



Alberta Treasury Board and Finance CEO Selection, Evaluation and Compensation, and Executive Compensation

October 2017

About This Audit

In 2008,¹ we audited the systems that agencies use to select, evaluate and compensate chief executive officers. Further, an audit we reported in 2009² looked at agencies' compensation not only of chief executive officers but of other senior executives as well. In those audits we found that:

- government needed to provide guidance to agencies on policies and practices for CEO selection, evaluation and compensation, and executive compensation
- government did not obtain and evaluate information on CEO selection, evaluation and compensation systems to support ministers in holding boards accountable for their decisions
- agencies' compensation disclosures were incomplete or inconsistent

We made our 2008 and 2009 recommendations in an environment where agency boards were responsible for executive compensation decisions. In that environment, we believed the government needed to establish reasonable and consistent approaches for boards to follow when making executive compensation decisions, and check that those approaches were being followed.

We also recommended that government consider whether agencies should prepare compensation discussion and analysis³ so that those boards with responsibility for executive compensation decisions could explain their decisions publicly.

In 2016, the *Reform of Agencies, Boards and Commissions Compensation Act* was proclaimed. This new legislation enables the government to develop regulations for setting compensation frameworks, including salary ranges and benefits for agency executives and board members. The first compensation regulation under this act became effective on March 16, 2017 and includes a centralized approach to determining compensation with:

- constraints on base salaries of CEOs
- elimination of variable pay for executives
- caps on termination benefits
- other constraints on benefits

The March 2017 compensation regulation covers 23 Alberta agencies. It does not cover post-secondary institutions. The government's review of compensation in post-secondary institutions is underway.

In light of the new legislation, regulation and centralized approach, our 2008 and 2009 recommendations are no longer applicable. We made them in an environment where agency boards had primary responsibility for executive compensation decisions, but the new approach shifts significant responsibility to the government. We are therefore withdrawing the recommendations.

In withdrawing our recommendations, we are not concluding on the adequacy of the government's current systems on executive compensation. To form a conclusion on the current systems, we would need to perform a new audit. When planning future audits, we will consider whether such an audit could provide value.

1 *Report of the Auditor General of Alberta—October 2008*, page 23.

2 *Report of the Auditor General of Alberta—October 2009*, page 19.

3 A compensation discussion and analysis explains significant components of executive compensation and helps the public understand how decisions about executive compensation are determined.

