



Saskatchewan
Finance

Frequently Asked Questions About Government Payment Authorities

Provincial Comptroller's Division

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Purpose of this document

This publication is intended to act as a summary reference for issues that frequently arise concerning Government payment processes. It is intended to give general direction and will not address all circumstances. In many cases, more detailed information will be required to fully analyze and resolve an issue.

Who should read this document?

This document has been provided to assist those involved with initiating, approving or processing government payments. In particular, it is intended to be used by deputy ministers and other senior managers, program managers and executive directors/directors of administration and their staff.

Where are copies of this document available?

This document was prepared by the Provincial Comptroller's Division at Saskatchewan Finance. Additional copies are available by calling 787-6353, or on-line at <http://www.gov.sk.ca/finance/publicationsall.htm>

Where do I find the documents referenced in this document?

The Financial Administration Manual is available on-line at Saskatchewan Finance's website: <http://www.gov.sk.ca/finance/FAM/default.html>

The Financial Administration Act, 1993 is available on-line at the Queen's Printer website: <http://www.qp.gov.sk.ca>

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An executive director/director of administration is a department's chief financial officer. This individual and his/her senior staff need to be the acknowledged experts in their department regarding payment processes and authorities.

Ultimate responsibility for the integrity of payments resides with the deputy minister, however, day-to-day responsibility for this function (including advising the deputy minister on such issues) resides with the executive director/director of administration.

To fulfill this role, executive directors/directors of administration must have a good understanding of principles of internal control, as well as an awareness of the specific rules and authorities that apply to government payments. They should be able to identify the legislative and regulatory authority that supports payments under each program in their department's budget, and they should have an awareness of specific types of payments to which special rules apply (e.g., travel costs). They also need a sound knowledge of accrual accounting (to determine the timing of expense recognition) and a detailed understanding of the principles of appropriation control.

When faced with a situation that is beyond their expertise, these individuals are responsible for obtaining advice from the Provincial Comptroller's Division of the Department of Finance or their Crown counsel at the Department of Justice, depending on what is warranted by the circumstances.

Although such outside consultation is encouraged, it should not be viewed as a substitute for developing and maintaining an adequate personal knowledge base. As a result, these individuals need to keep abreast of relevant developments that affect payment processes. This would include, for example, activities such as:

- developing familiarity with relevant provisions of the Financial Administration Manual, as well as any updates to this document;
- developing knowledge of legislation governing payments, particularly *The Financial Administration Act, 1993*;
- keeping abreast of relevant legislative and regulatory changes; monitoring changes in accounting recommendations from the Public Sector Accounting Board (PSAB); and,
- attending professional development courses, as needed.

The final aspect of this role is ensuring that program staff and department executives are properly educated about the basic principles of payment processes, as well as the need to contact executive directors/directors of administration and their senior staff about any questions or issues as they arise. One option for achieving this is to include this information in the briefing material that is provided to new deputy ministers and other senior executives.

QUESTION 1

What do executive directors/directors of administration and their senior staff need to know about Government payment authorities?

QUESTION 2

What do program managers need to know about Government payment authorities?

Program managers cannot be expected to be experts in this area, however, they need sufficient knowledge about Government payment processes and authorities.

In particular, these individuals need to be aware of the payment approval authorities that have been delegated to them, along with the legislative and regulatory authority governing all amounts that they approve.

In addition, they require knowledge of the types of payments to which special rules apply (e.g., out-of-province travel costs, banquet expenses, etc.), as these individuals are typically responsible for the incurrence of such costs. To obtain this knowledge, program managers need an awareness of the existence of the Financial Administration Manual, as well as the type of guidance that it provides. With this knowledge, program managers should be capable of contacting executive directors/directors of administration for advice on payment authorities or processes when necessary, and they should do so before making commitments that may cause problems at the point of payment.

QUESTION 3

What do deputy ministers and other senior managers need to know about Government payment authorities?

Deputy ministers have the ultimate responsibility for the integrity of payments in their departments. Although they are not expected to be experts in this area, deputy ministers, assistant/associate deputy ministers and senior managers require sufficient knowledge about Government payment processes and authorities. In addition, they must have systems in place to ensure that government payment authorities are being followed.

In all cases, these individuals need to be aware of the types of payments that they are allowed to approve, and they also require knowledge of the types of payments to which special rules apply (e.g., out-of-province travel costs, banquet expenses, etc.), as these individuals are sometimes responsible for the incurrence of such costs. Specifically, it is important to realize that there is no authority to override the provisions of Treasury Board policy outlined in the Financial Administration Manual. It is helpful to understand the purpose of Treasury Board policy is to assist government employees to carry out their duties with an appropriate degree of fiscal responsibility.

In the event of an improper payment, senior managers are the people who will be called to account by Treasury Board and/or the Standing Committee on Public Accounts.

Deputy ministers and other senior managers should rely upon executive directors/directors of administration for advice on payment authorities and processes where necessary. It is important that they contact administrative staff for advice on payment authorities or processes when necessary, and they should do so before making commitments that may cause problems at the point of payment.

QUESTION 4

What are the basic forms of authority that are needed to make a payment in the Government?

Three basic forms of authority are generally required to make a payment. These are as follows:

1. The department requires legislative or regulatory authority to enter a transaction, and it should be able to cite the relevant legislation or regulation(s) that apply to any given payment.
2. Legislative or regulatory authority must be exercised by having an individual certify the lawfulness, propriety and accuracy of a proposed payment. Depending on the nature of the payment, a number of other steps may also be required at this stage. Such steps could include, for example, the need for deputy minister approval, the need for an Order in Council, or the need to comply with the tendering rules for purchasing.
3. An appropriation must exist that is both sufficient and suitable to receive the expense. An appropriation qualifies as “suitable” if the wording of the Budget Estimates is sufficiently broad to encompass the nature of the amount being charged to it.

The different forms of authority are designed to work in concert to create a framework that can be applied to any type of payment.

Legislation is the most basic form of authority that must exist for a payment to be made. Legislation is often accompanied by regulations. Regulations are an extension of a piece of legislation, and carry similar authority.

Relevant legislation includes both program-specific legislation, as well as general laws such as *The Financial Administration Act, 1993* (see questions #6 and #7).

All department programs are authorized in some fashion by legislation and regulations, so program staff and a department's administration branch should be able to identify the legislative and regulatory authority for each department program for which they are responsible and each payment made.

Legislation and regulations are available on-line at the following website: <http://www.qp.gov.sk.ca>

QUESTION 5

What is the role of legislation and regulations in Government payment processes?

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QUESTION 6

How do general laws influence Government payment processes?

In addition to program-specific legislation, there are a number of general laws that may impose things that must be done for a given transaction.

The most important general law governing payments is *The Financial Administration Act, 1993* (see question #7). Other key laws that affect payments are:

- *The Government Organization Act* (which provides authority for departments to enter agreements, make grants and provide financial assistance);
- *The Purchasing Act* (which governs the acquisition of supplies); and,
- *The Interpretation Act* (which provides authority on delegations).

Departments should seek advice from their Crown counsel, if required, to identify legal authority for a particular transaction or in the event they perceive there is a conflict between a general law and the provisions of their program-specific legislation.

The Financial Administration Act, 1993 (the FAA) is the most important general law that affects payments. This piece of legislation contains a number of things that must be done for any payment.

In the context of government payment processes, one of the most important parts of the FAA is Section 30. This section states that a payment can only be made if certified by the applicable minister, deputy minister or appropriate delegate. In most departments, the certification function is delegated to program staff. Thus, it is important for program staff to have at least sufficient knowledge of allowable expenses and delegation authorities, otherwise there is a risk that these people will certify inappropriate costs.

Appendix F in the Financial Administration Manual (FAM) lists delegation authorities for sensitive payments, such as out-of-province travel and banquet expenses. Departments cannot override Treasury Board policy by delegating these costs to less senior staff than specified by FAM. Likewise, a deputy minister or minister has no authority to override policies in FAM.

Section 31 of the FAA contains the key provisions concerning the exercise of payment authority, as it requires each payment to be requisitioned by a department. In most cases, this involves having someone from the department's administration branch sign an invoice register and approve the payment on the MIDAS system (the Government's central payment system).

The authority to requisition a payment under Section 31 is based on a delegation from the department's deputy minister. The important thing here is that the person who provides the Section 30 certification must be independent from the individual who requisitions the payment under Section 31.

The FAA also contains the key legislative provisions governing the operation of appropriations in the following sections:

- Estimates (12)
- Virements (13)
- Special warrants (14)
- Interim appropriation (14.1)
- Requisitions for payment (31)
- Rejection and confirmation of requisitions for payment (32)
- Expenses limited to appropriations (33)
- Disbursement after the end of the fiscal year (37)

QUESTION 7

What is the role of *The Financial Administration Act, 1993* in Government payment processes?

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QUESTION 8

How is legislative and regulatory authority exercised in the payment process?

After a department has identified the applicable legislative and/or regulatory authority for making a payment, there are a number of other rules that must be observed. Collectively, these are referred to as the exercise of authority.

Some of these rules are contained in Sections 30 and 31 of *The Financial Administration Act, 1933* (FAA) (see question #7); however, other key authorities are contained in the Financial Administration Manual and applicable Orders in Council and agreements. In other words, the exercise of authority is dependent on the nature of the payment being made.

Section 31 of the FAA contains a crucial provision concerning the exercise of authority, as it requires a department to requisition each payment that it wishes to make. This involves having someone from the department's administration branch sign an invoice register and approve the payment on the MIDAS system. The authority to requisition a payment is based on a delegation from the deputy minister. The important thing here is that the person who requisitions the payment must be independent from the individual who certified the payment in accordance with Section 30 of the FAA.

QUESTION 9

How do the provisions of the Financial Administration Manual affect payment processes?

The Financial Administration Manual (FAM) communicates Treasury Board's policies and the Provincial Comptroller's directives to departments and public agencies. These financial policies and directives are made pursuant to *The Financial Administration Act, 1993*.

FAM contains considerable guidance on the requirements for making payments in the Government, and it provides more detailed direction on payment processes than would normally be found in legislation or regulations. In particular:

- Section 3101 of FAM defines the payment responsibilities of departments; and,
- Appendix F lists delegation authorities that govern sensitive payments such as out-of-province travel and banquet expenses.

FAM is maintained by the Financial Management Branch of the Provincial Comptroller's Division of the Department of Finance. An electronic version of FAM is available on the Department of Finance's website at <http://www.gov.sk.ca/finance/FAM/default.html>

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QUESTION 10

What is the role of internal control in Government payment processes?

Internal control is a broad concept. In the context of payments, an effective system of internal control helps to ensure that payments are authorized, legitimate, and correct.

Each department is responsible for establishing and maintaining an adequate system of internal control as part of its deputy minister's responsibility for the integrity of the department's payments.

A key component of internal control is ensuring that an appropriate segregation of duties is in place. This means that no single employee should be able to see a transaction through from beginning to end. In other words, no employee should be able to order and receive goods and request and approve payment of the invoice.

There are seven basic steps associated with processing a payment in Executive Government. These steps are as follows:

1. The supplier prepares an invoice and sends it to the department.
2. The invoice for goods or services is received by an individual in the department.
3. The contact person certifies that the goods or services were received.
4. The contact person requests authorization for payment. Each department maintains a list of individuals who can authorize a payment. Who can approve a particular payment generally depends on the nature of the payment and its dollar amount. Some payments can only be approved by the deputy minister.
5. The invoice is forwarded to the department's administration branch. This branch:
 - checks to ensure that the item is in accordance with established policies;
 - enters the amount on the MIDAS system for payment; and,
 - arranges for the resulting invoice register to be validated as being lawful and proper and allocated to the correct account and budget.
6. The payment is generated by the Department of Finance. Usually, the payment goes directly to the supplier. In rare instances, a cheque is returned to the department's administration branch for distribution. There are special procedures that govern the receipt and handling of such cheques. These can be found in Appendix H of the Financial Administration Manual.
7. Departments receive monthly reports on the payments they have made. These reports are distributed to branch managers for review. Managers should check these reports for unusual or abnormal transactions, as well as to ensure that amounts have been coded to the proper accounts.

QUESTION 11

What are the key steps in processing a payment?

QUESTION 12

Who can approve an item for payment in the Government?

Section 30 of *The Financial Administration Act, 1993* states that a payment can only be made if certified by a minister, deputy minister or an appropriate delegate.

Typically, a deputy minister will delegate, in writing, the authority to approve payments to a number of individuals in his/her department, and the department will maintain a list of these individuals. Who can approve a particular payment generally depends on the nature of the payment and its dollar amount.

Departments must note that Treasury Board policy and the Provincial Comptroller directives govern who is permitted to approve certain types of payments. For example, certain expenses can only be approved by a deputy minister, and others can only be approved by the Deputy Minister to the Premier. Appendix F to the Financial Administration Manual contains a list of items for which special delegation rules apply.

The department's list of delegated signing authorities cannot override the delegation rules established by Treasury Board or the Provincial Comptroller. In other words, the list must conform to these rules.

QUESTION 13

What issues are associated with appropriation control?

According to Section 33 of *The Financial Administration Act, 1993*, a department must have a sufficient and suitable appropriation to incur an expense.

It is the department's responsibility to ensure that budgetary appropriations are not exceeded. The MIDAS financial system prevents a department from making a cash payment that would exceed an appropriation; however, departments must be aware that accrual accounting can require expenses to be recognized in the absence of a cash disbursement.

In addition to ensuring that a sufficient appropriation exists for each expense, departments must also ensure that every charge is appropriate for the subvote being charged. In other words, the wording of the Budget Estimates must be sufficiently broad to encompass the nature of the amount being charged.

If a department is concerned that it might overspend its budget in a subvote, it can attempt to obtain a virement. A virement transfers budget room from one subvote to another within the same vote. Virements require the approval of the Minister of Finance. It is important to note that a department is not allowed to temporarily charge an expense to an improper subvote in anticipation of receiving a virement, regardless of the likelihood that the virement will be approved.

Although virements enable budget amounts to be transferred between subvotes, under no circumstances can amounts be transferred between votes (i.e., between departments).

If a department thinks that it might overspend its vote (i.e., the entire budget for the department), it must apply for additional budgetary funding. If the Legislative Assembly is in session, this means an appropriation bill. If it is not in session, the department can apply for a special warrant. Special warrants require the approval of the Lieutenant Governor in Council.

A department should talk to its Treasury Board Branch analyst at the Department of Finance if the need for a virement or a special warrant is anticipated.

QUESTION 14

What authority exists for a department to make payments if the Budget has not been passed by the start of the fiscal year?

In most years, the Budget for the new fiscal year is not approved by the Legislative Assembly prior to April 1. In these circumstances, Section 14.1 of *The Financial Administration Act, 1993* (FAA) provides authority for payments to be made in the absence of a Budget if certain conditions are met.

Specifically, departments are allowed to spend up to one-twelfth of the previous year's appropriation for a given program. Any amounts paid under this authority are treated as expenses of the current fiscal year, and will count against the current year's Budget after it is approved.

No amounts can be paid for programs that did not exist in the previous fiscal year. In addition, no amounts can be paid in respect of a program that existed in the prior fiscal year but is not provided for in the current year's Budget (this is only applicable if the current year's Budget has been presented to the Legislative Assembly).

Interim supply legislation will typically be passed by the Legislative Assembly to provide spending authority until the Budget is passed. When this occurs, the interim supply legislation supersedes Section 14.1 of the FAA and Section 14.1 can no longer be used to make payments. If the amounts provided by interim supply legislation are insufficient, the department has no authority to incur expenses until either the Budget or additional interim supply legislation is passed.

If a department has incurred an expense, the amount must be recorded regardless of whether a sufficient budgetary appropriation remains. In other words, a department cannot avoid exceeding an appropriation by not recording a transaction or by recording it in the subsequent fiscal year. Non-cash expenses must be accrued at the year end. In very rare instances, this may cause a department to incur expenses that exceed its budgetary appropriation for the fiscal year.

When a department exceeds its budget for a fiscal year, the amount of overspending becomes a first charge against the following year's appropriation. This results in the following year's budget being permanently reduced by the amount of the overspending.

Overspending an appropriation is a serious matter, as it violates the amount approved by law in the Legislative Assembly. Overspending will be reported by both the Provincial Comptroller and the Provincial Auditor. In addition, senior officials from the department will be required to explain the overspending to Treasury Board and to the Standing Committee on Public Accounts. This is an all-party committee of Members of the Legislative Assembly that reviews the Public Accounts and the reports of the Provincial Auditor.

QUESTION 15

What happens if a department exceeds its appropriation for a fiscal year?

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QUESTION 16

What issues are caused by accrual accounting?

The most significant issue posed by accrual accounting is the fact that expenses can be incurred in the absence of a cash disbursement. This is a critical concept for administration staff, but it is also important for program managers and senior management.

As a general rule of thumb, accrual accounting is of particular significance:

- early in the fiscal year, as disbursements may have been expenses of a prior year;
- late in the fiscal year, as expenses may need to be recorded even though no cash has been disbursed; and,
- with respect to multi-year transfer agreements, as they may require an expense to be recorded immediately for the full value of the agreement, even though the agreement may pertain to activities that are scheduled to occur over several years.

The complexity of accounting for multi-year agreements means that it is very important that executive directors/directors of administration or their senior staff review such agreements before they are signed. In particularly difficult situations, it may be advisable to obtain advice from the Provincial Comptroller's Division at the Department of Finance.

An additional anomaly of accrual accounting concerns the treatment of capital assets (e.g., buildings, computers, etc.). For budgeting purposes, the entire value of an acquired asset is counted against a department's appropriation. For accounting purposes, capital assets are amortized over their useful lives, so only a portion of the original cost of the asset is recorded as an expense in a given year.

Therefore, a department must monitor its capital asset acquisitions for budgetary purposes, while recording amortization on its capital assets for accounting purposes.

Transfers are amounts provided to third parties in return for which no goods and services are received and no future repayments or returns are expected. Because nothing is received in return, it can be difficult to determine the time at which such amounts should be recorded as expenses.

The general rule is that transfers are counted as expenses when they are authorized and eligibility criteria, if any, have been met. The wording of legislation, regulations or the timing of an Order in Council or an approval form can affect the fiscal year in which a transfer is recorded.

As with other issues pertaining to accrual accounting, the disbursement of cash is not a consideration in determining when an expense must be recorded. Thus, departments must pay particular attention to transfers that occur near the fiscal year end. In addition, a department may be required to record the full amount of a transfer in a single fiscal year even if the underlying agreement spans more than one fiscal year.

Departments may wish to consult with the Provincial Comptroller's Division at the Department of Finance to confirm the accounting treatment they have identified for a particular grant or transfer is appropriate.

QUESTION 17

What issues are associated with accounting for grants and other transfers?

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QUESTION 18

What limitations exist on payments between departments?

Departments are not permitted to make grants to other departments under any circumstances.

Payments between departments for goods and services are only permitted in limited circumstances.

One such circumstance is provided by Section 33.1 of *The Financial Administration Act, 1993* (FAA). Under this legislation, with the approval of Treasury Board, departments are allowed to invoice other departments for services provided to them (i.e., under a shared services arrangement such as that in place for Saskatchewan Property Management). Where services have been provided to another department, such amounts are initially recorded as expenses, and amounts received in return reduce those expenses (i.e., so that the net result is zero). The expense and recovery of the expense must be recorded in the same fiscal year.

Likewise, Section 33.2 of the FAA provides that with Treasury Board approval, departments are allowed to incur costs for other departments with respect to costs for grants or programs that are delivered jointly. Such amounts are initially recorded as expenses, and amounts received in return reduce those expenses. As above, the expense and recovery of the expense must be recorded in the same fiscal year.

QUESTION 19

What limitations exist on netting revenue against expenses?

Section 19 of *The Financial Administration Act, 1993* (FAA) requires departments to follow the practice of “gross budgeting”. This means that all department revenues go into the General Revenue Fund (GRF), are recorded as revenue, and are spent as appropriated by the Legislative Assembly. The only exception is if another piece of legislation directs the revenue to go elsewhere.

Therefore, as a general rule, it is not possible to net revenue against expenses. In the event that Treasury Board or Cabinet provide direction for this to happen, the department(s) involved must ensure that appropriate approvals and authorities are in place.

In certain limited circumstances, the Provincial Comptroller can approve the netting of revenue against expenses, however, this is only permitted for administrative arrangements.

Sections 33.1 and 33.2 of the FAA (see question #18) allow for netting of revenues for shared services, shared programs, or shared grants in very specific situations and Section 13.1 allows for netting of certain revenues from outside of the GRF. However, these arrangements are rare, and they require specific approval by Treasury Board and, in some cases, by the Lieutenant Governor in Council. A department seeking such an arrangement is required to consult with the Treasury Board Branch and the Provincial Comptroller’s Division of the Department of Finance.

The following sections of the Financial Administration Manual provide related information:

- Net Budgeting (3001)
- Refunds to Vote (3005)
- Shared Services (3007)
- Shared Grants and Programs (3008)

QUESTION 20

What should be done about a payment that is not explicitly addressed by payment rules?

The rules governing payment processes cannot envision every situation that may arise in a department. As a result, executive directors/directors of administration and their senior staff will need to apply judgment in some cases. In such circumstances, it is helpful to apply common sense, while bearing in mind the spirit of the applicable payment authorities.

When in doubt, departments should err on the side of caution. Consideration should also be given to obtaining advice from the Department of Finance and/or the Department of Justice.

Section 32 of *The Financial Administration Act, 1993* requires the Provincial Comptroller to reject a requisition for payment in certain circumstances.

This section also provides the authority to the Provincial Comptroller to seek direction from Treasury Board on requisitions where there is doubt about authority or where Treasury Board policy has not been followed. In those cases, a senior department official may be required to appear before Treasury Board. Treasury Board may direct either that the payment be made or that the requisition be rejected. Although Treasury Board may choose to approve a payment that contravenes its own policies, it cannot approve an illegal payment.

Improper payments are a serious matter, as they weaken the public's confidence in the Government. These items are reported to the public by the Provincial Auditor, and senior department officials will likely be required to explain any improper payments to the Standing Committee on Public Accounts, which is an all-party committee of Members of the Legislative Assembly that reviews the Public Accounts and the reports of the Provincial Auditor.

QUESTION 21

What are the consequences of an improper payment?

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QUESTION 22

What is the MIDAS system?

The MIDAS financial system is the Government's Oracle-based system operated by the Department of Finance. Virtually all of a department's payments are made using the MIDAS financial system, and it also serves as the general ledger for the General Revenue Fund. As a result, departments are responsible for ensuring that their transactions and accruals are recorded on the MIDAS financial system on a timely basis.

In addition to serving as a general ledger, MIDAS financials also contains modules pertaining to purchasing, accounts receivable, accounts payable, capital assets and budgeting. The Public Service Commission operates the MIDAS HR/Payroll system which supports the Government's human resources and payroll requirements.

The Financial Administration Act, 1993 (FAA) delegates administrative control over the payment process to departments by making deputy ministers ultimately responsible for the integrity of the financial processes within their departments. Thus, deputy ministers are responsible for ensuring that the three basic forms of authority are in place for each payment (see question #4).

The FAA also defines the duties of the Provincial Comptroller. In general, the Provincial Comptroller is responsible for providing an oversight role in the payment process. This is accomplished by providing direction and control of every payment made out of the General Revenue Fund, as well as ensuring compliance with the orders and directives of Treasury Board (i.e., as contained in the Financial Administration Manual).

QUESTION 23

What are the respective roles of departments and the Provincial Comptroller in the payment process?

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QUESTION 24

What is the role of the Provincial Auditor in the payment process?

The Provincial Auditor is the auditor of public money managed by the Government. Among other things, he/she reports on compliance with payment authorities, including the Treasury Board policies and Provincial Comptroller directives contained in the Financial Administration Manual. The Auditor's reports are public documents, and they are reviewed by the Standing Committee on Public Accounts, which is an all-party committee of Members of the Legislative Assembly.

Departments should not rely on the Auditor to advise them about payment authorities, as this represents a conflict of interest for the Auditor. In other words, he/she cannot provide advice and subsequently provide an independent opinion on actions pertaining to that advice.

Likewise, departments should not rely on the Auditor to uncover improper payments or frauds, since the Auditor's work typically does not occur until long after a payment has been made. Departments retain primary responsibility for the integrity of their payments.