SASKATCHEWAN

Report of the Provincial Auditor

to the Legislative Assembly of Saskatchewan

1999 Spring Report

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.

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SASKATCHEWAN

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

Phone: (306) 787-6360
Fax: (306) 787-6383
Internet e-mail: strelioff@auditor.sk.ca

May 12, 1999

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 *1999 Spring Report*, 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 *1999 Spring Report* to the Legislative Assembly. This Report focuses on the results of our work at government organizations with years ended December 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.

Wayne Strelioff

Regina, Saskatchewan
May 12, 1999

Wayne Strelioff, CA
Provincial Auditor

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Observations

Introduction

In this 1999 Spring Report to the Legislative Assembly, I set out my conclusions, findings and recommendations pertaining primarily to my audits of government organizations with fiscal years ended December 31, 1998. Many of those organizations are Crown corporations.

In the fall of 1999, I plan to report on my audits of government organizations with fiscal years ended March 31, 1999. Those organizations include government departments.

The Public Accounts Committee

In our system of government, one key agent of positive change is the Standing Committee on Public Accounts. The members of this Committee are ten elected representatives from all political parties. This Committee serves as the audit committee for the Assembly and meets in a public forum. The Committee can ask any government official to attend its meetings to answer questions and to provide information about the management of public money.

During the past year, the Public Accounts Committee has worked well. The Committee met with many government officials to question, debate, and make significant and timely recommendations about a diverse range of issues. These issues, for example, included:

- the preparedness of the Government to cope with the Year 2000 issue;
- the governance practices of SaskPower;
- the performance information provided by district health boards, school boards and local governments;
- the reliability of election returns submitted to the Chief Electoral Officer by political parties and candidates;
- the development of the Saskatchewan Health Information Network;
- the accountability of the Workers' Compensation Board; and

- the information reported publicly by the Government on its performance.

Through its questions and recommendations, this Committee brings about substantive and positive.change in government management and accountability practices. In its most recent Report to the Assembly, this Committee made over 280 recommendations. In recent years, the Government has addressed most of the Committee's recommendations.

In the last Chapter of this Report, I provide more information about the work of this Committee. The Committee's reports can be found at the website – www.legassembly.sk.ca.

The Crown Investments Corporation of Saskatchewan

One key government organization to which I pay particular attention is the Crown Investments Corporation of Saskatchewan (CIC). CIC oversees a large and complex segment of government. This segment includes significant investments and many Crown corporations that provide a wide range of public services (see Chapter 1).

During the past several years, CIC has made significant and much needed improvements to its management and accountability practices. CIC now uses a more complete planning and management framework, it complies with all financial legislative authorities, it is developing and implementing a balanced scorecard approach to performance management, and it now provides legislators and the public with more complete and relevant performance information.

I look forward to CIC and its Crown corporations providing the Assembly and the public with more complete planning information. Setting out clearly what one plans to do as well as the actual results is an essential ingredient to the practices of successful public and private sector organizations.

In Chapter 5, I note that the Saskatchewan Transportation Company has significantly improved how it reports on its performance. I look forward to other CIC Crown corporations doing the same.

Recently, there has been growing interest in the business that several CIC Crown corporations are doing outside of Saskatchewan. Those corporations are involved in three types of activities - - consulting, project management, and equity investment.

In Chapter 1, I provide an overview of those three activities and a summary of the investment guidelines used by CIC to assess investment proposals. In the future, I plan to report further information about the management practices used by CIC and CIC Crown corporations pertaining to their activities outside of Saskatchewan.

Workers' Compensation Board

In Chapter 2, I report that the Workers' Compensation Board (WCB) has overstated its 1998 net income by $61 million. This overstatement relates to how the WCB accounts for rebates to employers. The WCB did not follow the accounting principles recommended by The Canadian Institute of Chartered Accountants (CICA).

Following the accounting principles recommended by the CICA ensures that the WCB reports rigorous, consistent and comparable measures of net income. Such measures are a key ingredient to understanding and assessing the performance of the WCB and its ability to meet its costs within its existing rate structure. I think the WCB should amend its 1998 financial statements.

Also in Chapter 2, I point out that the WCB's 1998 annual report contains other errors, that the WCB did not follow Treasury Board's approval protocols when issuing financial statements, and that its appointed auditor did not follow the agreed framework of procedures for getting audits done with my Office.

Progress and concerns

In this section, I highlight the progress various government organizations have made to strengthen performance management and accountability practices. I also note where more work is required.

In Chapter 3, I report that SaskPower is making progress on several significant issues. SaskPower has moved back to rigorous accounting principles and is now recording the monies received from its capital reconstruction charge as revenue. SaskPower has strengthened its governance practices including introducing new terms of reference for its

Board of Directors and for all of its Committees. In addition, SaskPower has set up sound management processes to support, monitor, and control the implementation of a new management information system (the Delta Project). These processes include following up on and reporting planned and actual costs and benefits.

In Chapter 4, I report that the Saskatchewan Crop Insurance Corporation has good practices for determining whether loss claims submitted by producers are appropriate.

In Chapter 7, I report on the Saskatchewan Liquor and Gaming Authority's (Authority) practices for regulating and monitoring the operations of the Saskatchewan Indian Gaming Authority (SIGA). The operation of commercial casinos in Saskatchewan is relatively new. The Authority faces significant challenges in establishing sound practices and has made good progress. However, the Authority has much work to do. For example, the Authority needs to work with SIGA to establish appropriate governance and conflict of interest policies for SIGA's casinos.

In Chapter 8, I point out that, once again, the Trustees of the First Nations Fund are restricting my ability to obtain the information and explanations I require to properly carry out my responsibilities to the Assembly. As a result, the Assembly is unable to hold the Government fully accountable for its use of public money in this Fund. In the year ended March 31, 1998, the Assembly provided the Fund with $9.5 million. The mandate of the Fund is to carry out economic development, social development, justice, health, and other initiatives related to Indian Bands.

In Chapter 9 (Saskatchewan Government Growth Fund), I review the significant changes taking place to how the Government is managing the money received under the Federal Government's Immigrant Investor Program. Initially, the Government agreed to use those monies to stimulate economic growth with a preference towards rural Saskatchewan, and any surplus was to go to charities. More recently, the Government is using the monies as a source of low-cost borrowing for CIC Crown corporations, and any surplus is to go to the Government.

I recommend that the Government provide information to the Standing Committee on Crown Corporations to help members understand and assess the significant changes taking place in this Program. I also advise that in its 1998 financial statements, the Saskatchewan Government

Growth Fund Management Corporation overstated its net income by $16.4 million.

Updates

For several years, I have monitored and reported on how the Government as a whole is managing its information technology issues and its pension obligations.

In Chapter 10, I report that the Government is working hard to fix its Year 2000 issues and to mitigate related risks. I recommend that all government agencies complete a formal, approved and tested Year 2000 contingency plan by the end of the third quarter of 1999.

In Chapter 11, I recommend that the government establish a government-wide general security policy for its information technology systems. Such a policy would help ensure the protection of confidential information.

In Chapter 12, I report on the Government's investment performance related to its pension plans and on how the Government monitors the performance of its investment managers. I also note that significant changes have been made to two defined benefit pension plans. Those changes affect the use of pension surpluses and the nature of the benefits provided to employees. The plans relate to SaskTel and Municipal Employees. These changes and other pension issues, e.g., how to manage the Government's unfunded pension obligations, need to be carefully monitored. In this Chapter, I point out that the Public Accounts Committee has asked the Government to examine such issues and report back to the Committee.

In 1999, my Office has issued the following reports to the Legislative Assembly:

- *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan on the 1998 Financial Statements of CIC Subsidiary Crown Corporations* - issued in April 1999;
- *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan on the Financial Statements of Crown Agencies for Years Ending in the Period April 1, 1997 to December 31, 1998* - issued in April 1999;

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	Kress, Jeff
Anderson, Mark	Kucher, Tara
Atkinson, Brian	Kuntz, Linda
Bachelu, Gaylene	Lahti, Jay
Baronowsky, Tricia	Lowe, Kim
Beblow, Jolene	Markewich, Dale
Black, Bob	Martens, Andrew
Borys, Angèle	Matchett, Joanne
Brezinski, Curtis	Montgomery, Ed
Burrows, Jamie	Nyhus, Glen
Ceslak, Kami	Oldershaw, Mark
Clemett, Tara	Orrange, Loyd
Creaser, Phil	Paul, Charlene
Daviduik, Krista	Pradhan, Karim
Deis, Kelly	Rybchuk, Corrine
Dickin, Deann	Salman, Salma
Duran, Jason	Schiller, Rita
Duran, Joel	Schwab, Victor
Dyck, Lisa	Shorten, Karen
Ferguson, Judy	Smith, Curtis
Forgie, Leanne	Smith, Scott
Fysh, Cindy	Smith, Shana
Grabarczyk, Rod	Strecker, Rena
Harasymchuk, Bill	Sturgeon, Darold
Harrison, Garnet	Suignard, Gilbert
Heffernan, Mike	Talbot, Marj
Jersak, Rodd	Tomlin, Heather
Kenny, Wade	Volk, Rosemarie
Kinvig, Amy	Walker, Sandra
Klisowsky, Cathy	Watkins, Dawn
Knox, Jane	Wendel, Fred
Kodas, John	Wendel, Leslie

Crown Investments Corporation of Saskatchewan

1

Introduction

Management of Crown Investments Corporation of Saskatchewan (CIC) advises CIC's Board of Directors about subsidiaries and pension plans under CIC's control. In turn, CIC's Board provides advice about these subsidiaries and pension plans to Executive Council (Cabinet). A list of subsidiaries and pension plans appears in the exhibit at the end of this Chapter. CIC also holds investments in several companies.

CIC's *1998 Annual Report* contains three sets of financial statements. The first set shows CIC's financial results consolidated with those of its subsidiaries. The second set shows the financial results of activities of CIC, the legal entity. The third set shows the financial results of activities that CIC manages through its subsidiary CIC Industrial Interests Inc. (CIC III).

The first set of financial statements shows CIC had revenue of $2.7 billion in 1998 and held assets of $7.5 billion at December 31, 1998.

Our audit conclusions and findings

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

- **CIC's financial statements are reliable;**
- **CIC had adequate rules and procedures to safeguard and control its assets; and**
- **CIC complied with authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.**

The remainder of this Chapter contains matters related to Crown corporations' public accountability and international activities.

Public accountability information

In the following paragraphs, we discuss the importance of providing performance information and lists of persons who have received public money.

CIC's annual report is improving

CIC's annual report and those of most of its subsidiaries do not include full comparisons of their plans to actual results. It is difficult to understand and assess the performance of these Crown agencies without knowing their main goals and key indicators of success. We think this information is essential.

To assess the performance of any Crown agency, MLAs and the public need adequate summary information about the agency's plans and about the achievement of those plans. All Crown agencies should provide their vision, long-range goals, specific objectives, key performance targets, and main strategies for achieving those targets. They should also report on the extent to which they achieved their plans and targets. In addition, they could provide information about their governance practices and assessments of effectiveness of control related to the agency's significant objectives.

Over the past few years, CIC has significantly improved its annual reports. For example, CIC's annual report includes its vision, mission, objectives and information on governance. Also, CIC's annual report sets out its corporate objectives for the coming year as well as its accomplishments related to the objectives set out in the prior year's annual report. In 1998, CIC further improved its annual report by clearly linking its corporate objectives to its mission.

CIC is continuing to pursue improvements to its performance reporting. In 1997, CIC began to implement the Balanced Scorecard performance measurement system. CIC's objective is to "balance the Crowns' business needs with meaningful accountability to the people of Saskatchewan." The Balanced Scorecard is used to evaluate financial performance as well as the achievement of targets in the areas of innovation and growth, customer satisfaction and public policy. We support CIC's decision to use the Balanced Scorecard as a framework in which Crown corporations will compare their plans to their actual results.

We encourage CIC to continue improving its public reporting practices by reporting all the key elements (e.g., performance indicators, targets, and actual results) of its Balanced Scorecard in its future annual reports. CIC's annual report could then serve as a leading example of good public accountability. We think disclosing a full comparison of plans to actual results using the framework provided by the Balanced Scorecard system will help MLAs and the public to understand and assess the performance of Crown corporations.

1. **We recommend CIC should continue to improve its public accountability and that of its subsidiaries by ensuring that the key elements of the Balanced Scorecard are included in their annual reports.**

List of persons who received public money

CIC and its subsidiaries did not give the Assembly a list of persons who received public money in 1998.

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.

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 MLAs have the following three objectives for requiring public disclosure of those persons who receive money from a government organization (e.g., department, Crown corporation).

- MLAs want to monitor who gives money to political parties and who gets money from government organizations;
- MLAs want to ensure government organizations spend money objectively; and
- MLAs want to build public confidence by ensuring the use of public money is transparent.

To achieve the MLAs' objectives, the Assembly, through PAC, has specified it wants the following general standard of public disclosure of who received money from government organizations. In addition, the Assembly wants this information tabled in the Assembly:

- persons who received salaries of more than $2,500 per year;
- suppliers of goods and services who received more than $20,000 per year; and
- persons who received transfer payments of more than $5,000 per year.

The Assembly has allowed some exceptions, e.g., payments to social assistance recipients, Workers' Compensation Board payments to injured workers and cases where PAC advised that this information was not necessary to achieve the MLAs' objectives. Also, the Assembly has decided that some payments (e.g., those made to MLAs) should have more disclosure than the general standard.

Most government agencies now make public a list of persons who received money from those agencies. However, there are still many government agencies that do not. As a result, MLAs and the public do not have this information for approximately 40% of all government spending. Most of this spending is through CIC and its subsidiaries. The Crown Corporations Committee requests and receives some information about spending by CIC and its subsidiaries. However, this information is limited to payments made to board members, senior management and consultants, and expenses related to out-of-province travel.

In February 1998, PAC discussed its previous recommendation regarding agencies making public lists of persons who have received money from them. PAC agreed the spirit of accountability is an important fundamental principle of government. PAC also considered this issue in relation to Crown corporations. In its Third Report to the Legislative Assembly (tabled in April 1999), PAC recommended that the Assembly refer this issue to the Crown Corporations Committee for review and consideration, as it relates to CIC and its subsidiaries.

The Assembly has not yet referred this matter to the Crown Corporations Committee. That Committee has not discussed what disclosure of spending information will achieve the MLAs' objectives for requiring this information, as its relates to CIC and its subsidiaries.

We think there should be a comprehensive review of this important accountability issue. Appropriate public disclosure requirements that meet the MLAs' objectives for requiring this information should be established for payments made by CIC, its subsidiaries and its related agencies.

2. **We continue to recommend CIC and its subsidiaries should:**

- **publish a list of persons who received money from them and the amounts the persons received following the Assembly's current general disclosure standard; or**

- **discuss alternate public disclosure requirements that will achieve the MLAs' objectives for requiring this information with PAC or, if the Assembly so directs, with the Crown Corporations Committee.**

International and extra-provincial activities

In recent years, there has been growing interest in the business that Crown corporations are doing outside of Saskatchewan, and in particular, outside of Canada. Stakeholders want assurance that Crown corporations are accountable for the scope of their mandate, and for the performance of their business ventures. This Chapter provides an outline of the types of extra-provincial activities in which Crown corporations are involved. It is provided to help MLAs and the public understand the extent to which the Government is involved in these activities.

Background

The Government of Saskatchewan created Crown corporations to ensure access to reasonably priced utility goods and services that would not otherwise be available to all, or some, of the province's residents. Crowns are also used as instruments of public policy and to earn a return on investment. Crown corporations now have limited opportunities to expand and diversify within the province. Therefore, some Crowns have begun to do business in other provinces and other countries. With their benefits, these new ventures also bring additional risks that Crowns must manage well if they are to be successful.

Nature of international and extra-provincial activities

Crown corporations are involved in three main types of activities outside the borders of Saskatchewan. They are consulting, project management, and equity investment. In addition, Crown corporations engage in extra-provincial or international dealings in the normal course of business, such as the purchase or sale of goods and services. Following is an overview of these activities.

Consulting

To date, the most extensive form of extra-provincial activity by Crown corporations has been the delivery of consulting services – using their expertise to help others develop their own technology and infrastructure. The Government has allowed each Crown's board to decide what consulting agreements it will accept.

SaskTel Holding Corporation has a long history of sharing its expertise in telecommunications technology. Primarily through subsidiaries (SaskTel International, SaskTel U.K. Holdings, SaskTel Holding (New Zealand), and SaskTel Consulting), this Crown corporation has worked with companies and governments in such places as the U.S., Europe, New Zealand, the Caribbean, the Philippines, South America and Tanzania. SaskTel International, which accounts for most of SaskTel's international activity, recorded revenues of $17.4 million in 1998, including $7.1 million from consulting and project management and $8.3 million from software sales.

In 1998, SaskTel International (SI) worked on several consulting projects. In New Zealand, it provided technical assistance to Saturn Communications (further information appears under *Equity Investments)*. In the Philippines, SI provided consulting services to the Government as well as to several private companies. In Brazil, SI supplied Nortel with manpower and expertise during the installation, testing and commissioning of new wireless digital communications networks in several centres. In Italy, SI provided technical support for the installation and commissioning of five new network switches.

Among SaskTel's past consulting projects, the most notable is the Anglo-French Channel Tunnel. From 1988 to 1994, SaskTel was involved in the largest single construction project in the world. Its role included the development of procedures, creation of standards and provision of technical and management resources.

SaskPower and SaskEnergy also provide consulting services outside the province.

SaskPower has expertise in the planning, design, construction and operation of power generation, transmission and distribution systems. SaskPower International (formerly SaskPower Commercial) was created in 1994 to market this expertise around the world. Its efforts are mainly focussed on developing business partnerships in South America, the Caribbean, southern Asia, and central and eastern Europe. It is currently providing environmental assessments and other technical support to projects in Russia, Peru, Cuba and India. It was also involved in the rehabilitation of a thermal power plant in the Ukraine until September 1998. In addition, the corporation provides assistance to Canadian and other companies who are examining business opportunities in countries such as Columbia, Guyana, the Philippines and Cuba. Revenue from international consulting dropped from $1.3 million in 1997 to $0.4 million in 1998.

Similarly, SaskEnergy created SaskEnergy International in 1996 to market its services and expertise throughout North America and the world. In 1998, it prepared a feasibility study on a proposed natural gas distribution network for the Government of Uruguay. It also began initial work on a natural gas distribution project in Chile. This led to the signing in 1999 of a consulting contract under which SaskEnergy will be a technical advisor to Gas Sur S.A., a major gas distribution company in that country. As noted below under *Equity Investments*, SaskEnergy also purchased a 15% ownership interest in that company.

In addition, SaskEnergy pursued potential business opportunities in other Canadian provinces. For example, SaskEnergy participated in the evaluation of a project to develop a natural gas distribution utility in Nova Scotia using Sable Island production. SaskEnergy has also pursued opportunities to provide consulting services on the construction of gas storage caverns to companies in England and Iran.

Project management

Crown corporations may also participate in extra-provincial projects by serving as the project manager. Currently, only SaskTel International (SI) is involved in project management. Managing a project involves more risk than consulting engagements since activities include taking responsibility for planning, organizing, staffing, directing and controlling an activity. SI mitigates this risk whenever possible, by securing deposits, obtaining funding from federal development agencies or working in partnership with local contractors.

SI has been involved in a number of projects, including several in the Philippines. Since 1990, it has been working on a series of projects to engineer, supply and install a telecommunications system in the Philippines. The first three phases were worth over $75 million. SI is currently bidding on Phase Four.

In addition, SI secured a contract to engineer, furnish and install a turnkey microwave radio system in Quezon province of the Philippines.

In 1998, SI also managed a Philippine project to design, construct and operate a fiber optics and microwave transmission network. This project involved a consortium of telecommunications providers.

SI is responsible for installing telephone facilities in Tanzania, a project worth $6 million over two years. SI's activities will include: designing and building a network consisting of digital microwave radio equipment, radio towers and buildings to hold the telecommunications equipment.

In the United States, SI has provided installation and commissioning services related to management software, cellular systems, fiber optics systems and switching systems. SI has previously managed projects in Mexico, the Bahamas and China.

Equity investments

To a limited extent, Crown corporations have invested directly in extra-provincial businesses. The Crown corporations' equity investments have included the following:

SaskTel Holding Corporation

- Through its subsidiary SaskTel Holding (New Zealand) Inc., SaskTel owns 35% of Saturn Communications, a new and growing cable TV service provider in Wellington that is expanding into telecommunications. To December 1998, SaskTel has invested $35 million in Saturn. SaskTel also has management and technical expertise contracts with Saturn, as noted under *Consulting*. Some of its other investments have been as follows.

- Previously, SaskTel owned 56% of LCL Cable Communications Ltd., a UK company. SaskTel sold this investment in 1995 for $137 million, making a gain of $114 million. It has retained responsibility for warranties relating to the sale.

- In 1998, SaskTel sold its 3.8% interest in Alouette Telecommunications Inc. to the majority shareholder for $14.5 million, making a gain of $7.6 million.

- In 1995, SaskTel and another partner formed NST Network Services Inc., a communications construction company, to build fibre-coax networks in the U.S. SaskTel exited this investment in 1997 after incurring losses totalling $16 million.

SaskPower

- In 1997, SaskPower sold its subsidiary, Channel Lake Petroleum Ltd. SaskPower has no other equity investments with interests outside Saskatchewan at this time.

SaskEnergy

- SaskEnergy uses its initial contacts and consulting engagements to help identify opportunities for investment that meet its investment criteria. Following some preliminary work in 1998, SaskEnergy made the following equity investment in 1999. SaskEnergy purchased a 15% ownership interest in Gas Sur S.A., a Chilean natural gas distribution operation, for $7.4 million payable over three years. As noted previously, SaskEnergy also has a related consulting contract worth $1 million with this company. SaskEnergy's partner is the recently merged TransCanada Pipelines/Nova. This company, with extensive experience operating in Chile and South America, also purchased a 15% ownership interest.

Saskatchewan Government Insurance (SGI)

- SGI Canada Insurance Services Ltd. (SCISL) is wholly owned by SGI, Saskatchewan Auto Fund and Crown Investments Corporation of Saskatchewan (CIC). Their investment in SCISL totals $5 million. SCISL was created to sell insurance products in other Canadian provinces. In addition, SCISL has a 36% interest in a company that sells hail insurance in Canada.

Other international activities

Occasionally, Crown corporations engage in business transactions outside Saskatchewan as part of their normal operations. Some of these activities are as follows.

SaskTel and SaskPower have long-term debt denominated in U.S. dollars. This debt was borrowed on their behalf by the Department of Finance.

SaskTel has on-going business with companies, mainly in the U.S. This involves the receipt and payment of licensing fees for software and internet service as well as the purchase and sale of telecommunications products. Nearly 50% of SI's 1998 revenue was from software sales.

SaskPower and SaskEnergy have entered into supply and sales agreements with other utilities and marketers. These agreements ensure these Crown corporations can buy additional energy when needed to meet the province's energy demands. They also ensure that any excess energy generated can be sold.

Another form of international activity involves the insurance industry practice of ceding insurance risks. SGI uses a Canadian broker to cede (transfer) insurance to other insurers, including foreign companies. SGI follows stringent industry standards to ensure its insurance is ceded only to the most reputable and reliable companies. SGI does not assume insurance risks from others.

Crown corporations also hold foreign investments, both directly and in their pension plans. The Crowns engage professional investment managers to administer these portfolios following investment policies and objectives approved by the Crown corporation's or pension plan's directors.

International Investment Guidelines

Participation in equity investments exposes the Government to more risks than either consulting or project management arrangements. These risks may include operating under unfamiliar laws and customs, currency restrictions and exchange fluctuations, and uncertain economic and political environments. To manage these risks, Cabinet implemented a new approval process and guidelines for making international investments in 1997. The complete International Investment Guidelines appear as Appendix 3 to *Saskatchewan's Crown Corporations, A New Era*. This document was published in June 1997 by CIC, following the 1996 Crown Review. Under this process, Cabinet approves all foreign investments. However, before Cabinet considers an investment proposal, the proposal must first be approved by the Crown corporation's board and by CIC's board. Those boards assess investment proposals against the new guidelines.

These guidelines deal with such matters as:

- the relationship of the investment to the corporation's area of core competency;
- strategic alliances with local partners;
- the investment's expected rate of return;
- the existence of a well-defined exit strategy;
- concentration of investments by type, geographical area, etc;
- the relative magnitude of the Crown corporation's exposure to international investments;
- expected benefits to the international community; and
- expected benefits to the corporation's stakeholders.

These guidelines were expanded in 1998 to cover all external investments.

Conclusion

We plan to continue monitoring Crown corporations' international activities, and to comment on them in future reports to the Assembly.

Exhibit 1: Subsidiaries, corporations and pension plans under CIC's control

- CIC Industrial Interests Inc.
  - CIC Pulp Ltd.
  - CIC Forest Products Ltd.
  - Genex Swine Group Inc., formerly National Pig Development (Canada) Co. Ltd.
  - Western Canadian Beef Packers Inc.
- Capital Pension Plan

- Saskatchewan Development Fund Corporation
- Saskatchewan Development Fund

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

- Saskatchewan Forest Products Corporation

- Saskatchewan Government Growth Fund Management Corporation
- Saskatchewan Government Growth Fund Ltd.
- Saskatchewan Government Growth Fund II Ltd.
- Saskatchewan Government Growth Fund III Ltd.
- Saskatchewan Government Growth Fund IV Ltd.
- Saskatchewan Government Growth Fund V Ltd.
- 617275 Saskatchewan Ltd.

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

- Saskatchewan Opportunities Corporation

- Saskatchewan Power Corporation
  - SaskPower International Inc.
  - Power Greenhouses Inc.
- Northern Enterprise Fund Inc.
- Power Corporation Superannuation Plan

- Saskatchewan Telecommunications Holding Corporation
  - 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.
    - Hospitality Network of Canada
  - 620064 Saskatchewan Ltd.
    - SaskTel Data Exchange Inc.
      - Information Queries and Analysis Partnership
- Saskatchewan Telecommunications Employees' Superannuation Plan

- Saskatchewan Transportation Company

- Saskatchewan Water Corporation

Glossary

For the purposes of this Chapter, the following definitions apply.

Crown corporation – A Crown corporation under CIC's direction: created by an Act of the Saskatchewan Legislative Assembly, or by Cabinet through an Order in Council. Examples are SaskPower, Saskatchewan Government Insurance, and Saskatchewan Transportation Company.

Subsidiary of a Crown corporation – A corporation controlled by CIC or by a Crown corporation; usually created under *The Business Corporations Act* [Saskatchewan] or the *The Business Corporations Act* [Canada]. Examples are CIC Pulp Ltd. and SaskPower International Inc.

Subsidiary – A Crown corporation or a subsidiary of a Crown corporation.

Workers' Compensation Board

2

Introduction

The Workers' Compensation Board (WCB) operates under *The Workers' Compensation Act, 1979.* This Act establishes a mandatory no-fault compensation program for Saskatchewan workers. The Board of the WCB administers this program and manages the WCB. It also hears and adjudicates claims on appeal.

The *1998 Annual Report* of the WCB provided to the Legislative Assembly contains the WCB's 1998 financial statements. Those statements report revenues of $225 million, expenses of $173 million, net income of $52 million, and net assets of $144 million.

In 1998, the WCB decided to provide employers with three rebates for a total of $84 million. In its financial statements, the WCB accounted for these rebates inconsistently and, in our opinion, incorrectly.

As a result, the WCB's 1998 financial statements are misstated. The WCB overstates revenues and net income by $61 million, it understates liabilities by $38 million, and it overstates overall net assets by $38 million.

We recommend that the WCB amend its financial statements and then re-issue the amended financial statements.

We also report that the WCB did not follow Treasury Board's approval protocols when issuing its 1998 financial statements; that the WCB's appointed auditor did not follow the agreed upon framework of procedures for getting audits done with my Office; and that the WCB's *1998 Annual Report* contains several other errors

Financial statements are misstated

The WCB pays for the costs of its compensation programs by charging employers and by earning income on its investments. From time to time, the WCB provides rebates to employers when the WCB concludes that it is financially able to do so and when the amounts paid by some employers is more than the costs of their injury claims.

In the past, the WCB accounted for such "rebates" as a reduction of its revenues. This accounting treatment is consistent with what is recommended for public sector organizations by The Canadian Institute of Chartered Accountants (CICA).

In 1998, the WCB decided to provide employers with three rebates for a total of $84 million.

- First, the WCB decided that certain employers should receive a rebate of $14 million because those employers were paying the WCB more than the cost of their injury claims.
- Second, the WCB decided that certain employers should receive a further rebate of $23 million.
- Third, the WCB decided that certain employer groups should receive a rebate of $47 million based on the groups' injury claims to December 31, 1996.

The WCB accounted for these rebates inconsistently and incorrectly. The WCB did not follow the recommendations of the CICA. We think it should.

If it did, the WCB's 1998 financial statements would and should be amended as follows:

- revenues should be reduced by $61 million to reflect the decision made by the WCB in 1998 to provide employers with three rebates;
- net income should be reduced by $61 million to reflect the lower revenues;
- liabilities should be increased by $38 million to reflect the fact that the WCB still owes employers a portion of the third rebate; and
- the overall balance for the WCB's reserves and injury fund should be reduced by $38 million.

We think the Government should ensure all of its organizations follow the accounting principles recommended for public sector organizations by The Canadian Institute of Chartered Accountants. Following principles established by an independent and credible standard-setting body ensures that financial statements provide rigorous, consistent and comparable performance information.

Recently, Cabinet asked the WCB to provide legislators and the public with information about its planned and actual performance. Such performance information is needed to help legislators and the public to understand and assess the WCB's performance and its ability to meet its costs within its existing rate structure.

Also recently, legislators have been considering important changes to the nature of the compensation claims that should be paid by the WCB.

On March 10, 1999, Cabinet provided direction to the WCB on how it should settle claims for certain dependent spouses of workers who died as result of injury and who remarried or entered into a common law relationship in 1985. This decision impacts the WCB's costs and its future rate setting decisions.

Also, the Legislative Assembly has recently passed an amendment to *The* Workers' *Compensation Act 1979*, directing the WCB to make special payments to certain dependent spouses of workers who died as a result of injury and who remarried or entered into a new common law relationship prior to September 1, 1985. This decision also impacts the WCB's costs.

During 1998, the WCB transferred $23 million from their injury fund to a contingency reserve for anticipated costs for surviving spouses of workers who died as a result of injury and who remarried prior to 1985.

If the WCB changes how it measures its performance and how it reports its performance in its financial statements, those statements will be less useful for assessing the WCB's performance and its ability to pay for the cost of additional compensation claims within its existing rate structure.

1. **We recommend the WCB should amend its 1998 financial statements and obtain Treasury Board's approval for the revised financial statements. The Government should table the revised financial statements in the Legislative Assembly.**

Revenue, net income and net assets overstated

In the following paragraphs, we explain in more detail why we think the financial statements are misstated.

The WCB should follow the accounting principles for the public sector recommended by the CICA. The WCB is a public sector agency as defined by Public Sector Accounting Board (PSAB) of the CICA. PSAB requires public agencies, such as the WCB, to follow accounting principles recommended for business enterprises in the *CICA Handbook*. The Handbook requires business enterprises to show net income and to deduct rebates from reported revenue.

Net income is an important indicator of the WCB's ability to earn revenue and manage costs. When the WCB does not record events and decisions that effect net income, then net income is not a useful performance measure. Also, net income affects the reported accumulated surplus or net assets of the WCB. This is an important measure of the WCB's financial well being.

Currently, the WCB has two types of rebates it provides to employers. One rebate is based on the claims history of an individual employer. The other rebate is based on the claims history of a group of employers. Employers are grouped by industry.

During 1998, the WCB decided to provide three rebates totalling $84 million. The WCB decided to provide a $47 million "surplus amortization" rebate based on the claims history of groups of employers at December 31, 1996, a $14 million "merit" rebate based on individual employers' claims history, and a further $23 million "declared employers" rebate based on individual employers' claims history. A portion of "surplus amortization" rebate ($9 million) was recorded during the year.

The WCB publicly announced in 1998 that it would provide employers the "surplus amortization" rebate over five years starting in 1998. Also, in 1998, the WCB publicly announced it would provide employers the "declared employers" rebate in 1999. The WCB chose its own accounting principles for these rebates and accounted for these rebates both inconsistently and incorrectly.

The WCB recorded approximately $9 million of the $47 million "surplus amortization" rebate as a reduction of revenue in 1998. The WCB should have recorded the total "surplus amortization" rebate as a reduction of revenue and net income for 1998 because the WCB made the decision in 1998 and told employers it would provide the rebate. Also, the WCB should have recorded a $38 million liability to employers for the balance of the rebate.

We are advised the WCB did not record $38 million of the rebate in 1998 because the WCB believes it would be illogical to record a liability for employers in industries with surpluses since the WCB does not record an account receivable from employers in industries that have deficits. We disagree because the decision to record or not to record an asset or liability should be considered separately based on the facts and the applicable accounting principles (i.e., the accounting should reflect events and decisions that have happened not events or decisions of the future).

The "surplus amortization" liability is based on events that have already occurred and decisions already taken. Thus, the WCB should record this liability. According to the WCB's public documents, employers in industries with claims history that resulted in surpluses will receive their rebates based on industry group claims history at December 31, 1996 and regardless of their industry experience in the future. We note the WCB correctly recorded a liability for the $23 million "declared employer" rebate and $14 million "merit" rebate because the events have occurred and the decisions taken even though employers would not receive the rebate until 1999.

In contrast to the liability, the amounts due from employers are based on future decisions and events. According to the WCB's public documents, employers in industries with claims history that resulted in deficits at December 31, 1996 do not have to pay the deficit if their industry group claims experience improves or if the WCB earns more investment income or reduces costs. As a result, the WCB should not record an account receivable from employers with deficits at December 31, 1996.

The WCB recorded a "merit" rebate of $14 million as a reduction of revenue and net income. The WCB chose the appropriate accounting principles recommended by the CICA for this rebate.

In November 1998, the WCB issued a press release stating it would provide a "declared employers" rebate totaling $23 million. The WCB established its own accounting principle for recording this rebate. The WCB did not record this rebate as a reduction of revenue and net income in its 1998 financial statements as required by the CICA. The WCB incorrectly recorded this rebate as if it was a return on investment (dividend) to the owners (employers).

Under the Act, the WCB has authority to provide rebates to qualifying employers. In past years and for the $14 million "merit" rebate, and $9 million of the "surplus amortization" rebate in 1998, the WCB correctly recorded these rebates as reductions of revenues and net income. We think the "declared employers" rebate of $23 million should also reduce revenue and net income.

We are advised the WCB recorded the $23 million rebate as if this rebate was a return on investment (dividend) to the owners (employers) because it thinks the net assets held by the WCB are held in trust for employers and therefore any surplus accrues to employers. For this reason, the WCB argues using the accounting principles for the public sector recommended by the CICA would be a mistake. We do not agree with this argument.

We think there is no trust relationship with employers because there is no trustee and beneficiary relationship. In a trust, trustees hold property in a fiduciary capacity for the beneficiaries who are the true owners. This kind of relationship does not exist under the workers' compensation program.

Under the workers' compensation program, workers have given up their right to sue the employers for workplace injuries. The employers, to maintain immunity from litigation, pay money to the WCB to compensate injured workers. Neither injured workers nor employers have a choice to opt out of the program.

We think the Legislative Assembly has directed the WCB to hold its net assets for the benefits of both workers and employers. Employers receive benefits from these net assets by way of not having to pay for the costs associated with work place injuries. Injured workers receive benefits by way of compensation, rehabilitation and pensions and by avoiding the uncertainty and expense of using litigation to seek compensation for workplace injuries.

For these reasons, we think the workers' compensation program is not a trust arrangement. Also, we think the employers are not the owners of the net assets held by the WCB. The workers' compensation program is an important public program in which the Legislative Assembly provides authority and responsibility for the Government to oversee.

We think all Government of Saskatchewan agencies should follow the accounting principles recommended by the CICA for public sector agencies.

Disclosure of related-party transactions required

The CICA's accounting principles require disclosure of significant related party transactions. Under the CICA's accounting principles, parties are related when they are subject to common control, joint control or common significant influence.

The financial statements do not disclose the following significant related-party transactions.

Greystone Capital Management Inc. (Greystone) is a related party by virtue of the WCB's shareholding in Greystone along with several other Government of Saskatchewan public sector agencies. At December 31, 1998, the WCB had invested $8.5 million in Greystone Emerging Markets Fund and $36.0 million in Greystone Non-North American Fund. We think the WCB's financial statements should disclose these investments and the amount of income generated from these investments. In the past, the WCB disclosed its related-party transactions with Greystone. Also, other government agencies disclose, in their financial statements, transactions with Greystone.

We are advised the WCB thinks this disclosure is no longer necessary because it thinks the Standing Committee on Public Accounts (PAC) has confirmed the view that the WCB is autonomous of the Government. Therefore, the WCB thinks that common control with other associated government agencies does not exist because the Government cannot influence the WCB. We do not agree that the WCB is autonomous of the Government and that PAC has confirmed this view.

We continue to think the Government does control the WCB in administering the workers' compensation program. The Government can and does influence the WCB's decisions by virtue of the Government's authority set out in *The Workers' Compensation Act.*

Subsection 181(2) of the Act states:

> The Lieutenant Governor in Council may make regulations setting out guidelines for the making of decisions by the board, and regulations made pursuant to this subsection supersedes any policy directive of the board that conflicts with it

As stated earlier, the Government has directed the WCB to provide important performance information to the Assembly and the public. The Government has also provided directions to the WCB on how it should settle claims for certain dependent spouses of workers who died as a result of injuries.

Also, at a meeting on October 6, 1998, the Vice-Chair of PAC made the following comments:

> In my view, the principal of the independence of the board has been extended beyond what was originally intended and I think beyond what is necessary.

The Vice-Chair went on to say:

> I would urge that all parties examine critically the principal of the independence of the board. I strongly believe this board must be accountable to the Legislative Assembly with respect to matters of administration. And we need to distinguish that from question of adjudication of individual claims.

We think the WCB's argument is inconsistent with the financial statements it prepared. We note the WCB's financial statements disclose other transactions with government agencies. Note 11 to the financial statements states the following:

> Included in these financial statements are transactions with various Saskatchewan Crown Corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common influence by the Government of Saskatchewan.

Disclosure of change of appointed auditor required

Subsection 11(3) of *The Provincial Auditor Act* states:

> For the purpose 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.

Generally accepted auditing standards as prescribed by the CICA require:

> Where the comparative figures are based upon financial statements which were reported on by other auditors, this fact should be disclosed in the notes to the financial statements or in a separate paragraph of the auditor's report following the opinion paragraph.

Deloitte & Touche became the appointed auditor for the WCB in 1998. KPMG, Chartered Accountants, was the appointed auditor of the WCB for the year ended December 31, 1997. The WCB's financial statements for the year ended December 31, 1998 include 1997 comparative figures but do not include a reference to the previous year's auditor. As a result, Deloitte & Touche's auditor's report should have included the information that another auditor had reported on the 1997 comparative figures.

Other errors in the WCB's *1998 Annual Report*

We note the WCB's *1998 Annual Report*, tabled on April 7, 1999, has other errors.

Exhibit 1 in the WCB's *1998 Annual Report* shows the WCB held $731 million in investments at December 31, 1998. The statement of financial position from the same report, however, shows the WCB held $716 million of investments at December 31, 1998. The Annual Report does not explain the reasons for the difference of $15 million.

Exhibit 2 in the WCB's *1998 Annual Report* shows the WCB received $1,005 million from the sale of investments during the year. The statement of changes in financial position from the same report, however, shows the WCB received $968 million from the sale of investments during the year. The Annual Report does not explain the reasons for the difference of $37 million.

Also, the statement of operations and injury fund included in the Annual Report shows $52 million as net income, while the statement of changes in financial positions and note 6 to the financial statements included in the Annual Report show $29 million as net income. Neither the financial statements nor the Annual Report explain the reasons for this difference.

As stated earlier, the WCB recorded a portion of "surplus amortization" rebate amounting to approximately $9 million as a reduction of revenues and net income during 1998. Notes to the financial statements do not provide information about this transaction.

In addition, we note the financial statements included in the Annual Report show a total transfer of $30 million to reserves. The transfers to reserves include a $23 million contingency reserve for costs anticipated for surviving spouses of workers who died as a result of injury and who remarried prior 1985. Had the WCB recorded the $38 million liability to employers, the injury fund at the end of the year would not have enough funds to transfer $30 million to reserves.

Treasury Board Directives not followed

The WCB and the appointed auditor did not comply with the following Treasury Board's directives.

Treasury Board's approval of financial statements

Section 5(a) of *The Financial Administration Act, 1993* allows Treasury Board to make orders and directives relating to public sector agencies. Subsection 5(d) allows Treasury Board to designate public sector agencies that are subject to its orders and directives. Treasury Board approved a list of agencies that are subject to its orders and directives. The WCB is included in that list. The agencies included in that list are required to obtain Treasury Board's approval before their financial statements are finalized. In the past, the WCB has received Treasury Board's approval before the WCB tabled its financial statements in the Legislative Assembly.

This year, the WCB did not comply with the Treasury Board directive. The WCB tabled its financial statements in the Legislative Assembly on April 7, 1999 without obtaining the Treasury Board's prior approval of the WCB's financial statements. Staff to the Treasury Board received the financial statements for approval on April 8, 1999.

Framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* not followed

In a letter to Deloitte & Touche dated September 24, 1998, we state we intend to follow the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* for our audit of the WCB. The Task Force was formed to establish a better approach to audits when the Government chooses to appoint another auditor. The Task Force recommends an approach that ensures appointed auditors, management, and senior staff of our Office work closely at all stages of the audit to ensure the Assembly and the Government are served effectively. The Standing Committee on Public Accounts and Treasury Board support the recommendations of the Task Force. In April 1995, Treasury Board decided all Treasury Board Crown corporations and agencies should comply with the Task Force's recommendations. On December 3, 1998, Deloitte & Touche also agreed to follow the framework recommended by the Task Force.

The Task Force recommends the following process for finalizing an appointed auditor's report on the reliability of financial statements:

- *upon completion of the audit but prior to the Appointed Auditor finalizing the audit report on the reliability of the financial statements, the Appointed Auditor and the Provincial Auditor discuss the audit findings and agree on the content of the audit report;*
- *upon finalizing the audit report on the reliability of the CIC Subsidiary Crown Corporation's financial statements, the Appointed Auditor and the Provincial Auditor discuss the audit report with the Corporation's management. The Appointed Auditor will take the lead role in these discussion with the Provincial Auditor's support; and*
- *the Appointed Auditor and the Provincial Auditor, then, discuss the audit report with the Corporation's audit committee. The Appointed Auditor will take the lead role in these discussions with the Provincial Auditor's support.*

The Task Force goes on to say that the Appointed Auditor would then sign the audit report.

Deloitte & Touche did not follow the framework recommended by the Task Force. Deloitte & Touche signed the auditor's report without going through the process noted above. At the time Deloitte & Touche signed its auditor's report, we were still trying to resolve the issues reported in this Chapter.

2. **We recommend that Treasury Board instruct Deloitte & Touche to follow the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.**

Other comments and our additional work

We have not yet completed our work related to our audit of the WCB's internal controls and its compliance with legislative authorities. When we do, we will report our conclusions, findings and recommendations.

Deloitte & Touche is the WCB's appointed auditor. Deloitte & Touch and our Office formed different opinions on the WCB's financial statements.

In the opinion of Deloitte & Touche, the WCB's financial statements for the year ended December 31, 1998 are reliable. Deloitte & Touche reports the financial statements of the WCB "present fairly, in all material respects, the financial position of the Workers'Compensation Board as at December 31, 1998 and the results of its operations and changes in its financial position for the year ended in accordance with generally accepted accounting principles."

We relied on the work of the appointed auditor except for the matters reported in this Chapter. *The Provincial Auditor Act* requires us to do additional work when we are unable to rely on the reports of appointed auditors. Our additional work consisted of reviewing *The Workers' Compensation Act, 1979*, Treasury Board's directives, and discussion with the WCB's management to understand the nature of these transactions.

SaskPower

3

Executive summary

This Chapter contains:

- our audit conclusions and findings regarding SaskPower for the year ended December 31, 1998;
- a follow-up report on SaskPower's progress in addressing matters reported to the Legislative Assembly in previous reports; and
- a report on additional procedures carried out regarding SaskPower's Delta Project.

SaskPower has improved its financial statements by recording the monies received from its capital reconstruction charge as revenue in 1998. Also, SaskPower is making good progress in addressing the significant deficiencies regarding governance, organization structure and management controls reported in our 1998 Fall Report - Volume 2.

SaskPower now has new terms of reference for its Board and for all of its Committees. The membership of the board of SaskPower International Inc. is now the same as the SaskPower Board. The SaskPower Board was provided additional training by Crown Investments Corporation of Saskatchewan. Also, SaskPower management provided SaskPower board members with better information to assist them to carry out their duties. In addition, SaskPower has improved its systems of management controls, practices and procedures. Management told us further improvements are planned or in progress regarding governance, policies and procedures, and management practices.

SaskPower has set goals to improve its customer service, prepare for competition and enhance shareholder value. To help meet these goals it established the Delta Project. The project includes implementing a new management information system and changing the way employees work. The first phase of the Delta Project is expected to cost $56 million to install and $30 million to operate over five years. SaskPower plans to achieve $167 million in benefits and reduced costs from this project over the five-year period.

Due to the significance of SaskPower's Delta Project, we examined SaskPower's project management processes to manage the Delta

Project. We compared SaskPower's project management processes against criteria representing best practices. We found SaskPower had set up good management processes to support, monitor, and control the Delta Project and to keep it on time and on budget.

The ultimate success of the Delta Project will be measured by the extent to which the project delivers the benefits and reduced costs planned. We commend SaskPower for its commitment to deliver the project's expected benefits and reduced costs, and for its plans to monitor and measure them. We recommend SaskPower set measurable targets for the annual planned benefits over the Delta Project's five-year business plan and report its progress against these targets in its annual reports.

Introduction

Saskatchewan Power Corporation (SaskPower) provides electrical energy in the Province.

SaskPower prepares consolidated financial statements to report on its activities. The consolidated financial statements include the financial activities of SaskPower and its subsidiaries.

In 1998, SaskPower had revenue of $953 million and net income of $140 million. At December 31, 1998, it held assets of $3.23 billion.

At December 31, 1998, SaskPower administered a pension plan and controlled the following companies:

SaskPower International Inc. (International)

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

International had $0.7 million in assets at December 31, 1998. During 1998, International had revenues of $2.5 million and a net loss of $0.7 million.

Power Greenhouses Inc. (Greenhouse)

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

Greenhouse had $3.4 million in assets at December 31, 1998. Its sole source of revenue is from SaskPower. During 1998, SaskPower reimbursed Greenhouse for its costs of operations totalling $0.4 million.

Northern Enterprise Fund (Northern)

SaskPower established Northern in 1988 to provide economic and educational support to the residents of northern Saskatchewan.

Northern had assets of $7.1 million at December 31, 1998. During 1998, it had revenues of $1 million. SaskPower contributed $0.5 million of Northern's revenue. The remaining revenue was interest and investment income.

The Power Corporation Superannuation Plan (Plan)

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

At December 31, 1998, the Plan had assets of $666 million and liabilities of $610 million.

Our audit conclusions and findings

Our Office worked with Ernst & Young, the appointed auditor for SaskPower, International, Northern and the Plan. Also, our Office worked with Matchett, Potts & Seipp, the appointed auditor for Greenhouse. Our Office and the appointed auditors worked together using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors.* The appointed auditors and our Office formed the opinions below.

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

- **the financial statements of SaskPower, the companies it controlled and the Plan are reliable;**

- **SaskPower had adequate rules and procedures to safeguard and control its assets, except for the matters we report in this Chapter;**

- the companies controlled by SaskPower and the Plan had adequate rules and procedures to safeguard and control their assets; and

- SaskPower, the companies controlled by SaskPower and the Plan complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing.

We also report four other matters for the attention of the Legislative Assembly. Our recommendations 6, 7, 8 and 9 cover these matters. The appointed auditors did not report the matters contained in recommendations 7, 8, and 9.

Follow up on matters reported in our 1998 Fall Report - Volume 2

In this section, we report on SaskPower's progress in addressing the matters reported in our 1998 Fall Report - Volume 2.

SaskPower has improved its financial statements by recording the monies received from its capital reconstruction charge as revenue in 1998. We report earlier in this Chapter that SaskPower's 1998 financial statements are reliable.

In the following paragraphs, we list recommendations made in our 1998 Fall Report - Volume 2 and note SaskPower's progress on addressing these recommendations.

Governance

We recommended 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 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.

On January 4, 1999, the Standing Committee on Public Accounts agreed with the above recommendations.

Progress Noted

SaskPower has made good progress on several of the matters included within this recommendation. For example:

- SaskPower's Board has established new terms of reference for itself and for all of its committees including the Audit and Finance Committee. The SaskPower Board has also issued new terms of reference for the board of SaskPower International Inc. These terms of reference provide clear direction on the role and responsibilities of these boards and committees.

- SaskPower has provided a handbook for each Board member to assist them to carry out their duties. This handbook includes the corporate mission, vision and values and various governing acts and legislation. In addition, it contains documentation on required approval levels, terms of reference, organizational charts and significant policies.

- The membership of the board of SaskPower International Inc. is now the same as the SaskPower Board.

- The SaskPower Board was provided additional training by Crown Investments Corporation of Saskatchewan to improve the level of board governance in the Crown corporations.

1. **We continue to 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.**

   - **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.**

We made these recommendations because several SaskPower Board members were unaware that the SaskPower Board had placed limits on the activities of its former subsidiary Channel Lake Petroleum Ltd. (Channel Lake). Keeping the Board's direction in a handbook or manual will help to prevent future misunderstandings and permit the internal auditor to effectively monitor management's compliance with the Board's direction. In addition, we thought the Board should provide leadership to SaskPower management by embracing and promoting a corporate culture for SaskPower that is more consistent with its public ownership and the public policy role of SaskPower.

Management's Comments

In April 1999, SaskPower management told us that in addition to the Board member's handbook, they planned to update and maintain a summary manual of significant corporate policy directives. This updated manual would allow Board members access to better information to fulfil their roles and in monitoring the internal audit program of the corporation.

Changes to the corporate culture can be seen in the increasing number and quality of presentations to the Board on management's activities. Additional cultural changes will be evident with the communication of redeveloped mission, vision and values statements.

Organization Structure

We recommended 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.

On January 4, 1999, the Standing Committee on Public Accounts agreed with the above recommendation.

Progress Noted

The SaskPower internal audit group does not yet report directly to the SaskPower Board of Directors.

2. **We continue to 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.**

We made this recommendation because 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.

Management's comments

In April 1999, SaskPower management told us organizational structure changes announced in December 1998 would see the Internal Audit group report directly to the Board effective February 1, 1999. The administrative details of this reporting change are currently being completed.

Policy

We recommended 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.

We recommended SaskPower should adopt a policy requiring at least two representatives from SaskPower to be involved in the negotiation of all key contracts.

We recommended 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 contracts.

On January 4, 1999, the Standing Committee on Public Accounts agreed with the above recommendations.

Progress Noted

SaskPower has not yet adopted policies to address the above recommendations.

3. **We continue to 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.**

We made the above recommendation because SaskPower had no policies or procedures requiring the 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 for public assets. It is also important for management to advise the Board of the advantages and risks involved when public assets are to be sold without tender.

Management's comments

In April 1999, SaskPower management told us most corporate assets were disposed of using long standing corporate practices. Management agreed that development of formally documented processes would enhance the awareness of these disposal practices.

4. **We continue to recommend SaskPower should adopt a policy requiring at least two representatives from SaskPower to be involved in the negotiation of all key contracts.**

We made the above recommendation because SaskPower relied too much on one individual when it sold its subsidiary Channel Lake. This individual negotiated many of the key clauses of the sale agreement directly with the purchaser without sufficiently involving other SaskPower officials.

Management's comments

In April 1999, SaskPower management told us that corporate practice for negotiating key contracts normally included a principal and supporting members with appropriate disciplinary background skills, depending on the complexity of the contract. While the required approval levels for contract agreement are well known, management agreed that development of negotiating team policies would enhance awareness of the need for a team approach to key contract negotiations.

5. **We continue to 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 contracts.**

We made the above recommendation because 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 Channel Lake 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.

Management's comments

In April 1999, SaskPower management told us that the internal legal group uses practices such as initialling document pages, use of special papers and checks of legal parameters. Management agreed that development of a document control and check process would allow all parties involved in negotiations and development of agreements to better manage the review and control of these key agreements.

Management Controls

We recommended SaskPower should ensure there is proper segregation of duties among its staff.

On January 4, 1999, the Standing Committee on Public Accounts agreed with the above recommendation.

Progress Noted

We found no instances of inadequate segregation of duties during our 1998 audit of SaskPower.

Management's comments

In April 1999, management told us that as part of the Delta Project, organizational structure and business processes are being reviewed and redesigned and that segregation of duties is included in this review and redesign.

More information on SaskPower's Delta Project is included in pages 49 to 62 of this Chapter.

Other matters for the attention of the Legislative Assembly

In our 1998 Fall Report - Volume 2, we also report two other matters for the Legislative Assembly's attention. We report about financial statements that should be tabled in the Assembly and legislation that needs to be strengthened to improve public accountability.

Tabling of Financial Statements

We recommended the Government should table the financial statements of the Northern Enterprise Fund Inc. in the Legislative Assembly.

On January 4, 1999, the Standing Committee on Public Accounts agreed with the above recommendation.

Progress noted

The financial statements of the Northern Enterprise Fund (Fund) have not yet been tabled in the Assembly.

We made the above recommendation because we believe public accountability is strengthened when the Government tables the financial statements of all government organizations. When financial statements are tabled, the financial statements are made public and they are referred to a Legislative Committee for review. This way, the Assembly and the public can review the performance of the Fund.

SaskPower established the Fund in 1988 to provide economic and educational support to the residents of northern Saskatchewan. The Fund had assets of $7.1 million at December 31, 1998. During 1998, it had revenues of $1 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.

We have reported this matter in previous years. In March 1994, April 1997, and again in April 1999, the Standing Committee on Public Accounts tabled reports concurring with our recommendation.

6. **We continue to recommend the Government should table the financial statements of the Northern Enterprise Fund Inc. in the Legislative Assembly.**

Management's comments

In April 1999, SaskPower management told us that it tables the financial statements of SaskPower International Inc. and Power Greenhouses Inc. Also, the financial statements of the Northern Enterprise Fund Inc. are made available to the members to the Legislative Assembly but are not tabled.

Legislation

We recommended 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.

On January 4, 1999, the Standing Committee on Public Accounts agreed with the above recommendation.

Progress noted

In 1998, we found no instances where SaskPower or its subsidiaries purchased or sold shares or securities of any corporation. Also, CIC approved a policy requiring Crown corporations under its supervision to obtain Order in Council approval for the purchase of shares or securities made through a subsidiary.

In October 1998, the report of the Standing Committee on Crown Corporations on the Channel Lake Inquiry recommended that subsidiaries should only be created and divested after clear, complete, and timely prior approval by the Crown Board, the CIC Board and by Order in Council.

We made this recommendation because we think the 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 when 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 continue to 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.**

Follow up on matters reported in our 1998 Spring Report

In this section, we report on two matters included in our 1998 Spring Report for the attention of the Legislative Assembly.

In the following paragraphs, we list recommendations made in our 1998 Spring Report and note progress on addressing these recommendations.

Comparison of planned and actual results

We recommended SaskPower should ensure its annual report and the annual reports of its subsidiaries and its pension plan include a comparison of planned activities to actual results.

On January 4, 1999, the Standing Committee on Public Accounts agreed to recommend that the Assembly refer this matter to the Standing Committee on Crown Corporations for its review and consideration.

Progress noted

We have not yet received a draft of SaskPower's 1998 Annual Report or the annual reports of its subsidiaries and pension plan. Therefore, we are unable to determine any progress on this matter.

We made the above recommendation because SaskPower's annual report and the annual reports of its subsidiaries and its pension plan did not contain comparisons of planned activities to actual results.

To assess the performance of Crown agencies, MLAs and the public need adequate summary information about the plans of those agencies 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 report on the extent to which they achieved those plans and targets.

We think disclosing a clear and meaningful comparison of planned performance to actual results will help MLAs and the public understand and assess the performance of SaskPower, its subsidiaries and its pension plan.

8. **We continue to recommend SaskPower should ensure its annual report and the annual reports of its subsidiaries and its pension plan include a comparison of planned activities to actual results.**

Management's comments

In April 1999, SaskPower management told us SaskPower continues to enhance its reporting and that of its subsidiaries and pension plan. Besides the traditional annual reports, the corporation is working closely with its parent, Crown Investments Corporation, to fully implement an effective performance measurement system. Annual report presentation and disclosure has expanded, providing readers with a better understanding of corporate performance. For the first time, a full annual report will be prepared for the Power Corporation Superannuation Plan which will include a comparison of results to the performance policy indicators.

List of persons who received public money

We recommended SaskPower and its subsidiaries should:

- publish a list of persons who received money from them and the amounts the persons received following the Standing Committee of Public Account's (PAC) current minimum disclosure amounts; or

- discuss different public disclosure requirements with the PAC or, if the Assembly so directs, with the Crown Corporations Committee.

On January 4, 1999, the Standing Committee on Public Accounts agreed to recommend that the Assembly refer this matter to the Standing Committee on Crown Corporations for its review and consideration.

Progress noted

SaskPower and its subsidiaries did not give the Assembly a list of persons who received public money in 1998.

CIC decides if SaskPower will provide this information to the Assembly. In pages 5 to 7 of Chapter 1 (Crown Investments Corporation of Saskatchewan), we discuss this matter and why the information is important.

9. **We continue to recommend SaskPower and its subsidiaries should:**

- **publish a list of persons who received money from them and the amounts the persons received following the Assembly's current general disclosure standard; or**

- **discuss different public disclosure requirements that will achieve the members of the Legislative Assembly's objectives with the PAC or, if the Assembly so directs, with the Crown Corporations Committee.**

Management's comments

In April 1999, SaskPower management told us that consistent with other Crowns, SaskPower continues to provide reporting on financial performance results as directed by our parent, Crown Investments Corporation.

Our future audit plans

In our 1998 Fall Report - Volume 2, we reported that we planned to be more involved in the audit of SaskPower for the year ended December 31, 1998.

We reported that as part of our audit for the year ended December 31, 1998, we planned to examine SaskPower's process for implementation of its new information systems (Delta project). Our objective was to determine if SaskPower has good practices to ensure the successful implementation of its Delta project. Our report on SaskPower's Delta project is included on pages 49 to 62 of this Chapter.

Also, we reported that as part of a cross-government audit, we intend to ensure SaskPower's international operations are identified and reported to the Assembly. Our report on SaskPower's international operations is included in Chapter 1 of this Report, under Crown Investments Corporation of Saskatchewan.

In addition, we reported that we intend to ensure the key issues that affect SaskPower are identified and reported to the Assembly. We have not yet completed this work and intend to report on this matter in a future report.

SaskPower - Delta Project

Introduction

Successful projects are completed on time, within budget, and meet the expectations and performance requirements set by management. In short, a successful project delivers the benefits the organization sets out to achieve when it makes the investment.

SaskPower has set goals to improve its customer service, prepare for competition and enhance shareholder value. To help meet these goals, it established the Delta Project. This project includes implementing a new management information system and changing the way employees work. The new management information system is an enterprise-wide system called SAP. SAP is a powerful and complex computer system that includes financial, human resource and work management modules. To get the benefits of SAP, SaskPower had to re-look at how they performed their work when using these modules.

Putting in a system like SAP has risk. Organizations can run into difficulties with these projects because:

- they do not invest enough money, time, and expertise to overcome the technical complexities;

- they fail to change the way they work to take advantage of the system's strengths; or

- they do not set up processes to ensure they identify and achieve the planned benefits.

To overcome these difficulties and achieve the planned benefits, senior management commitment, a strong business case, and good project management systems and practices are essential.

The Board approved the implementation of the Delta Project in May 1998. Its decision was supported by a cost-benefit analysis that showed the first phase would cost $56 million to install, and $30 million to operate over five years. The analysis also showed SaskPower plans to achieve $167 million in benefits and reduced costs from this project over the five-year period. Contingent approval was also given to a second phase that would start after the first phase is implemented on August 2, 1999. The second phase addresses customer care and service. The cost-benefit analysis for this phase is in progress.

SaskPower has established a project team, hired experts in SAP and process change, and set up a system to manage the project. SaskPower is using good project management practices and appears to have a clear understanding of the project risks. Our Chapter outlines many of the practices used by SaskPower and a number of the risks it needs to continue to manage well for the project's success.

We would like to acknowledge the co-operation SaskPower and its project advisors provided to us. They helped us gain a good understanding of the Delta Project.

Our work and recommendation

Our objective was to determine if SaskPower has adequate project management processes to manage the Delta Project. We did our work during March 1999 and expressed our conclusions on March 26, 1999.

We did not assess the completeness and accuracy of the cost-benefit analysis for the Delta Project. In a future report, we plan to assess and report on the processes that SaskPower uses to measure the benefits it achieves from its investment in the Delta Project.

To carry out our work, we compared SaskPower's project management processes against criteria that represent best practices. Criteria are standards used to assess and report on performance. The criteria and how we used them are described in Exhibit 1.

We used the criteria to guide us in gathering our evidence and reaching our conclusions on the existence of the processes in place on March 26, 1999. We interviewed the General Manager of the Delta Project, key members of the Project Management Office, and representatives of the Process Security and Integrity Team. In addition, we reviewed key documents, reports, agreements and the minutes of the Delta Project Management Board. Also, we reviewed the electronic tool the project team uses to coordinate and monitor the project's activities.

We did not interview all key members of the project team, conduct procedures to verify the accuracy of reports or check our findings by surveying and interviewing SaskPower management and staff. As a result, our work is not an audit.

We found that SaskPower has set up good project management processes to support, monitor, and control the Delta Project and to keep it on time and on budget. However, good practices cannot always guarantee success. If SaskPower effectively executes its project management processes, it will significantly reduce the risks associated with this large complex project. Some of these risks are summarized in this Chapter.

We highlight the importance of monitoring and measuring the benefits to the accountability process and to the success of the project. We commend SaskPower's executive management for its commitment to deliver the project's expected benefits and for its plans to monitor and measure them.

1. **We recommend SaskPower set measurable targets for the annual planned benefits over the Delta Project's five-year business plan and report its progress against these targets to its Board and in its annual reports.**

Our findings

We report our findings under the three criteria set out below:

Criterion 1: Management commitment to the project

We expected SaskPower to have project management processes to obtain and maintain strong senior management commitment to the Delta Project. Senior management commitment includes actively overseeing, funding, and promoting the merits of the project. Commitment also includes being accountable for the benefits.

Senior management commitment is crucial from the project's start to its finish. When projects lack strong senior management commitment, project goals and objectives become blurred and expected benefits are not realized. In other words, money is wasted.

SaskPower has set up strong processes to obtain and maintain senior management commitment. For example:

- The Board approved the Delta Project.

- The Delta Project's champion is the vice-president of customer services and until recently was the acting president of SaskPower. A champion's role is to ensure the organization supports the project and to ensure the project continues to meet its needs.

- The Delta Project's steering committee consists of SaskPower's executive managers. The committee's role is to ensure the strategic and business objectives of the organization are met.

- SaskPower's senior executives are accountable for achieving the expected project benefits in their departments.

- The Board and Audit Committee receive regular reports on the Delta Project's progress including the status of risks and how they are addressed.

- The Delta Project's expert advisory board (Delta Board) includes a member of SaskPower's Audit Committee.

- The Delta Project's communication plan includes procedures to keep senior management informed on the project's progress.

In summary, SaskPower has good processes to ensure the Delta Project receives strong commitment from senior management and the Board. Maintaining that commitment is essential for the successful completion of the many challenging tasks that lay ahead. These challenges include:

- ensuring SaskPower realizes the expected benefits from the new system;

- ensuring all staff is properly trained in the new business processes and is motivated to realize the benefits;

- ensuring specialized knowledge and skills gained by SaskPower's Delta Project team members for running and managing the new system are retained by the Corporation; and

- properly securing the enterprise-wide system to ensure the confidentiality, completeness, accuracy and availability of information.

Criterion 2: Project based on business needs

We expected SaskPower to have strong processes to develop the business case for the Delta Project. A strong business case is one that is based on an organization's vision, its strategic goals, and clearly sets out the project's purpose, cost and expected benefits. These attributes are necessary for obtaining senior management support and to attract and sustain the resources to complete a project.

SaskPower used good project management processes in developing its business case. These processes include:

- developing an information technology strategy to meet SaskPower's business objectives and risks;
- using this strategy to identify systems capable of delivering the business changes it needs;
- identifying criteria for selecting the best system;
- involving all levels of management in the benefit identification and estimation process; and
- comparing the estimated benefits to the system's costs.

A project's success is ultimately determined by the amount of benefits the organization achieves from it. Therefore, we expected SaskPower to have plans for monitoring and measuring the benefits that SaskPower actually achieves from the Delta Project over the five-year term of its business case. This is a crucial process. When organizations monitor, measure and report on the benefits achieved, they provide assurance on a project's success. This improves accountability as directors and managers can be held to account for their decisions.

Benefits are achieved through hard work. Organizations that set targets for the amount of benefits to be achieved and measure the amount actually achieved have the information that is necessary to improve their performance.

SaskPower's senior management has taken responsibility for delivering the expected benefits from the Delta Project. The Delta Project team is planning processes to monitor and measure the benefits SaskPower actually achieves over the project's five-year business case. These processes include:

- refining the validity and measurement of the expected benefits during the project's development; and
- planning how to monitor and measure the expected benefits.

In summary, SaskPower has used good project management processes to develop the Delta Project's business case. It is also setting up good processes to measure the benefits achieved. We encourage SaskPower to report on its performance in achieving these benefits to its Board and in its annual reports. This provides assurance to the Board, to legislators and to Saskatchewan residents that public money is managed well.

Criterion 3: Good project management systems and practices

We expected SaskPower to have good project management systems and practices to govern and control the Delta Project. 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.

The challenge for SaskPower is to ensure it has a capable project team that follows best practices.

When project management systems and practices are weak, deadlines pass, costs increase, and product quality may suffer. In short, the risk of project failure dramatically increases.

Our review of the Delta Project disclosed that SaskPower has good project management practices. SaskPower prepared and put in place a project plan before the project started. This plan addressed how each of the project management areas described in Exhibit 1 would be managed. For example, the communication plan identified the internal and external stakeholders, the information they would need and when and how it would be communicated to them. It also included plans to determine the readiness of employees to change and to survey employee preparedness to change at key stages of the project.

In the following paragraphs, we describe two areas where good project management reduces risks. They are quality management and risk management.

Quality management

Quality management plays a major role in reducing the risk of project failure. Quality management has two objectives. The first is to ensure the product produced meets the expected requirements. The second is to ensure the project team performs project management processes efficiently and effectively. Experience shows that organizations using quality management processes are more successful in completing projects and they do so in less time and for less money. When these processes are deficient, projects are usually late, over budget and may not deliver the expected benefits.

SaskPower has good quality management processes for the Delta Project. We describe below SaskPower's quality standards and its quality assessments.

Quality standards. There are several internationally recognized best practice models for ensuring quality development processes. Two of the most common ones are the Software Engineering Institute's (SEI) Capability Maturity Model and the ISO 9000 series of standards for quality management set by the International Organization for Standardization. The Delta Project team is using management processes designed to meet the ISO 9000 standards.

The consulting firm SaskPower hired to help it install its new system provided the development methodology and quality practices. To ensure quality management processes were used from the start, the Delta Project team included experts in project management and SAP. This staff has the training and experience in applying good project management practices and in using the consulting firm's methodology. Also, to ensure the Delta Project team follows quality management processes, a Project Management Office (PMO) that includes members of the consulting firm's staff monitor the project's processes. The PMO with its trained staff helps ensure quality standards are met.

Quality assessments. The Delta Project has undergone several quality assessments. There are periodic assessments done by the consulting firm and the SAP vendor. Although these assessments are not independent, the people who perform these assessments are not part of the Delta Project team. SaskPower has also obtained two independent assessments on the project.

In all cases, the assessors have rated the project management standards used on the project as high. Also, the Delta Project team has acted on the recommendations from these assessments and followed up with the assessors to ensure corrective action taken was satisfactory.

Risk management

The Delta Project has good risk management processes. Risk management includes the processes to identify, evaluate, plan, and respond to risks.

Identifying and reducing the risks of a project helps ensure its success. To be effective, risk management must be reliable and timely. Taking corrective action early costs far less than corrective actions taken late in a project's development. Also, early corrective action increases product quality.

In implementing its new system, SaskPower faces several significant risks. Three of the key risks are resistance to change, retention of Delta Project team members, and system and data integrity. Any one of these risks could undermine the success to this project by preventing SaskPower from realizing the $167 million in estimated benefits.

Resistance to Change. The Delta Project will change the way employees' work is planned, monitored, and controlled. For SaskPower to realize the project's expected benefits, employees must adopt the new business processes. This is a significant challenge. People have a natural tendency to fear change and have limits to the amount of change they can accept at any time.

Effective training, managing changes to the work processes (change management) and the co-operation of employees and their unions are essential elements for overcoming resistance to change. Strong leadership and management commitment are also essential.

Good easy to use reporting in a new information system also helps overcome resistance to change. Literature shows that enterprise resource planning systems such as SAP do not come with easy to use reports. Organizations must develop custom reports to address this limitation.

The Delta Project team is developing training and change management plans. It is also planning to develop custom reports with the needs of SaskPower in mind. The quality management processes described earlier will improve the development of these plans. SaskPower has also reached agreements with its unions on co-operation and participation in the Delta Project.

Retention of SaskPower's Delta Project Team Members. For SaskPower to achieve the projected benefits, it needs people with the knowledge and skills to operate and manage the new system. The people with this knowledge are its Delta Project team members. Many of these people will have worked for almost a year in learning how to customize, operate and manage the system. If these people leave after the project is completed, this will be a significant loss to SaskPower.

Transition plans designed to show where and how team members will fit into the regular workforce will reduce this risk. These plans need to encourage employees to stay and participate in achieving the Delta Project's benefits.

SaskPower is aware of the importance of retaining its project team staff. The Delta Project team has identified this as one of the project's greatest risks. It is our understanding this risk remains high and that more work will be done on planning the transition of team member's back into SaskPower's work force.

System and Data Integrity. The protection of the confidentiality, completeness, accuracy and availability of systems and data is another key challenge or risk for SaskPower. When electronic data are protected and authorized, confidence builds in the quality of the information used for decision making.

Securing an enterprise-wide system is complex. All electronic data residing in a system like SAP are potentially accessible to anyone from anywhere in the corporation. As a result, security planning, testing, and implementation must be carefully done.

SaskPower is using the expertise of its outside consultants and its internal audit staff to identify security risks and design the necessary controls. These controls include policies to ensure that security is properly administered and the right people enter and access data.

In summary, SaskPower has good project management systems and practices to govern and control the Delta Project's work. These practices do not guarantee that the Delta Project's benefits will be realized, but they significantly reduce the risks SaskPower faces with this project.

Exhibit 1 Our criteria and how we used them

The three cornerstones of a strong project management climate are our reporting criteria. They are:

- management commitment to the project;
- 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 detailed criteria, the 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 achieve and support a strong project management climate. The 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 to ensure the project is well managed and satisfies the stakeholders' needs.
- Human resource management – the processes 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 purchase and contract for products or services including: tendering and selecting the best contractor; and negotiating, managing, and closing the contract.

We reached our findings by comparing the performance of the project management processes for the Delta Project against the management processes listed above.

To report our findings we use the three cornerstones of a strong project management climate. We do this because the eight management processes all closely interrelate. 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.

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

Saskatchewan Crop Insurance Corporation

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Executive summary

The Saskatchewan Crop Insurance Corporation (SCIC) pays grain and livestock producers for crop production failures due to adverse weather. The Federal Government helps pay for this program. SCIC also manages the Crop Reinsurance Fund of Saskatchewan (Fund). The Fund receives a portion of the annual premiums collected by SCIC. When losses exceed the premiums retained by SCIC, Saskatchewan's share of the difference is paid by the Fund

SCIC insured 20.2 million seeded acres and had 36,031 contracts for the 1997 crop year covering 86,330 crops. There were 20,519 claims totaling 84.5 million in claim costs for the 1997 crop year.

We found the SCIC's and the Fund's financial statements for the year ended March 31, 1998 are reliable. The SCIC complied with the authorities governing its and the Fund's activities. The SCIC had adequate rules and procedures to safeguard and control its and the Fund's assets.

In addition, we performed from an in-depth examination of SCIC's systems and practices for adjusting claims to determine if they are appropriate. SCIC asked us to do an in-depth examination of its systems and practices for adjusting claims. SCIC views its systems and practices for adjusting claims important. These systems and practices control SCIC's largest expense because it determines a producer's eligibility and the amount of the producer's loss.

Our Office and SCIC jointly developed audit criteria for our in-depth examination of SCIC's systems and practices for adjusting claims.

We found SCIC's rules and procedures to adjust claims are adequate. The recommendations we provide in this Chapter are intended to help SCIC further improve its rules and procedures for adjusting claims.

Introduction

The Saskatchewan Crop Insurance Corporation (SCIC) pays grain and livestock producers for crop production failures due to adverse weather. The Federal Government helps pay for this program. Payments to producers are made under the Canada-Saskatchewan Crop Insurance Program. The Program guarantees a minimum crop yield to agricultural producers subject to specific insurance decisions of each producer. Premiums are calculated to cover the risk of loss.

In 1997-98, SCIC held assets of $201 million, had revenues of $213 million, and had expenditures of $149 million. SCIC's *Annual Report 1997-98* includes its financial statements.

SCIC insured 20.2 million seeded acres and had 36,031 contracts for the 1997 crop year covering 86,330 crops seeded. There were 8,397 hail claims and 12,122 yield loss, reseeding, and unseeded acreage claims. SCIC incurred claim costs of $32.7 million for hail loss and $51.8 million for all other losses including yield losses.

SCIC also manages the Crop Reinsurance Fund of Saskatchewan (Fund). This Fund receives a portion of annual premiums collected by SCIC. When losses exceed the premiums retained by SCIC, Saskatchewan's share of the difference is paid by the Fund.

Our audit conclusions and findings

In Chapter 13 of our 1998 Fall Report - Volume 2, we reported we had not completed our work on SCIC and the Fund for the year ended March 31, 1998. We have now completed our work.

Our Office worked with KPMG, SCIC's and the Fund's appointed auditor, using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. KPMG and our Office formed the opinions set out below.

In our opinion:

- **SCIC's and the Fund's 1998 financial statements are reliable;**

- SCIC complied with the authorities governing its and the Fund's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing; and

- SCIC had adequate rules and procedures to safeguard and control its and the Fund's assets.

Audit of the claim adjustment process

SCIC asked us to do an in-depth examination of its systems and practices for adjusting claims. SCIC views its systems and practices for adjusting claims important. Inadequate systems and practices can adversely affect insurance premiums, contributions from the Government of Canada and the General Revenue Fund, and insurance coverage. We agreed to do the examination because of its significance.

Significance of the audit

The claims adjusting process used to determine a producer's loss is critical. This process controls SCIC's largest expense because it determines a producer's eligibility and the amount of the producer's loss. The employees (claim adjusters) are required to know the insurance coverage of the producer, the circumstances surrounding any claim and then determine the amount of the producer's loss. Inadequate rules and procedures for adjusting claims can result in increased premiums, reduced insurance coverage, incorrect indemnities, and loss of public confidence.

Objective and scope

The objective of our audit was to determine if SCIC has appropriate rules and procedures to adjust claims. Our audit covered SCIC's rules and procedures from April 1, 1997 to December 31, 1998.

Audit criteria used

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 adjusting crop insurance claims. We discussed the criteria with SCIC's management, made necessary changes and obtained management's agreement that the criteria are reasonable and attainable.

The agreed upon criteria are as follows:

1. SCIC should have a clear framework which outlines the following:

    - The culture and attitude toward adjusting claims including an internal communication strategy; and

    - The methods for directing and monitoring management's rules and procedures for adjusting claims.

2. SCIC should adequately train its adjusters;

3. SCIC should have documented policies and procedures for adjusting claims;

4. SCIC should have a strategy for communicating to the staff the policies and procedures for adjusting claims; and

5. SCIC should have a system to ensure compliance with the approved policies and procedures for adjusting claims.

Our audit work

We did our work in accordance with standards for assurance engagements established by The Canadian Institute of Chartered Accountants. We did the procedures and tests we considered necessary to meet those standards. We also compared SCIC's rules and procedures with those recommended by the National Crop Insurance Services Inc. (NCIS) and the other Canadian crop insurance agencies. NCIS is a not-for-profit trade organization representing the interests of more than 120 crop insurance companies in the United States. It has several purposes including conducting research, training, and education activities that promote improved knowledge and understanding of crop insurance.

Audit conclusions

Overall, SCIC's rules and procedures to adjust claims are adequate.

Adequate rules and procedures for adjusting claims are important because they enable SCIC to provide higher insurance coverage for lower premiums. These rules and procedures also enable SCIC to adjust claims fairly, quickly and accurately. The recommendations we provide in our audit findings are intended to help SCIC improve its rules and procedures for adjusting claims to keep pace with program and technological changes.

Our audit findings

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

Criterion 1: SCIC should have a clear framework, which outlines the following:

- **the culture and attitude toward adjusting claims including an internal communication strategy; and**

- **the methods for directing and monitoring management's rules and procedures for adjusting claims.**

SCIC offers producers multi-peril insurance protection against natural hazards such as drought, flood, hail, wind, frost, fire, excessive rain and snow. SCIC must ensure claim risk (i.e., the likelihood of an incorrect/ inappropriate claim being paid) is monitored and that claims are adjusted fairly, quickly and accurately. It also has the responsibility of providing an appeal process to deal with claim disputes. To achieve this goal, SCIC needs a clear framework outlining its culture and attitude toward adjusting claims.

We expected SCIC's culture and attitude toward adjusting claims would include written policies setting out an approved code of conduct, ethics and conflict of interest policy. These policies would include rules for adjusting claims fairly, quickly and accurately and an appeal process. SCIC would have an appropriately approved written comprehensive policy for adjusting claims, which reflects SCIC's culture and attitude towards the adjustment of claims. SCIC would communicate its policies and procedures to all staff and externally.

We found SCIC had an approved written culture and attitude toward adjusting claims and adequately communicated it to all staff and externally. SCIC has an approved code of conduct, ethics and conflict of interest policy including rules for adjusting claims fairly, quickly and accurately. It has an appeal process for dealing with claim disputes. SCIC has an approved written comprehensive policy for adjusting claims. SCIC communicates externally its adjusting policy by such means as its contract of insurance and pamphlets provided to customers explaining the program. SCIC communicates internally its adjusting policy through training and its policies and procedures manuals. SCIC also has established a business improvement group comprised of members from its operating divisions. This group reviews procedures to identify the best practices for completing tasks.

We expected the Board and senior management would receive and approve adequate financial and operating plans for all of SCIC's divisions. The Board and senior management would also receive performance reports on how the divisions are doing compared to what they planned and written explanations of differences.

We also expect that in organizations that carry out diverse programs and activities, the Board would receive independent assurance that management carries out operations according to the Board's direction. The Board can receive this assurance through an independent internal audit function. To be independent, the audit division should report directly to the Board or to a committee of the Board on all of the audit division's activities including results of examinations, investigations, and the adequacy of corrective action taken by management. The reports should include all findings, for example what adjuster procedures are not being complied with and the reason for audit adjustments. The Board should approve the audit division's work plan and resources. This will help the Board discharge its responsibilities.

We found SCIC needs to improve how it directs and monitors management rules and procedures for adjusting claims. Operating divisions including the audit division currently submit a copy of their detailed operating budgets and operating division plans to the Deputy Minister of Agriculture and Food, who is also the chair of the SCIC board of directors. The Board receives summarized operating division budgets for SCIC and extracts of operating division plans. The Board also receives information on the number and type of claims, claim costs, number and type of audits completed and the number of contract holders. Also, the Board receives copies of proposed policy changes for their review and approval.

However, the Board does not receive a copy of detailed operating division budgets and work plans. Also, the Board does not receive reports on what divisions did compared to what they planned to do. Also, the Board does not receive reports directly from the audit division on the adequacy of management's rules and procedures for managing SCIC. Currently, the audit division reports to management.

1. **We recommend SCIC's audit division should report directly to the Board or a committee of the Board on the adequacy of rules and procedures that management uses to adjust claims. The Board should review and approve the audit division's work plan and resources. The Board needs to receive regular reports on the examinations and investigations carried out by the audit division including the work done on the adequacy of the SCIC's rules and procedures to adjust claims.**

2. **We recommend SCIC's management needs to provide better information to the Board on operating divisions' plans and performance reports on how divisions are doing compared to what they planned.**

Management told us they plan to provide divisional plans to the Board and regular performance reports comparing plans to actual results with explanations of differences.

Criterion 2: SCIC should adequately train its adjusters.

For SCIC to adjust claims fairly, quickly and accurately it needs to ensure it has adequate resources and properly trained staff.

We expected SCIC would have documented skill and ability requirements for all levels of adjusters, rules and procedures to ensure applicants have the required skill and ability, an adequate written training plan for adjusters and adequate on the job training for adjusters. SCIC would also have rules and procedures for effectively supervising adjusters.

We found SCIC adequately trains its adjusters except SCIC needs to improve its supervision of adjusters and provide more training on identifying suspicious claims.

SCIC documents its skills and abilities requirements for all levels of adjusters, e.g., in job descriptions. Employees in the human resources division use interview guides when conducting interviews to help ensure applicants have the required skills and abilities.

SCIC uses policies and procedures manuals in particular the adjuster manual, on the job training, and formal and informal training sessions to help staff properly verify and pay claims. SCIC encourages staff to pursue additional training, e.g., financial incentives are offered to field supervisors to obtain a certificate in crop production. We compared SCIC's training program with the National Crop Insurance Services Inc. and other Canadian crop insurance agencies and found them to be similar.

SCIC's staff periodically attend training sessions designed to improve their skills and to complement guidance contained in the adjuster manual. Some training sessions for adjusters include discussions of what suspicious claims are, for example, claims with unusually high loss ratios and the importance of leaving clear evidence of the work they have done to adjust claims.

To help staff identify suspicious claims, SCIC's training sessions and procedures manuals should include a description of "red flags" of suspicious claims and rules and procedures for investigating suspicious claims. These "red flags" are common warning signs or indicators that are widely used in the insurance business to help identify suspicious claims.

SCIC supervises the work of adjusters; however, it could improve its supervision of adjusters. Adjusters are assigned claims based on their experience levels and training. Field supervisors review claim forms completed by adjusters checking to see if they are properly completed, however, supervisors do not always leave clear evidence of this review. There should be clear evidence of claim files reviewed.

Field supervisors also are required to complete claims adjuster assessment reports after discussing the claim with the claimant. However, these assessment reports are not regularly completed. We think completing these reports regularly would help to ensure adjusters receive important feedback on their performance as well helping to ensure claims are adjusted consistently and accurately.

3. **We recommend SCIC should improve the guidance it gives to the claim adjusters to enable them to identify suspicious claims. SCIC should also establish written rules and procedures for investigating suspicious claims.**

Criterion 3: SCIC should have documented policies and procedures for adjusting claims.

We expected SCIC would have written policies and procedures that define authority, responsibility and accountability for adjusting claims that ensure claims are adjusted fairly, quickly and accurately. These policies and procedures would include verifying the insurable interest of the claimant, inspecting damaged property, documenting claims, communicating with the claimant about the claim, and monitoring claims. These policies and procedures would also include dealing with claims appealed by the insured and a process for resolving claims appealed.

SCIC's procedures manual provides adequate written rules and procedures for adjusting claims. Staff are able to use the manual as a guide when carrying out their duties. This helps to ensure that staff collect and consider all relevant information needed to establish a claim's validity.

SCIC requires that adjusters ensure claimants are required to report old production in storage. This enables adjusters to calculate the total production in storage after harvest which consists of old and new production and subtract the old production to arrive at the new production. The claim is adjusted based on new production. The adjusters verify the accuracy of reported old production in storage based on expected claim areas.

We reviewed what the National Crop Insurance Services Inc. and the other Canadian crop insurance agencies do and found that some verify a sample of customers' old production in storage by physically measuring the grain in storage. SCIC should consider improving its written rules and procedures to clarify the nature and extent of verification of old production.

SCIC began using Global Positioning System (GPS) units in 1997 on a pilot project basis. GPS units enable staff to measure the area of land covered by a claim with more accuracy and in less time than traditional methods such as the wheel (a tool used to measure land area). SCIC conducted extensive tests on the accuracy of the GPS units. SCIC now plans to use GPS units as a regular tool to measure land. SCIC has provided training to adjusters on how to use the GPS units. However, SCIC should provide written guidance to staff as to when to use GPS. The results of using GPS could also be used as part of a cost - benefit analysis for assessing the need for additional GPS units.

We examined a sample of claims to ensure adjusters followed established procedures. We found that the adjusters do not always leave clear evidence that they followed established procedures. For example, there was not always clear evidence of whether stubble was inspected for post harvest claims; and for hail claims there was not always clear evidence of the completion of sample counts. We reviewed the procedures manuals of the National Crop Insurance Services Inc. and other Canadian crop insurance agencies and found that some use a checklist as a way of ensuring adjusters leave clear evidence of the work they have done to adjust claims.

4. **We recommend SCIC should ensure that adjusters leave clear evidence of work they have done to adjust or to verify claims.**

Management told us they plan to update SCIC's manual for procedural changes. Management has begun providing staff with additional written guidance on when to use GPS units.

Criterion 4: SCIC should have a strategy for communicating to the staff the policies and procedures for adjusting claims.

We expected SCIC would have adequate written rules and procedures for establishing and changing policies and procedures, and for communicating them to staff. This helps to ensure staff follow appropriate policies and procedures.

We found SCIC has adequate policies and procedures for communicating to staff SCIC's policies and procedures for adjusting claims. SCIC communicates its policies and procedures to staff through its policies and procedures manual, e.g., the adjuster manual and the SCIC crop insurance policy and procedure manual. Procedural changes are usually initiated by adjusting and operations staff and then submitted to the executive committee for review and approval. Policy changes are usually initiated by management and reviewed and approved by the board of directors.

Criterion 5: SCIC should have a system to ensure compliance with the approved policies and procedures for adjusting claims.

We expected SCIC would have an internal audit division that includes sufficient properly trained audit staff and written policies and procedures for auditing claims. The division would report regularly to management and the board of directors, and have written rules and procedures for preparing annual work plans and for following up audit findings to ensure corrective action has been taken.

We found SCIC has sufficient properly trained staff but needs to improve its policies and procedures for auditing claims and preparing work plans. SCIC has established an audit division to ensure compliance with approved policies and procedures for adjusting claims. Staff of the audit division have experience in investigating and adjusting crops. The audit division has a policy and procedures manual, which provides guidance in completing its audits. However, an audit checklist would help auditors ensure all required procedures are completed and clear evidence left of the work done for each audit.

To help SCIC's audit division prepare its work plan and regular reports, it should document: the method used to determine the number and type of audits to do; when to do the audits; the time allotted to complete an audit and what action to take when audits require more time. It should also document how to summarize and report audit findings and procedures for following up audit findings to ensure corrective action has been taken.

We examined a sample of claim files audited by the audit division and noted that the auditors do not always follow the policy and procedures manual, e.g., the manual requires the auditor to obtain a questionnaire completed by the claimant for each file. We could not always determine if this was done. The audit division should ensure staff follow established rules and procedures or change them.

5. **We recommend SCIC should ensure that auditors leave clear evidence of work they have done to adjust or to verify claims.**

Management has told us they plan to begin working on a revised audit procedures manual. Management also told us they have begun improving documentation of the audit work plan and will provide regular updates on the completion of their work plan to the Board.

Future plan

SCIC's management, staff and appointed auditor gave us excellent co-operation throughout the audit. We appreciate their support and thank them.

We will monitor the SCIC's actions to address our recommendations in this Chapter. We will report our findings in a future report.

Saskatchewan Transportation Company

5

Introduction

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

In 1998, STC earned revenue of $13 million, incurred a loss of $3.7 million before Crown Investments Corporation of Saskatchewan (CIC) subsidies, and held assets of $16.3 million at December 31, 1998. STC's 1998 Annual Report includes its financial statements.

Key issues facing STC

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

To identify the key issues, we reviewed STC's incorporating documents, its draft 1998 Annual Report and various submissions to STC's Board of Directors. We identified two key issues:

- maintaining the current level of passenger services given the CIC subsidy, the decline in passenger numbers, drop in rural populations, de-regulation, and an aging fleet; and

- maintaining a profitable freight and courier service given the deregulation of trucking services and increased competition.

Our audit conclusions and findings

Our Office worked with PricewaterhouseCooper's, STC's appointed auditor, using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. PricewaterhouseCoopers and our Office formed the following opinions.

In our opinion:

- **STC's financial statements are reliable;**

- **STC had adequate rules and procedures to safeguard and control its assets, except where we report otherwise in this Chapter; and**

- **STC complied with authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.**

We also note matters on performance reporting and payee lists for the Legislative Assembly's attention in this Chapter.

Improve information system management policies

STC's information system management policies need improvement. Without a formally approved security policy and a formally documented and tested contingency plan STC puts its systems and key information at risk of loss. STC needs to improve its rules and procedures in the following areas:

- STC needs to complete and approve a formal information security and confidentiality policy; and

- STC needs to complete the documentation and testing of its contingency plan.

We reported these two deficiencies in past reports to the Legislative Assembly, including our 1998 Fall Report – Volume 2 (STC's year ended December 31, 1997). These deficiencies continued for STC's year ended December 31, 1998 except STC has drafted a security policy. We do not repeat the detailed explanation of these deficiencies in this Report. In February 1998, the Standing Committee on Public Accounts (PAC) agreed with the following recommendations:

We recommend STC approve a formal information security and confidentiality policy.

We recommend STC should complete the documentation and testing of its contingency plan.

Management told us that STC's Board of Directors formally approved the *Information Systems Security Policies and Procedures*, which includes a disaster recovery plan, at their April 23, 1999 Board meeting.

Compare planned and actual performance

To assess performance of Crown agencies, MLAs and the public need adequate information about the plans of those agencies 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 report on the extent to which they achieved those plans. Also, CIC is setting performance targets for STC. STC must set out what it expects to achieve and what it did achieve given the risks it faces.

STC has included performance data in its Annual Report. For example, the 1998 Annual Report includes operating goals that can be measured against future results. They have set ten goals including passenger miles travelled, number of communities served, and quarterly freight profits and compared actual performance against these goals. STC's 1998 Annual Report showed it met or exceeded its goals.

We think disclosing a clear and meaningful comparison of planned performance to actual results will help MLAs and the public to understand and assess the performance of STC.

We support STC's efforts. We encourage STC to continue reviewing the practices of other public sector agencies and to experiment with ways of reporting key plans, performance targets and results.

Disclose who received public money

STC did not give the Assembly a list of persons who received public money in 1998, as required by PAC.

CIC decides if STC will provide this information to the Assembly. In Chapter 1 (Crown Investments Corporation of Saskatchewan), we discuss this matter and why the information is important.

1. **We recommended that STC should:**

- **publish a list of persons who received money from STC and the amounts the persons received following the PAC's current minimum disclosure amounts; or**

- **discuss different public disclosure requirements that will achieve the members of the Legislative Assembly's objectives with the PAC or, if the Assembly so directs, with the Crown Corporations Committee.**

Gathering Information for Public Reports - Best Practices for Intersectoral Initiatives

6

Introduction

Our Office is studying the processes used by Saskatchewan's Action Plan for Children to gather information for public reports. The Action Plan for Children is an intersectoral initiative - a project that involves multiple organizations across different sectors. It is led by an Interdepartmental Steering Committee which has representation from the participating organizations. Our study focuses on how the processes used by the Action Plan for Children reflect best practices for an intersectoral initiative.

We are reporting on our study in two stages. The first stage (this report) is to share best practices. We worked with the Interdepartmental Steering Committee to identify these best practices. We describe the best practices in the pages that follow and include them in further detail in Exhibit 1. We share the best practices in this report to assist other intersectoral initiatives facing similar challenges.

The second stage will describe how the processes used by the Action Plan for Children to gather information for public reports reflect the best practices. We will publish that report this fall.

Background

Since the early 1990s, the Government has begun to work in new ways to improve the services it offers to citizens. The Government has traditionally delivered services through specialized organizations, each with its own legislation, mandate, programs, service delivery mechanisms and service boundaries. The Government has found that this traditional approach "...falls short of addressing the complexities of people's lives or how the human services work as a system."[1]

Accordingly, the Government has attempted to bridge organizational boundaries and to coordinate and integrate services and programs. These efforts often include non-government agencies and communities. In these intersectoral initiatives, separate organizations come together and combine their efforts to achieve common goals.

In working together, intersectoral initiatives face special challenges. Given our Office's goal of encouraging good Government reporting, we are particularly interested in the challenges that these initiatives face in reporting their activities and results to the public. When an intersectoral initiative reports on its plans, activities and results, it enables the initiative's partners, legislators and the public to better understand and assess the initiative's performance and ultimately promotes improved performance.

Saskatchewan's Action Plan for Children is "a provincial strategy to enhance the well-being of Saskatchewan children, youth and families. It provides a process for working together and means that the Government, communities, organizations and individuals are encouraged to develop common approaches to children's issues." By working together, the Action Plan for Children is designed to ensure "that resources are used more effectively and are appropriate for the community."[2]

The Action Plan for Children is an intersectoral initiative that combines the efforts of nine government organizations and many communities and agencies across Saskatchewan.

The government organizations include:

Department of Education
Department of Post-Secondary Education and Skills Training
Department of Health
Department of Intergovernmental and Aboriginal Affairs
Department of Justice
Department of Municipal Affairs, Culture and Housing
Department of Social Services
Office of Northern Affairs
Women's Secretariat

Saskatchewan's Action Plan for Children is led by an Interdepartmental Steering Committee, with members from each of the participating organizations. The Action Plan for Children has reported publicly in various ways on numerous occasions, with the cooperation of its partner organizations.

Special challenges

In this study, we recognize that in working across organizational boundaries, intersectoral initiatives face special challenges and work under certain constraints. The partner organizations each bring their own rules, policies and accountabilities—their own way of doing things. They often define concepts differently. They collect different information in different formats. They have different objectives, schedules and needs.

To achieve success in an intersectoral initiative, these different objectives, schedules and needs must be accommodated where possible. Usually an organizing and facilitating group performs this role. In this report, we refer to this organizing and facilitating group as the "steering committee."

In practice, the steering committee often has limited authority and resources. It must lead through collaboration, negotiation and building consensus. The success of the intersectoral initiative depends on the establishment of a culture where collaboration, negotiation and consensus building can take place. It depends on the participation of individual representatives with these skills.

Best practices for gathering information for public reports

We worked with the Action Plan for Children's Interdepartmental Steering Committee to identify best practices for gathering information for public reporting. To identify best practices, we studied relevant literature, consulted an advisory committee and reviewed our earlier work on performance reporting. Based on this information, we, along with the Steering Committee, selected best practices for gathering information for public reports.

Although we present these best practices in a list, the process is not linear. Best practices for gathering information for public reports include:

- Clarifying the purposes for gathering information
- Gaining agreement from partner organizations to provide information
- Removing barriers to assemble information
- Gaining agreement to report information publicly.

Clarifying purposes for gathering information

Any steering committee that intends to report to the public will be most efficient and effective if it first identifies the purposes for gathering information. For intersectoral initiatives, this involves assessing the information needs of the partner organizations and intended audiences.

The partner organizations may have varied purposes for gathering the information. They need a clear understanding of each other's purposes. The steering committee should discuss and confirm the purposes for gathering information, and should accommodate differing purposes where possible.

Another important element of clarifying the purpose for gathering information is assessing whether the planned information gathering processes will achieve the intended purposes. This requires evaluating past practices and developing consensus among partners to adjust the process.

Gaining agreement from partner organizations to provide information

The steering committee should agree on responsibilities of partner organizations for gathering and providing information. It should identify who is accountable to provide what information and when.

Gaining agreement from partner organizations to provide information includes assessing the availability of the information. The steering committee should identify who has the information and determine whether consent can be obtained for its use in public reports.

When gaining the agreement of partner organizations to provide information, the steering committee should also define the nature of the information to be gathered. This involves settling on common definitions of terms and concepts. It involves consideration of the cost, comparability and use of information in other contexts. The steering committee should also decide what resources it needs and determine where it will obtain the resources.

Removing barriers to assemble information

To assemble the gathered information, the steering committee should agree on a format for organizing the information. The effective format should be relevant to the initiative's purpose and be acceptable to all partners.

Information needed to fulfil the reporting purposes may not be available in the desired format or be defined in the preferred way. The steering committee should identify and resolve these information incompatibilities. The steering committee should also verify that the information received meets the purposes for which it was gathered.

Gaining agreement from partner organizations to report publicly

The information gathered by the steering committee should be analyzed and interpreted. This entails exploring alternative analyses and interpretations with the partner organizations.

Communicating the information is vital. The steering committee should ensure the continued support of the partner organizations to report publicly. The steering committee should obtain a consensus regarding what should be reported, how it should be reported, when and by whom.

What's next?

These best practices are intended to assist intersectoral initiatives as they face the challenges involved in working across organizational boundaries. The process is complicated by the participation of multiple organizations, and must often be navigated with limited resources and limited authority.

We look forward to continuing our work with the Action Plan for Children's Interdepartmental Steering Committee. The focus of the next stage of our work is studying how the Action Plan for Children's processes for gathering information for public reports reflect the best practices we have outlined here. We will share the lessons learned in a future report.

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[1] Government of Saskatchewan, *Saskatchewan Human Services: Working together* (Regina: Government of Saskatchewan, 1996) 4.

[2] Government of Saskatchewan, *Saskatchewan's Action Plan for Children: Focus on children, youth and families* (Regina: Government of Saskatchewan, 1996) 1.

Exhibit 1 - Detailed best practices

Best practices for gathering information for public reports include:

1. **Clarifying purposes for gathering information**
   - 1.1 identify purposes for gathering information
     - examine role of intersectoral group in sharing information
     - include update of program structure, progress and results to date
     - assess information needs of intended audiences
   - 1.2 accommodate differing purposes
     - discuss further opportunities for collaboration
     - manage duplicate reporting and accountability issues
     - plan for possible use of information in other contexts (e.g., community, provincial, national, international)
   - 1.3 confirm intended purposes with partner organizations
     - locate necessary and/or helpful input from within organization
     - obtain support of senior management for broad direction
     - check legislated reporting requirements and other expected public reporting and communication strategies
   - 1.4 evaluate whether planned information gathering processes will achieve purposes
     - evaluate effectiveness of past information gathering processes
     - obtain consensus of partners for changing processes
     - implement changes in planned information gathering processes

2. **Gaining agreement from partner organizations to provide information**
   - 2.1 agree on responsibilities of partner organizations for gathering and providing information
     - understand extent of authority of representatives of organizations to make commitments
     - agree on reasonable timing/frequency in relation to purpose
     - identify who is accountable to provide what information (e.g., program managers can provide information and absorb cost)
     - assign individual/organization to assemble information and fund analysis
     - determine required resources and decide source of resources
   - 2.2 assess availability of information
     - identify information sources
     - assess timely access to information
     - gain senior management consent to release/use information for public report

2.3 define reasonable information characteristics
- concur on common definitions of terms and concepts
- evaluate cost in context of purpose
- plan for possible use of information in other contexts (e.g., community, provincial, national, international)
- ensure information will be comparable across sectors

3. Removing barriers to assemble information

3.1 agree on format for organizing information related to purposes
- use language clear to all audiences across sectors
- plan format to allow use of information in multiple contexts

3.2 resolve information incompatibilities
- discuss whether information meets defined characteristics
- plan to note sources and limitations of information

3.3 verify information received will meet purposes
- fill information gaps relative to purposes
- assess whether information meets format requirements
- request originating organizations to confirm formatted information is correct

4. Gaining agreement from partner organizations to report information publicly

4.1 analyze and interpret information
- assess overall progress toward long-term goals (e.g., serving target groups?)
- explore alternative analyses and interpretations
- discuss possible analyses with all partner organizations

4.2 obtain consensus on what, how and when to report
- negotiate differing analyses
- accommodate differing uses of information in reporting
- identify who will report what
- confirm opportunities for collaboration
- accommodate differing schedules and needs of partner organizations & communities
- determine need for additional resources and decide source of resources

4.3 obtain support of partner organizations to report publicly
- obtain key support from within organizations & communities
- obtain support of senior management for particular product

Note: Although we describe these best practices in a numbered list, the process is not linear.

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Saskatchewan Liquor and Gaming Authority

7

Executive summary

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 and owns slot machines at Saskatchewan Indian Gaming Authority's (SIGA) casinos. SIGA operates those slot machines.

In our 1998 Fall Report - Volume 2, we reported our audit conclusions and findings except for the Authority's specific system and practices for regulating and monitoring casinos managed and operated by SIGA. At the date of our 1998 Fall Report we had not completed this work. We have now completed our work.

In this Chapter, we describe our audit objectives, the criteria we used, and our audit conclusions. We developed the criteria to evaluate the Authority's systems and practices to regulate and monitor SIGA's casinos. We discussed the criteria with the Authority's management, made necessary changes and obtained management's agreement that the criteria are reasonable and attainable.

SIGA operates four casinos. In 1997-98, all of SIGA's casinos operated for the full year. In 1997-98, SIGA casinos had total revenues of $56.9 million and net income of $20.3 million. SIGA transferred its net income to the Authority as required by the Casino Operating Agreement.

The operation of commercial casinos in Saskatchewan is relatively new. Accordingly, the Authority faces a challenge in designing systems and practices to regulate and monitor SIGA's casinos. We think the Authority has addressed this challenge well.

In our opinion, the Authority's rules and procedures to regulate and monitor the operations of SIGA's casinos need improvement. The Authority needs to improve its rules and procedures to ensure SIGA operates in a manner that maintains gaming integrity and adheres to the approved policies and procedures. Our recommendations in this Chapter are intended to help the Authority do so. We encourage the Authority to continue its course of improving regulation and monitoring of SIGA casinos by working with SIGA.

Introduction

The Saskatchewan Liquor and Gaming Authority (Authority) regulates liquor and gaming activities in the Province. It operates retail liquor stores, manages and operates the video lottery terminal program, and owns slot machines at Saskatchewan Indian Gaming Authority's casinos. SIGA operates those slot machines.

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's financial statements are included in its Annual Report.

Regulating and monitoring Saskatchewan Indian Gaming Authority's casinos

In our 1998 Fall Report - Volume 2, we report our audit conclusions and findings except for the Authority's specific systems and practices for regulating and monitoring casinos managed and operated by Saskatchewan Indian Gaming Authority (SIGA). We decided to do an in-depth examination of the Authority's specific systems and practices for regulating and monitoring SIGA's casinos because this was the first full year of their operations. At the date of our 1998 Fall Report - Volume 2, we had not completed this work. We have now completed our work. In this Chapter, we describe the history of SIGA's casinos, our audit work, and our conclusions on the Authority's systems and practices for regulating and monitoring SIGA's casinos.

Background

SIGA operates four casinos. 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 Authority made a Casino Operating Agreement (Agreement) with SIGA. The Agreement addresses the issues of the management of slot machines and table games. The Authority licenses table games. Under the Agreement, SIGA must allocate all table game profits from these casinos to charitable purposes. The Authority owns the slot machines and receives all profits from the slot machines. The Authority needs adequate systems and practices to reduce the risk of financial loss.

In 1997-98, SIGA casinos had total revenues of $56.9 million and net income of $20.3 million. SIGA transferred its net income to the Authority as required by the Agreement.

Significance of the audit

Gaming operations are subject to greater than normal risk of loss because most transactions are cash. The Agreement made with SIGA requires the Authority to approve SIGA's operating policies and procedures. The Authority needs to ensure operating policies and procedures keep risks of loss at an acceptable level. The Authority has the responsibility to ensure SIGA follows these operating policies and procedures and complies with Casino Regulations established by the Authority.

Audit objective

The objective of our audit was to determine if the Authority has adequate rules and procedures to regulate and monitor the operations of SIGA's casinos. Our audit covered the Authority's rules and procedures from April 1, 1997 to March 31, 1998.

Audit criteria used

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 regulating and monitoring casinos. 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 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 approved policies and procedures; and
- the revenue received from SIGA is complete.

Our audit work

We did our work in accordance with standards for assurance engagements established by The Canadian Institute of Chartered Accountants. We did the procedures we considered necessary to meet those standards.

Audit conclusions

The operation of commercial casinos in Saskatchewan is relatively new. Accordingly, the Authority faces a challenge in designing systems and practices to regulate and monitor SIGA's casinos. Regulating and monitoring SIGA's casinos are important for maintaining gaming integrity and public confidence. We think the Authority has addressed this challenge well. We encourage the Authority to continue its course of improving regulation and monitoring of SIGA's casinos by working with SIGA.

The Authority continues to improve its regulation and monitoring of SIGA's casinos as it gains more experience in this new industry. In our opinion, the Authority's rules and procedures to regulate and monitor the operations of SIGA's casinos need improvement. The following recommendations are intended to help the Authority do so.

1. **We recommend the Authority should prepare formal training plans for its employees and should coordinate work among its branches.**

2. **We recommend the Authority should work with SIGA to establish appropriate governance and conflict of interest policies for SIGA's casinos.**

3. **We recommend the Authority should ensure inspections/ audits are completed as planned or document why the plan was changed.**

4. **We recommend the Authority should document procedures for reporting and following up its audit/inspection findings with SIGA.**

5. **We recommend the Authority should receive and formally approve SIGA's Casino operating policies and procedures on a timely basis.**

6. **We recommend the Authority should work with SIGA to establish an internal audit function at SIGA.**

7. **We recommend the Authority should receive SIGA's external auditor's report on the adequacy of SIGA's internal controls within 90 days of SIGA's year end and the Authority should follow up on any matters reported in that report.**

8. **We recommend the Authority should receive and approve SIGA's budget on a timely basis and should have procedures for approving changes to the budget.**

Our audit findings

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

Criterion 1: The Authority should have systems and practices to ensure SIGA operates in a manner that maintains gaming integrity and thus public confidence.

The Authority, as a regulator and as a partner in SIGA's casinos, has the responsibility to ensure SIGA operates in a manner that maintains gaming integrity and public confidence. To achieve this goal, the Authority must ensure it has sufficient and properly trained staff to monitor and regulate casinos. Also, the Authority must have an adequate agreement/license to ensure proper governance and management controls at SIGA. The

Authority must ensure the governance and management controls at SIGA are adequate to maintain gaming integrity and public confidence.

The Authority has three branches, i.e., audit services, license administration, and inspection/security, responsible for monitoring and regulating SIGA's casinos. Employees of these three branches have reasonably good experience in the casino industry. Several employees have received formal training in the gaming industry. However, the Authority does not have a formal training plan. The Authority should prepare a formal training plan for its employees. A formal plan would ensure employees receive systematic training necessary to regulate and monitor casinos.

The Authority has not documented coordinating efforts among its three branches to ensure effective and efficient use of resources. This coordination effort is necessary to ensure overall audit/inspection coverage of SIGA's casinos is at an acceptable level.

The Authority's agreement/license outlines the Authority's expectation of governance and management controls at SIGA. SIGA has documented slot machine and table game rules and procedures for its casinos. The Authority approved table game rules. However, the Authority has not yet formally approved rules and procedures for slot machines and other casino operating procedures.

The Authority has not yet fully reviewed the governance and conflict of interest policies of SIGA. The Authority has asked for an independent auditor's report on the adequacy of SIGA's management controls including governance and conflict of interest policies. Governance and conflict of interest policies are important to maintain gaming integrity and public confidence in SIGA's operations. The Authority should work with SIGA to establish appropriate governance and conflict of interest policies for SIGA's casinos.

Management told us it plans to prepare formal training plans for the Authority's employees and plans to coordinate work among its three branches. Management has created a position of a coordinator to facilitate this work. Management also told us it plans to work with SIGA to establish appropriate governance and conflict of interest policies for SIGA.

Criterion 2: The Authority should have systems and practices to ensure SIGA manages and conducts licensed games in accordance with the license issued by the Authority.

The Authority issued a license to SIGA to operate table games in casinos. The license states that SIGA must conduct games in accordance with the game rules approved by the Authority and other terms and conditions of the license. The terms and conditions require SIGA to establish policies and procedures for casino operations.

Regular inspections and audits of casinos are important to ensure all games are played according to the approved rules and to ensure SIGA complies with other terms and conditions of the license. The Authority must ensure its annual planned inspection/audit coverage for all SIGA's casinos is at an acceptable level and that those plans are completed. When planned work is not completed, management should be satisfied the work is no longer necessary. The Authority must ensure all inspection and audit findings are reported to SIGA and followed up in a timely manner.

The Authority formally approved table game rules and informally approved policies and procedures for the operation of table games. The Authority's systems and practices to review and approve rules for table games includes a comparison to game suppliers' rules and gaming industry standards.

The Authority has inspection and audit procedures for casino operations to ensure all games are conducted in accordance with table game rules and other operating procedures submitted by SIGA to the Authority. The inspections include, for example, observing table games, and observing security and surveillance procedures to ensure games are played according to approved rules and meet industry standards. However, we noted the inspection branch sometimes does not complete all procedures required by the Authority. The branch does not do this because the audit services branch may have done these procedures.

We think the inspection branch should document why it does not complete all of the Authority's required procedures. Such documentation will help ensure all procedures are completed either by the inspection branch or the audit services branch.

We noted some of the planned work for audit services was not completed during the year. Management told us the completion of audit services work was delayed due to staff changes and due to additional time needed by the employees to develop and apply audit procedures. The Authority should ensure planned audits/inspections are completed in a timely manner or document why the plan was changed.

The Authority reports non-compliance with the terms and conditions of the license to SIGA. Inspection findings are discussed and reported to SIGA. However, the Authority does not have documented procedures for ensuring SIGA corrects any non-compliance matters. The Authority should establish and document procedures for reporting and following up its audit/inspection findings with SIGA. These procedures should include when follow-up procedures will be done, who would do these procedures and what should be done to ensure all non-compliance issues are resolved.

Management told us it continues to improve its procedures for carrying out inspection and audit activities and plans to complete all planned work in the future or document why the plans have changed. Management also told us it plans to document procedures for reporting and following up inspection/audit findings with SIGA.

Criterion 3: The Authority should have systems and practices to ensure appropriate operating policies and procedures for SIGA are approved on a timely basis.

The Casino Operating Agreement requires that initial operating policies and procedures be established and approved by the Authority before SIGA begins casino operations.

SIGA casinos began operations in 1996. Operating policies and procedures are important to ensure the effective operation of SIGA's casinos. SIGA operates four casinos. The Authority must ensure all casinos have appropriate operating policies and procedures. The Authority must receive all of SIGA's operating policies and procedures, assess the appropriateness of those policies and procedures to comply with the terms and conditions, and suggest changes where necessary before approval.

SIGA has submitted some operating policies and procedures to the Authority. However, the Authority needs to formally approve all of SIGA's casino operating policies and procedures. The Authority needs to formally approve SIGA's policies and procedures for compliance with rules of games, computer operations, surveillance and security, and disaster recovery and contingency plans for SIGA's casino operations. The Authority should receive and approve SIGA's casino operating policies and procedures on timely basis.

Casino operations are subject to greater than normal risk of financial loss because most transactions are cash and because of various rules and regulations for table games and slot machine operations. Casino operators establish policies and procedures to reduce these risks. An element of these policies and procedures is an internal audit function. Internal auditors perform routine and surprise audits to ensure transactions are executed and recorded in accordance with approved policies and procedures. Internal auditors also perform procedures to ensure gaming operations comply with laws and regulations. SIGA has not yet established an internal audit function. The Authority should work with SIGA to establish an internal audit function at SIGA.

Management told us it continues to work with SIGA to ensure appropriate operating policies and procedures are developed and approved. Management also told us it plans to work with SIGA to establish an internal audit function at SIGA.

Criterion 4: The Authority should establish systems and practices to ensure SIGA is adhering to the approved policies and procedures.

Regulators of casinos generally establish systems and practices to ensure operators adhere to the approved policies and procedures. Such systems and practices include establishment of inspections and audit services that carry out inspections/audits to ensure the casino operator's policies and procedures are adequate. Also, regulators do a risk assessment of all casinos before planning the yearly audit/inspection coverage and ensure planned audits/inspections are completed.

Regulators also ensure the casino operators have adequate rules and procedures to ensure casinos comply with the approved polices and procedures. Regulators then ensure the planned audits/inspections are completed and the results of these audits/inspections provided to the casino operators on a timely basis. Regulators routinely follow-up matters found and reported by audits/inspections to ensure casino operators make changes where needed. Regulators also require the casino operator's external auditor to provide assurance about the adequacy of policies and procedures for casino operations. The Authority is responsible for regulating and monitoring SIGA's casinos.

As stated earlier, the Authority has established three branches, i.e, audit services, license administration, and inspection/security, responsible for monitoring and regulating SIGA's casinos. The Authority's audit services and inspection branches do audits/inspections of casinos to ensure SIGA follows approved policies and procedures. However, the Authority did not complete all of the planned audits/inspections during the year. Management told us the planned audits/inspections were delayed because of staff changes and the additional time needed by the employees to develop and apply audit procedures and inspection routines.

The Authority requested assurance from SIGA's external auditor about the adequacy of SIGA's rules and procedures for the year ended March 31, 1998 for casino operations. However, the Authority did not receive this assurance until March 1999. We think the Authority should obtain timely assurance, normally within 90 days from the year end, from the external auditor and the Authority should follow up on any matters reported in that report.

Management told us they plan to complete all planned audits/inspections in the future or document why plans were changed. Management also told us they plan to work with SIGA to resolve reasons for delays in receiving the report from SIGA's external auditor.

Criterion 5: The Authority should have systems and practices to ensure the revenue received from SIGA is complete.

To ensure the revenue it receives from SIGA is complete, the Authority must have rules and procedures to approve SIGA's budget before the beginning of the fiscal year. The Authority must also have a process to ensure all changes to the approved budgets are also approved. The Authority must then receive SIGA's monthly revenue and expense reports together with SIGA's explanation of the differences between the actual results and planned results. The Authority must also perform procedures to ensure the weekly revenue transfers are calculated in accordance with the Agreement.

SIGA submits its budget to the Authority for approval. The operating agreement requires SIGA to submit its budget to the Authority 60 days before the beginning of a fiscal year. SIGA's fiscal year begins April 1. The Authority received SIGA's budget for the year ended March 31, 1998 in May 1997 and formally approved the budget in October 1997. The Authority needs to improve its procedures to ensure SIGA's budget is approved on a timely basis.

The Authority noted changes to SIGA's budget without the Authority's approval. Management told us changes to SIGA's budgets were subsequently reviewed and approved. The Authority should ensure it approves all changes to the budget.

SIGA provides the Authority with monthly revenue and expense reports. SIGA and the Authority meet quarterly to discuss these reports. However, SIGA does not provide a written analysis of the difference between actual results and planned results (budget). The Authority performs procedures to ensure the weekly revenue transfers are calculated in accordance with the Agreement.

Management told us it has now outlined procedures for SIGA to follow in preparing the written analysis of differences between planned and actual results for monthly reports. Management also told it has now improved the budget approval process including any changes to the previously approved budget.

Future plan

The Authority's management and staff gave us excellent co-operation throughout the audit. We appreciate their support and thank them.

We will monitor the Authority's actions to address our recommendations in this Chapter. We will report our findings in a future report.

Municipal Affairs, Culture and Housing

8

Introduction

The Department of Municipal Affairs, Culture and Housing 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.

Special purpose funds and Crown agencies

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

	Year End
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
Western Development Museum	March 31

We reported our audit conclusions and findings in our 1998 Fall Report – Volume 2 for the Department and for the following special purpose funds and Crown agencies for their years ended March 31, 1998:

Associated Entities Fund
Saskatchewan Heritage Foundation
Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation

In our 1998 Fall Report – Volume 2, we state that we had not completed our audit of the following special purpose funds and Crown agencies for the year ended March 31, 1998:

Saskatchewan Archives Board
Saskatchewan Arts Board
Saskatchewan Centre of the Arts
Saskatchewan Municipal Board
Wanuskewin Heritage Park Corporation
Western Development Museum

This Chapter contains our audit conclusions and findings for the special purpose funds and Crown agencies listed above as well as for the following special purpose fund and Crown agencies for their years ended December 31, 1998:

Northern Revenue Sharing Trust Account
Municipal Potash Tax Sharing Administration Board
Saskatchewan Housing Corporation

Pursuant to *The Wanuskewin Heritage Park Act, 1997*, the Wanuskewin Heritage Park Corporation was continued as a Corporation under the name Wanuskewin Heritage Park Authority (Authority). We are advised by our legal counsel that the Authority is not subject to an audit under *The Provincial Auditor Act*. As a result, we no longer audit this organization.

A separate section in this Chapter explains our inability to discharge our duties relating to the First Nations Fund.

Our audit conclusions and findings

In our opinion:

- **The financial statements for the funds and agencies covered by this report 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.**

Saskatchewan Archives Board

The Saskatchewan Archives Board (Board) is responsible for acquiring and preserving documents relating to the history of Saskatchewan. The Board also provides these documents to the public for research.

The Board had revenue of $2.3 million in 1998 and held net financial assets of $0.1 million at March 31, 1998.

PAC recommendation on contracts not yet complied with

In October 1998, the Standing Committee on Public Accounts (PAC) concurred with the following recommendation.

- We recommend the Board should have written contracts with the University of Saskatchewan and Saskatchewan Property Management Corporation.

Management told us that the Board continues to negotiate with the University of Saskatchewan for office space, administrative and accounting services. Similar negotiations are occurring with Saskatchewan Property Management Corporation for office space.

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 Saskatchewan government 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 respectively.

The Government through Order in Council 725/95 appointed the Board of Trustees for the Fund. Also, the Government through 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 the 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 our 1998 Spring Report and our 1998 Fall Report – Volume 2.

On October 6, 1998, PAC considered this matter and concurred with our recommendation. PAC again considered this matter on January 6, 1999 and further recommended that the legislation be amended to clarify the responsibilities of the Trustees of the First Nations Fund to have the Fund audited in accordance with the requirements of the Provincial Auditor.

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.*

Our Office met with the Chair of the Trustees of the Fund on October 15, 1998 to explain the objectives of our audit and the audit process we use. In December 1998, our Office also met with the representatives of Saskatchewan Indian Nations to gain access to the accounts of the First Nations Fund. Those representative maintained their belief that our Office does not have jurisdiction over the Fund. On January 21, 1999 we wrote to the new Chair of the Trustees of the Fund to explain our Office's responsibility to audit the Fund and to ask the Trustees of the First Nations Fund to allow our Office to carry out our responsibility to audit the Fund for the Legislative Assembly. We have not yet received a response from the Chair of the Trustees.

On April 16, 1999, the Department tabled the Fund's March 31, 1997 and 1998 financial statements and the appointed auditor's report on those financial statements in the Legislative Assembly.

We are concerned with the authority for several expenses shown in the Fund's financial statements.

The Fund's financial statements for the year ended March 31, 1998 show "Distribution to First Nations of $6,210,017 (1997 - $728,017), National assembly travel subsidy of $138,000 (1997 - $0) and Saskatchewan Indian Gaming Commission $131,913 (1997 - $48,919)".

Neither the Legislative Assembly nor the Department has received any assurance from the appointed auditor whether the Trustees of the Fund had adequate rules and procedure to safeguard and control the Fund's assets and have complied with legislative authorities.

As we have been denied access to the Fund's accounts and have been refused access to KPMG's files, we are unable to provide assurance to the Legislative Assembly and the Department whether:

- the Fund's financial statements are reliable;

- the Trustees of the Fund had adequate rules and procedures to safeguard and control Fund's assets; and

- the Trustees have complied with legislative authorities governing the Fund's activities.

Saskatchewan Government Growth Fund

9

Executive summary

In January 1989, the Government created Saskatchewan Government Growth Fund Management Corporation (Management Corp) to manage the money received under the Federal Government's Immigrant Investor Program. At that time, the Government intended to use the immigrant investors' monies to stimulate economic growth with a preference for investing in rural Saskatchewan.

By December 31, 1998, Management Corp had set up six limited liability companies to raise and invest the immigrants' monies. From 1989 to 1998, over $200 million was raised from almost 1,100 investors.

Management Corp is experiencing many changes to the way it does business including:

- changing the nature of its investments and arranging financing for immigrant investors;
- receiving the authority to use $16.4 million in net assets from the Government to invest in economic and employment development in Saskatchewan; and
- responding to the April 1, 1999 changes to the Federal Government Immigrant Investor Program.

In 1998, we think the Government made significant changes to Management Corp. We also think the Government should provide the Standing Committee on Crown Corporations with the information required to help the Committee discuss and debate these changes.

In addition, we report that, in our opinion, Management Corp's financial statements are incorrect because they show $16.4 million of net assets contributed by the Government as income. We recommend the financial statements of Management Corp be amended and re-issued.

Introduction

In 1986, the Federal Government established the Immigration Investor Program to promote economic growth in Canada. The Program provides experienced business people with a method to immigrate to Canada by making substantial investments in Canada.

In January 1989, the Government created Saskatchewan Government Growth Fund Management Corporation (Management Corp) to manage the money received under the Immigrant Investor Program. At that time, the contracts with immigrant investors stated the immigrant investors' monies will be used to stimulate economic growth with a preference for investing in rural Saskatchewan. Management Corp did this by helping small and medium sized businesses acquire or expand plant and equipment, hire employees, fund development, and provide working capital.

Management Corp set up six limited liability companies to invest the immigrants' monies. These companies are Saskatchewan government corporations. This structure ensures that the immigrant investors bear any losses for the operations of these companies as required by the Federal Government. The Saskatchewan Government's public documents (e.g., contracts with immigrant investors) state the Government of Saskatchewan would not receive the profits, if any, from these companies. For example, for SGGF I, the contract with the immigrant investors states that no dividend will be paid to Management Corp and any remaining net assets will go to charities.

Management Corp set up the following fund companies:

Saskatchewan Government Growth Fund Ltd. (SGGF I),
Saskatchewan Government Growth Fund II Ltd. (SGGF II),
Saskatchewan Government Growth Fund III Ltd. (SGGF III),
Saskatchewan Government Growth Fund IV Ltd. (SGGF IV), and
Saskatchewan Government Growth Fund V (1997) Ltd. (SGGF V).

In addition, Management Corp, through its fund companies, created 617275 Saskatchewan Ltd. This company was created to comply with the Federal Government's Immigrant Investor regulations for eligible investments. 617275 is in the business of leasing assets (e.g., equipment and vehicles) to Saskatchewan Crown Corporations. The fund companies and 617275 Saskatchewan Ltd. are Saskatchewan government corporations.

Management Corp provides management and administrative services to SGGF I, SGGF II, SGGF III, SGGF IV, SGGF V and 617275 Saskatchewan Ltd. Management Corp charges the fund companies a fee for these services.

Management Corp competes with other provincial venture capital funds to attract immigrant investors. Over the last few years, competition with other provinces has been fierce. Management Corp has developed marketing and investing arrangements that test the limits of the Federal Government's *Immigration Regulations.*

In 1997, to attract immigrant investors and to compete with other provinces, Management Corp changed the nature of its investments and arranged financing for immigrant investors in SGGF IV. Previously, immigrants were required to raise their money themselves. Now, Management Corp arranged for a financial institution to lend money to immigrant investors so they could invest in SGGF IV. Immigrant investors have the option of borrowing $150,000 of the $250,000 required to invest in SGGF IV. The financial institution holds the immigrant investors' $250,000 investment in SGGF IV as collateral for the loan. To make the collateral of value to the financial institution, Management Corp decided to reduce the risk of the investments held in SGGF IV by investing in assets (e.g., equipment and vehicles) leased to Saskatchewan Crown corporations.

When SGGF I to III was marketed to immigrant investors it was indicated that 70% of their money would be invested in high-risk small or medium-sized businesses and 30% would be in low-risk liquid securities. SGGF IV was marketed to immigrant investors on the basis that up to 50% would be invested in assets leased to Crown corporations, up to 30% would be invested in high-risk small or medium-sized businesses and 20% would be in liquid securities.

As a result of the increased competition for immigrant investors' money, Management Corp is not able to stimulate as much economic growth in Saskatchewan as was originally intended. Also, this change means the Immigrant Investor Program has effectively become primarily a low-cost form of borrowing for the Saskatchewan Government. In 1998, Management Corp marketed SGGF V on the same basis as SGGF IV.

From 1989 to 1998, Management Corp, through its fund companies, raised over $200 million from almost 1100 investors.

Financial results

The financial statements report the following results:

	1998		1997	
	(in thousands of dollars)			
	Revenues	Assets	Revenues	Assets
Management Corp	$ 1,800	$ 18,600	$ 1,700	$ 291
SGGF I	3,400	18,300	6,800	29,500
SGGF II	1,900	33,100	5,700	35,600
SGGF III	2,400	29,700	1,500	30,300
SGGF IV	1,400	39,100	213	15,800
SGGF V	32	9,900	—	—

The financial results of 617275 Saskatchewan Ltd. are included in the financial results of SGGF III and SGGF IV. The annual reports of Management Corp, SGGF I, SGGF II, SGGF III, SGGF IV, and SGGF V contain their respective financial statements. There are no separate audited financial statements for 617275 Saskatchewan Ltd.

Proposed changes to the Program

In December 1998, the Federal Government proposed changes to the Immigrant Investor Program. The Federal Government stated these changes were proposed in order to simplify Program administration, increase economic benefit, and offer provinces the opportunity to use investor money according to provincial economic priorities.

The major changes to the Program are:

- The Federal government will act as an agent on behalf of the provinces and territories who will determine where to invest the money.
- The minimum investment will increase to $400,000 (currently $250,000) for all immigrant investors regardless of the province where the capital is invested. The $400,000 is provided to the Federal Government.
- The Federal Government will allocate the immigrant investors' funds to participating provinces based on a predetermined formula.

- The minimum net worth required of an immigrant investor will increase to $800,000 (currently $500,000 in Saskatchewan).

- The immigrant's investment will be guaranteed against loss by the provinces and territories.

The Federal Government will repeal the regulations governing the current program, but the regulations will continue to apply to previously approved funds.

These changes are effective on April 1, 1999.

Management Corp told us the Saskatchewan Government has not decided if it will participate in the new program.

Our audit conclusions and findings

Our Office worked with Deloitte & Touche, the appointed auditor for Management Corp, SGGF I, SGGF II, SGGF III, SGGF IV, and SGGF V using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. Deloitte & Touche and our Office formed the following opinions.

In our opinion:

- **The financial statements of SGGF I, SGGF II, SGGF III, SGGF IV, and SGGF V are reliable. The financial statements of Management Corp are reliable except for the matter described later in this Chapter. Deloitte & Touche formed a different opinion on the financial statements of Management Corp. Deloitte & Touche reports the financial statements of Management Corp "present fairly, in all material respects, the financial position of the Corporation as at December 31, 1998 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";**

- **Management Corp had adequate rules and procedures to safeguard and control its and SGGF I, II, III, IV, and V's assets; and**

- **Management Corp complied with authorities governing its and SGGF I, II, III, IV, and V's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.**

We also note other matters relating to improving public accountability for the Legislative Assembly's attention.

Improving public accountability

In this section, we identify three 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 limited liability companies and include:

- comparisons of planned to actual results in annual reports;
- publishing lists of persons who received money from them; and
- providing legislators and the public with information to discuss and debate significant changes to projects or programs.

We discuss the comparison of planned to actual results and payee lists more fully in Chapter 1, Crown Investments Corporation of Saskatchewan.

We encourage Management Corp and its limited liability companies to work with the Committees of the Assembly to improve the information they make public.

Legislative and public debate needed

In our opinion, the Government, in 1998, made significant changes to Management Corp. We think the Government should provide the Standing Committee on Crown Corporations with the information required to help the Committee discuss and debate these changes.

Order in Council 214/93 gave Management Corp the authority to create and manage investment funds consisting of foreign investment monies made available for investment in Saskatchewan. Management Corp invested and reinvested the immigrant investors' monies for the benefit of the charities. It also gave Management Corp the ability to receive the net assets (dividend) of the fund companies. Management Corp had the authority to decide when it would receive the net assets of the fund companies because it owned the fund companies. However, the net assets did not belong to Management Corp because Management Corp only had the authority to pay the net assets to charities. Management Corp had the discretion to decide which charities would receive the net assets. To do anything else would be beyond the scope of the Management Corp's mandate.

On November 10, 1998, the Government, through Order in Council 660/98, decided to take the remaining net assets of the fund companies previously intended for charities. The Government gave the net assets of the fund companies to Management Corp to invest and reinvest for economic and employment development in Saskatchewan. Management Corp recorded the $16.4 million of the net assets of SGGF I received from the Government as income. Management Corp told us it will record the net assets, if any, of the other fund companies as Management Corp's assets when the immigrant investors are repaid.

Also, the Government changed the nature of Management Corp's business. Before 1998, Management Corp only invested immigrant investors' monies for a fee. The Government did not assume the risk of losses from these investments. Management Corp is now also investing the $16.4 million of net assets it received from the Government. If there are losses from these investments, the Government assumes the loss.

An effective system of public accountability should provide ample opportunity for legislative scrutiny and public debate of proposed actions, the alternatives considered, what the Government expects to achieve, and the actual results.

The Financial Management Review Commission, which was established in 1991, recommended that assets, such as the net assets of the fund companies, should be paid to the General Revenue Fund. This would result in Management Corp competing with other projects or programs (e.g., health, education, and highways) at Treasury Board when spending decisions are made. It also results in their inclusion in the Saskatchewan Estimates.

The Government did not agree with this recommendation. As a result, when the Government decided to take the net assets of the fund companies, this decision was not included in the Estimates. As such, the

Assembly did not have the opportunity to debate this decision before the decision was taken.

Currently, the Government can make changes to programs or projects through Crown corporations without prior approval of the Assembly.

In 1997, the Government put in place a system to make Crown Corporations more open and accountable. The Standing Committee on Crown Corporations approved the *Significant Transactions Policies guidelines for CIC and Subsidiary Crown Corporations*. These guidelines require Crown Corporations to report all significant transactions to the CCC within 90 days. A transaction is considered to be significant if it is sensitive and likely of interest to legislators and the public, or is material and outside the ordinary course of business involving any of the following activities:

- acquisition of a major investment or asset, or the assumption of a major liability;
- a material change in the terms and conditions governing an existing investment or assets; or
- divestiture of a major asset or investment.

In our opinion, the changes to Management Corp meet the requirements of a significant transaction because Management Corp's business has changed and the nature of its investments has changed. As such Management Corp should provide the Standing Committee on Crown Corporations with information on the changes made.

1. **We recommend the Government should provide the Standing Committee on Crown Corporations with the information on all significant changes to the management of the Immigrant Investor Program as contemplated by the *Significant Transactions Policies guidelines for CIC and Subsidiary Crown Corporations.***

Management Corp's financial statements are incorrect

In our opinion, Management Corp's 1998 financial statements are incorrect because they incorrectly show the $16.4 million in net assets received from the Saskatchewan Government on November 10, 1998, as income.

Management Corp's financial statements overstate 1998 net income by $16.4 million. Management Corp should report its net income as $41,000 not $16.4 million.

The Canadian Institute of Chartered Accountants (CICA) recommends accounting principles for government business enterprises (i.e., entities such as Management Corp). The CICA states income must be earned and should not include contributions from owners. The CICA states contributions from owners should be recorded as equity.

Net income is an important indication of an organization's ability to earn revenue and manage costs. If organizations included, in net income, amounts their owners contributed, then net income would not be a useful performance measure because the owners can decide what net income to report. Accordingly, the CICA recommends that contributions from owners should not be recorded as part of net income. Contributions should be recorded as an investment or equity contribution.

Since Management Corp did not earn the $16.4 million in net assets it received from its owner, i.e., the Government, Management Corp should not record the $16.4 million as income.

Management Corp argues the net assets of SGGF I always belonged to Management Corp and, therefore, should be recorded as income. As stated earlier, we think the net assets of SGGF I were to go to charities and, thus, did not belong to Management Corp.

We relied on Deloitte & Touche's report on Management Corp's financial statements except for the matter reported above.

The Provincial Auditor Act requires my Office to do additional audit procedures when we cannot rely on the report of an appointed auditor. Our additional procedures included research and discussions with government officials and Deloitte & Touche.

2. **We recommend that Saskatchewan Government Growth Fund Management Corporation should:**

- **record the contribution from the Government as an equity transaction and not income; and**

- **amend and re-issue its 1998 financial statements accordingly.**

Management's comments

Management told us:

- regarding recommendation 1:

  The changes made to Management Corporation through Order in Council 660/1998 were not significant. The business of Management Corporation continues to be managing immigrant investor capital under the guidelines of the Federal government's Immigrant Investor Program. Historically, Management Corporation has reinvested the net profits of the fund companies in Saskatchewan businesses without comment or criticism. Order in Council 660/1998 affirms Management Corporation's ability to do so.

  The Orders in Council governing Management Corporation, specifically 30/89, 214/93 and 660/1998 allow it to hold the common shares of the fund companies, to vote those shares, to receive any dividends declared and receive the remaining property of the fund companies at the time of their dissolution. The distribution of any dividends or property received by Management Corporation was and still is discretionary. No decision has been made as to the ultimate use of any dividends or property. To date no dividends or property has been received by Management Corporation.

  Accounting principles required that $16.4 million of net assets of SGGF I be reported on the consolidated financial statements of Management Corporation. These net assets would have been reported even if Order in Council 660/1998 had not been passed.

- regarding recommendation 2:

  Management Corporation's financial statements are correct. The reason for and effect of the consolidation of SGGF I's financial results with those of Management Corporation is fully disclosed in both the financial statements and notes to the financial statements. Management Corporation has a difference of professional opinion with the Provincial Auditor on the issue of the accounting treatment of the $16.4 million of net assets of SGGF I. This issue was discussed at length with our external auditors, Deloitte & Touche, and they issued an unqualified audit opinion on the consolidated financial statements of Management Corporation.

  As the sole common shareholder of the fund companies, any net assets of these companies belong to Management Corporation. Management Corporation continues to have the right to access these net assets, however, it does not have the ability to do so until the last investor in a particular fund company has been repaid. The Government cannot contribute net assets to Management Corporation if these net assets always belonged to Management Corporation.

Management Corporation received no funds as a result of Order in Council 660/1998. The majority of the net assets of SGGF I remain invested in Saskatchewan businesses.

Planning for 2000

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Executive summary

The Year 2000 is only six months away. The Government is working hard to fix its Year 2000 issues and to plan for the risk of system failure due to the Year 2000 issue. Unlike conventional risks like fires or floods that can be planned for, but not predicted, the Year 2000 issues under our control can be predicted.

There are risks that the Government will not fix or find all the Year 2000 issues. The Government's agencies and Crowns should therefore have contingency plans for all systems or processes considered mission critical.

The Government plans to have most of its mission critical systems fixed and tested by September 1999. For example, the Crown utilities plan to be done testing and have contingency plans in place during the summer of 1999. The Government is also starting to communicate its progress in completing its Year 2000 work to the Legislative Assembly and the public.

The Government is monitoring its progress in two key segments:

- agencies monitored by the Y2K Co-ordination Office established at the Department of Economic and Co-operative Development; and
- Crown corporations monitored by the Crown Investments Corporation of Saskatchewan.

We continue to recommend that all government agencies and Crowns complete their Year 2000 contingency plans by the end of the third quarter of 1999 and report regularly on their progress in becoming Year 2000 ready to the Legislative Assembly.

Introduction

Year 2000 issues have received a lot of attention world wide because of the cost and the potential to disruption to essential services. The Year 2000 issues have been described in our previous report and summarized in our Glossary. The Year 2000 issues must be addressed and fixed now because it is only months away. The Government is working hard to fix its Year 2000 issues and assess its risk. Unlike conventional risks like fires or floods that can be planned for, but not predicted, the Year 2000 issues can be planned for and can be predicted.

There are risks that the Government will not fix or find all the Year 2000 issues. The Government 's agencies and Crowns should therefore have contingency plans for all systems or processes considered mission critical.

The Government plans to have most of its mission critical systems fixed and tested by September 1999. For example, the Crown utilities plan to be done testing and have contingency plans in place during the summer of 1999. Also, the Government is starting to communicate the status of its Year 2000 work to the Legislative Assembly and the public.

Scope and objective of our work

Our objective was to follow up on our recommendations in the 1998 Fall Report – Volume 2 and to review processes the Government uses to monitor the progress of its agencies and Crowns. Our work looks at the progress of two key segments of government:

- the agencies monitored by the Y2K Co-ordination Office established in 1998 at the Department of Economic and Co-operative Development (Y2K Office). The agencies are listed in Exhibit 1; and

- the Crown corporations monitored by the Crown Investments Corporation of Saskatchewan (CIC). The Crowns are listed in Exhibit 1.

We used surveys done in February 1999, by the Y2K Office and CIC to help make our recommendations and give a status of the work done by Government. We also interviewed government officials and reviewed the reports prepared by these officials. The surveys do not include post-secondary institutions, health districts and Workers Compensation Board and as such this Chapter does not include observations on these agencies. Our work does not constitute an audit.

Background information

This section provides a brief history of our Year 2000 work and the surveys done by the Y2K Office and CIC.

Our Office has been reporting on government progress and monitoring of the Year 2000 issue since 1997. In our 1997 Spring Report, we reported on the challenges facing government in dealing with the Year 2000 issue.

In the 1997 Fall Report – Volume 2, we studied 12 government agencies to see if they had adequate plans to deal with Year 2000 issues. We found all agencies reviewed lacked essential elements in their Year 2000 plans including senior management approval.

In the 1998 Fall Report – Volume 2, our observations were based on the Y2K Office's June 1998 Survey, interviews with the Crowns, and our review of Year 2000 preparations done during our annual work. We observed that progress was slow, project management practices could be improved and central monitoring and control of the Year 2000 issue could be strengthened.

The Y2K Office has done two surveys of its agencies. The Y2K Office reports the results of its surveys to Cabinet. The first survey was in June 1998 and focused on its agencies' progress in completing their Year 2000 procedures. The survey also covered budgets, project management processes, third parties, suppliers and contingency plans.

The second survey was in February 1999 (Y2K Office 1999 Survey) and covered the status of mission critical systems, including systems connected to these systems and the status of contingency plans if these systems fail. The survey also covered the Year 2000 budgets, policies on third parties, and change management processes.

CIC has surveyed the Crowns twice. CIC reports the results of its surveys to its Board. The 1998 Fall CIC survey included the status and cost of the

Crowns' Year 2000 work. The survey also covered how the Crowns were ensuring their suppliers and customers are prepared for the Year 2000.

The second CIC survey resulted in a report called *Crown Sector Year 2000 Readiness – 1999 First Quarter Report* (CIC 1999 Survey) and it reported on the Crowns' progress against their plans, their Year 2000 contingency plans, and their Year 2000 communication strategy. The Y2K Office 1999 Survey and the CIC 1999 Survey were used to help develop our observations that follow. The Y2K Office and CIC surveys have been helpful in monitoring the progress of Government in addressing the Year 2000 issues.

Observations

In this Chapter, we report the results of our work by the following headings:

- Progress on fixing Year 2000 issues.
- Central monitoring.
- Third parties and business partners.
- Contingency plans for Year 2000.
- Post Year 2000 review.

Progress on fixing Year 2000 issues

An Industry Canada report called *A Call for Action* included the five steps needed to successfully make an organization Year 2000 ready. They are awareness, assessment, fixing, testing, and implementation. *A Call for Action* recommended these steps be complete by the end of 1998 to provide time for unexpected problems and contingency planning. Awareness and assessment work appears to be done. We report below on the progress to fix and test mission critical systems.

The following table shows the Y2K Office's agencies progress on fixing and testing mission critical systems.

	% fixed and tested	% fixed, tested or **being tested**
Y2K Office 1998 Survey	40%	58%
Y2K Office 1999 Survey	65%	85%

These results show good progress between June 1998 and February 1999 for the agencies monitored by the Y2K Office. The results in column 1 compare progress to complete Year 2000 work. Column 2 compares systems fixed, tested, or being tested.

The CIC 1999 Survey indicated that all major Crowns plan to substantially complete their Year 2000 work by the summer of 1999. The Crowns' estimated time of completion are consistent with those reported to the CIC Board in the fall of 1998.

We see from these findings that Year 2000 work is progressing as planned. However, at February 1999 the Government was behind the dates *A Call for Action* recommended. *A Call for Action* recommends that all fixing and testing work should be done in 1998 to leave time for contingency planning and unforeseen issues.

Central monitoring

Most Canadian governments have a Year 2000 project office to manage Year 2000 risks. A Year 2000 project office can help governments ensure:

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

In 1998, the Government created the Y2K Office to monitor the Year 2000 issue in the agencies listed in Exhibit 1 and established a committee called the Y2K Management Forum to share information amongst the agencies. In 1998, CIC also started reporting on Year 2000 work in the Crowns to its Board.

Since our 1998 Fall Report – Volume 2, the Y2K Office has also been meeting with its agencies to help with setting priorities, communicating with third parties and suppliers and sharing information. The Y2K Office and CIC continue to monitor the progress of its agencies and Crowns and report to the Government and the Legislative Assembly.

The Legislative Assembly needs to be aware of the progress of Government on the Year 2000 issue. The Assembly has a responsibility to oversee the Government including its management of key risks affecting government operations.

The Standing Committee for Public Accounts (PAC) met in the fall of 1998 to discuss the Year 2000 issue and the preparedness of the Government. PAC concurred with our Year 2000 recommendations made in our 1998 Fall Report – Volume 2. We recommend that PAC continue to monitor this issue.

We continue to recommend that the Government monitor progress to ensure mission critical systems are ready and contingency plans for these systems are in place and tested by the end of the third quarter of 1999.

We continue to recommend that the Government report regularly to the Standing Committee on Public Accounts on the Government's progress in making its systems Year 2000 ready.

Third parties and business partners

One challenge facing governments 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.

A government is an important part of the economic and social supply chain. The governments:

- buy supplies and services from the public;

- provide supplies, services, and utilities to the public as part of social policy or for a fee; and

- fund programs by way of loans or transfers to third parties.

Governments must ensure critical data exchanges (systems that move data from one organization to another) with its third parties and business partners continue to work into the Year 2000. These exchanges could impact revenue collection and the accountability of third parties for the money they receive.

The Y2K Office survey revealed that 60% of its 18 largest agencies had policies to address issues with their third parties or replied that they did not have any significant third parties.

Both the Y2K Office and the CIC surveys showed that most suppliers and customers were identified and many have been contacted. The Crowns are making better progress in this area. The Crowns had identified and ranked their suppliers and customers, had plans to deal with them, and were executing their plans.

1. **We continue to recommend that the Government takes reasonable steps to ensure its third parties and business partners are Year 2000 ready.**

Contingency plans for Year 2000

The Government needs to know that all its agencies and Crowns have a Year 2000 contingency plan. The Government Accounting Office, which audits and studies the United States Federal Government, published the *Year 2000 Computing Crisis: Business Continuity and Contingency Planning* (http://www.gao.gov/special.pubs/bcpguide.pdf). This publication outlines the following steps that should form part of a Year 2000 contingency plan:

1. Business-risk analysis – assess the impact of a Year 2000 issue on key business functions and how long organizations can be without those 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 the organizations' teams can perform the tasks needed in the time available.

Even using good project management practices while making your systems Year 2000 ready does not guarantee success. Also, third parties and business partners may have a system fail due to a Year 2000 issue and their services will be interrupted. These risks make contingency planning very important as we move towards 2000. A Year 2000 contingency plan ensures an organization has a plan in the event of a system failure. All organizations must ensure their plans are documented and tested. Governments need to ensure the plans are adequately funded and plans go into action based on government-wide priorities.

The Y2K Office 1999 survey continued to show:

- that 40% of the agencies did not have a Year 2000 contingency plan if a major supplier failed to meet its obligations; and

- 50% of the mission critical systems did not have a Year 2000 contingency plan.

The CIC survey indicated that Crowns' contingency planning was progressing as planned.

2. **We continue to recommend that all government Crowns and agencies complete a formal, approved and tested Year 2000 contingency plan by the end of the third quarter of 1999.**

Post Year 2000 review

Good project management practices include a post-project review to identify lessons learned that can be applied to future projects. The Government has an opportunity to take advantage of lessons learned from its Year 2000 work.

Some lessons learned from Year 2000 preparations that reinforce good project management include:

- Working together will get things done. To solve the Year 2000 issue, the agencies and Crowns met with each other, and with the private sector.

- Long-term planning is critical to the success of a project. If government and technology suppliers had worked as hard on this problem five years ago as they have in the last two years, Year 2000 issues would likely be a less expensive to fix and a less disruptive event.

- A good risk assessment is important when planning a project. In doing the assessment, you need to first evaluate the risks to the processes before you consider the technical issues. In a number of cases, the Government found new risks when they moved from assessing their computer systems to assessing risks to its key functions.

- A well-defined governance structure is needed to handle important issues. This is more challenging when dealing with outside organizations that provide public service. For example, it was important to clarify who in government was responsible for the Year 2000 issues in health districts, school boards and municipalities.

- A current approved contingency plan or business continuity plan is needed to help ensure the availability of government programs and services.

- Senior management commitment is a key to successful projects.

There will be other lessons that all government agencies will learn from their analysis of the Year 2000 project management process. These ideas should not be lost and should be shared with others. The Y2K Office and CIC can help gather these ideas and ensure they are shared with all.

3. **We recommend that the Y2K Office and CIC record the lessons learned from the Year 2000 work so that they can be used in future government projects.**

Exhibit 1

Agencies surveyed by the Y2K Office

1. Agricultural Credit Corporation of Saskatchewan
2. Agriculture and Food
3. Economic and Co-operative Development
4. Education
5. Energy and Mines
6. Environment and Resource Management
7. Executive Council
8. Finance
9. Health
10. Highways and Transportation
11. Intergovernmental and Aboriginal Affairs
12. Justice and Attorney General
13. Labour
14. Liquor and Gaming Authority
15. Municipal Affairs, Culture and Housing
16. Northern Affairs
17. Post-Secondary Education and Skills Training
18. Public Employees Pension Plan
19. Public Service Commission, The
20. Saskatchewan Archives Board, The
21. Saskatchewan Arts Board, The
22. Saskatchewan Centre of the Arts
23. Saskatchewan Communications Network Corporation
24. Saskatchewan Crop Insurance Corporation
25. Saskatchewan Gaming Corporation
26. Saskatchewan Human Rights Commission
27. Saskatchewan Legal Aid Commission
28. Saskatchewan Pension Plan
29. Saskatchewan Property Management Corporation
30. Saskatchewan Research Council, The
31. Saskatchewan Securities Commission
32. Saskatchewan Water Corporation
33. Social Services
34. Teachers' Superannuation Commission
35. Wascana Centre Authority
36. Women's Secretariat

Crowns surveyed by CIC

1. Crown Investments Corporation of Saskatchewan
2. Saskatchewan Government Growth Fund
3. Saskatchewan Government Insurance
4. SaskEnergy Inc.
5. Saskatchewan Opportunities Corporation
6. SaskPower
7. SaskTel
8. Saskatchewan Transportation Company
9. Saskatchewan Water Corporation

Glossary

Mission Critical System – Are one or more automated processes that support an important government function. It is important to a government if it supports a core business function that if it fails it will cause inconvenience to the government or public.

Year 2000 Issue – The Year 2000 issue describes a design flaw in how computer chips and systems treat the Year 2000 and subsequent years. It includes the problems that might be encountered in any level of computer hardware and software that need to correctly interpret year-date data represented in 2-digit-year format.

Year 2000 ready – The capability of a computer systems (hardware and software) or embedded chips when used with associated documentation, to correctly process, provide and/or receive date data within and between the 20th and 21st centuries.

Information Technology Security

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Purpose

This Chapter is an interim report on our follow-up work relating to information technology (IT) security. We also note important positive developments made by the Government to strengthen IT security.

In 1996, our Office surveyed government departments and agencies regarding security policies and procedures. We made several recommendations based on the survey. The recommendations are contained in Chapter 4 of the 1996 Spring Report. On May 7, 1996, the Standing Committee on Public Accounts (Committee) discussed our recommendations and recommended the Government address our concerns. At that time, we said that our Office plans to do a follow-up to see if departments and agencies are implementing our recommendations.

In 1997, we also sent out similar surveys to Crown corporations and other agencies not covered in our 1996 survey. We made several recommendations based on the survey. The recommendations are contained in Chapter 7 of the 1997 Spring Report. The recommendations were similar to those in the 1996 Spring Report.

We plan to survey a sample of government agencies in 1999. The resulting report will provide the Committee with the opportunity to deal again with information technology security and the Government's progress in dealing with the Committee's recommendation on this matter.

Significance of IT security

Information technology (IT) includes computers, software, and telecommunications. Government agencies (departments, Crown corporations, boards, commissions, and post-secondary institutions) rely heavily on IT to deliver their programs and services, manage their resources, and account for what they do. This includes using IT to provide better and more timely information about their programs and services. The cost of IT for Saskatchewan Government agencies (agencies) exceeds $200 million each year.

In this Chapter, IT security means the measures agencies use to protect the confidentiality, integrity and availability of their IT systems and data. Poor security can result in incorrect, lost, or inappropriately released information. Good security improves confidence and helps agencies realize the benefits of IT.

IT security depends on good management. Agencies need to reduce security risks to an acceptable level. Absolute security is not possible or even practical. Security costs money and often reduces efficiency. Given these constraints and limited resources, senior management must direct and monitor IT security practices.

As well, in large decentralized agencies like the Government, it is important to have an IT security strategy that balances the needs of the centralized and decentralized functions. This balancing is necessary to meet the Government's and the individual government agency's needs.

The effective management of IT security requires officials responsible for agencies to:

- assess the threats and risks to their IT systems and data;
- direct their senior management to review and approve security policies and procedures;
- clearly assign roles and responsibilities for IT security;
- inform and train staff in their IT security responsibilities;
- administer IT resources in a secure manner;
- protect the confidentiality and integrity of IT systems and data; and
- ensure the continuous operations of IT systems and the availability of data.

The Information Technology Security Branch of the Royal Canadian Mounted Police recommends the above IT security standards for agencies. (www.rcmp-grc.gc.ca/html/itsb-e.htm)

The key to good IT security management is a threat and risk analysis. The analysis should identify the threats and risks agencies face and compare the costs of the controls to the benefits of reducing the threats and risks. Senior management should review and approve the analysis to ensure it is aware of the threats and risks facing its agency. This information helps management ensure it puts in place adequate security policies and procedures.

Status of recommendations

There are two aspects to our recommendations, government-wide and agency-specific.

Government-wide recommendation

In our 1996 Spring Report, we recommended that: "The Government should establish a general security policy for its IT systems." The Committee concurred with the recommendation. A general security policy for all of the Government's IT systems would ensure a minimum level of security is set for all government departments and agencies.

The adoption of minimum standards is key to ensuring security. It is especially important as more agencies are interconnecting with each other through shared wide-area networks and Intranets. A government-wide standard would decrease the risk of accidental or deliberate unauthorized disclosure or manipulation of data through any of its agencies.

Several events have taken place that help strengthen IT security within the Government:

- The Government has created an Information Technology Office. The Chief Information Officer heads this Office. This is an important improvement for IT planning and management in the Government. One of the roles of the Information Technology Office will be to coordinate IT policy across government.

- The Public Service Commission is drafting an *Information Technology Acceptable Usage Policy*. This document outlines acceptable uses for the Government's IT systems including the use of computers, e-mail, and the Internet. This policy is important in ensuring the Government's IT resources are appropriately used.

- The Saskatchewan Property Management Corporation along with the Departments of Finance and Justice is drafting a central guideline to provide direction to agencies in developing their own security policies and procedures. This is an important step towards a government-wide security policy.

In summary, IT security within the Government is improving.

The above progress applies only to agencies that report to Treasury Board. Also, we note that the draft central guideline does not specify the minimum security standards that each government agency should follow as part of government-wide security.

One critical area of a government-wide security policy would be a standard for classifying and protecting data. This helps ensure there are consistent policies over the protection and distribution of confidential information. A standard for classifying and protecting data would set standards as to how agencies would protect different levels of confidential information. The importance of this has increased because more agencies are sharing data and publishing information on the Internet. As well, the importance of protecting data and information will increase further as agencies begin to use electronic commerce.

The draft central guideline described earlier, does not include standards for the classification and protection of data. When finalizing the guideline, the Government should analyze the cost of creating and using a government-wide security classification system and compare it to the expected benefits. Without this analysis, the Government does not know if a government-wide security classification system is necessary.

1. **We continue to recommend the Government should establish a government-wide general security policy for its IT systems.**

Agency-specific recommendations

We plan to do a follow-up study to determine if agencies have followed our recommendations outlined in previous reports. The objective of the study will be to determine whether government agencies have adequate policies and procedures in place to protect and control the confidentiality, integrity and availability of systems, data and services from accidental and deliberate threats. We will survey a sample of the larger agencies that have significant IT systems. (Appendix 2 of this Report contains a complete listing of agencies.)

This survey will provide us the information to assess the agencies' progress in the following areas:

- organizational structure;
- security policies and procedures;
- personnel policies and procedures;
- security administration;
- confidentiality and integrity of data; and
- availability of data.

We will describe the results of our work in a future report.

Glossary

Electronic Commerce – The use of telecommunications and computer processing to conduct business electronically.

Internet – A world wide web of interconnected networks providing access to a multitude of servers and to information resident on such servers.

Intranet – A private network or Local-Area Network connected to a web server that acts as a storage area for information for use within an organization. Users can access the information from their workstations by using Internet browser software.

Wide-area network (WAN) – A network of connected devices (computers, modems, printers, etc.) which are physically located across a diverse set of locations.

(The above terms have been adapted from *Information Technology Control Guidelines* published by The Canadian Institute of Chartered Accountants.)

Pensions

12

12 Pensions

Executive summary

The Government's pension plans are significant to the Legislative Assembly, to the members of the pension plans and the public. The Government, through the pension plans manages assets totalling $6.4 billion and pension liabilities of $9.3 billion at March 31, 1998.

In this Chapter, we discuss the status of systems and practices to manage pension risks, the systems and practices used by pension plans to maximize investment earnings within acceptable risk levels, and progress on our past recommendations. Also, this Chapter includes the conclusions and findings of our study whether the pension plans:

- monitored the investment manager's performance regularly against investment objectives; and
- periodically evaluated the investment manager's performance to determine if the manager should be retained or whether a new manager should be selected.

We concluded the pension plans need to improve their regular monitoring of investment managers' performance against investment objectives and that plans do periodically evaluate their investment managers' performance.

As a result of our follow-up work on the progress of past recommendations, we recommend:

- the Government should ensure the Saskatchewan Pension Plan's investment earnings allocation policy be consistent with other defined contribution plans;
- the Government calculate its pension liability for each of its defined benefit pension plans using a consistent estimate for inflation; and
- the Government should establish a task force to study the many issues related to pension plans.

Purpose of Chapter

The Government's pension plans are significant to the Legislative Assembly, to the members of the pension plans and to the public. Through the plans, the Government manages a significant amount of assets and pension liabilities. At March 31, 1998, the plans held assets of $6.4 billion (1997 - $5.4 billion) and had pension liabilities of $9.3 billion (1997 - $8.5 billion).

In this Chapter, we discuss:

- the pension plans included in this Chapter;
- the status of systems and practices to manage pension risks;
- the systems and practices used by pension plans to maximize investment earnings within acceptable risk levels;
- progress on past recommendations; and
- our future plans.

Pension plans

This Chapter reports on sixteen of the Government's pension plans. There are ten defined benefit plans and six defined contribution plans.

In **defined benefit plans**, the Government (for the Municipal Employees' Pension Plan – the municipal employers and school boards) promises to pay each member a pension based on the member's salary and years of service. In 1978 and 1980, for the Teachers' Superannuation Plan, the Government reduced its risk, that its pension costs will be greater than expected, by closing its defined benefit pension plans to new members, except for the Judges of the Provincial Court Superannuation Plan and the Municipal Employees' Pension Plan. After 1978 and 1980, for the Teachers' Superannuation Plan, new government employees become members of the defined contribution plans.

The ten defined benefit plans included in this Chapter are:

- Judges of the Provincial Court Superannuation Plan (Judges);

- Liquor Board Superannuation Plan (LB);
- Members of the Legislative Assembly Superannuation Plan (MLASP);
- Municipal Employees' Pension Plan (MEPP);
- Public Service Superannuation Plan (PSSP);
- Power Corporation Superannuation Plan (SPC);
- Saskatchewan Government Insurance Superannuation Plan (SGI);
- Saskatchewan Telecommunications Superannuation Plan (ST);
- Teachers' Superannuation Plan (TSC); and
- Workers' Compensation Board Superannuation Plan (WCB).

In **defined contribution plans**, the Government and the plan member each pay a fixed percentage of the member's salary into a fund (except for the Saskatchewan Pension Plan where the Government no longer contributes; and for the Saskatchewan Research Council where members do not contribute). The member's pension is based on the accumulated contributions (i.e., total contributions made by the member and the Government over the member's career) and the investment earnings.

The six defined contribution plans included in this Chapter are:

- Capital Pension Plan Inc. (CIC) (this plan includes, for example, employees of the Saskatchewan Gaming Corporation, Saskatchewan Government Insurance, Saskatchewan Transportation Company, Saskatchewan Water Corporation and certain other agencies);
- Members of the Legislative Assembly Superannuation Plan (MLA);
- Public Employees Pension Plan (PEPP) (this plan includes, for example, employees hired by the Public Service Commission, SaskTel and SaskPower);

- Saskatchewan Pension Plan (SPP);
- Saskatchewan Research Council Employees Pension Plan (SRC); and
- Staff Pension Plan for Employees of the Saskatchewan Legal Aid Commission (SLACPP).

Status of systems and practices used to manage pension risks

In Chapter 5 of our 1996 Spring Report, we outline the risks and the resulting systems and practices that the Government needs to ensure pension plans:

- comply with the law;
- keep accurate and complete records to meet all reporting needs;
- safeguard their investments;
- manage cash flows;
- maximize investment earnings within levels of acceptable investment risk; and
- submit timely reports to the Legislative Assembly, plan members and government agencies. These reports should permit the evaluation and comparison of planned performance to actual performance (e.g., targeted investment rates of return and actual returns).

Based on our 1997-98 audits, we conclude, pension plans:

- complied with the law, except for Members of the Legislative Assembly Superannuation defined benefit Plan (as reported in our 1998 Fall Report – Volume 2);
- kept accurate and complete records to meet reporting needs, except for the Municipal Employees' Pension Plan (as reported in our 1998 Fall Report – Volume 2);

- adequately safeguarded their investments;
- manage their cash flows; and
- submit timely reports but plans need to include an evaluation and comparison of planned performance to actual performance.

Systems and practices used by pension plans to maximize investment earnings

In 1997, we decided to study the systems and practices used by pension plans to maximize their investment earnings within acceptable risk levels.

Pension plans need to maximize their investment earnings within acceptable levels of risk. The systems and practices needed to accomplish this include:

- assessing and establishing the risk levels that are acceptable to plan members and the Government;
- establishing investment objectives (including the target rates of return, and the quality and quantity investment guidelines) using established risk levels;
- monitoring and reporting on investment performance in meeting objectives including whether investments comply with the law; and
- setting criteria for the selection of investment managers.

We decided to break this study into several parts. In the first part of the study, we determined:

- whether the pension plans (excluding Staff Pension Plan for Employees of the Saskatchewan Legal Aid Commission) have systems and practices to clearly assess and establish the risk levels that are acceptable to plan members and the Government, and
- whether the plans' *statements of investment objectives* (excluding Staff Pension Plan for Employees of the Saskatchewan Legal Aid

Commission) clearly establish their investment objectives (including the target rates of returns, the laws the plans must comply with for investing, and the types of investment) using their established risk levels.

We reported the results of the first part of our study in our 1998 Spring Report. In this Chapter, we describe the objectives of the second part of our study, our work and our conclusions.

Objective of our study

Pension plans must monitor and evaluate the investment manager's performance. Each pension plan's *statement of investment objectives* (statement) outlines investment objectives and performance standards, asset mix guidelines, permissible investments, quality and quantity guidelines, and compliance reports that the investment manager must follow and provide.

The objective of this part of our study is to determine if each pension plan:

- monitored the investment manager's performance regularly (usually quarterly) against investment objectives (e.g., benchmark portfolio, market indices and compliance with the law); and

- periodically evaluated the investment manager's performance to determine if the manager should be retained or whether a new manager should be selected. This is usually done at a specific time (e.g., after a four-year period), but may be done earlier if performance is poor.

We did not include the Staff Pension Plan for Employees of the Saskatchewan Legal Aid Commission in this part because it was not included in the first part of our study. We also did not include the Members of the Legislative Assembly defined benefit plan in this part because it has no assets.

We studied the investment managers' reports and consultants' reports for the pension plans using the following criteria. We used the reports of these pension plans for their years ended June 30, 1997, December 31, 1997 and March 31, 1998.

Assurance standards

This study is not an audit. We did our study in accordance with the standards for assurance engagements established by The Canadian Institute of Chartered Accountants. We did the procedures we considered necessary to meet those standards. Our procedures consisted of studying relevant documents, and discussion and analysis.

Criteria

Auditors need criteria to evaluate matters they study. Criteria are reasonable and attainable standards of performance and control against which auditors can assess the adequacy of systems and practices. To complete our study, we developed criteria. We provided the criteria to pension plan administrators for their comments. We reviewed the comments we received and made changes to our criteria.

The agreed upon criteria are that each pension plan should:

♦ monitor the investment manager's performance. Each pension plan should:

  - assess the performance for the period (i.e., the quarter), year-to-date and for longer periods;
  - assess asset distribution and changes in the portfolio in total and by asset class to ensure the plan's guidelines are followed;
  - assess that the valuation of securities is consistent with the method stated in the *statement of investment objectives*;
  - assess compliance reports to ensure compliance with investment guidelines and the law;
  - assess established guidelines and objectives to determine what changes, if any, are needed;
  - periodically meet with the manager to discuss investment results and the manager's investment strategy; and
  - consider using asset consultants as necessary to assist in the monitoring of the manager's performance.

- evaluate the investment manager's performance. Each pension plan should consider the following:

  - Is performance acceptable in view of the objectives?
  - Did the investment manager adhere to the investment guidelines?
  - Does the structure of the pension plan still necessitate the service of a manager?
  - Has the manager's organization changed?
  - Have there been changes to the manager's senior staff?
  - Has there been changes in the manager's investment style?
  - Is the level of client service and reporting satisfactory?
  - Is the manager's fee still competitive?

Our conclusions

We conclude:

- all pension plans need to improve their regular monitoring of investment managers' performance against investment objectives; and

- all pension plans periodically evaluated their investment managers' performance to determine if the manager should be retained or whether a new manager should be selected.

The recommendations we make are intended to help the pension plans improve their regular monitoring of the investment managers' performance against investment objectives.

1. **We recommend that all pension plans verify investment manager performance reports and compliance reports.**

2. **We recommend for those plans that have contracted asset consultants to verify the investment managers' compliance with the law, those plans should obtain the verification.**

We appreciate the co-operation and help provided by the pension plan administrators.

Our findings

Monitoring investment managers' performance

Generally, we found plans monitored investment performance and received regular reports from their investment managers. The number of investment managers used by any one plan varies from one to five. For example, Teachers' Superannuation Plan uses one investment manager to manage its $1.8 billion (June 1998) portfolio whereas Public Employees Pension Plan uses five managers to manage its $2 billion (March 1998) investment portfolio.

Assessment of investment manager reports

All plans received regular reports, usually quarterly or semi-annually, on investment performance relative to the investment objectives outlined in their *statements of investment objectives*. Investment performances are reported, usually quarterly or semi-annually, for a one-year rate of return and for a four-year rolling period (annualized rate of return for the most recent four years). The investment managers' reports included asset distribution and changes in the portfolio in total and by asset class compared to the asset mix guidelines in the *statements of investment objectives*. The managers' reports also included a discussion about the reasons for changes in asset class mixes relative to economic trends and industry sector results.

All plans determined that the valuation of securities used in the investment managers' reports are consistent with the method outlined in the *statements of investment objectives*. The plans' work would be easier if the investment managers disclosed the method of calculating the market value of investments.

All pension plans, except for three, required and received quarterly reports from managers on the managers' compliance with investment guidelines including compliance with the law. One plan required and received semi-annual reports. The other two plans required quarterly reports, but did not receive and review one quarterly compliance report. Generally, the managers complied with the requirements of their *statements of investment objectives*. On occasion, investments managed by investment managers fell marginally outside of approved ranges. On such occasions, investment managers notified their plans. When investments were outside approved ranges, the investment managers brought the assets back within the approved ranges.

All plans, except for the Saskatchewan Research Council Employees Pension Plan, indicated that their *statements of investment objectives* are open to change at anytime by the board of directors/trustees (Board) of the pension plan, but must be reviewed by the Board at least semi-annually or annually to determine what changes to investment objectives and guidelines may be necessary. The Saskatchewan Research Council Employees Pension Plan should consider noting in its *statement of investment objectives* that it is open to change at anytime. All plans reviewed their statement at least annually.

All plan administrators met periodically with their investment managers to discuss investment results and the investment managers' strategies. These meetings were held at least annually. Administrators for the plans with large portfolios met more frequently, two to four times each year.

Use of asset consultant

Plans need independent assurance to ensure the performance reported by the manager is accurate. Typically, a pension plan hires an asset consultant to assist the administrator in interpreting the investment manager's performance including compliance with laws.

The asset consultants use information from the custodian to prepare an analysis of investment performance. Each plan uses this independent analysis to evaluate the investment manager's performance relative to the investment objectives in the *statement of investment objectives*.

Twelve pension plans use asset consultants to assist them in monitoring the investment managers' performance. Two plans do not use an asset consultant. We think all plans should verify investment managers' performance reports.

Each pension plan must ensure its investment managers comply with the requirements of its *statement of investment objectives* and with the law. This can be done through independent verification of the investment manager's compliance reports. Only the Teachers' Superannuation Plan, out of fourteen plans, receives independent verification of the investment manager's compliance reports. This plan contracted with its investment custodian to obtain written quarterly assurance that its investment manager is complying with the investment guidelines. Several plans have requested independent compliance reporting in the contract with their asset consultants. However, they have not received these reports. We think all plans should receive independent verification of their investment managers' compliance reports.

Pension plans evaluate the performance of investment managers'

Most pension plans' main objective for evaluating investment managers' performance is to ensure the plan's actual performance meets or exceeds the target rate of return. Pension plans also need to know whether actual performance meets or exceeds asset class target rates of return (e.g., Canadian equities should return greater than 110% of the TSE 300 Total Return Index which includes capital appreciation and dividends distributed). Most pension plans also need to know their real investment returns (e.g., a return of at least the Consumer Price Index plus 3%). The performance of the investment manager is assessed against the target rate of return and asset class target rates of return on rolling four-year periods, except for the Saskatchewan Research Council Employees Pension Plan which uses a five-year period.

In Exhibit 1, all but two of the pension plans met the target rate of return over the rolling four-year period. The Capital Pension Plan Inc. did not meet its target rate of return by 0.2%. However, over a longer period, an eight-year period, it exceeded the target rate of return by 0.4%.

The Teachers' Superannuation Plan also did not meet its target rate of return by 0.8% over the rolling four-year period ended June 30, 1997. However, more recently, the Teachers' Superannuation Plan met the target rate of return for the rolling four-year period ended March 31, 1999.

Exhibit 1

Pension Plan
Investment Performance

Pension Plan*	Year End	One Year Actual Return	One Year Target Return	Four Year Actual Return	Four Year Target Return
TSC	30-Jun-97	24.0%	23.8%	13.3%	14.1%
LB	31-Dec-97	14.1%	10.1%	10.4%	9.6%
MEPP	31-Dec-97	17.7%	13.8%	12.7%	12.0%
SPC	31-Dec-97	15.8%	12.7%	12.0%	11.8%
SGI	31-Dec-97	16.8%	13.4%	12.0%	11.6%
ST	31-Dec-97	16.7%	13.5%	11.9%	11.8%
WCB	31-Dec-97	18.3%	12.7%	12.7%	11.0%
CIC	31-Dec-97	16.9%	14.7%	11.9%	12.1%
SPP	31-Dec-97	19.2%	13.5%	12.8%	12.3%
SRC	31-Dec-97	12.3%	13.2%	11.8%	N/A**
Judges	31-Mar-98	28.2%	23.1%	16.1%	15.2%
MLA	31-Mar-98	27.2%	23.1%	15.8%	15.1%
PEPP	31-Mar-98	26.4%	23.8%	14.9%	14.6%
PSSP+	31-Mar-98	22.1%	19.4%	14.1%	13.6%
Average***		**19.7%**	**16.5%**	**13.0%**	**12.7%**

* See pages 151-153 for the full name of each plan.
** SRC developed its long-term target rate of return in 1996.
*** This is an unweighted average for the pension plans.
+ The Saskatchewan Transportation Company Employees Superannuation Fund within this plan has assets.

Target and actual returns are derived from plans' *statements of investment objectives*, audited financial statements, investment managers' reports, assets consultants' reports and financial newspapers.

The actual investment performance, compared to the target rate of return over the rolling four-year period, is key to the pension plan in evaluating the investment manager. Poor performance results may cause the pension plan to replace the investment manager. At a minimum, the investment manager will be subject to critical review.

To help plan administrators effectively evaluate investment performance, they need independent assurance as to the accuracy of the investment manager's reports. Pension plans should verify investment managers' performance reports.

On an on-going basis the pension plans consider: whether the managers' organizations have changed; whether there were changes to the managers' senior staff; whether there were changes in the managers' investment style; whether the level of client service and reporting remains satisfactory; and whether the investment managers' fees are still competitive. Pension plans also monitor the asset class rate of return and real rate of return objectives. Each administrator of the pension plan does this through its meetings with the manager, review of the manager's reports and its annual review of the *statement of investment objectives*.

Other matters

We also report other matters of significance that came to our attention during our study. These other matters are:

- reporting of investment performance by pension plans;
- pension plans' investment earnings compared to target earnings; and
- pension plans' operating costs.

Reporting of investment performance

Pension plans should report their investment performance. We found eight plans report their actual and targeted rates of return in their most recent audited financial statements. We encourage all pension plans to disclose actual and targeted rates of return in their financial statements. Additional credibility is added when actual and targeted rates of return are included in the financial statements because the information is audited.

The following pension plans do not disclose their actual and targeted rates of return in their audited financial statements:

- Workers' Compensation Board Superannuation Plan;
- Capital Pension Plan Inc.;

- Power Corporation Superannuation Plan;
- Saskatchewan Government Insurance Superannuation Plan;
- Saskatchewan Pension Plan;
- Saskatchewan Research Council Employees Pension Plan; and
- Staff Pension Plan for Employees of the Saskatchewan Legal Aid Commission.

We think all pension plans should disclose their actual and target rates of return in their audited financial statements.

3. **We recommend that all pension plans disclose their actual and targeted rates of return in their audited financial statements.**

The administrator for the Saskatchewan Government Insurance Superannuation Plan told us they plan to disclose their investment performance in their 1999 audited financial statements.

Pension plan investment earnings compared to target earnings

Exhibit 1 lists each pension plan's target rate of return and actual rate of return for one-year and a four-year rolling period. All returns are as of the year-end for each plan. Each pension plan assesses the risk level that is acceptable to its plan members and the Government, then it establishes the investment objectives such as rates of return and types of investments. This information is documented in the plans' *statements of investment objectives*. Exhibit 1 shows the target rates of return vary from 9.6% to 12.3% for the four-year rolling period for pension plans with a December 31, 1997 year end. The actual rates of return for the same group of pension plans varies from 10.4% to 12.8%.

The differences in the actual rates of returns for these pension plans are significant. The following example shows the impact of investment earnings on the pension of a defined contribution pension plan member. For our example, we assume a member contributes to the plan for 30 years, has an average salary of $40,000, and contributes at a rate of 5%, which is matched by the Government. A plan achieving annual earnings of 12.8% provides a member with $418,000 more at retirement than a plan achieving annual earnings of 10.4%. Because a member's pension is based on the amount of money available to buy an annuity, the extra $418,000 enables the member to have a bigger pension.

A 2.4% difference in earnings would also have a significant impact on the Government's $2.9 billion unfunded pension liability.

Pension plan operating costs

Some pension plans pay for more of their operating costs than others. For example, some plans such as the Saskatchewan Pension Plan, pay all of their operating costs, while other plans such as the Teachers' Superannuation Plan and the Saskatchewan Telecommunications Superannuation Plan, pay only investment costs. For these two plans, other administrative costs are paid by the Department of Education and Saskatchewan Telecommunications.

Exhibit 2 shows the operating costs charged to the plan as a percentage of average plan assets by year and also a four-year average. The average four-year operating costs range from 0.08% to 0.94%. We think that the Government should consider whether it is appropriate to have all of the pension plans pay all of their operating costs. A recent survey by SEI Inc. (an investment company servicing institutional investors) showed the median for plan operating costs ranged from 0.68% for plans with assets less than $50 million to 0.31% for plans with assets of greater than $500 million.[1]

[1] Li, Terry. Benchmarking fees. *Benefits Canada*, April 1999, pp 43-45.

Exhibit 2

Pension Plan
Operating Costs

Pension Plan*	Year End	1997 – 1998	1996 – 1997	1995 – 1996	1994 - 1995	4 yr Average
TSC	30-Jun-97	0.11%	0.11%	0.11%	0.11%	0.11%
LB	31-Dec-97	0.67%	0.55%	0.67%	0.54%	0.61%
MEPP	31-Dec-97	0.37%	0.33%	0.27%	0.24%	0.30%
SPC	31-Dec-97	0.14%	0.12%	0.15%	0.13%	0.13%
SGI	31-Dec-97	0.15%	0.03%	0.06%	0.07%	0.08%
ST	31-Dec-97	0.19%	0.18%	0.14%	0.13%	0.16%
WCB	31-Dec-97	0.50%	0.42%	0.46%	0.48%	0.46%
CIC	31-Dec-97	0.24%	0.20%	0.12%	0.15%	0.18%
SPP	31-Dec-97	0.87%	0.92%	0.99%	0.98%	0.94%
SRC	31-Dec-97	0.23%	0.24%	0.27%	0.37%	0.28%
Judges	31-Mar-98	0.81%	0.76%	0.74%	0.70%	0.75%
PEPP	31-Mar-98	0.20%	0.20%	0.21%	0.20%	0.20%
PSSP	31-Mar-98	0.53%	0.54%	0.54%	0.50%	0.53%
MLA	31-Mar-98	0.54%	0.62%	0.60%	0.54%	0.57%
Average**		**0.40%**	**0.37%**	**0.38%**	**0.37%**	**0.38%**

* See pages 151-153 for the full name of each plan.

** This is an unweighted average for the plans.

Operating costs are derived from the plans' audited financial statements.

Progress on past recommendations

In our 1996 Spring Report, we made four recommendations regarding the Government's pension plans. We recommended:

- The Government should study the investment earnings allocation policies of its defined contribution pension plans to decide whether it is appropriate to have a consistent policy. If consistent policies are not considered appropriate, the Government should explain why.

- The Government should use consistent estimates for cost-of-living adjustment (COLA) increases and inflation to calculate the pension liability for its defined benefit pension plans.

- The Government's defined benefit pension plans' annual reports should show future cash flow information.

- The Government should consider establishing a pension commission to study the many issues related to its pension plans.

In May 1996, the Standing Committee on Public Accounts (PAC) considered these recommendations. At this meeting, PAC concurred with our recommendations.

In our 1998 Spring Report, we followed up on our recommendations from the 1996 Spring Report and made the following recommendations:

- The Government should ensure the Saskatchewan Pension Plan's investment earnings allocation policy is consistent with other defined contribution pension plans.

- The Government should ensure the Saskatchewan Telecommunications Superannuation Plan uses an estimate for COLA increases which is consistent with other defined benefit pension plans.

- The Government's defined benefit pension plans with unfunded liabilities should show future cash flow information in their financial statements.

- The Government should establish a task force to study the many issues related to pension plans.

Our follow-up procedures included examining the plans' financial statements for their years ended June 30, 1997, December 31, 1997 and March 31, 1998 and discussing progress with pension plan administrators. This follow-up work is not an audit.

Defined contribution pension plans allocate earnings consistently except for the Saskatchewan Pension Plan

The allocation of investment earnings to members directly affects plan members' final pensions. When plan members retire or leave, they receive their contributions, the Government's contributions (the

Government no longer contributes to the Saskatchewan Pension Plan) and the investment earnings allocated to them. Typically, plan members use this money to buy a retirement annuity.

Each year, the plan members receive an allocation of investment earnings based on their contributions and the investment earnings of the fund. When they retire or leave, plan members receive this allocation of investment earnings.

In the past, the Government's defined contribution pension plans followed different policies for allocating investment earnings to members. Now all defined contribution plans allocate all investment earnings to members, except for the Saskatchewan Pension Plan (Plan). At December 31, 1998, the Plan had not allocated $6.3 million (1997 - $5.8 million) to plan members.

Currently, the Plan has not allocated 5% of Plan assets to members. For example, if a member of the Plan retired on January 1, 1999 with $20,000 in their account they would leave behind $1,000.

Management of Saskatchewan Pension Plan (Plan) told us that they thought it was not appropriate to subject its members to the market fluctuations. Management of the Plan thought plan members, when compared to other government pension plans' members, are older and more risk averse. Management also told us that for members of the Plan there is no employee-employer relationship between the member and the Government. Members join the plan voluntarily.

The Plan's current policy of not allocating all earnings to members compensates for setting investment objectives using a risk level greater than what is acceptable to plan members. If the *statement of investment objectives* clearly defines the risk, there is no need to defer the allocation of investment earnings to the members.

In October 1998, the Standing Committee on Public Accounts considered our recommendation that the Government should ensure Saskatchewan Pension Plan's investment earnings allocation policy is consistent with other defined contribution pension plans. The Committee disagreed with our recommendation.

In our 1998 Spring Report, we concluded the Saskatchewan Pension Plan's *statement of investment objectives* did not clearly set out and state the risk level acceptable to its plan members and the Government.

In November 1998, the Saskatchewan Pension Plan revised its *statement of investment objectives* to set out the risk level acceptable to its plan members and the Government. We reviewed this statement. We continue to conclude the Plan's *statement of investment objectives* does not clearly set out and state the risk level acceptable to its plan members and the Government.

We think the *statement of investment objectives* of the Saskatchewan Pension Plan should clearly set out and state the risk level that is acceptable to the plan members and the Government. This assessed risk level should then be used to determine the investment objectives.

4. **We recommend that the Saskatchewan Pension Plan's *statement of investment objectives* should clearly set out and state the risk level acceptable to its plan members and the Government. The pension plan's investment objectives should be based on the risk level acceptable to plan members and the Government.**

5. **We continue to recommend that the Government should ensure the Saskatchewan Pension Plan allocates all investment earnings to its members.**

The Government should use consistent estimates

The Government's defined benefit pension plans should use consistent estimates to calculate their pension liabilities.

We think the inflation rate used to calculate pension liabilities for defined benefit pension plans should be the same for all government pension plans because they all operate in the same economy.

The ad hoc increases to pensions to help pensioners cope with inflation are referred to as cost-of-living adjustments (COLA). Since 1985, the Government has based these adjustments on increases in the Consumer Price Index (CPI).

The Government makes these COLA increases under *The Superannuation (Supplementary Provisions) Act* (Act). COLA increases, based on the Act, apply to the following defined benefit pension plans:

- Liquor Board Superannuation Plan;
- Power Corporation Superannuation Plan;
- Public Service Superannuation Plan;
- Saskatchewan Telecommunications Superannuation Plan; and
- Workers' Compensation Board Superannuation Plan.

Because the Government decides the COLA increase that applies to all of these plans, it should use the same rate to calculate the liability for all the increases. With inconsistent estimates, boards of directors of the plans, other government agencies, the Legislative Assembly, members of the plan and the public lack comparable information. They need comparable information to understand and assess the performances of the Government's pension plans.

The SaskTel Pension Implementation Act allows SaskTel to establish its pension plan under *The Pension Benefits Act, 1992*. Effective January 1, 1999, the Saskatchewan Telecommunications Superannuation Plan no longer is required to follow *The Superannuation (Supplementary Provisions) Act* (Act). Therefore, its estimates for COLA increases no longer need to be consistent with the other defined benefit plans under this Act. SaskTel's plan document currently states members will receive at least the COLA awarded under the Act.

Pension plans obtain new actuarial valuations of their pension liability every two to three years. At that time, plans review and may change their assumptions for inflation and COLA increases used to determine the pension liability. Three plans performed actuarial valuations in 1998-99 and used different assumptions for inflation. One plan used a 3.5% inflation rate and the other two used a 4.0% inflation rate. Other plans are scheduled to obtain new valuations in 1999-2000. The Government needs to monitor defined benefit pension plans to ensure they all use a consistent estimate for inflation, and a consistent estimate for COLA increases.

6. **We recommend the Government calculate its pension liability for each of its defined benefit pension plans using a consistent estimate for inflation.**

Future cash flow information

Defined benefit pension plans with unfunded liabilities should disclose cash flow information in their audited financial statements.

Pension plans need cash flow information to manage their investments. Also, all pension plans need future cash flow information to know when they will need cash to pay the pensions promised by the Government. Pension plans with unfunded liabilities need to publicly disclose information on their future cash flows so that the Legislative Assembly and the public know these plans' future cash requirements.

Pension plans should include future cash flow information in their audited financial statements. Additional credibility is added to cash flow information when it is included in the financial statements because they are audited. In addition, the distribution of the financial statements is often wider than that of the annual report.

All defined benefit pension plans with unfunded liabilities disclose cash flow information in their audited financial statements.

Pension task force not established

Recent changes to the Government's pension plans

Since we last reported on the Government's pension plans, the Assembly made significant changes to the Saskatchewan Telecommunications Superannuation Plan (SaskTel Plan) and the Municipal Employees' Pension Plan. We describe the changes below.

Saskatchewan Telecommunications Superannuation Plan

Many years ago, the Assembly enacted laws that created five pension plans for government employees. The Assembly created separate plans for the employees which the Government hired at SaskPower, SaskTel, Workers' Compensation Board (WCB), Liquor Board, and the Public Service Commission (PSC). None of these plans were subject to *The Pension Benefits Act, 1992*.

Under the laws governing these five pension plans, the employees all contribute the same amount to pay for their pensions and receive the same benefits. To change the employees' share of the cost of their pensions and to change employees' benefits requires the Assembly to change the laws governing these plans.

Also, under the laws governing these five pension plans the Government does not have to set money aside to pay for its share of the cost of the employees' pensions but the Government can do so. If it did so, the Government could withdraw its contributions at any time. The Government followed different financing practices for these plans.

The Government did not set aside any money to pay for its share of the cost of the Public Service Superannuation Plan. Also, the Government does not set aside the money employees' contribute under the Public Service Superannuation Plan to pay for their share of the cost of their pensions. The Government spends the employees' contributions on other government programs. This Plan has an unfunded pension liability of $1,276.3 million at March 31, 1998.

The Government set aside part of the money needed to pay for its share of the costs of the pension for employees governed by the Liquor Board Plan. This plan has an unfunded pension liability of $24.3 million at December 31, 1998. The Government set aside more money than it needed to pay for its share of the costs of the pension for employees governed by the SaskTel Plan, SaskPower Plan and the WCB Plan. These plans had surpluses of $140.9 million, $55.9 million, and $7.7 million respectively at December 31, 1998. We define surplus as the excess of the market value of net assets available for benefits less pension liabilities.

In 1998, the Assembly changed the law governing the pension plan for the employees that the Government hired at SaskTel. The Plan is now governed by *The Pension Benefits Act, 1992*. Before the law was changed, the SaskTel Plan was governed by *The Saskatchewan Telecommunications Superannuation Act*.

Two significant changes to the SaskTel Plan relate to the limits now imposed on the Government for the withdrawal of the surplus in the plan and the amount of money that it must set aside to pay employees' future pensions. Under the new law, to withdraw the surplus in the plan, the Government must grant employees additional pension benefits equal in cost to the withdrawal. Also, under the new law, the Government must at all times have sufficient money set aside to pay employees' future pensions.

The other significant change relates to the Assembly giving SaskTel the authority to make changes to employees' contributions and benefits.

Municipal Employees' Pension Plan

The Assembly changed the Municipal Employees' Pension Plan in 1998. The changes improve active member's pension benefits. The pension benefits provided to a member are based on a member's salary and years of service. Effective July 1998, the plan will provide a member a pension based on the member's highest three years of salary. Under the old law, the plan provided a member a pension based on a member's highest five years of salary. Other government defined benefit pension plans typically provide a pension based on the highest five years of salary.

We note the plan has a surplus of $112.3 million at December 31, 1998.

The Government is responsible for managing this Plan. The Government does not pay the Plan's costs. Plan members, municipal governments and school boards pay the costs.

Pension task force

The Government has not yet established a pension task force. We recommended in our 1996 Spring Report that the Government should consider establishing a pension commission/task force to study its pension plans. We said a task force could examine the many issues related to its pension plans including:

- when and how the Government will fund the unfunded pension liability of $2.9 billion;
- what should be done with the surplus accumulated in pension plans, if any;
- whether it is appropriate for different member groups to receive different benefits (e.g., different rates of indexing for inflation);

- why some plans have their own laws that govern them while other plans establish a plan document under *The Pension Benefits Act, 1992* that governs their plan; and

- whether current administrative responsibilities could be combined under fewer organizations to help reduce administrative costs and/or improve investment earnings.

All defined benefit plans are closed with the exception of the Municipal Employees' Pension Plan and the Judges of the Provincial Court Superannuation Plan. New employees became members of the Public Employees Pension Plan or the Capital Pension Plan Inc. Currently, several boards administer the closed defined benefit plans. These defined benefit plans provide similar benefits, collect similar contributions at similar rates and have similar administrative systems.

As part of their study, we think the task force should also consider:

- whether members of all plans should make the same contributions and receive the same benefits;

- whether all Government pension plans should be established under *The Pension Benefits Act, 1992*; and

- what should be done with the surpluses when making changes to plans such as those described above.

In May 1996, the Standing Committee on Public Accounts recommended the following, "The Government should establish a pension commission to study the many issues related to its pension plans".

In October 1996, the Government responded to the Standing Committee on Public Accounts' recommendation. It said:

> The Government has systems in place to manage and account for its public sector pension plans. The Government will continue to work toward resolution of issues respecting the pension plans it administers.
>
> The Government recognizes its financial obligations, including its pension obligations. Balanced budgets and the Government's debt reduction strategy will ensure the Government is able to meet its future obligations while safeguarding core areas including health and education.

In October 1998, the Standing Committee on Public Accounts (PAC) requested that the Department of Finance prepare a report as to how the Government plans to address its pension obligations. The Department of Finance is to submit its report to PAC in early 2000.

We continue to think a pension task force would provide an opportunity for all those involved to provide their opinions. It could also facilitate consensus on pension issues and provide direction to the Government on its pension plans.

7. **We continue to recommend that the Government should establish a task force to study the many issues related to pension plans.**

Future plans

We plan to continue to examine the systems and practices pension plans use to manage their key risks. This will include studing the systems and practices used by pension plans to maximize investment earnings within acceptable risk levels.

In addition, in our future report, we will provide an update on the progress pension plans have made in improving their annual reports.

Glossary

Actuary – a professional who prepares periodic asset and pension liability valuations for accounting purposes.

Asset consultant – provides an analytical review of the total fund, the asset classes and the investment managers' performance, relative to peers and pension plan targets. The asset consultant monitors each manager's style and risk characteristics and comments on the acceptability of performance. It advises the board of directors of the plan on overall investment policy and management that best achieve the objectives.

Defined benefit pension plan – specifies the benefits to be received by members of the plan after retirement or the method of determining those benefits.

Defined contribution pension plan – a plan in which the members' contributions are fixed, usually as a percentage of compensation, and allocated to specific individuals. The pension benefit for each employee is the amount that can be provided at retirement based on the accumulated contributions made on that individual's behalf and investment earnings on those contributions.

Investment manager – an individual or organization that manages a portfolio of investments, which includes developing and implementing an investment strategy that will achieve the objectives of the pension plan.

Custodian – an organization such as a bank or a trust company that has been contracted to monitor investment transactions and provide record-keeping services for the pension plan. This organization holds custody of the assets of the plan and is responsible for executing investment transactions and collecting income.

Closed pension plan – a pension plan that does not accept new members into the plan.

Open pension plan – a pension plan that accepts new members into the plan.

Pension liability – is the present value of pension benefits earned as determined by an actuary using the pension plans' best estimates about future events and an appropriate actuarial method as recommended by The Canadian Institute of Chartered Accountants for accounting purposes.

Unfunded liabilities – the amount by which the pension liability exceeds the assets of the pension plan.

Target rate of return – the planned rate of return the pension plan has established. This rate is typically determined in reference to established indexes. For example, a target rate of return could be 40% of the Toronto Stock Exchange 300 Index and 60% of the Scotia Capital Markets Universe Bond Index.

Saskatchewan Grain Car Corporation

13

Introduction

The Saskatchewan Grain Car Corporation (Corporation) is responsible for the management of the Government's fleet of 977 railway hopper cars.

The Corporation has an agreement with the Canadian National Railway, Canadian Pacific Limited, and the Canadian Wheat Board under which the Corporation allows the railways to lease railway hopper cars free of charge for statutory grain service. This service has been amended to include all commodities as listed under Schedule II of the *Canada Transportation Act*.

The Corporation may also lease the railway hopper cars for commercial service, provided the cars are surplus to the requirements for statutory grain service. Commercial service includes the carriage of grain at non-regulated freight rates as well as the carriage of other bulk commodities, such as potash. The railways are required to pay an agreed leasing charge to the Corporation for commercial service.

In 1997-98, the Corporation had revenue of $2 million. At July 31, 1998, the Corporation held assets of $7.9 million. The Corporation's 1997-98 Annual Report contains its financial statements.

Our audit conclusions and findings

Our Office worked with Skilnick Robertson Besler Miller & Co. (Skilnick & Co), the Corporation's appointed auditor, using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors.* Skilnick & Co and our Office formed the following opinions.

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

- **the Corporation's financial statements are reliable;**
- **the Corporation had adequate rules and procedures to safeguard and control its assets, except for the matters reported in this Chapter; and**

- **the Corporation complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.**

Rules and procedures for monitoring financial performance

The Board should strengthen its rules and procedures for monitoring performance of the Corporation.

The Board approves annual budgets for the Corporation. However, because the operations of the Corporation are becoming more complex, the Board needs to improve its system of monitoring the Corporation's financial performance. The Board needs a policy to set out its requirements for interim financial reporting from management.

To effectively monitor the Corporation's performance, the Board needs to receive periodic financial reports from management on the Corporation's activities. These reports should be prepared in accordance with generally accepted accounting principles. The reports should compare plans to actual results, and provide explanations for significant differences.

During the year, the Corporation incurred costs of $310,322 that were not approved by the Board in the annual budget nor in a subsequent amendment. Management of the Corporation told us that these costs were necessary to prepare bills for the commercial use of the hopper cars during 1997-98.

1. **We recommend that the Board strengthen its rules and procedures for monitoring the financial performance of the Corporation and establish a policy to set out its requirements for interim financial reporting.**

Year 2000

The Board should review and monitor management's plan to ensure the Corporation's computer systems are Year 2000 compliant.

The Corporation uses computer systems to track the movement of its hopper cars. These computer systems are also used to prepare bills to the railway companies for the commercial use of hopper cars.

Management plans to replace the existing system prior to December 31, 1999. The Board should review and monitor management's plan. Also, the Board should ensure that management's plan considers the impact of the Year 2000 readiness of the railways and major suppliers on the Corporation's operations.

2. **We recommend the Board should review and monitor management's plan to ensure the Corporation's computer systems will be Year 2000 compliant.**

3. **We recommend the Board should ensure that management's plan considers the impact of the Year 2000 readiness of the railways and major suppliers on the Corporation's operations.**

Saskatchewan Telecommunications Holding Corporation

14

Introduction

In this Chapter, we set out:

- The corporate ownership structure of Saskatchewan Telecommunications Holding Corporation (Corporation), and

- The results of our audits of the Corporation, of two of its wholly-owned subsidiaries - Saskatchewan Telecommunications and Saskatchewan Telecommunications International Inc., and of the pension plan it sponsors - Saskatchewan Telecommunications Superannuation Plan.

Understanding the Corporation's corporate structure

The Corporation directly provides cellular, paging, Fleetnet 800 and internet service. Through the over one dozen companies it owns and controls, it markets and supplies a range of voice, data, internet, wireless, text and image products, systems and services. In addition, its wholly-owned subsidiary, SaskTel, sponsors the Saskatchewan Telecommunications Superannuation Plan (pension plan).

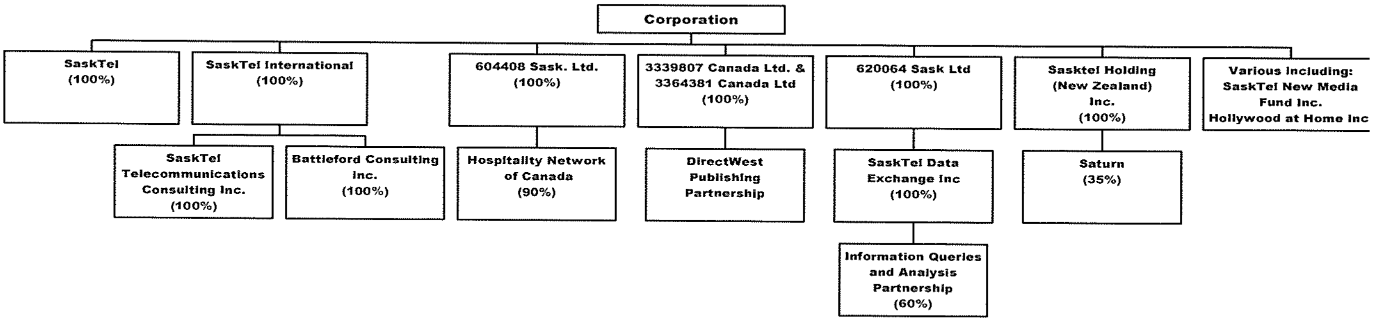
Each year, the Corporation tables in the Legislative Assembly its annual report on operations. This report includes its consolidated financial statements. These statements include the financial activities of the Corporation and the companies it owns and controls (subsidiaries) and its other investments.

In 1998, the Corporation had revenue of $755 million and net income of $93 million. At December 31, 1998, it held assets of $1.2 billion and debt of $341.4 million. The Corporation's *1998 Annual Report* includes its consolidated financial statements.

Corporation's subsidiaries

At December 31, 1998, the Corporation owned and controlled many companies. Exhibit 1 provides an overview of the Corporation's corporate ownership structure.

Exhibit 1 - Saskatchewan Telecommunications Holding Corporation (Corporation)



Most of the companies in Exhibit 1 actively operate in Saskatchewan. A few operate internationally. See Chapter 1 (Crown Investments Corporation of Saskatchewan) for a further discussion of the Corporation's international activities. The following provides a brief description of each active subsidiary.

Saskatchewan Telecommunications (SaskTel)

The Corporation wholly owns SaskTel. SaskTel is incorporated under *The Saskatchewan Telecommunications Act*. It markets and supplies a range of voice, data, text and image products, systems, and services.

SaskTel had revenue of $626.1 million and net income of $71.4 million in 1998. At December 31, 1998, it held assets of $992.5 million and debt of $304.5 million. SaskTel tables its financial statements in the Assembly each year.

Saskatchewan Telecommunications International Inc. (STI Inc.)

The Corporation wholly owns STI Inc. It is incorporated under *The Business Corporations Act* [Saskatchewan]. STI Inc. markets management and technical expertise around the world. It wholly owns two companies, Saskatchewan Telecommunications Consulting Inc. which was incorporated under *The Business Corporations Act* [Canada] and Battleford Consulting Inc (formerly 622368 Saskatchewan Ltd) which was incorporated under *The Business Corporations Act* [Saskatchewan]. These subsidiaries provide project management services in the Philippines and Tanzania. Their financial activities are included in the consolidated financial statements of STI Inc.

STI Inc. had revenue of $17.4 million and net income of $1.5 million in 1998. At December 31, 1998, it held assets of $11.9 million. STI Inc. tables its consolidated financial statements in the Assembly each year.

3339807 Canada Ltd., 3364381 Canada Ltd., and DirectWest Publishing Partnership

3339807 Canada Ltd. and 3364381 Canada Ltd. are wholly owned by the Corporation. The companies were incorporated under *The Business Corporations Act* [Canada] in 1997. Their sole purpose is to jointly own 100% of DirectWest Publishing Partnership, which was formed in 1997. The Partnership publishes, prints and distributes SaskTel's telephone directories. The companies do not prepare separate financial statements. At December 31, 1998, DirectWest had revenues of $29.3 million and held assets of $1.5 million.

SaskTel Holding (New Zealand) Inc. (NZ Inc.)

NZ Inc. (previously 593779 Saskatchewan Ltd.) is wholly owned by the Corporation. NZ Inc. was incorporated under *The Business Corporations Act* [Saskatchewan] in 1990. NZ Inc.'s purpose is to hold a 35% interest ($14.8 million –1998) in Saturn Communications Ltd. (Saturn). Saturn is a cable TV and telephony company located in Wellington, New Zealand. In addition, NZ Inc. provides additional funding to Saturn as required. Saturn obtains these additional funds from the Corporation through NZ Inc.

At December 31, 1998, NZ Inc. is committed to provide additional funds of approximately $5 million to Saturn. NZ Inc. does not prepare financial statements. Saturn has audited financial statements but they are not tabled in the Assembly.

604408 Saskatchewan Ltd and Hospitality Network of Canada

Hospitality Network of Canada (HNC) was incorporated under *The Business Corporations Act* [Canada] in 1993. In 1998, the Corporation increased its ownership of HNC from 49% to 90% for $.2 million through its wholly owned subsidiary 604408 Saskatchewan Ltd. HCN provides advanced video related services including movies, interactive games and information services. HCN has audited financial statements. These statements are not tabled in the Assembly.

620064 Saskatchewan Ltd., SaskTel Data Exchange Inc. and Information Queries and Analysis Partnership

The Corporation wholly owns 620064 Saskatchewan Ltd. It was incorporated under *The Business Corporations Act* [Saskatchewan]. 620064 Saskatchewan Ltd. wholly owns SaskTel Data Exchange Inc. SaskTel Data Exchange Inc. was incorporated under *The Business Corporations Act* [Saskatchewan] in 1998.

In 1998, SaskTel Data Exchange Inc. invested $1.2 million for 60% interest in the partnership, Information Queries and Analysis Partnership (IQA). IQA is a new national business that will act as a networker or broker between data suppliers and data buyers in the exchange of aggregated health care information.

620064 Saskatchewan Ltd. and SaskTel Data Exchange Inc. do not prepare separate financial statements. IQA has audited financial statements but they are not tabled in the Assembly.

Various inactive subsidiaries

At December 31, 1998, the Corporation owned 100% of several companies that had no activity during 1998. These inactive companies do not prepare financial statements. Exhibit 2 lists these companies.

Exhibit 2

Inactive companies held by the Corporation:

- SaskTel New Media Fund Inc.
- 3231518 Canada Ltd.
- 591227 Saskatchewan Ltd.
- SaskTel Holding (UK) Inc.
- Hollywood at Home Inc. (wholly owned by 604408 Saskatchewan Ltd.)
- Avonlea Holding, Inc. (formerly 589531 Saskatchewan Ltd.)

Saskatchewan Telecommunications Superannuation Plan

The Saskatchewan Telecommunications Superannuation Plan (Superannuation Plan) is a defined benefit pension plan. *The Saskatchewan Telecommunications Superannuation Act* established the

Superannuation Plan for employees of SaskTel hired before October 1, 1977.

In 1998, the Assembly passed *The SaskTel Pension Implementation Act*. This Act gave SaskTel authority to establish a pension plan under *The Pension Benefits Act, 1992*. Effective January 1, 1999, SaskTel registered a pension plan under *The Pension Benefits Act, 1992*. The Superannuation Plan is continued under the name of The Saskatchewan Telecommunications Pension Plan. See Chapter 12 (Pensions) for further discussion of changes affecting this Plan.

At December 31, 1998, the Superannuation Plan had assets of $729.1 million, and estimated actuarial present value of accrued pension benefits obligations of $587.4 million.

Our audit conclusions and findings

Our Office worked with Deloitte & Touche, the appointed auditor for the Corporation, SaskTel, STI Inc. and the Superannuation Plan. Our Office and the appointed auditor worked together using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. Deloitte & Touche and our Office formed the following opinions.

In our opinion for the December 31, 1998 year end:

- **the financial statements of the Corporation, SaskTel, STI Inc. and the Superannuation Plan are reliable;**

- **the Corporation, SaskTel, STI Inc., and the Superannuation Plan had adequate rules and procedures to safeguard and control their assets; and**

- **the Corporation, SaskTel, STI Inc., and the Superannuation Plan complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the Corporation's failure to obtain the necessary Order in Council to purchase shares of a company. (See further details below.)**

In this Chapter, we also report other matters relating to improving public accountability for the Assembly's attention. See Chapter 1 (Crown Investments Corporation of Saskatchewan) for a discussion of the Corporation's international activities.

Need for approval of share purchase

The Corporation did not obtain the approval of the Lieutenant Governor in Council (Order in Council) for its purchase of additional shares of Hospitality Network of Canada (HNC) in 1998.

In June 1998, the Corporation purchased more shares of HNC and increased its investment in HNC from 49% to 90% for $.2 million. Although it publicly reported this transaction to the Standing Committee on Crown Corporations, it did not obtain an Order in Council.

Section 11 of *The Saskatchewan Telecommunications Holding Corporations Act* allows the Corporation to invest in shares of other corporations. However, subsection 29(1) of *The Crown Corporations Act, 1993* (CCAct) requires public disclosure of these transactions. In addition, the CCAct requires the Corporation to obtain the approval of the Lieutenant Governor in Council to purchase shares of a company.

The Corporation did not obtain an Order in Council for the above purchase.

In 1998, we reported a similar matter and made a similar recommendation. The Standing Committee on Public Accounts (PAC) discussed this recommendation and in its Third Report to the Assembly (March 1999) recommended the Assembly refer the recommendation to the Standing Committee on Crown Corporations for its review and consideration. As of March 1999, the Standing Committee on Crown Corporations has not yet reviewed or considered this matter.

1. **We recommend that the Corporation obtain an Order in Council before it or its wholly-owned subsidiaries purchase shares, bonds, debentures, or other securities of any corporation.**

In June 1998, the Crown Investments Corporation of Saskatchewan (CIC) set a policy for authorization and disclosure of subsidiary investment activities. CIC's policy is consistent with requiring all subsidiaries to obtain an Order in Council before purchasing shares. This policy was not yet in force when the above transaction was approved. The Corporation advises us it intends to follow this policy for equity investments in the future.

Improving public accountability

In Chapter 6 of our 1998 Spring Report, we discussed four areas where the Corporation could provide the Members of the Assembly with more or better information. We recommended:

1. The Corporation should provide the Assembly with audited financial statements of its active subsidiaries.
2. For its other subsidiaries, the Corporation should provide the Assembly with either audited financial statements or with adequate financial information on the financial condition and the results of operations of each.
3. The Corporation should continue to improve its annual report to clearly report on the achievement of its plans.
4. The Corporation and its subsidiaries should:
    - publish a list of persons who received money from them and the amounts the persons received following the PAC's current minimum disclosure amounts; or
    - discuss different disclosure requirements with the PAC or, if the Assembly so directs, with the Standing Committee on Crown Corporations.

This section provides an update on the status of the first two recommendations. See Chapter 1 (Crown Investments Corporation of Saskatchewan) for a discussion on the third and fourth recommendations.

Additional financial information disclosed on subsidiaries

The Corporation provides more financial information on its active subsidiaries than previously. In addition, it now provides sufficient information on its inactive subsidiaries.

The legislators and the public needs financial information on subsidiaries. In 1993, the PAC recommended all government corporations give the Assembly their financial statements. In 1998, the Standing Committee on Crown Corporations recommended legislation be amended to ensure subsidiaries of crown corporations are subject to the same financial reporting requirements as their parent (e.g., table audited financial statements).

The Corporation carries out a significant part of its activities through its subsidiaries. Its corporate structure is complex and ever changing. The Corporation continues to table in the Assembly audited financial statements for its two main subsidiaries - SaskTel and STI Inc. Their combined net income ($73 million – 1998, $13 million – 1997) make up about 90% of the Corporation's 1998 net income from subsidiaries. Its other active subsidiaries include DirectWest Publishing Partnership (Partnership), IQA and HNC.

In 1998, the Corporation asked for and received CIC's permission not to table financial statements of HNC due to existing confidentiality clauses, of IQA due to operating in start-up phase and possible upcoming confidentiality clauses, and of the Partnership due to potential changes in its legal structure.

Although the Corporation does not table financial statements for these subsidiaries, its *1998 Annual Report* did introduce some changes which recognize the legislators' and public's need for more detailed financial information. The 1998 Report now includes additional financial information on its subsidiaries.

The 1998 Report sets out the 1997 and 1998 revenues, net income and total assets by business segment. These business segments include SaskTel, SaskTel Mobility[1], STI Inc., the Partnership, and "Other". "Other" includes the activities of a number of active subsidiaries including those of IQA and HNC. The 1998 Report also now lists the Corporation's wholly-owned "non-operating" subsidiaries (inactive).

This segmented and additional information is useful. It helps legislators and the public understand better the nature and extent of the financial activities and corporate structure of the Corporation. This in turns helps them understand the Corporation's performance. We congratulate the Corporation for providing this additional information.

Our Office looks forward to future enhancements of the Corporation's financial disclosure of its activities in view of the legislator's and the public's need.

[1] SaskTel Mobility is an operating division of the Corporation.

Justice

15

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 law, and defines and protects the 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.

In Chapter 7 of our 1998 Fall Report - Volume 2, we report the results of 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 for the year ended March 31, 1998.

This Chapter includes the results of 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 for the year ended March 31, 1998.

Our audit conclusions and findings

In our opinion, for funds and agencies in the previous paragraph:

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

The following sets out our audit conclusions and recommendations by the related agency or fund.

Correctional Facilities Industries Revolving Fund

The Department sells products produced by inmates of the Correctional Centres. This program is intended to provide basic work and trade-skills training to inmates and to reduce the costs of operating, maintaining, and repairing correctional facilities. The Department uses the Revolving Fund to account for this program. Fund had revenue of $1.2 million in 1998 and held assets of $0.7 million at March 31, 1998. The Fund's financial statements are included in the *Financial Statements – Compendium 1997-98.*

Contract costs require monitoring

The Department needs to follow its established rules and procedures for monitoring the costs of large contracts.

The Department has a system that allows timely comparisons of actual to planned costs for larger contracts. However, the Department does not use the system.

A timely comparison of actual costs to planned costs would assist management:

- in controlling the costs of large contracts; and
- in preparing estimates and customer quotes for similar future contracts.

Failure to monitor the costs of large contracts can result in cost overruns and losses to the Fund.

We also report this matter in our 1995, 1996, 1997, and 1998 Spring Reports. The Public Accounts Committee agreed with our recommendation on December 12, 1996 and on October 8, 1998.

1. **We recommend that the Department follow its established rules and procedures for monitoring the costs of large contracts.**

Better procedures needed to ensure contract prices are appropriate

The Department needs to document its rules and procedures and consistently apply them to ensure prices quoted to customers for large contracts are appropriate.

The Department has established rules and procedures that require a second person to review and approve price quotes. This review and approval of estimates and quotes reduces the possibility of errors occurring in contract prices quoted to customers. If the price quoted is too low, the Department could incur losses on these contracts.

However, we found little evidence that a second person reviewed and approved the accuracy of estimates and quotes.

We also report this matter in our 1997 and 1998 Spring Reports. The Public Accounts Committee agreed with our recommendation on October 8, 1998.

2. **We recommend the Department ensure it documents and consistently applies its rules and procedures to ensure all estimates and customer quotes for large contracts are reviewed and approved by a second person.**

Public Trustee for Saskatchewan

The Public Trustee for Saskatchewan administers the property of over 5,000 dependent adults and infants.

The Trustee administered assets of $135 million at March 31, 1998. The Trustee's financial statements are included in the *Financial Statements – Compendium 1997-98.*

Continued operations at risk

The Trustee's ability to continue operations is at risk.

In Chapter 11 of our 1998 Spring Report, we report continued operations of the Trustee are at risk due to:

- old computer equipment;
- the lack of a tested disaster recovery plan because of a lack of compatible computer equipment; and
- computer programs that cannot handle Year 2000 data.

Our concern with the Trustee's computer systems continues. In our 1998 Spring Report, we recommend that the Trustee replace its computer system as soon as possible. The Public Accounts Committee agreed with our recommendation on October 8, 1998.

The Trustee is developing a new computer system. The target completion date is September 1999.

Accurate investment records required

The Trustee needs to ensure its investment records are accurate.

The Trustee pools clients' monies in stocks and bonds of $120 million. Greystone Capital Management Inc. decides what stocks and bonds to buy and sell with the monies. The stocks and bonds are held by Royal Trust.

Both Greystone and Royal Trust prepare monthly statements showing what stocks and bonds the Trustee owns. The Trustee uses Royal Trust's statements to update the Trustee's records. To ensure that Royal Trust's statements are complete and accurate, the Trustee's rules and procedures include comparing Greystone's and Royal Trust's statements.

For the year ended March 31, 1998, the Trustee did not compare Royal Trust's statements to Greystone's statements. The Trustee, therefore, did not know if the Royal Trust statements were accurate when the Trustee updated its records. We carried out additional audit work to ensure the Trustee's records did not contain any significant errors. We found no significant errors.

3. **We recommend that the Trustee follow its established procedures to ensure its investment records for its clients' monies are accurate.**

Need to ensure all new clients' assets are recorded

The Trustee needs to ensure its records of new clients' assets are accurate. Accurate records help the Trustee to correctly administer clients' affairs.

When the Trustee acquires a new client, the Trustee uses all information trust officers can find to prepare a list of assets. As they find assets, trust officers inform accounting staff who record the assets in the Trustee's financial records. This process may occur over time as the officers obtain more information about clients' affairs. Trust officers do not prepare summaries of new clients' assets for accounting staff to ensure all assets they identified are recorded.

Because of the length of time and piecemeal manner in which assets become known and recorded, there is a risk that not all assets are recorded. For example, the Trustee recorded a client's farmland four years after the trust officer identified the land. The Trustee became aware of the error when the file was transferred to another trust officer.

Incorrect records can lead to incorrect decisions or errors in administering clients' affairs. As well, the Trustee could charge an incorrect fee for administering clients' affairs.

4. **We recommend that the Trustee develop a system to ensure all clients' assets are recorded.**

Queen's Printer Revolving Fund

The Queen's Printer publishes acts, regulations, the Saskatchewan Gazettes and other government publications and distributes them to government and non-government clients. The Queen's Printer uses the Revolving Fund to account for this service.

The Fund had revenues of $1.1 million in 1998 and held assets of $481 thousand at March 31, 1998.

Adequate written policies and procedures needed

The Department needs to prepare an adequate policies and procedures manual for the Fund.

Written guidance forms part of the system of internal control. Usually, such guidance is provided in a policies and procedures manual. This manual can be a guide to management in hiring staff and a guide to staff as they carry out their duties. Recorded policies and procedures help in the orderly and efficient conduct of business and ensure financial records and reports are accurate. Exhibit 1 shows information that a policies and procedures manual should include.

Currently, management receives financial reports. These reports should assist management in establishing appropriate selling prices to recover costs. Inaccurate records and information may result in management setting inappropriate selling prices and not recovering costs.

We found errors in excess of $113,000 in the Fund's accounting records. For example, we found:

- The Department recorded transactions totalling $1,360 as adjustments in the 1996-97 fiscal year rather than the 1997-98 fiscal year.

- The Department did not record cancelled subscriptions correctly. As a result, the records understated revenue and overstated deferred revenue by more than $7,000.

- The Department recorded $63,000 of invoices twice.

- The Department did not reconcile its records of amounts owed by customers to its financial records.

The errors identified were partly the result of the Department not having an appropriate job classification for its chief accountant's position. This resulted in the Department not being able to attract and retain staff with the appropriate knowledge, skills, and abilities to prepare accurate and reliable accounting records and financial reports.

The Department must work with the Public Service Commission to determine an appropriate job classification for staff preparing the accounting records and financial statements. Management told us that the job classification set for its chief accountant's position is not adequate to attract and retain a person with the appropriate knowledge, skills and abilities.

5. **We recommend that the Department:**

- **prepare an adequate accounting policies and procedures manual; and**

- **establish a chief accountant's position that will attract and retain a person with the appropriate knowledge, skills and abilities.**

Management told us it plans to formalize a policies and procedures manual and that it is currently appealing the classification decision made by the Public Service Commission.

Exhibit 1

A policies and procedures manual should include:

- the information needs of senior management;

- adequate job descriptions for all staff positions including delegated authority levels and classifications;

- a chart of accounts; and

- significant accounting policies and administrative control procedures for all accounting systems (e.g. cut-off, coding, payment, and reconciliation procedures).

Sales pricing needs improvement

The Department needs to strengthen its system for pricing special sales orders.

Management does not check the pricing of special orders. As a result, customers may be under or over billed.

In Chapter 21 of our 1997 Fall Report - Volume 2, we recommend that the Department improve its system for checking prices charged for special orders.

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

Management told us it has implemented this recommendation in December 1998.

Post-Secondary Education and Skills Training

16

Introduction

The Department of Post-Secondary Education and Skills Training (Department) has overall responsibility for the post-secondary education and skills training system. It picks up where the kindergarten to grade 12 system ends. The Department works with a number of 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 student loan and bursary programs.

Related special purpose funds and agencies

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

	Year end
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
Saskatchewan Communications Network Corporation	March 31
Saskatchewan Indian Regional College	June 30
SIAST	June 30
Southeast Regional College	June 30
Student Aid Fund	March 31
Training Completions Fund	March 31

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

In this Chapter, we set out our findings for the nine regional colleges and for the Student Aid Fund.

Chapter 4 of our 1998 Fall Report – Volume 2 contains our findings for the Department, its other special purpose funds, and other Crown agencies with fiscal years ending on or before June 30, 1998.

Regional Colleges

The Government created nine regional colleges under *The Regional Colleges Act.* The colleges are to provide training and learning opportunities in each of the communities and the surrounding areas they serve and in the case of the Saskatchewan Indian Regional College to members of the First Nations of Saskatchewan.

In 1998, these nine colleges had combined revenues of $47.2 million and held assets of $22.0 million at June 30,1998. In 1998, the Department provided eight of the colleges with funding of about $25 million, and the Federal Government provided about $10 million of which about $6 million went to the Saskatchewan Indian Regional College. The colleges obtained the remaining $12 million from tuition fees and contracts. Each college publishes an annual report that contains its audited financial statements.

The Government appointed other auditors to audit these colleges. Our Office worked with the appointed auditors of the colleges listed below using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors.*

Regional college	Appointed auditor
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.
Saskatchewan Indian Regional College	KPMG
Southeast Regional College	Hillstead, Melanson

Our audit conclusions and findings

For the year ending June 30, 1998, our Office and the appointed auditors of the colleges formed the following opinions:

- **the financial statements of each of the nine regional colleges are reliable;**

- each of the nine colleges had adequate rules and procedures to safeguard and control its assets except for matters described elsewhere in this Chapter; and

- seven of the nine colleges complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing. As described elsewhere in the Chapter, Cumberland Regional College and Saskatchewan Indian Regional College did not comply with certain provisions of *The Regional Colleges Act*.

In this Chapter, we also report another matter for the Legislative Assembly's attention. This matter relates to the Saskatchewan Indian Regional College not complying with a recommendation on payee lists of the Standing Committee on Public Accounts (the PAC).

Detailed audit findings

In this section, we set out findings under three main areas. First, areas where the colleges can improve their rules and procedures used to safeguard and control public money. Second, areas where colleges have not complied with *The Regional Colleges Act*. Third, an area where a college did not comply with the PAC's recommendation.

Safeguarding and controlling public money

Performance measurement and reporting improving

The boards of each of the nine colleges need to continue to improve how they measure and report on their performance (i.e., their results). Some progress is noted since our last report, but more is needed.

In February 1998, the PAC concurred with our recommendations set out in Chapter 11 of our 1996 Fall Report. The recommendations concerned the boards' need for better information to monitor their performance. The PAC noted progress was being made to comply with these recommendations.

In Chapter 2 of our 1997 Spring Report, we repeated recommendations related to improving the performance reports used by the boards to monitor the colleges' performance. In Chapter 15 of our 1998 Spring

Report, we noted the colleges were still working on developing performance reports that will enable them to measure their progress in meeting their objectives.

Moving to a focus on results takes time. During the past two years, the colleges have been actively involved in many activities to help them set their direction for the future and move towards reporting on their results. The Saskatchewan Training Strategy initiative assisted them in this process. Key activities included regional assessments of student needs, strategic and business planning processes and work with the Department in developing an accountability framework.

The colleges continue to work on the next steps. These include identifying key performance indicators and targets, and developing systems to track information on them. This will enable colleges to provide their boards, the Department, the Assembly and the public with information necessary to judge their performance.

We look forward to continued progress from the colleges and the Department in this important area.

Financial reporting needs improving

Two colleges (i.e., Parkland Regional College and Cumberland Regional College) need to improve the financial information provided to their boards.

Boards need timely and useful information to carry out their stewardship function. Written reporting policies help ensure management clearly understands the Board's information needs. The lack of written rules and procedures increases the risk of errors, fraud and breakdowns in control.

Boards need useful financial information throughout the year (e.g., monthly, quarterly). Useful financial information would:

- be prepared in accordance with generally accepted accounting principles including what the college owns, what it owes and the balances in its various funds,

- compare actual results for the period (e.g., monthly or quarterly) and for year-to-date with those planned, and

- explain the nature and extent of variances between planned and actual results.

The Board of Cumberland Regional College has not developed formal financial reporting policies and procedures.

The financial reports received by the Board of Parkland Regional College throughout the year did not include a balance sheet that showed what they owned (e.g., capital assets, accounts receivable) or what they owed (e.g., liabilities). The College had liabilities of $0.4 million at June 30, 1998. As well, the reports that the Board received did not include the activities of the capital fund (45% of the College's assets).

1. **We recommend that Cumberland Regional College should develop and document its financial reporting needs and practices for its Board's approval.**

2. **We recommend that Parkland Regional College use generally accepted accounting principles to prepare its financial reports throughout the year.**

Contingency plans needed

Three colleges (i.e., Parkland Regional College, Cumberland Regional College, Cypress Hills Regional College) need to improve their contingency planning processes to ensure they can operate effectively in case of major loss or destruction of their computer systems.

The colleges are dependent upon their computer systems. To provide continuous services, the colleges must ensure their systems and data are available when needed. Sound contingency plans reduce the risk of systems failing, processing data inaccurately and business disruption. Chapter 15 of our 1998 Spring Report sets out the necessary elements of a contingency plan. The advent of the Year 2000 increases the risk for continuous services and increases the need for a sound contingency plan.

Parkland Regional College and Cumberland Regional College need written and tested contingency plans. Cypress Hills Regional College needs to test its written contingency plan to ensure it works.

In November 1998, the PAC considered our recommendation and concurred with it and noted the colleges were making progress in complying with the recommendation.

3. **We recommend that Parkland, and Cumberland Regional College each prepare an adequate contingency plan and that they and Cypress Hills Regional College each test their plan ensure it works.**

Non-compliance with *The Regional Colleges Act*

Two colleges (i.e., Cumberland Regional College and Saskatchewan Indian Regional College) did not comply with certain provisions of *The Regional Colleges Act* (the Act).

Cumberland Regional College did not obtain the Minister's approval for the terms and conditions of its chief executive officer's employment contract as required by section 10(1) of the Act.

4. **We recommend Cumberland Regional College obtain the approval of the Minister of Post-Secondary Education and Skills Training, as required by *The Regional Colleges Act*, for the terms and conditions of its chief executive officer's employment contract.**

As previously reported, Saskatchewan Indian Regional College does not to comply with certain provisions of the Act. For details see Exhibit 1.

Exhibit 1 - Summary of non-compliance with certain Legislative provisions

Section of Act/Regulation	Non-compliance
Sections 7(1) (2) Appointment of Board members.	Four of the eleven individuals who act as members of the Board are not appointed by Order in Council as required by the Act.
Section 7(5) Length of term	Board members serve for more than the two consecutive terms allowed by the Act.
Section 7(10) Remuneration of Board members	Board members are paid per diems and reimbursements in amounts in excess of that approved under the Act. Total board expenses in the year amounted to approximately $56,000 (1996-97: $34,000).
Section 5 Mandate	Each year, the College pays Saskatchewan Indian Training Assessment Group (SITAG), a related organization, to cover the expenses of SITAG's board. In 1997-98, the College paid $15,000 (1996-97: $15,000). We are unable to determine if these amounts were for educational purposes.
Section 15(2) Ministerial approval of budget	The Minister did not approve the College's budget prior to adoption.

Section of Act/Regulation	Non-compliance
Section 17(1) Ministerial approval of auditors	The Minister did not approve the appointment of the College's auditor.
Regulation 4(2) Board chair term of office	The Chair of the Board has served as chair for more than two consecutive fiscal years.
Regulation 7(4) Ministerial approval of personnel policy	The Minister has not approved the College's personnel policy.
Regulation 13(3) Ministerial approval of pension plan	The Minister has not approved the College's pension plan.

In February 1998 and in November 1998, the PAC discussed this matter and each time concurred with our recommendation that:

♦ Saskatchewan Indian Regional College comply with *The Regional Colleges Act*, or alternatively the Department of Post-Secondary Education and Skills Training propose changes to the Act to exempt the College from the requirements of the Act.

At these times, the PAC also noted " that this has been a long-standing issue complicated by the fact the College is funded by the federal government and is subject to the Saskatchewan Indian Nations' management policy".

Saskatchewan Indian Regional College told us it thinks it is unique from the other eight regional colleges. Therefore, it thinks the Act is in some respects, not appropriate to its particular circumstances. In late 1998, we were told that the College and the Department had started to discuss new legislation. They hope that any new legislation will recognize the unique nature of the College and deal with those matters the College feels are not appropriate to its situation.

We will continue to monitor progress towards compliance with the above recommendation.

Non-compliance with the PAC recommendation on payee lists

The Saskatchewan Indian Regional College has not complied with the recommendation of the PAC to provide the Assembly with a list of payees for each fiscal year.

In February 1998 and in November 1998, the PAC discussed this matter and each time concurred with our recommendation that the Saskatchewan Indian Regional College:

- publish a list of persons who received money from the College and the amounts the persons received following the PAC's current minimum disclosure amounts; or

- discuss different disclosure requirements with the PAC.

Again at these times, the PAC also noted " that this has been a long-standing issue complicated by the fact the College is funded by the federal government and is subject to the Saskatchewan Indian Nations' management policy".

We note the Saskatchewan Indian Regional College has not published a payee list or discussed different public disclosure requirements with the PAC. We will continue to monitor compliance with this recommendation.

Student Aid Fund

The Department of Post-Secondary Education and Skills Training (Department) uses the Student Aid Fund (Fund) to help students finance their education. It does this through providing students with grants and with loans in combination with Canada Student Loans.

In 1998, the Fund had revenues of $40.8 million including $30 million from the General Revenue Fund, expenditures of $30.4 million and held net assets of $22.9 million at March 31, 1998.

Our audit conclusions and findings

In our opinion, for the 1998 fiscal year:

- **The Department had adequate rules and procedures to safeguard and control the Fund's assets, except for the matters below.**

- **The Department complied with the authorities governing the Fund's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing**

except for the need to verify all critical information on student loan applications.

- **The financial statements of the Fund for the year ended March 31, 1998 are reliable.**

The PAC recommendation on student loans not yet complied with

In December 1996, the Standing Committee on Public Accounts concurred with the following recommendation.

- the Department should verify critical information on student loan applications.

The Department does not yet verify all critical information on student loan applications. This increases the Department's risk of incurring additional costs unnecessarily and of not complying with the law.

During 1997-98, the Department approved approximately 14,000 student loans for approximately $107 million (i.e., $46 million of Saskatchewan Student Loans and $61 million of Canada Student Loans). In addition, during 1997-98 the Department paid grants to students and incurred other costs of $25 million. These grants and other costs are based on the amount of the loans awarded to students. When the Department approves loans to students in excess of the amount to which they are entitled, these grants and other costs also increase.

As previously reported, verification of critical information on student loan applications ensures only eligible students receive aid in the correct amount. The Department must balance the applicant's financial needs with its need to manage the costs of the student loan program.

The Department must decide which information to verify before approving loans and which information to verify at a later date. Sufficient and timely verification of critical information reduces the Department's risk of incurring significant additional costs or of not complying with the provisions of *The Lender-financed Saskatchewan Student Loans Regulations.*

During our audit, we noted the Department improved some of its procedures. In 1998, the Department verified the accuracy of 1995-96 study-period income and 1996-97 pre-study income reported by students for a sample of loans.

As set out in Exhibit 2, in 1998 the Department estimated an overall overpayment rate of 4.372% (2.677% in 1992-93). The Department determined this rate based on the results of its verification of the accuracy of 1995-96 study-term income reported by students.

Exhibit 2 - Results of verification of 1995-96 Study-term income

	# 1995-96 Loans	$ Authorized (in millions)	Estimated overpayment ($ in millions)	Estimated overpayment rate
Saskatchewan student loans	14,680	$42.4	$1.7	4.081%
Canada student loans	15,608	$59.4	$2.7	4.579%
TOTAL	---	**$101.8**	**$4.4**	**4.372%**

Source: Department of Post-Secondary Education and Skills Training

The Department now requests more timely information of pre-study term income. This enables it to adjust the loan amounts within reasonable time and to reduce the amount of overpayments. As set out in Exhibit 3, in 1998 the Department estimated an overall overpayment rate of .0981% (2.755% in 1992-93) caused by students incorrectly reporting pre-study term income. The Department determined this rate based on the results of its verification of the accuracy of 1996-97 pre-study term income reported by students.

Exhibit 3 - Results of verification of 1996-97 Pre-study term income

	# 1996-97 Loans	$ Authorized (in millions)	Estimated overpayment ($ in millions)	Estimated overpayment rate
Saskatchewan student loans	14,544	$42.9	$0.3	0.736%
Canada student loans	15,263	$59.2	$0.7	1.159%
TOTAL	---	**$102.1**	**$1.0**	**0.981%**

Source: Department of Post-Secondary Education and Skills Training

Although the Department is making progress in improving the information it obtains and verifies within a more reasonable time period, more work is needed. Critical information which the Department does not yet sufficiently verify includes number of dependants, single parent status, receipt of day-care allowances, alimony/child support payments, study period income, and scholarship funds.

We look forward to continued efforts by the Department in this important area.

Documented policies and procedures needed

The Department needs to document its policies and procedures for accounting for the Fund's transactions and for preparing financial reports for senior management and the Trustees.

The Trustees are responsible for ensuring adequate controls exist over the Fund's operations. Senior management and the Trustees need relevant and accurate financial and operational information to manage the Fund. Documented accounting policies and procedures:

- Help ensure staff understand and carry out assigned responsibilities properly.
- Reduce the risk of absent or ineffective controls.
- Help to ensure staff prepare relevant and accurate periodic financial reports.

During our audit, we found the Department has not documented its policies and procedures for accounting for the Fund's transactions or for preparing periodic financial reports for the Fund.

5. **We recommend that the Department document its accounting policies and procedures for accounting for the Fund's transactions and for preparing periodic financial reports for the Fund.**

Management told us they are creating a comprehensive manual. This manual will include existing as well as new policies and procedures for accounting for the Fund's transactions and for preparing the Fund's financial reports.

Periodic financial reports need improvement

Management and the Trustees need better periodic financial reports.

To help make sound decisions, management needs timely, complete and accurate financial reports throughout the year. During our audit, we assessed the adequacy of the quarterly financial reports prepared for senior management and the Trustees against the criteria set out in Exhibit 4.

Exhibit 4

Sound interim financial reports would:

- use proper accounting policies (i.e., generally accepted accounting principles);
- 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.

We found the quarterly financial reports were adequate except the reports:

- did not include a comparison of actual results to those planned;
- did not include a current forecast of results to the end of the year; and
- did not explain major variances between actual results and those planned.

6. **We recommend that the Department improve its periodic financial reports for the Fund.**

Management told us they are revising the format and content of the quarterly financial reports for the Fund to address the deficiencies noted above.

Standing Committee on Public Accounts

17

Introduction

This Chapter provides an overview of the role and responsibilities of the Standing Committee on Public Accounts (Committee). We briefly describe what the Committee does, how it is structured and how it works.

We also discuss the importance of the deliberations and recommendations of the Committee. In this Chapter, we highlight some of the recent accomplishments of the Committee. Also, in an Exhibit to the Chapter, we list past recommendations of the Committee that our Office has assessed as not fully implemented as of April 1999. We think reviewing these outstanding recommendations provides Committee members an opportunity to ask Government officials why they have not dealt with these recommendations.

Overview of Committee's role and responsibilities

At the beginning of each Legislature, the Legislative Assembly appoints the Committee. The Committee helps the Assembly hold the Government accountable for its management of public resources. We view this Committee as the audit committee for the Legislative Assembly and thus the public.

The management of public resources begins and ends in the Assembly. The Assembly refers to the Committee, the Public Accounts of Saskatchewan and the reports of our Office. The Committee uses these reports to review the Government's management of public resources.

The Government manages Saskatchewan's public resources through a vast and complex structure of over 200 organizations, including departments, boards, and Crown corporations (see Appendix 2 for a list of these organizations).

The Committee's main objective is to understand, assess and correct inadequacies and issues that are raised by Committee members and our Office. To meet its responsibilities, the Committee can review, examine and evaluate the activities of all government departments, agencies and Crown corporations included in the Public Accounts and our Reports.

The Committee has access to all government organizations and their officials. The officials attend the Committee meetings and answer questions about the administration of programs and services. The Committee reports its findings and recommendations to the Assembly.

The Committee is not fundamentally concerned with matters of policy. Rather, it questions the economy and effectiveness of the administration of government programs.

The Committee's work is crucial in a well-managed parliamentary system of government. The Committee provides a vital link in the chain of accountability over public resources.

The Committee's discussions and recommendations to the Assembly result in a more open and accountable government and better management of government operations. By questioning, requesting information and making recommendations in its reports to the Assembly, the Committee also acts as an agent of change in the practices of government management. The work of the Committee contributes to public confidence in our system of government.

Our Office attends the Committee's meetings to help the Committee in its review.

The Committee's meetings are open to the public. Written records of the Committee's meetings (Hansard verbatims), minutes and reports are available to the public on the Committee's web page (part of the Assembly's Internet web site – http://www.legassembly.sk.ca/committees/paccomm.htm).

The members of the Standing Committee on Public Accounts

Members of the Committee at its last sitting in the third session of the 23rd Legislature were as follows:

- Rod Gantefoer, Chair
- Ned Shillington, Vice-Chair
- June Draude
- Jack Gooshen
- Jack Hillson
- Walter Jess
- Mark Koenker

- Violet Stanger
- Andrew Thomson
- Grant Whitmore

Ed Tchorzewski served on the Committee from December 19, 1997 to June 10, 1998. Ron Osika served from May 7, 1998 to October 20, 1998.

Committee activities

In our previous reports, we reported the accomplishments of the Committee up to the spring of 1998. We think reporting the activities and achievements of the Committee helps strengthen public confidence in our system of government. This section reports on the accomplishments of the Committee from the spring of 1998 to January 1999.

As we reported in our 1998 Spring Report, the Committee met in February 1998 to complete its review of our 1996 Fall Report but did not report to the Assembly on its recommendations at that time. It then held meetings in May, October and November of 1998 and in January of 1999.

During these meetings, the Committee completed its review of the following reports of our Office:

1996 Fall Report
1997 Spring Report
1997 Fall Report (Volumes 1 and 2)
1998 Spring Report
1998 Fall Report (Volumes 1 and 2)

As of January 1999, the Committee has reviewed all reports issued by our Office. This is a significant accomplishment. By discussing our reports in a timely manner, the Committee's views and recommendations become more relevant. This in turn helps the Government and our Office carry out our responsibilities.

Current report contains over 280 recommendations

As a result of the above meetings, on April 19, 1999, the Committee presented to the Assembly its Third Report of the 23rd Legislature which contains over 280 recommendations. The Assembly concurred in the

Report. The Government is required to respond to the Committee on the Report within 120 days.

Increasingly, the Committee's discussions relate to broader issues including strategic plans, key risks to achieving goals and objectives, and performance indicators. We congratulate the Committee on these important initiatives.

In addition, the recommendations in the Third Report relate to changes that would result in more open and accountable government and better management of government operations. We think some of the more important recommendations called for:

- the Government and its agencies to have plans approved to cope with the Year 2000 Issue by setting objectives, identifying resources needed, developing contingency plans and reporting on progress;

- the Department of Finance to report on how the Government plans to address its pension obligations;

- the Saskatchewan Health Information Network (Corporation) to prepare a development plan and obtain independent assessments of the risks to achieving the plan. The Corporation is also to obtain an independent assessment of the Corporation's development partner's performance and obtain reports on the status of each phase of the new health information systems;

- the Department of Education to improve public accountability of school divisions with respect to the goals of education;

- the Department of Finance to develop a process that will achieve the required degree of public disclosure of information on who receives public money that will enable Members of the Legislative Assembly to achieve their objectives;

- the Chief Electoral Office to improve the reliability of the returns submitted by political parties and candidates;

- the Government to form a plan for the entire Post-Secondary Education and Skills Training sector and report publicly on how well the Government is meeting its goals, objectives and performance targets;

- the Government to take specific steps to improve governance, organization structure and management controls at the Saskatchewan Power Corporation; and

- the Department of Health to continue improving its reporting to the Assembly on health plans, performance targets and results, information on District Health Boards' services and programs and the health status of their residents.

The Committee chose not to deal with 18 recommendations in our reports relating to the Crown Investments Corporation and its subsidiaries. The Committee recommended that the Legislative Assembly request the Standing Committee on Crown Corporations examine those recommendations. We await the results of that Committee's deliberations once the Assembly refers these matters to it.

Status of prior recommendations of the Committee

In the previous five years, the Committee has made approximately 300 recommendations. Some of these recommendations may take a number of years to implement. However, we note that to date, the Government has fully implemented over 75% of the Committee's recommendations. Also, as of April 1999, of these outstanding recommendations, almost 60% have been partially implemented. We also note that, of these outstanding recommendations, one third deal with government-wide issues with the balance relating to specific entities.

The Committee has asked us to monitor compliance with its recommendations and to advise it of their status. We think it is important the Committee know which of its past recommendations the Government has not yet fully acted on. Therefore, in Exhibit 1, we provide a list of outstanding Committee recommendations and their status at April 1999.

Since the Committee has just recently presented its Third Report to the Assembly, we note the Government has not had time to act on these recommendations. Therefore, we have not included the recommendations from the Third Report in the Exhibit. We will report on the status of those recommendations in a future report.

In future reports, we will continue to monitor the status of the Committee's recommendations. We think this is important to help the Committee complete the accountability cycle.

We congratulate the Committee for the great strides it has taken in improving the timeliness of its reviews. We also congratulate the Committee on its diligent efforts in fostering more open and accountable government and better management of government operations. We look forward to continuing to help the Committee carry out its important responsibilities.

Exhibit 1 - Our Office's assessment of the status of the Standing Committee on Public Accounts' recommendations

In our 1998 Spring Report, we reported on our assessment of the status of the Standing Committee on Public Accounts' (PAC) recommendations. In that report, we set out all the PAC's recommendations made up to and including PAC's Second Report of the 23rd Legislature that had not been fully implemented. Some of these recommendations may take a number of years to implement.

In this Exhibit, we provide an update on the status of those recommendations.

The recommendations are listed in the Exhibit chronologically by the PAC report in which they were initially reported.

On April 19, 1999, the PAC tabled its Third Report of the 23rd Legislature containing over 280 recommendations. Because the recommendations contained in the Third Report are so recent, the Government has not had time to implement them and therefore we have not included them in this Exhibit.

Key terms

Starting with the 23rd Legislature, the PAC's reports contain two types of recommendations.

1. **PAC recommendations** on which the PAC expects an official response from the Government. In the following table, these recommendations are identified by a bold number (e.g., **3**) preceding them.

2. **PAC concurs** with recommendations of our Office. These are our Office's recommendations which the PAC supports, agrees or concurs with but on which it does not expect a formal response from the Government. However, because these recommendations are a matter of ongoing record, the PAC expects the Government's progress in complying with them to be followed up. In the following table, these recommendations are identified by a

non-bolded number (e.g., 10.46) preceding them. The non-bolded numbers reflect the chapter and paragraph numbers per our related report.

Report/study - When the PAC recommends the Government examine, consider, study or review an issue, the PAC needs to know what the Government decided and why the decision was taken. The Government's response should:

- clearly define the issue,
- set out the sources of supporting information gathered by surveys, interviews or literature searches,
- outline the major factors involved – the pros and cons, and
- the action it proposes to take.

Status - In the "status" column of the Exhibit, we provide our assessment of whether the Government has not implemented or partially implemented the PAC recommendations as at the last date we audited the area or organization. Action taken by the Government since the last time we audited the organization is noted. However, because the action has not been confirmed by our Office, it is not considered in our assessment of the recommendation's status.

Not implemented - Based on the last time we audited the area or organization, action has not been taken on this recommendation.

Partially implemented - Based on the last time we audited the organization, some action has been taken on this recommendation.

PAC REPORT YEAR	OUTSTANDING RECOMMENDATION	STATUS
Second Report of PAC – 22nd Legislature – tabled March 3, 1993		
1993	**12a,b**. The Government should establish consistent policies for entertainment, employee recognition, advertising and donations for all organizations and the policies should be made public.	**Not implemented.** The Government does not have consistent policies for entertainment, employee recognition, advertising and donations for all organizations.
1993	**12c.** *The Legislative Secretary Expense Regulations* should be changed to specify conditions for assigning vehicles.	**Not implemented.** The Government has not changed these regulations. Currently, there are no Legislative Secretaries.
Third Report of PAC - 22nd Legislature – tabled March 19, 1993		
1993 (3rd) 1994 (6th) 1995 (7th) 1996 (1st) 1997 (2nd)	In its reports of 1993, 1994, 1995 and 1996, PAC recommends: **3.** The Government should study the implications and issues related to the preparation of a multi-year financial plan for the Government as a whole. **4.** As to the matter of annual financial plans showing proposed revenue-raising programs and spending programs of all government organizations, and the matter of a multi-year plan for all government organizations, this Committee recommends that the Office of the Provincial Auditor, the Crown Investments Corporation and the Department of Finance undertake discussions on this issue, and return to this Committee with a joint report. During these discussions, the Committee asks that the advice of the Institute of Chartered Accountants of Saskatchewan and the Provincial Audit Committee be sought.	**Study deferred by PAC.** The Government has not presented a study to the Committee for consideration. In its October 1995 response to the PAC's Seventh Report, the Government stated this recommendation contains a number of issues that significantly impact gvernment processes, including governance and financial planning and reporting. The Government is in the process of studying these issues and assessing the implications. Until the Government has fully analysed the concerns, the basis for its current budget and its operating processes will be maintained. The PAC, in its April 1997 Second Report of the 23rd Legislature, stated it "is satisfied with the Government's explanation that it currently prepares a comprehensive financial plan, and that multi-year budgeting on a government-wide basis would significantly impact a number of government processes, including governance, financial planning and reporting. Consequently the Committee decided that it is premature for the Government to consider moving

PAC REPORT YEAR	OUTSTANDING RECOMMENDATION	STATUS
		towards multi-year, government-wide planning information until such time as there have been standards and consistency developed for reporting this information". In its Third Report of the 23rd Legislature, tabled in April 1999, the PAC reaffirmed its position that "it is premature for the Government to consider moving towards multi-year, government-wide planning information until such time as there have been standards and consistency developed for reporting this information". In our 1998 Fall Report – Volume 1, we recommend Cabinet improve its published overall plan by showing clearly the broad direction of the entire Government from both a financial and operational perspective. In our 1998 Fall Report – Volume 2, we note the Minister of Finance announced a review of the Government budget process. We suggest as part of this initiative, the Government should 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 years. In its Third Report of the 23rd Legislature, tabled in April 1999, the PAC noted the above initiative and "agreed to await the conclusion of this examination by the Minister before further addressing the issue".

PAC REPORT YEAR	OUTSTANDING RECOMMENDATION	STATUS
1993 (3rd) 1994 (6th)	In its reports of 1993 and 1994, PAC recommends: **10.** The Government should adopt the accounting principles and reporting standards established by the Public Sector Accounting and Auditing Board (PSAAB) of The Canadian Institute of Chartered Accountants (CICA) and is encouraged to move toward the use of these principles for the preparation of financial plans and budgets.	**Partially implemented.** The Government follows PSAAB recommendations in preparing the Summary Financial Statements that show the entire operations of the Government as required by PSAAB. However, the Government does not currently prepare a financial plan that shows the entire operations of the Government as contemplated by PSAAB.
1993	**12.** With regard to strengthening the ability of legislators to hold Crown corporations accountable: ♦ Decisions to create Crown corporations should be properly reported to and debated by the Assembly; ♦ Crown corporations should have the same public reporting requirements as do government departments unless otherwise stated in the mandate of the corporation.	**Partially implemented.** Legislation now exists for all corporations governed by *The Crown Corporations Act, 1993.* The Act requires bodies incorporated by Crown corporations or designated subsidiary Crown corporations to table a report outlining the name and reasons for incorporation. Crown corporations governed by Treasury Board and Departments have no such requirement. The Government expects Treasury Board Crowns to follow reporting requirements similar to government departments. Other Crown corporations do not follow the same public reporting requirements as government departments.
1993	**17.** *The Provincial Auditor Act* should be amended to require the Board of Internal Economy to approve the spending plans of the Provincial Auditor.	**Not implemented.** Although the Act has not been amended, the current convention is our Office goes to the Board of Internal Economy for approval of our spending plan.

PAC REPORT YEAR	OUTSTANDING RECOMMENDATION	STATUS
1993	**19.** Regarding Information Systems Controls: ♦ The Government should establish a policy on the timing and frequency of security audits of any service bureau in order to ensure the protection of data files and programs.	**Partially implemented.** In 1993, the Government established a policy in the Financial Administration Manual recommending departments should ensure independent security reviews of service bureaus be conducted once every three years. There is no policy for other government organizations.
1993	**68.** With regard to the Agricultural and Food Products Development and Marketing Council: the Council should monitor the activities of the marketing boards it controls to ensure they comply with authorities and have adequate rules and procedures to safeguard and control their assets.	**Not implemented.** In our 1998 Spring Report we note the Department of Agriculture, the Council and our Office made a number of joint recommendations to improve accountability and reporting practices for the marketing boards. In its Third Report of the 23rd Legislature, tabled in April 1999, PAC concurred with all of the joint recommendations. In our 1998 Fall Report – Volume 2, we state we will continue to monitor and work with the Department in implementing these recommendations. We indicate we will report on the progress of these recommendations in a future report.
Sixth Report of PAC - 22nd Legislature – tabled March 29, 1994		
1994	**3.** Your Committee recommends that the Government should move towards disclosing, in the summary financial statements, information on its infrastructure investments.	**Partially implemented.** In its 1995 review of the Government's response to the PAC's Sixth Report, the PAC noted "a Task Force on Reporting Capital Assets had been created under the auspices of the PSAAB and agreed to encourage the Minister of Finance to monitor the Task Force's progress". In 1997, the PSAAB recommended a statement of capital assets be prepared as soon as practicable. We understand

PAC REPORT YEAR	OUTSTANDING RECOMMENDATION	STATUS
		the Government is working towards providing this information in the notes for the March 2001 year end. In the March 31, 1998 Summary Financial Statements, the Government stated "Reporting policies are currently being developed, and information gathered, for other tangible capital assets. This includes infrastructure such as highways and land acquired for public use."
1994	**12.** Your Committee recommends that the interim report issued by the Government reflect the financial results of the Government as a whole, show the financial results to the interim date compared to what was planned and show the forecast to the end of the year.	**Not implemented.** The *Province of Saskatchewan: 1997-98 Mid-Year Financial Report* does not reflect the financial results of the Government as a whole or, show the financial results to the interim date compared to what was planned. Rather it focuses on the financial activity of the General Revenue Fund.
1994	**15.** Your Committee recommends that the Government give consideration to the advisability of introducing legislation to limit the amount of public money that can be committed by the Government to a new project or program without the specific prior approval of the Legislative Assembly.	**Not implemented.** The Government has not presented a study to the Committee for consideration. In its August 1994 response to the PAC's Sixth Report, the Government said it believes *The Crown Corporations Act, 1993* (the Act), addressed this issue for Part II Crown corporations. "Beyond the provisions made through the Act, the Government is not currently in a position to proceed with implementation of this recommendation. However, the Government believes the issue is worthy of study." In its 1995 review of the Government's response, PAC encouraged the Government "to do a study".

PAC REPORT YEAR	OUTSTANDING RECOMMENDATION	STATUS
1994	**19.** Your Committee recommends that the Government provide mandate statements to the Legislative Assembly for each government organization and that those statements be referred to a standing committee for regular review.	**Partially implemented.** Agencies that table their annual reports in the Assembly do provide mandate statements setting out their purpose and accountabilities. Those corporations that do not table annual reports in the Assembly do not provide this information. In addition, most annual reports tabled in the Assembly are not referred to a standing committee for review.
1994	**30.** Your Committee recommends that policies established to deal with Committee recommendations should be documented in the Treasury Board Accounting and Reporting Manual or in a comprehensive manual with similar authority.	**Not implemented.** In its August 1994 response to the PAC's Sixth Report, the Government stated the Treasury Board Accounting and Reporting Manual includes "policy-related recommendations as they apply to departments and certain Crown corporations, agencies and boards. This covers a majority of recommendations. Currently, a manual is not maintained to document any other types of recommendations".
1994 1996 (1st)	In its reports of 1994 and 1996, PAC recommended: **38.** Your Committee recommends that appropriate legislative amendments be made to require reports to be released when the Legislative Assembly is not in session in the same manner as pursuant to Section 35 of *The Crown Corporations Act, 1993* where documents are required to be tabled.	**Not implemented.** The Government has not made amendments. In its August 1994 response to the PAC's Sixth Report, the Government stated it is currently considering the recommendation. In its 1995 review of the Government's response, PAC "encouraged the Minister responsible to act on the recommendation". PAC, in its April 1999 Third Report of the 23rd Legislature, reiterated this recommendation.

PAC REPORT YEAR	OUTSTANDING RECOMMENDATION	STATUS
Seventh Report of PAC - 22nd Legislature – tabled May 10, 1995		
1995	**1.** The Government review whether forecasts of the cash required to meet existing pension liabilities should be provided to the Assembly and included in the Summary Financial Statements.	**Partially implemented.** The Government has not provided a study to the Committee for consideration. In its October 1995 response to the PAC's Seventh Report, the Government stated it intends to assess who should receive this information and that due to the involvement of actuaries, it will take some time for the Government to make it available. In the last two years, the Government has provided future cash flow information in its unfunded defined benefit pension plans' financial statements or annual reports. However, it has not provided this information in the Summary Financial Statements.
1995	**2.** The Government should examine how to disclose more fully, in departmental and Treasury Board agency annual reports, information to describe its investment in infrastructure.	**Not implemented.** The Government has not provided a study to the Committee for consideration. In its October 1995 response to the PAC's Seventh Report, the Government stated "more work is needed to determine what constitutes useful information respecting infrastructure investment". In the March 31, 1998 Summary Financial Statements, the Government stated "Reporting policies are currently being developed, and information gathered, for other tangible capital assets. This includes infrastructure such as highways and land acquired for public use".

PAC REPORT YEAR	OUTSTANDING RECOMMENDATION	STATUS
First Report of PAC – 23rd Legislature – tabled June 16, 1996		
1996	**4.** The Government direct the Crown Investments Corporation of Saskatchewan (CIC) to develop and issue annual report guidelines for agencies under its jurisdiction to ensure that annual reports describe: what the Crown agency is all about; what the Crown agency has done; where the Crown agency is now; and what the Crown agency plans to do.	**Not implemented.** CIC has not issued guidelines for the preparation of annual reports. However, *CIC's 1998 Annual Report* notes that Crowns have made progress implementing the Balanced Scorecard performance measurement system. In its report, CIC stated "during 1999, Crowns will further develop specific objectives, measures and targets appropriate to each Crown corporation that relate to the public's expectations for the Crown sector in the areas of public policy, financial performance, customer satisfaction and innovation and growth". "Once objectives, measures and targets are developed and approved, the Balanced Scorecard will be used to communicate, review, update and promote each Crown's performance."
1996	**5). a.** The Government provide the Legislative Assembly with a final, concluding report on the implementation of the Gass Commission [Financial Management Review Commission]. **b.** The report should detail which recommendations have been implemented, which have not been implemented and should be, and what plans are in place to do so; and which recommendations should not be implemented, and the reasons why not. **c.** The Government should release background papers, studies and all other material that can be appropriately released along with this report.	**Not implemented.**

PAC REPORT YEAR	OUTSTANDING RECOMMENDATION	STATUS
1996	**7.** The Government address the concerns raised in Chapter 4 of the Spring 1996 Report, being recommendations regarding the need for: security policies and procedures found at paragraphs 4.31; 4.32; 4.33; better accountability for security found at paragraphs 4.42; 4.43; 4.44; staff security awareness found at paragraphs 4.51; 4.52; 4.53; an IT security assessment found at paragraph 4.61; strengthening controls to protect the confidentiality and integrity of data found at paragraphs 4.70; 4.71; 4.72; 4.73; and approved and tested contingency plans found at paragraphs 4.84; 4.85; and 4.86.	**Partially implemented.** Based on our audits of government organizations, there have been improvements in these areas. We will be updating the status of our study in 1999 and report on the results in a future report.
1996	**9.** The Government should use consistent estimates for COLA (Cost of Living Adjustments) increases and inflation to calculate the pension liability for its defined benefit pension plans.	**Partially implemented.** The Government's defined benefit based pension plans do not use consistent estimates for inflation to calculate their pension liabilities.
1996	**12.** The Department of Health and District Health Boards work together over the next few years to improve needs assessment processes and address those concerns raised by the Provincial Auditor.	**Partially implemented.** District Health Boards are working on needs assessments. However, they still need help from the Department and others to: plan for needs assessment over the long-term; to collect and compare key information at all levels and report information that forms a provincial health picture; and analyse health status information and health needs to set priorities for action in their District.
1996	**13.** The District Health Boards (DHBs) cited need improvement in overseeing senior management and the Department of Health should work towards improving internal reporting to ensure that adequate and timely internal reports are prepared for their board.	**Partially implemented.** The majority of Boards now receive accurate and complete internal financial reports which include costs of services and activities. However, the Boards need to improve how they set direction and monitor the Districts' performance.

PAC REPORT YEAR	OUTSTANDING RECOMMENDATION	STATUS
1996	PAC concurs: 9C.21 DHBs' management should recommend, for board of director approval, proper rules and procedures to safeguard and control their assets.	**Partially implemented.** The majority of Boards have approved proper rules and procedures. However, there are still a number of Boards that have not approved proper rules and procedures to safeguard and control their assets.
1996	PAC concurs: 9.51 Management of DHBs should establish and the directors should approve written policies and procedures to govern: ♦ the proper authorization and recording of transactions; and ♦ preparation of monthly financial reports.	**Partially implemented.** The majority of Boards have approved rules and procedures to govern the authorization and recording of transactions and the preparation of monthly financial statements. However, there are still a number of Boards that have not approved these rules and procedures.
1996	PAC concurs: 9C.57 DHBs should establish written criteria for hiring staff and should prepare written job descriptions and formal training plans.	**Partially implemented.** Most of the districts have established written hiring criteria and formal training plans. Two that have not are new districts in the north that had just begun operations in 1998.
1996	PAC concurs: 9C.64 DHBs should establish written rules and procedures for systems development.	**Partially implemented.** The majority of Boards have established written rules and procedures for systems development. However, there are still a number of Boards that have not.
1996	PAC concurs: 9C.70 DHBs should have adequate operating agreements with each organization that provides services on behalf of the DHBs.	**Implemented in all but one agency.** We found one Board did not have adequate operating agreements.

PAC REPORT YEAR	OUTSTANDING RECOMMENDATION	STATUS
1996	PAC concurs: 9C.79 DHBs should request the Minster's approval to borrow money, buy or sell real property, and construct facilities as required by *The Health Districts Acts*.	**Implemented in all but one agency.** Almost all Boards now obtain the Minister's approval to borrow money, buy or sell real estate and construct facilities. We found one Board did not obtain Ministerial approval for these types of transactions.
1996	PAC concurs: 9C.91 DHBs should request the Minister's approval before purchasing hospital equipment costing more than the prescribed limit.	**Partially implemented.** Most Boards have requested the Minister's approval before purchasing hospital equipment. However, there are still several Boards that have not.
1996	PAC concurs: 9C.94 DHBs should submit their budgets to the Minister on time.	**Partially implemented.** Almost all Boards submit their budgets to the Minister on time. We found a couple that did not.
1996	PAC concurs: 9C.136 DHBs should work with the Department, other DHBs and our Office to ensure DHBs are able to provide the Minister and the public the full range of required information.	**Partially implemented.** Districts have started to give more information to the Minister and the public. However, the information provided does not meet the full range of requirements in *The Health Districts Act*.
1996	**15.** The Department of Health consult with the District Health Boards on the issue of preparing lists of payees and the Government report the results of the consultation to the Standing Committee on Public Accounts.	**Partially implemented.** Most Boards have prepared and published a list of their payees. However, several have not. Two that have not are new districts in the north that had just begun operations in 1998.
1996	PAC concurs: 9D.09 Each DHB should make its annual report public within three months of its fiscal year end and required by *The Health Districts Act*.	**Not implemented.**

PAC REPORT YEAR	OUTSTANDING RECOMMENDATION	STATUS
Second Report of PAC – 23rd Legislature – tabled April 22, 1997		
1997	**17.** The Legislative Assembly request the Standing Committee on Crown Corporations to examine whether the Crown Investments Corporation of Saskatchewan should ensure that the Government's public policy objectives for CIC and Part II Crown corporations are clearly defined and presented to the Legislative Assembly for scrutiny.	**Not implemented.** The Legislative Assembly has not requested the Standing Committee on Crown Corporations to examine this recommendation. In its August 1997 response to the PAC's Second Report, the Government said "It is CIC's intention to report on public policy objectives in the 1997 annual reports of subsidiary Crown corporations." In a government document entitled *Saskatchewan's Crown Corporations – A New Era*, published in June 1997, four major Crown Corporations set out their public policy objectives. *CIC's 1998 Annual Report* notes that Crowns have made progress implementing the Balanced Scorecard performance measurement system. In its report, CIC stated "during 1999, Crowns will further develop specific objectives, measures and targets appropriate to each Crown corporation that relate to the public's expectations for the Crown sector in the areas of public policy, financial performance, customer satisfaction and innovation and growth".
1997	**18.** The Legislative Assembly request the Standing Committee on Crown Corporations to examine whether the Crown Investments Corporation of Saskatchewan should provide a summary of its plans and its subsidiaries to the Assembly for use by the Standing Committee on Crown Corporations.	**Not implemented.** The Legislative Assembly has not requested the Standing Committee on Crown Corporations to examine this recommendation. However, in its August 1997 response to the PAC's Second Report, the Government said "CIC is examining ways to provide disclosure on key

PAC REPORT YEAR	OUTSTANDING RECOMMENDATION	STATUS
		targets and corporate objectives of CIC and its subsidiary Crown corporations in the annual reports". CIC's 1998 Annual Report *notes that Crowns have made progress implementing the Balanced Scorecard performance measurement system. In its report, CIC stated "during 1999, Crowns will further develop specific objectives, measures and targets appropriate to each Crown corporation that relate to the public's expectations for the Crown sector in the areas of public policy, financial performance, customer satisfaction and innovation and growth.* Once objectives, measures and targets are developed and approved, the Balanced Scorecard will be used to communicate, review, update and promote each Crown's performance."
1997	**19.** The Legislative Assembly request the Standing Committee on Crown Corporations to examine whether the annual reports of the Crown Investments Corporation of Saskatchewan and its subsidiary Crown corporations should contain a comparison of planned activities to actual results.	**Not implemented.** The Legislative Assembly has not requested the Standing Committee on Crown Corporations to examine this recommendation. CIC's *1998 Annual Report* notes that Crowns have made progress implementing the Balanced Scorecard performance measurement system. In its report, CIC stated "during 1999, Crowns will further develop specific objectives, measures and targets appropriate to each Crown corporation that relate to the public's expectations for the Crown sector in the areas of public policy, financial performance, customer satisfaction and innovation and growth.

PAC REPORT YEAR	OUTSTANDING RECOMMENDATION	STATUS
		Once objectives, measures and targets are developed and approved, the Balanced Scorecard will be used to communicate, review, update and promote each Crown's performance."
1997	PAC concurs. K.9 CIC should ensure Part II Crowns use government approved estimates for computing pension liabilities.	**Implemented except for one agency.** The Government has not formally approved or communicated consistent estimates for computing pension liabilities to CIC and the Part II Crowns. However, all Part II Crowns use consistent estimates except SaskTel who uses a different COLA rate.
1997	**28)a.** The Department of Post Secondary Education and Skills Training should continue to work with the Saskatchewan Indian Regional College; continue to respect aboriginal self-government and political accord issues; remove the Saskatchewan Indian Institute of Technologies (SIIT) from the legal requirements *of The Regional Colleges Act*; and	**Partially implemented.** In its August 1997 response to the PAC's Second Report, the Government said these "issues are being considered as part of the bilateral discussions on a broad range of educational matters between Federation of Saskatchewan Indian Nations and the Province". In our 1999 Spring Report, we note we were told that, in late 1998, the Department and the College started to discuss new legislation that will recognize the unique nature of the College. SIIT has not been removed from the legal requirements of *The Regional Colleges Act.*
	b. Legislative changes could be achieved through introduction in the Legislative Assembly of a Private Members' bill initiated by the Saskatchewan Indian Regional College.	Legislative changes have not been introduced.
1997	**29.** The Government should give timely financial statements of Superannuation Funds to the Legislative Assembly.	**Partially implemented.** The superannuation plans continue to improve the timeliness of the tabling of their financial statements.

PAC REPORT YEAR	OUTSTANDING RECOMMENDATION	STATUS
1997	**30.** The Government should issue Regulations providing direction for the handling of profits or losses from annuity underwriting.	**Partially implemented.** Saskatchewan Pension Plan's legislation has been amended so that any annuity underwriting losses are payable out of the GRF. In its August 1997 response to PAC's Second Report, the Government said "Annuity underwriting surpluses will be dealt with in legislation if they get to a significant size".
1997	PAC concurs: O.1 The Department (of Social Services) should provide workers with complete written guidance to carry out, record and revise case plans.	**Partially implemented.** The Department has considered and is continuing to consider our recommendations in its redesign and implementation of its social assistance programs.
1997	PAC concurs: O.2 The Department (of Social Services) should establish clear criteria to identify clients most likely to benefit from case planning.	**Partially implemented.** See O.1 above.
1997	PAC concurs: O.3 The Department (of Social Services) should provide a system that helps workers consistently record current case planning information and progress toward client goals.	**Partially implemented.** See O.1 above
1997	PAC concurs: O.4 When a system that captures the necessary information and consistently records case plans is in place, the Department (of Social Services) should evaluate the effects of case planning.	**Partially implemented.** See O.1 above

PAC REPORT YEAR	OUTSTANDING RECOMMENDATION	STATUS
1997	PAC concurs: P.1 Management (of Saskatchewan Government Growth Fund Management Corporation) should invest money held for investors in eligible businesses as required by the *Canada Immigration Regulations* or seek changes to the Regulations.	**Not implemented.** In our 1997 Fall Report – Volume 2, we indicate at the request of PAC, our Office wrote the Auditor General of Canada regarding this point. The Auditor General told us the Federal Government is aware improvements are needed in the Program. Working groups have been established to examine how it could be improved. The Auditor General will discuss the matter with program officials.
1997	**31.** Executive Council provide clarification as to the legislative powers of Crown corporation subsidiary companies, with respect to the selling of real property with a sale price exceeding $150,000.	**Not implemented.** In its August 1997 response to the PAC's Second Report, the Government said "The Crown Corporations Committee is currently considering a proposal outlining the approval process for significant transactions and how they will be reported". Policy guidelines for reporting on significant transactions were approved by the Crown Corporations Committee in 1997.
1997	PAC concurs: S.1 Saskatchewan Transportation Company (STC) should establish a written information security and confidentiality policy that includes adequate rules and procedures to monitor and control access to its computer system.	**Partially implemented.** In our 1999 Spring Report, we indicate STC should complete the documentation of the policy and have it approved by the Board.
1997	PAC concurs: S.4 STC should prepare a written contingency plan and test the plan.	**Partially implemented.** In our 1999 Spring Report, we indicate STC should complete the documentation and testing of its contingency plan.
1997	PAC concurs: 8.33 The Department (of Health) should work with the DHBs to ensure they submit timely Health Plans.	**Partially implemented.** We note improvement in the timeliness of the submission of the districts' Health Plans during the past few years.

PAC REPORT YEAR	OUTSTANDING RECOMMENDATION	STATUS
1997	**34.** The Department of Health should work with District Health Boards to ensure the District Health Boards submit all periodic reports on time.	**Partially implemented.** The Department has issued guidelines to the districts and we note the districts have improved the timing and quality of their quarterly financial reports. In our 1998 Fall Report – Volume 2, we note several of the districts did not submit quarterly financial reports to the Department on time. We also note districts' annual reports did not show program performance compared to plans.
1997	PAC concurs: 8.49 The Department (of Health) should set written rules and procedures for preparing internal financial reports.	**Partially implemented.** In our 1998 Fall Report – Volume 2, we note the Department is drafting an Expenditure Forecast Policy and Procedure Manual. The Manual is not yet complete.
1997	**36.** The Deputy Minister of Health should approve in writing the rules and procedures for internal financial reports.	**Partially implemented.** As above.
1997	**38.** The Provincial Auditor, the Department of Health, and the Department of Finance work together and attempt to resolve the issue of accounting raised in paragraph 8.100 (The Department (of Health) should ensure it accounts for charges to its appropriation using the accrual method of accounting).	**Not implemented.**

PAC REPORT YEAR	OUTSTANDING RECOMMENDATION	STATUS
1997	PAC concurs: 8.112 In its annual report to the Legislative Assembly, the Department (of Health) should provide a summary of its financial and operational plan, performance targets, and actual results. This summary should include DHB plans, targets and results.	**Partially implemented.** In our 1998 Fall Report – Volume 2, we note the Department improved the quality of its *1997 Annual Report*. Our review of its annual report showed it sets out its operational goals, objectives and activities to achieve them. However, it does not state whether the Department achieved its goals and objectives. It does not include performance measures or targets for the Department. It does not show what the Department owns and controls.
1997	PAC concurs: 8.113 The Department (of Health) should also work towards providing the Assembly summary information on the costs of DHB services, the health status of residents, and the effectiveness of DHB programs.	**Partially implemented.** The Department's *1997 Annual Report* shows the costs of DHB services but does not show the health status of residents or the effectiveness of DHB programs.
1997	PAC concurs: 8.185 The La Ronge Hospital should improve its internal financial reports to include:	
	♦ a comparison of actual results for the period to budgeted results for the period using the accrual basis of accounting and based on levels of activity when possible.	**Partially implemented.** In our 1998 Fall Report – Volume 2, we note the Hospital's internal reports do not provide an explanation of major variances between year-to-date actual results and year-to-date budgeted amounts.
	♦ an explanation of major variances between year-to-date actual results and year-to-date budgeted amounts, using levels of activity when possible;	Also, the internal reports do not provide an explanation of major variances between year-to-date actual results and year-to-date budgeted amounts.

PAC REPORT YEAR	OUTSTANDING RECOMMENDATION	STATUS
	♦ financial information on all activities of the Hospital including the capital fund and fund raising activities; and ♦ actual amounts of the prior year for comparison purposes.	In addition, the internal reports do not provide financial information on all activities of the Hospital including the capital fund and fund raising activities. The internal reports do not provide a comparison of current period amounts with the same period for the previous year.
1997	PAC concurs with respect to post-secondary education: 10.39 The Department (of Post-Secondary Education and Skills Training) should require the (universities) it funds to report on their systems and practices to meet the Department's program objectives. 10.40 The Department should require the universities it funds to report on their performance in achieving the Department's objectives.	**Not implemented.** Using the 1997 discussion document entitled *Public Interest and Revitalization of Saskatchewan Universities*, the Department and the Universities are working together to make clear the public's expectations for the Universities. Also, as recommended by *The Report of the Minister's Special Representative on University Revitalization (1996)*, the Universities along with the Department, are working to develop a new format for the Universities' annual reports to the Assembly. For the year ending April 30,
	10.41 The Department should table these reports in the Legislative Assembly.	1997, both Universities published annual reports. The content of these reports vary. Also these reports were not tabled in the Assembly. The Minister did table the financial statements of the Universities. In April 1999, the University of Saskatchewan tabled its annual report for the year ended April 30, 1998.
1997	PAC concurs: 10.46 The Department of Education should require school divisions to prepare their financial statements following the standards recommended by the CICA for governments.	**Not implemented.** The Department is working with school divisions to develop a standard set of financial statements which comply with CICA standards.

PAC REPORT YEAR	OUTSTANDING RECOMMENDATION	STATUS
1997	PAC concurs: 10.98 The Department (of Post-Secondary Education and Skills Training) should verify critical information on student loan applications.	**Partially implemented.** The Department has improved its procedures for verifying some of the critical information on student loan applications. However, the Department needs to improve how it verifies other critical information on student loan applications.
1997	PAC concurs: 11.19 The Department (of Justice) should adequately segregate the duties of its employees (in the provincial court offices).	**Partially implemented.** Since the Department does not have adequate staff to segregate duties at smaller court offices, it has obtained exemptions from the minimum control standards in the Financial Administration Manual for these smaller court offices. However, the two largest court offices do not have adequate segregation of duties and do not have an exemption from the Financial Administration Manual.
1997	PAC concurs: 11.57 The Department (of Justice) should establish rules and procedures to monitor the costs of large contracts (re: the Correctional Facilities Industries Revolving Fund).	**Not implemented.**
1997	PAC concurs: 19.20 The Department of Highways and Transportation (DHT) should clearly document and follow rules and procedures for preparing interim financial reports.	**Not implemented.** As reported in our 1998 Fall Report, the Department is developing a new financial system and plans to document its interim financial reporting as part of the new system.
1997	PAC concurs: 19.39 The DHT should update its accounting manuals to define clearly the roles and responsibilities of the (Highway's Revolving) Fund's accounting staff and the accounting policies and procedures for the Fund.	**Not implemented.** As reported in our 1998 Fall Report – Volume 2, the Department is developing a new financial reporting system that should meet its needs.

PAC REPORT YEAR	OUTSTANDING RECOMMENDATION	STATUS
1997	PAC concurs: 19.54 The DHT should formally define and document its reporting needs and assess the cost effectiveness of its accounting system for meeting these needs.	**Not implemented.** See 19.39 above.
1997	PAC concurs: 20.21 The Department (of Municipal Government) should require local governments to prepare their financial statements following the standards for local governments recommended by the CICA.	**Not implemented.** As reported in our 1998 Fall Report – Volume 2, the Department told us it proposes to start requiring local governments to follow CICA Local Government financial reporting standards after 1998. In its Third Report of the 23rd Legislature, tabled in April 1999, the PAC noted the Department established a task force to assist local governments to comply with the recommendation.
1997	PAC concurs: 20.63 Saskatchewan Archives Board should have written contracts with the U of S and SPMC.	**Not implemented**. As reported in this Report, the Board is negotiating an agreement with the U of S and is seeking a similar arrangement with SPMC.

Appendix 1

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.

(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:

(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.

REGINA, SASKATCHEWAN
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Appendix 2

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 December 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	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:

3339807 Canada Ltd.	December 31
3364381 Canada Ltd.	December 31
604408 Saskatchewan Ltd.	December 31
617275 Saskatchewan Ltd.	December 31
620064 Saskatchewan Ltd.	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
Bayhurst Gas Limited	December 31

Crown Agencies (continued):

Board of Governors, Uranium City Hospital	March 31
Canodev Research Inc.	July 31
Carlton Trail Regional College	June 30
Central Plains District Health Board	March 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
Cumberland Regional College	June 30
Cypress Hills Regional College	June 30
DirectWest Publishing Partnership	December 31
East Central District Health Board	March 31
Gabriel Springs District Health Board	March 31
Genex Swine Group Inc.	September 30
Greenhead District Health Board	March 31
Greystone Capital Management Inc.	December 31
Health Services Utilization and Research Commission	March 31
Hollywood at Home Inc.	December 31
Keewatin Yathe District Health Board	March 31
Law Reform Commission of Saskatchewan	March 31
Liquor and Gaming Authority	March 31
Liquor Board Superannuation Commission, The	December 31
Living Sky District Health Board	March 31
Lloydminster District Health Board	March 31
Mamawetan Churchill River District Health Board	March 31
Many Islands Pipe Lines (Canada) Limited	December 31
Midwest District Health Board	March 31
Milk Control Board	December 31
Moose Jaw-Thunder Creek District Health Board	March 31
Moose Mountain District Health Board	March 31
Municipal Employees' Pension Commission	December 31
Municipal Financing Corporation of Saskatchewan	December 31
Municipal Potash Tax Sharing Administration Board	December 31
New Careers Corporation	March 31
North Central District Health Board	March 31
North Valley District Health Board	March 31
North West Regional College	June 30
North-East District Health Board	March 31
Northern Enterprise Fund Inc.	December 31
Northlands College	June 30

Crown Agencies (continued):

Northwest District Health Board	March 31
Parkland District Health Board	March 31
Parkland Regional College	June 30
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
Prairie West Regional College	June 30
Prince Albert District Health Board	March 31
Power Corporation Superannuation Board	December 31
Power Greenhouses Inc.	December 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
Sask Pork	December 31
Saskatchewan Alfalfa Seed Producers' Development Commission	July 31
Saskatchewan Arts Board, The	March 31
Saskatchewan Assessment Management Agency	December 31
Saskatchewan Auto Fund	December 31
Saskatchewan Broiler Hatching Egg Producers' Marketing Board	December 31
Saskatchewan Cancer Foundation	March 31
Saskatchewan Canola Development Commission	July 31
Saskatchewan Centre of the Arts	March 31
Saskatchewan Chicken Marketing Board	December 31
Saskatchewan Commercial Egg Producers' Marketing Board	December 31
Saskatchewan Communications Network Corporation	March 31
Saskatchewan Crop Insurance Corporation	March 31
Saskatchewan Development Fund Corporation	December 31
Saskatchewan Flax Development Commission	July 31
Saskatchewan Forest Products Corporation	December 31
Saskatchewan Gaming Corporation	March 31
Saskatchewan Government Growth Fund Ltd.	December 31
Saskatchewan Government Growth Fund II Ltd.	December 31
Saskatchewan Government Growth Fund III Ltd.	December 31
Saskatchewan Government Growth Fund IV Ltd.	December 31
Saskatchewan Government Growth Fund V Ltd.	December 31
Saskatchewan Government Growth Fund Management Corporation	December 31
Saskatchewan Government Insurance	December 31

Crown Agencies (continued):

Saskatchewan Grain Car Corporation	July 31
Saskatchewan Health Information Network	March 31
Saskatchewan Housing Corporation	December 31
Saskatchewan Indian Regional College	June 30
Saskatchewan Institute of Applied Science and Technology	June 30
Saskatchewan Legal Aid Commission	March 31
Saskatchewan Lotteries Trust Fund for Sports, Culture and Recreation	March 31
Saskatchewan Municipal Board	March 31
Saskatchewan Opportunities Corporation	December 31
Saskatchewan Pension Plan	December 31
Saskatchewan Power Corporation	December 31
Saskatchewan Property Management Corporation	March 31
Saskatchewan Pulse Crop Development Board	August 31
Saskatchewan Research Council, The	March 31
Saskatchewan Sheep Development Board	September 30
Saskatchewan Telecommunications	December 31
Saskatchewan Telecommunications Holding Corporation	December 31
Saskatchewan Telecommunications International, Inc.	December 31
Saskatchewan Trade and Export Partnership Inc.	March 31
Saskatchewan Transportation Company	December 31
Saskatchewan Turkey Producers' Marketing Board	December 31
Saskatchewan Water Corporation	December 31
Saskatchewan Wetland Conservation Corporation	March 31
Saskatoon District Health Board	March 31
SaskEnergy Incorporated	December 31
SaskEnergy International Incorporated	December 31
SaskPen Properties Ltd.	December 31
SaskPower International 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
South Central District Health Board	March 31
South Country District Health Board	March 31
South East District Health Board	March 31
Southeast Regional College	June 30
Southwest District Health Board	March 31
SP Two Properties Ltd.	March 31

Crown Agencies (continued):

Staff Pension Plan for Employees of the Saskatchewan Legal Aid Commission	December 31
St. Louis Alcoholism Rehabilitation Centre	March 31
Swift Current District Health Board	March 31
Teachers' Superannuation Commission	June 30
Touchwood Qu'Appelle District Health Board	March 31
TransGas Limited	December 31
Twin Rivers District Health Board	March 31
Water Appeal Board	March 31
Western Canadian Beef Packers Inc.	November 20
Western Development Museum	March 31
Workers' Compensation Board	December 31

Special Purpose and Trust Funds:

Agri-Food Equity Fund	March 31
Associated Entities Fund	March 31
Beef Development Board	March 31
Big Game Damage Compensation Fund	March 31
Capital Pension Plan	December 31
Cattle Marketing Deductions Fund	March 31
Commercial Revolving Fund	March 31
Conservation and Development Revolving Fund	March 31
Correctional Facilities Industries Revolving Fund	March 31
Correspondence School Revolving Fund	March 31
Crop Reinsurance Fund of Saskatchewan	March 31
Doukhobors of Canada C.C.U.B. Trust Fund	May 31
Extended Health Care Plan	December 31
Extended Health Care Plan for Certain Other Employees	December 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
Northern Revenue Sharing Trust Account	December 31
Office of the Rentalsman Trust Account	March 31

Special Purpose and Trust Funds (continued):

Oil and Gas Environmental Fund	March 31
Prepaid Funeral Services Assurance Fund	March 31
Private Vocational Schools Training Completions Fund	March 31
Provincial Mediation Board - Rentalsman Trust Account	March 31
Provincial Mediation Board Trust Account	March 31
Public Employees Benefit Agency Revolving Fund	March 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
Public Trustee for Saskatchewan	March 31
Queen's Printer Revolving Fund	March 31
Resource Protection and Development Revolving Fund	March 31
Saskatchewan Agricultural Stabilization Fund	March 31
Saskatchewan Development Fund	December 31
Saskatchewan Government Insurance Superannuation Plan	December 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 Research Council Employees' Pension Plan	December 31
Saskatchewan Student Aid Fund	March 31
Saskatchewan Telecommunications Superannuation Plan	December 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
Workers' Compensation Board Superannuation Plan	December 31

Other organizations subject to examination under *The Provincial Auditor Act:*

Legislative Assembly Office	March 31
Ombudsman and Children's Advocate, Office of the	March 31
Pension Plan for the Eligible Employees of the University of Saskatchewan, 1974	December 31
Provincial Auditor, Office of the	March 31
Saskatchewan Archives Board, The	March 31

Other organizations subject to examination under *The Provincial Auditor Act* (continued):	**Year End**
University of Regina, The	April 30
University of Regina Academic and Administrative Employees Pension Plan	December 31
University of Regina Crown Foundation	April 30
University of Regina Master Trust	December 31
University of Regina Non-Academic Pension Plan	December 31
University of Regina Pension Plan for Eligible Part-Time Employees	December 31
University of Saskatchewan, The	April 30
University of Saskatchewan Academic Employees' Pension Plan	December 31
University of Saskatchewan and Federated Colleges Non-Academic Pension Plan	December 31
University of Saskatchewan Clinicians Service-Side Pension Plan	December 31
University of Saskatchewan Crown Foundation	April 30
University of Saskatchewan Long Term Disability Fund	April 30

Appendix 3

Audits not completed at March 31, 1999

This Report includes the results of all audits completed at March 31, 1999 for government agencies with fiscal periods ended December 31, 1998 or earlier. Our goal is to report all March year-ends in our fall reports and all December year-ends in our spring reports.

Some audits have not been completed. In most cases, the audit has been delayed. To ensure we provide the Legislative Assembly and the public with timely reports, we do not delay our reports to accomodate those audits but rather include their results in future reports. In a few cases, we have not been given access to necessary information (e.g., Greystone Capital Management Inc., and First Nations Fund).

This applies to the following government agencies:

Crown Agencies:	**Year End**
Greystone Capital Management Inc. (1988-1998 inclusive)	December 31
Municipal Employees' Pension Commission	December 31
Sask Pork	December 31
Saskatchewan Alfalfa Seed Producers' Development Commission	July 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 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
SaskPen Properties Ltd.	December 31
SP Two Properties Ltd.	March 31
Workers' Compensation Board	December 31

Special Purpose and Trust Funds:

First Nations Fund (1997 and 1998)	March 31
Saskatchewan Agricultural Stabilization Fund	March 31

Other organizations subject to examination under *The Provincial Auditor Act*:	**Year End**
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 and Federated Colleges Non-Academic Pension Plan	December 31
University of Saskatchewan Clinicians Service-Side Pension Plan	December 31
University of Saskatchewan Long Term Disability Fund	April 30

Appendix 4

Organizations where we found no significant matters to report to the Legislative Assembly

Appendix 4 lists government organizations with fiscal periods ended December 31, 1998 or earlier that we have not reported in previous reports, and that, in our and the organization's appointed auditor's opinion, if any, 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:

Women's Secretariat

Crown Agencies:

Canodev Research Inc.
Health Services Utilization and Research Commission
Law Reform Commission of Saskatchewan
Liquor Board Superannuation Commission
Milk Control Board
Municipal Financing Corporation of Saskatchewan
Municipal Potash Tax Sharing Administration Board
Power Corporation Superannuation Board
Saskatchewan Arts Board
Saskatchewan Cancer Foundation
Saskatchewan Canola Development Commission
Saskatchewan Centre of the Arts
Saskatchewan Communications Network Corporation

Crown Agencies (continued):

Saskatchewan Forest Products Corporation
Saskatchewan Housing Corporation
Saskatchewan Pension Plan
Saskatchewan Wetland Conservation Corporation
St. Louis Alcoholism Rehabilitation Centre
Western Development Museum

Special Purpose and Trust Funds:

Agri-Food Equity Fund
Capital Pension Plan
Conservation and Development Revolving Fund
Doukhobors of Canada C.C.U.B. Trust Fund
Extended Health Care Plan
Extended Health Care Plan For Certain Other Employees
Livestock Services Revolving Fund
Northern Revenue Sharing Trust Account
Private Vocational Schools Training Completions Fund
Provincial Mediation Board - Rentalsman Trust Account
Provincial Mediation Board Trust Account
Public Employees Deferred Salary Leave Fund
Public Employees Dental Fund
Public Employees Disability Income Fund
Public Employees Group Life Insurance Fund
Saskatchewan Development Fund
Saskatchewan Government Insurance Superannuation Plan
Saskatchewan Legal Aid Commission Client Trust Accounts
Saskatchewan Research Council Employees' Pension Plan
Saskatchewan Telecommunications Superannuation Plan
Victims' Fund
Workers' Compensation Board Superannuation Plan

Appendix 5

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