsection 35(2) of the Health Districts Act requires the Board to submit to the Minister reports on health board's services and activities and their costs and the health status of the residents and the effectiveness of the Board's programs.

As of June 5, 1998, the Board had prepared a draft "Detailed Annual Report on District Health Services and Health Status" which includes an analysis of health status and health needs of the residents of Saskatoon along with the goals and objectives of the District. The Board has also prepared a three year plan which includes information about services to be provided, cost of services and volumes.

The Department of Health and Provincial Auditor of Saskatchewan have indicated that they do not believe that this satisfies the full intent of the legislation. However, no prescribed format for reporting this information currently exists and therefore we have concluded that the reports prepared by the Board comply with the legislation.

Affiliate Reporting

One affiliated organization reported that it has been pledged a grant for greater than 20% of the cost of a construction project which is not in compliance with part II, section 2 (3) of the Housing and Special-Care Homes Regulations.

One affiliated organization did not provide Saskatoon District Health Board with audited financial statements, auditor's report or internal controls and auditor's report on legislative compliance as required under their operating agreement and Section 26.1 of the Health Districts Act.

Chartered Accountants
Saskatoon, Saskatchewan
June 5, 1998