

Office of the Auditor General of Alberta

Results Analysis Report
2013–2014



Mr. Matt Jeneroux, MLA
Chair
Standing Committee on Legislative Offices

**Office of the Auditor General of Alberta
Results Analysis Report for the Year Ended March 31, 2014**

I am honoured to send you this Results Analysis Report on the operations of the office for the fiscal year April 1, 2013 to March 31, 2014.

[Original signed by Merwan N. Saher, FCA]

Auditor General
Edmonton, Alberta

September 29, 2014

Contents

	Page
Accountability statement	222
Results management framework	223
Our business	224
Financial statements and performance measures auditing results.....	228
Systems auditing results	231
Priority initiatives from 2013–2016 business plan.....	236
Our people.....	237
Financial discussion and analysis	239
What we learned	242
Management’s responsibility for financial reporting	251
Financial statements (audited)—March 31, 2014	252

Office performance measures—a summary table of our performance measures is included as a schedule to our audited financial statements.

Accountability statement

This results analysis report of the Office of the Auditor General of Alberta summarizes and analyzes the work of our office for the year ended March 31, 2014.

In this report we explain how we used Albertans' money as the independent auditor of the Government of Alberta. We also report back on our business plan for 2013–2016, which included our office's strategies and priorities for 2013–2014.

In the year ended March 31, 2014 the office issued three public reports:

- July 2013
- October 2013
- February 2014

We believe this results analysis report, which includes our independently audited 2013–2014 financial statements, presents our operations and results in a complete, fair and balanced manner.

[original signed by]

Merwan N. Saher, FCA
Auditor General

[original signed by]

Eric Leonty, CA
Assistant Auditor General

[original signed by]

Robert Driesen, CA
Assistant Auditor General

[original signed by]

Brad Ireland, CA
Assistant Auditor General

[original signed by]

Doug Wylie, CMA, ICD.D
Assistant Auditor General

[original signed by]

Ruth McHugh, MBA, FCMA, ICD.D
Executive Director, Corporate Services
and Office Accountability

Results management framework

This results analysis summarizes the Office of the Auditor General of Alberta's achievements in 2013–2014 and identifies things we have learned and plan to apply in the next business cycle.

We received an unqualified auditor's opinion on our 2013–2014 financial statements; the auditor identified no new recommendations on our financial processes and controls, nor do we have any recommendations outstanding.

The office's results management framework relies on integrating three central processes: governance, oversight and accountability. Effective results management starts with governance, which we define as the structure and processes we use to bring together capable people and relevant information to achieve cost-effective results.

Our leaders' oversight role in pursuit of desired results includes:

- being vigilant and providing watchful care for the office's use of financial and human resources
- checking that our processes and systems are working well, including our system to ensure accountability for how well we use our resources
- signaling preferred behaviour by example

Oversight is the glue that holds our results management framework together. Without good oversight, we can only guess at whether we are managing our resources cost-effectively in producing our audit results.

We define accountability as management's obligation to show continually improving results in a context of fair and agreed on expectations. To ensure that Albertans receive the value for money they deserve from our office, we must follow a clear process for accountability:

1. Set measurable results and responsibilities.
2. Plan what needs to be done to achieve results.
3. Do the work and monitor our progress.
4. Report on the results of our work.
5. Evaluate our results and provide feedback for continued improvement.



The results framework outlines a formal process in which management can learn from what we are doing so that we can do better in the future. The framework also prompts us to feed the analysis back into our business planning and processes. The three parts—governance, oversight and accountability—work together to produce results.

Our mandate

The Office of the Auditor General of Alberta serves the Legislative Assembly and the people of Alberta. Our mandate is to examine and report publicly on government's management of, and accountability practices for, the public resources entrusted to it. Under the *Auditor General Act*, the auditor general is the auditor of all government ministries, departments and funds, and most provincial agencies.

What we do

We have two core lines of business designed to provide expert auditing of the government's:

- financial statements (this also includes reporting on compliance with authorities, performance measures, results analysis and research and advice)
- management systems and processes

Our audit reports on financial statements are included in the annual reports published by ministries and their related entities. We provide our opinion on whether the financial statements are presented fairly, in accordance with appropriate standards.

Ministries and their related entities also include our conclusions about selected performance measures in their annual reports. We report on the performance measures of about 14 per cent of the organizations whose financial statements we audit.

Systems audits, our other core line of business, are of two types. In a stand-alone systems audit, we audit major programs or initiatives that an organization undertakes to achieve its goals. In these audits, we answer the question, "Does the organization have the policies, processes and controls to accomplish its goals and mitigate its risks economically and efficiently?" Such systems include procedures to measure and report on the effectiveness of programs.

The second type of systems audit is a by-product of our financial statements audits. If we find that an organization could improve its systems in areas such as governance and accountability, internal control over financial management, information technology or performance reporting, we make recommendations to management.

How we report on our work

We make our findings and recommendations for financial statements and system improvements public in auditor general reports to the Legislative Assembly.

Once the Government of Alberta has acted upon our audit recommendations, we carry out follow-up audits to confirm that our recommendations have been implemented. The results of the follow-up audits are also included in auditor general reports, to complete our reporting to Albertans.

Our goal

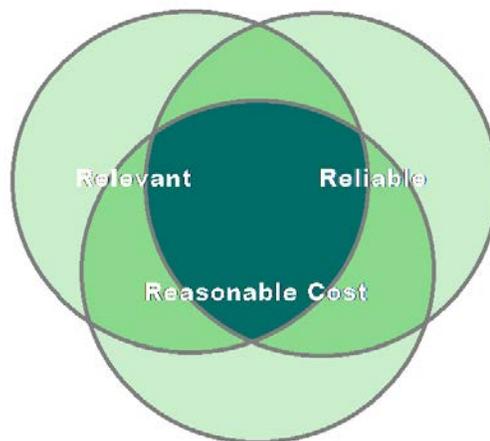
In fulfilling our mandate, and in pursuit of our vision to add value through expert auditing, our goal is to provide the most relevant and reliable audit services within the constraints of reasonable cost. Our business plan seeks to ensure our audits are:

Relevant—Our work must be relevant to the Legislative Assembly and Albertans.

Reliable—The Legislative Assembly and Albertans must be able to count on our work.

Reasonable cost—We meet cost challenges in producing relevant and reliable reports.

As illustrated below, our goal is to optimize the congruence (i.e., the degree and balance) between these three, sometimes competing, accountability objectives.



Office management believes that applying these three standards in our business plan, budget and public reporting processes helps focus our planning, operational and evaluation decisions.

Our strategy

Learning from past results, our 2014-2017 business plan highlights our primary strategy—to perform more added-value systems audit work. As legislative auditors, we have a profound understanding of the environment we are auditing, including performance audit standards, management control systems, performance reporting and accountability. In our view, value is added when we perform systems audits on matters that relate to critical government goals, strategies, and risks, and areas that are important to Albertans. A key output of our systems audit work is to identify areas where government can make improvements to enhance the efficiency, effectiveness, and economy of important management systems. The true value is attained when government implements our recommendations.

Our business

In our 2013–2016 business plan, we allocated operating expenses (including amortization of tangible capital assets) of \$26.4 million for 2013–2014 between our two core lines of business, ministry by ministry. This allocation was organized to match the government’s priorities, as noted in Schedule 1 of our 2013–2014 budget (summarized and compared to actual costs, below).

	2014				2013	
	Budget	Budget %	Actual	Actual %	Actual	Actual %
	(thousands)				(thousands)	
Financial statements auditing						
Government priority areas						
Alberta's Economic Future	\$ 6,072	23%	\$ 6,573	25%	\$ 6,166	24%
Families and Communities	6,476	25%	6,293	24%	6,136	24%
Resource Stewardship	7,584	29%	6,659	26%	6,411	26%
	20,132	77%	19,525	75%	18,713	74%
Executive Council and Legislative Assembly	338	1%	438	2%	368	2%
	20,470	78%	19,963	77%	19,081	76%
Systems auditing						
Government priority areas						
Alberta's Economic Future	1,177	4%	1,168	5%	1,199	5%
Families and Communities	2,162	8%	2,550	10%	2,670	10%
Resource Stewardship	2,393	9%	2,073	8%	2,232	9%
	5,732	21%	5,791	23%	6,101	24%
Executive Council and Legislative Assembly	168	1%	73	0%	23	0%
	5,900	22%	5,864	23%	6,124	24%
	\$ 26,370	100%	\$ 25,827	100%	\$ 25,205	100%

The \$2.6 million cost for systems audits in the families and communities area was \$0.4 million higher than budgeted. This variance reflects our audit work on systems to support child intervention services (included in the *Report of the Auditor General of Alberta—February 2014*) and seniors care (planned for the *Report of the Auditor General of Alberta—October 2014*); neither of these audits were budgeted in our plan for 2013–2014.

On the other hand, the resource stewardship area was \$0.3 million lower than budget due to postponing audit work to accommodate shifting priorities.

Office performance measure

Percentage of costs dedicated to financial statements/systems auditing

Our target for resource allocation between the two core lines of business was 78% to financial statements auditing and 22% to systems auditing (78/22%). Our goal was to build capacity for systems audits by freeing up staff from financial statement audits. The result was 77/23%, exceeding our target of 78/22%.

Compared to 2012–2013 ratios (76/24%), our costs shifted by 1% from systems to financial statements audits. This shift in favour of financial statements was mainly because we moved financial audits for Persons with Developmental Disabilities and Child and Family Services Authorities to January, February and March of 2014 (originally in our 2014–2015 schedule) and did additional work on schools, universities, colleges and hospitals as they transitioned to Public Sector Accounting Standards. These unique, one-time events required additional financial statement audit resources in 2013–2014.

Percentage of office costs	Prior actual results				2014	
	2010	2011	2012	2013	Target	Actual
Financial statements auditing	80%	82%	79%	76%	78%	77%*
Systems auditing	20%	18%	21%	24%	22%	23%
	100%	100%	100%	100%	100%	100%

* The 1.0% difference from our performance target reflects a shift of \$260,000 of office resources from systems to financial statements auditing.

Plans and performance

Our audits include the consolidated financial statements of the Government of Alberta, as well as every ministry, department and regulated fund, and most provincial agencies. Our office's report for each of these entities provides the auditor general's opinion on whether the financial statements are presented fairly in accordance with the appropriate financial reporting framework, most usually public sector accounting standards. These recurring annual audits provide independent assurance on the government's financial reports to the Legislative Assembly.

In 2013–2014, the Auditor General issued 152 unqualified auditor's reports on financial statements (2012–2013: 157). We also issued 11 unqualified auditor's reports on specified financial information for certain organizations (2012–2013: 12). No qualified auditor's reports were issued for either year.

For ministries and some agencies, we complete review engagement procedures on selected non-financial measures of performance in the entity's annual report. We also audit selected measures in the government's annual progress report on its business plans, titled Measuring Up. We report on the reliability, understandability, comparability and completeness of the selected measures of performance. Our reviews and the audit are not designed to provide assurance on whether the measures are relevant or useful to users.

For 2013–2014, we issued 20 unqualified review (limited assurance) engagement reports and one unqualified auditor's report on performance measures (2012–2013: 20 reviews and one audit).

2014 reports

Appendix A lists the entities whose financial statements we audited.

Appendix B lists the entities whose performance measures we examined.

Office performance measures

Alberta's consolidated financial statements—report by June 30

We strive to issue the auditor's report on the consolidated financial statements of the province by June 30 every year, to give timely assurance to the Legislative Assembly on the quality of the government's financial reports. We issued our report on June 20, 2013 for the March 31, 2013 year end and on June 19, 2014 for the March 31, 2014 year end.

Financial statements audits—number of audits completed within budget

We did not meet our target to complete 90% of financial statements audits within budget. Our actual result was 59% (2012–2013: 67%).

We identified four main reasons for not meeting our performance target.

1. We experienced an audit scope increase because schools, universities, colleges and hospitals changed over to the new financial reporting framework required by the Public Sector Accounting Standards. The time required for this additional audit work was difficult to estimate during the budget process.
2. Time and costs for some audits increased due to audit staff departures, which required on-the-job training and more supervision.
3. We found that some auditees were insufficiently prepared for us to begin our work on schedule. This presents a timing problem for us because we must issue the auditor's report on the consolidated financial statements of the province by June 30. We provided the entities we audited with guidance on how to improve their preparation processes for reporting requirements to ensure the consolidated financial statements deadline was met. Providing guidance is normally outside the scope of our audit function. Although this additional work caused delays in our audit schedule and increased time and cost to conduct our financial statements audits this year, we anticipate that the guidance we provided will help entities improve their future reporting. Learning from this experience, we have added an initiative on corporate accounting policies in our 2014–2017 business plan. We view the Government of Alberta controller's success in providing clear corporate accounting policies as essential to providing timely and accurate financial reports to the Legislative Assembly. Enhanced corporate accounting policies will help entities improve their preparation and reporting and reduce our audit time and costs in future.
4. When budgeting for 2013–2014, we reduced our financial statements audit budget to provide a potential opportunity to redeploy resources to conduct more systems audits. This made individual audit budgets more difficult to meet.

Financial statements and performance measures auditing results

We recognize the challenge in reaching our target of completing 90% of our financial statements audits within budget; however, we still believe it represents our future potential. Learning from this year's results, we have introduced a new audit project management process for 2014–2015, which will help our audit teams to monitor and manage costs, staffing and milestone dates more proactively. Together with the government-wide corporate accounting policies initiative in our 2014–2017 business plan, we expect the results for this measure to improve in the coming years.

Auditing standards—pass professional practice review

In summer 2013, we received the results of a financial statements auditing practice review the Institute of Chartered Accountants of Alberta conducted in February 2013. The Institute concluded that our auditing practice meets current auditing standards. As part of the Institute's three-year cycle for practice reviews, the next review is expected in 2016.

Systems auditing results

Plans and performance

Sections 19(2) (d) and (e) of the *Auditor General Act* require us to report when “accounting systems and management control systems, including those systems designed to ensure economy and efficiency, ...were not in existence, were inadequate or had not been complied with” or “when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with”. We meet this expectation in two ways:

- **Stand-alone audits**—We audit major programs or initiatives that an organization undertakes to achieve its goals. In a stand-alone systems audit, we answer the question, “Does the organization have the policies, processes and controls to accomplish its goals and mitigate its risks economically and efficiently?” Such systems include procedures to measure and report on the effectiveness of programs.
- **By-products of other audits**—If we find that an organization could improve its systems in areas such as governance and accountability, internal control over financial management, information technology or performance reporting, we make recommendations to management.

We concentrate on areas that will result in improved:

- oversight and ethical behavior—these underpin the success of any organization
- safety and welfare of all Albertans—especially the most vulnerable in our society
- security and use of the province’s resources—they belong to all Albertans and must be protected

2014 reports

Appendix C lists the systems audits publicly reported in 2013–2014.

Summaries of major projects included in the July 2013, October 2013 and February 2014 public reports follow.

<p>Collaborative Initiatives Among Alberta's Post-secondary Institutions Innovation and Advanced Education</p> <p>Background Alberta's 21 public post-secondary institutions spend about \$4.8 billion annually. They contribute to the government's priorities of building a knowledge-based economy and improving the social well-being of Albertans. The government wants these institutions to collaborate in an effort to improve services to students and to make the advanced education system more efficient, effective and sustainable. The government refers to this effort as Campus Alberta.</p> <p>Findings We looked at three non-academic collaborative initiatives to assess if the institutions had well-designed systems to plan, govern, implement and sustain them. We found institutions did not clearly understand how the minister wants them to achieve Campus Alberta goals.</p>	<p>Recommendations Our recommendations were made to help the department and post-secondary institutions develop a strategic plan and accountability framework for Campus Alberta. These tools would help them provide clear communication, develop relevant performance measures and targets, publicly report on the results achieved and cost involved, and review and clarify the accountability structures for governing collaborative initiatives. We also recommended that the department offer more guidance and develop effective management processes for these types of initiatives.</p> <p>Total audit project costs – \$361,000 Auditor general report – July 2013</p>
--	--

<p>Infection Prevention and Control in Alberta's Hospitals Health and Alberta Health Services</p> <p>Background The increasing proliferation of antibiotic-resistant microorganisms is a threat to the health of Albertans. Infection prevention and control is a central aspect of healthcare delivery and is critical for managing health risks in a hospital setting. Healthcare-acquired infections often lead to serious complications. They have more significant negative outcomes than infections acquired in the community, result in longer hospitalizations and represent added cost to the healthcare system. Many healthcare-associated infections are preventable.</p> <p>Findings There has been a stronger focus on infection prevention and control at hospitals over the last several years. AHS, with the department's support, has introduced provincial infection prevention and control systems that fill critical gaps in the areas we audited.</p> <p>While we did not find immediate and significant risks to patient safety, there were weaknesses in the management systems to ensure implementation of the provincial infection prevention and control strategy and the hand hygiene strategy, as well as weaknesses in AHS systems to manage infection prevention and control risk within hospitals.</p>	<p>Recommendations We made one recommendation to the department to determine responsibilities for implementing strategies, to improve monitoring and to report on the success of strategies for infection prevention and control.</p> <p>We made three recommendations to AHS to improve its systems for:</p> <ul style="list-style-type: none"> • cleaning, disinfecting and sterilizing medical devices • preventing and controlling antibiotic-resistant organisms • hand hygiene practices <p>Total audit project costs – \$670,000 Auditor general report – October 2013</p>
--	---

<p>Oversight Systems for Alberta’s Public Sector Pension Plans Treasury Board and Finance</p> <p>Background The financial health and design of Alberta’s public sector pension plans can affect the government’s and other plan employers’ ability to cost effectively deliver public services, attract and retain quality employees, and provide a level of benefit security for plan members. Albertans need to know if Alberta’s public sector pension plans are sustainable.</p> <p>Findings We found that pension plan boards have, to varying degrees, implemented risk management systems. However, no one organization has clear responsibility for coordinating and monitoring the performance of the plans or taking a consolidated approach to managing risk.</p>	<p>Recommendations We recommended that the department establish an Alberta public sector pension plan risk management system to support the minister in fulfilling his responsibilities for Alberta’s public sector pension plans. We also made recommendations for improvement to the department’s ongoing sustainability review.</p> <p>Total project costs – \$452,000 Auditor general report – February 2014</p>
---	---

Office performance measures

Auditing recommendations—acceptance by ministries and other entities

One performance measure for our audit work is the number of recommendations we issue that the government accepts for implementation. Out of 63 recommendations, made in July 2013, October 2013 and February 2014, the government accepted 56 (89%) and seven were accepted in principle. Our target for acceptance is 95%; our actual performance was 98% in 2012–2013.

Auditing recommendations—not implemented within three years of acceptance

Each year, we make recommendations for improvements or changes to government systems and financial controls. We then follow up on all recommendations and report publicly whether they have been implemented. Follow-up audits confirm that sustainable change has taken place. The audit work to confirm that each recommendation has been sustainably implemented is not superficial. We approach follow-up audits with the rigour that Albertans expect from this office, and will repeat our recommendations when management has not satisfactorily implemented them.

Generally, we try to complete follow-up audits within three years. At March 2014, there were 47 recommendations outstanding for over three years, of which the government advises 11 are ready for follow-up audits in 2015. This number was reduced from 55 outstanding recommendations at March 2013. We are pleased that our initiative to reduce the number of outstanding recommendations was successful in the current year. Our ultimate objective is to have no recommendations older than three years.

Priority initiatives from 2013–2016 business plan

Priority initiatives	Performance update
<p>Results analysis project We will do a systems audit of the processes ministries use to analyze their results for ministry annual reports. We view this as a prerequisite to developing a method that uses appropriate criteria to provide assurance on management’s analysis of performance.</p>	<p>Results of this systems project were published in the July 2014 Auditor General report.</p>
<p>Independent peer review We will continue to execute our plan for an independent peer review. The review will be commissioned to provide conclusions on whether we do relevant, reliable work at a reasonable cost, and will be made public.</p>	<p>The peer review will be completed in two stages. The first stage, which focused on the design of the office’s systems, took place in August 2013. The second stage, focusing on the operating effectiveness of systems, is expected to occur in August 2014.</p>
<p>Staff development Creating an organization that thrives in dealing with challenges and new initiatives, while delivering extraordinary performance to all our stakeholders, is our aim. We draw on the potential in every employee. Success is more likely if we accelerate challenging opportunities and improve training and mentoring for all staff. In 2013–2014, we will ensure our training program continues to improve the overall effectiveness, efficiency and personal excellence of all staff.</p>	<p>In addition to the training program provided in 2013–2014, beginning in 2014–2015 we have created a new performance management system augmented by specific staff coaching and training to give our people the skills they need to get the most out of the new performance management tools. This enhanced performance management system will help us to monitor and improve the overall effectiveness, efficiency and personal excellence of our people.</p>
<p>Outstanding recommendations As we outlined in the <i>Report of the Auditor General of Alberta—October 2012</i>, there are 165 outstanding numbered recommendations. Numbered recommendations require a formal public response from the government. It is our intention to focus on the 25 numbered recommendations more than three years old that departments or agencies have notified us are ready for follow-up audits.</p>	<p>Follow-up audits have been completed or initiated for these recommendations.</p>

Our people

As a professional services office, we compete with the private sector for designated accountants and other professionals with specialized technical skills. As a training office for accounting students, we also compete to attract top talent from post-secondary institutions.

People development has been, and will continue to be, a key focus of our office. Like many professional services firms, particularly in Alberta's robust economic environment, one of our main operating challenges is attracting, training and retaining quality staff to carry out our legislative audit responsibilities. We recognize that our staff are well educated and receive good training, making them attractive to other employers. Without making good hires and investing in their skills development, we would expose the office to audit performance and other business risks.

A challenge of management is to maximize the office's investment in its staff to ensure that our work meets our overriding objectives for:

- quality – Do we meet professional standards for the financial statements and systems audit engagements?
- accountability – Do we provide relevant, reliable auditing services at a reasonable cost?

Some staff leave our office for positions in the province's public sector. In these cases, Albertans receive an ongoing benefit from the initial training investment in those individuals through our office.

Office performance measure

Staff turnover and vacancy rate

This performance measure is monitored for the overall office, within each line of business and by levels of staff experience.

The rate is used as a comprehensive measure for the office within the context of reasonable cost auditing and human resources management. The measure considers the number of departures and vacancies as a percentage of the total number of employees employed by the office during the year.

We recognize the importance of understanding and measuring turnover and vacancy. Whatever the reasons (such as maternity leave, resignation, performance or retirement), the costs for replacing employees include hiring, onboarding, training, mentoring, supervising and employing temporary staff. These costs are also reflected in additional time spent on audits disrupted by staff turnover and negatively affect our ability to perform audits within budget. As a result, both reliability and reasonable cost are reliant on a healthy staff turnover and vacancy rate.

The rate is also used to understand our staff profile. As a training office for the accounting profession, and given our staff mix and the overall nature of our business, we consider a target turnover rate of 20% to be realistic and reasonable.

For 2013–2014, the office’s overall staff turnover rate was 18%, an improvement on the previous year’s 21% and better than our target. As anticipated, the turnover was highest among young auditors who recently achieved their accounting designation. The higher vacancy rate at the manager level was due to more maternity leaves.

Learning from past results, in the spring of 2014 we introduced a new performance management system. Comprehensive competency and expectations guidelines will allow us to measure performance in a more meaningful way. Managers are encouraged to take every opportunity to interact with staff and demonstrate inspirational leadership. We believe that over time this initiative will have a positive effect on our ability to train and retain high quality employees.

We have offices in Edmonton and Calgary. Through 2013–2014, our average monthly full-time equivalent staffs were 136 in Edmonton (2012–2013: 127) and 14 in Calgary (2012–2013: 16). As is the case with many public accounting firms, there is a significant seasonal element for our financial statements line of business. As a cost-effective means of completing the financial statements audit assignments on time, the office seconded staff from public accounting firms as well as contracting some public accounting firms as agents to complete audit work under office oversight. In 2013–2014, hiring more internal staff reduced the need for seconded staff.

2014 staff milestones

The office’s 2014 United Way fundraising campaign was recognized as one of the highest fundraising and highest average gift per employee campaigns among similarly sized Alberta government departments and organizations. This was the fifth consecutive year the office received this acknowledgement. The office was also recognized by the United Way Alberta Capital Region for its Leaders of the Way campaign.

In December 2013, one staff member was recognized for their 40 year Alberta public service employee milestone and one for their 30 year milestone. Five staff members were recognized for reaching 10 and 15 year milestones. At March 31, 2014, 33 of our employees had 10 or more years of experience in the Alberta public service.

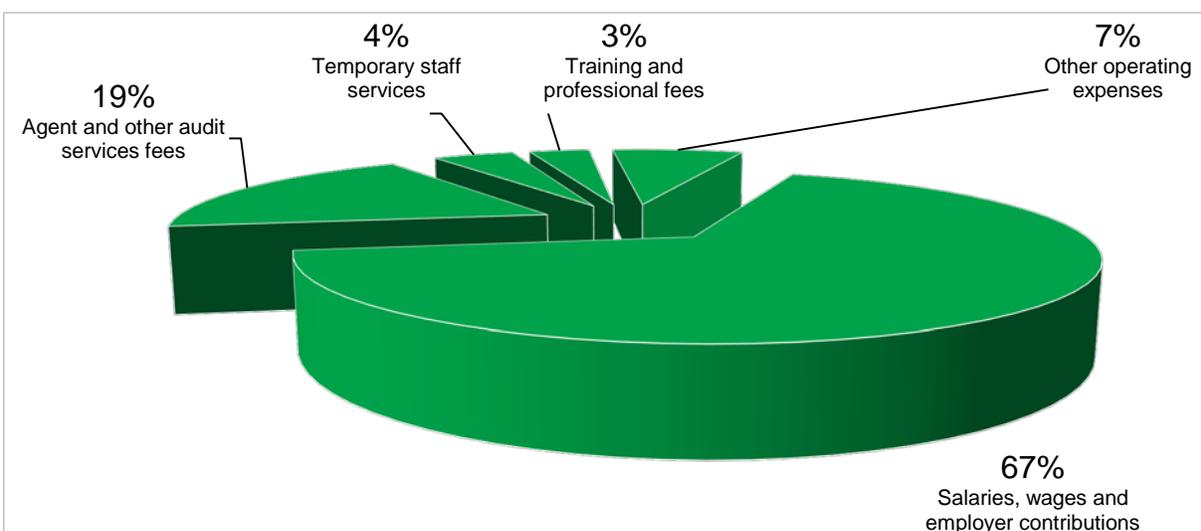
Throughout 2013–2014, 10 employees passed their professional accounting designation exams and eight fulfilled the education and experience requirements to obtain their professional accounting designation. We are proud and supportive of our staff in these significant accomplishments.

Financial discussion and analysis

The discussion should be read in conjunction with our audited financial statements.

For April 1, 2013 to March 31, 2014, the Legislative Assembly provided \$26 million for our office's expenses and \$560,000 for capital investment, for a total of \$26.6 million.

The chart below illustrates our expense mix. As expected in a "people organization" such as ours, salary, wages, employer contributions plus professional service contracts for agents and temporary staff represent 90% of our total expenses.



One of the lessons we learned from the previous year's results is that building our capacity for systems audits remains crucial to our success. In order to build this capacity, in 2013–2014 we decided to hire and develop more internal staff in place of some external temporary staff services and other audit services.

Salaries and wages in 2013–2014 were \$346,000 (3%) higher than in the previous year, which reflected recruitment of more internal audit staff as well as salary adjustments to recognize professional growth. Despite the additional recruitment, salaries and wages were \$736,000 (5%) lower than budget due to a delay in filling two vacant senior positions (to procure the exact skill set required) and lower than budgeted salary adjustments due to a government pay band freeze initiated after the budget was approved.

Employer contributions were up by \$264,000 (8%) from the previous year and exceeded our budget by \$154,000 (5%). This was mainly because of employer pension plan premium increases beyond our control.

We contract with external accounting firms to second qualified auditors to augment our audit teams temporarily during our peak work periods. As a result of hiring more internal audit staff, temporary audit staff services were lower than in the previous year by \$147,000 (12%) and below budget by \$226,000 (17%).

Financial discussion and analysis

We also engage accounting firms as our agents to conduct certain audits. The agent audits the entity, under our oversight, to compile the supporting evidence needed for the auditor's report by the auditor general. We use agents to meet peak work demands and to save on travel costs. Certain audits call for specialized skills. We use external audit services to provide these skills as required. Agent and other audit services fees were higher than the previous year by \$505,000 (12%) and exceeded budget by \$377,000 (9%) primarily due to audit work on ten projects for Child and Family Services Authorities and six for Persons with Developmental Disabilities. We moved these 16 projects, originally planned for completion in 2014–2015, to the end of 2013–2014. As well, we experienced a larger than anticipated audit scope increase in the first half of 2013–2014, when schools, universities, colleges and hospitals changed over to Public Sector Accounting Standards.

Advisory services were on budget in the current year; the decrease of \$136,000 (33%) from the previous year was mainly in staff development consulting services.

In 2013–2014 the three Canadian accounting bodies, Chartered Accountant (CA), Certified Management Accountant (CMA) and Certified General Accountant (CGA), signed an agreement to unify into one Canadian professional accounting designation, the Chartered Professional Accountant (CPA). As a result, the Canadian Institute of Chartered Accountants (CICA) announced it would discontinue the CA education program and offer more frequent module sessions to allow current students to complete the curriculum. Accordingly, our training and professional fees increased by \$78,000 (10%) over the previous year and exceeded budget by \$12,000 (1%) because of the extra modules taken by our accounting student employees. Successful student recruitment meant we hired more accounting students than originally anticipated. For the same reason, our prepaid expenses also increased as we registered our students in 2013–2014 for the modules offered in fiscal 2015.

As most of our students were enrolled in successive accounting education modules due to the transitional changes to the new education program, they took less vacation. Concurrently we had fewer staff departures, requiring payment of accrued vacation, than in the prior year. As a result, our current year accrued vacation liability was higher than the previous year by \$211,000 (11%).

Due to shorter duration of out of town fieldwork on financial statements audits, travel costs were \$90,000 (14%) lower than the previous year and \$14,000 (2%) under budget.

Capital investment was \$172,000 (59%) higher than the previous year and \$95,000 (17%) below budget mainly related to the laptop fleet replacement conducted due to warranty expiration. Price negotiation resulted in replacing the fleet for \$333,000 rather than the budgeted \$430,000. As the new fleet was deployed in fiscal 2015, no related amortization was recorded on the new fleet in 2013–2014. Old computer assets were fully depreciated, therefore our total amortization expense was lower than the previous year by \$200,000 (58%) and below budget by \$153,000 (52%).

Financial discussion and analysis

For many years, we charged audit fees to organizations that were funded primarily from sources other than provincial general revenues. Our office did not keep these fees. Instead, we forwarded them to the government's general revenue fund. For that reason, and because our client is the Legislative Assembly, not the entities we audit, we stopped charging audit fees effective for auditee year ends after March 31, 2013. As a result, our revenue decreased by \$1.5 million (61%) compared to the previous year and budget.

Overall, our actual total operating expenses increased by \$622,000 (2%) over the previous year. Our financial result is comparable to our results in prior years. We returned \$485,000 (1.8%) of our budget to the Legislative Assembly for 2013–2014. A small surplus or deficit in any one fiscal year is normal because of changes in the timing of our planned audit work. As audits often span two or more fiscal years, we budget according to planned audit timelines but must be flexible in carrying out our work.

What we learned

In considering our results, we have learned and incorporated the following lessons in our 2014-2017 business plan.

Effective and sustainable people development

The right complement of staff skills and ongoing people development are critical for high quality and cost effective auditing. Maintaining a workplace that recruits, grows and retains skilled legislative auditors is vital to our success. In recent years, we have learned to meet these ongoing human resources challenges by being flexible and adapting to market, education and societal changes.

As a professional services organization in Alberta's competitive economy, we need to develop and retain our work force. To do this we have enhanced our performance management system and strengthened training in our career advisor program to give our people the skills they need to improve their overall effectiveness, efficiency and personal excellence and foster a positive and supportive work environment.

We have linked clear performance indicators to strategic tools and priorities. These tools include a new key performance indicator designed to improve audit project management.

Timely follow up after recommendations implemented

Follow-up audits help us confirm that departments are making sustainable changes in response to our recommendations. In our management letter to auditees, we ask them to commit to an implementation target date. Sometimes these implementation targets are met, sometimes not. When the implementation target is met, our office is in a better position to schedule and complete our follow-up audit within a reasonable time.

We undertake substantial audit work to confirm that auditees have implemented each recommendation by making sustainable changes. We approach follow-up audits with the rigor that Albertans expect from this office, and repeat recommendations that are not satisfactorily implemented. A variety of new and follow-up audits are often in progress at the same time.

Timely follow up on past recommendations has yielded positive results. We have reduced the number of recommendations that remained outstanding for more than three years from 55 in the previous year to 47 in the current year. We have learned that reducing a backlog of outstanding recommendations requires singular focus. We appreciate the support of the Public Accounts Committee in this endeavour. Our ultimate objective is to have no recommendations older than three years.

Build our capacity for systems audit work

We entered 2013–2014 with strategies to build our capacity to do more systems audits and it is still a key strategic focus today.

What we learned

Extending our use of agent expertise will help the office redeploy its own resources and build our capacity to do more systems audit work. As senior staff gain systems audit experience, our office will have better access to legislative auditing skills and greater scheduling flexibility. Filling vacant senior auditor positions will also increase our capacity for systems audits.

We have spent significant leadership time in analyzing our results and identifying our core strengths. As legislative auditors we have a profound understanding of the environment we are auditing. We believe we also have a unique ability to communicate complex technical concepts in an understandable manner. By building on these core strengths we will succeed in our strategy: to perform more value added systems audit work. We believe systems audit work aligns with our continuing goal of providing Albertans with relevant, reliable audits conducted at a reasonable cost.

Appendix A—2014 Financial statements reports

We issued an unqualified independent auditor's report on the financial statements and financial information for the year ended March 31, 2014 (unless otherwise stated) for the following entities:

Consolidated financial statements of the Province of Alberta

Alberta's Economic Future

Aboriginal Relations

- Ministry of Aboriginal Relations

Agriculture and Rural Development

- Ministry of Agriculture and Rural Development
- Department of Agriculture and Rural Development
- Agriculture Financial Services Corporation
- Alberta Livestock and Meat Agency Ltd.

Infrastructure

- Ministry of Infrastructure

Innovation and Advanced Education

- Ministry of Innovation and Advanced Education
- Department of Enterprise and Advanced Education
- Access to the Future Fund
- Alberta Enterprise Corporation
- Alberta Foundation for Health Research
- Alberta Innovates—Bio Solutions
- Alberta Innovates—Energy and Environment Solutions
- Alberta Innovates—Health Solutions
- Alberta Innovates—Technology Futures
- Athabasca University
- University of Alberta
- University of Calgary
- University of Lethbridge

For the year ended June 30, 2013

- Alberta College of Art and Design
- Bow Valley College
- Grande Prairie Regional College
- MacEwan University
- Grant MacEwan University Foundation
- Keyano College
- Lakeland College
- Lethbridge College
- Medicine Hat College
- Mount Royal University
- NorQuest College
- Northern Alberta Institute of Technology
- Northern Alberta Institute of Technology Foundation
- Northern Lakes College
- Portage College
- Red Deer College
- Southern Alberta Institute of Technology

Intergovernmental and International Relations

- Ministry of International and Intergovernmental Relations

Tourism, Parks and Recreation

- Ministry of Tourism, Parks and Recreation
- Department of Tourism, Parks and Recreation
- Alberta Sport, Recreation, Parks and Wildlife Foundation
- Travel Alberta

Families and Communities

Culture

- Ministry of Culture
- Department of Culture
- Alberta Foundation for the Arts
- Historic Resources Fund
- The Alberta Historical Resources Foundation
- The Government House Foundation
- The Wild Rose Foundation

Appendix A —2014 Financial statements reports

Education	
<ul style="list-style-type: none"> Ministry of Education Department of Education 	<ul style="list-style-type: none"> Alberta School Foundation Fund
For the year ended August 31, 2013	
<ul style="list-style-type: none"> Alberta Teachers' Retirement Fund Board 	<ul style="list-style-type: none"> Northland School Division No. 61
Health	
<ul style="list-style-type: none"> Ministry of Health Department of Health Alberta Health Services Calgary Laboratory Services Ltd. 	<ul style="list-style-type: none"> Carewest Health Quality Council of Alberta
Human Services	
<ul style="list-style-type: none"> Ministry of Human Services Department of Human Services 	<ul style="list-style-type: none"> Office of the Public Trustee
For the nine months ended December 31, 2013 (entities dissolved)	
<ul style="list-style-type: none"> Calgary and Area Child and Family Services Authority Central Alberta Child and Family Services Authority East Central Alberta Child and Family Services Authority Edmonton and Area Child and Family Services Authority Metis Settlements Child and Family Services Authority North Central Child and Family Services Authority Northeast Alberta Child and Family Services Authority Northwest Alberta Child and Family Services Authority Southwest Alberta Child and Family Services Authority 	<ul style="list-style-type: none"> Southeast Alberta Child and Family Services Authority Persons with Development Disabilities Calgary Region Community Board Persons with Development Disabilities Central Region Community Board Persons with Development Disabilities Edmonton Region Community Board Persons with Development Disabilities Northwest Region Community Board Persons with Development Disabilities Northeast Region Community Board Persons with Development Disabilities South Region Community Board
Jobs, Skills, Training and Labour	
<ul style="list-style-type: none"> Ministry of Jobs, Skills, Training and Labour 	
For the year ended December 31, 2013	
<ul style="list-style-type: none"> Workers' Compensation Board—Alberta 	
Justice and Solicitor General	
<ul style="list-style-type: none"> Ministry of Justice and Solicitor General Department of Justice and Solicitor General 	<ul style="list-style-type: none"> Human Rights Education and Multiculturalism Fund Victims of Crime
Service Alberta	
<ul style="list-style-type: none"> Ministry of Service Alberta 	

Appendix A —2014 Financial statements reports

Resource Stewardship	
Energy	
<ul style="list-style-type: none"> Ministry of Energy Department of Energy Alberta Utilities Commission 	<ul style="list-style-type: none"> Alberta Energy Regulator Post-Closure Stewardship Fund
For the year ended December 31, 2013	
<ul style="list-style-type: none"> Alberta Petroleum Marketing Commission 	<ul style="list-style-type: none"> Senior Employee Pension Plan Fund for AER and AUC
Environment and Sustainable Resource Development	
<ul style="list-style-type: none"> Ministry of Environment and Sustainable Resource Development Department of Environment and Sustainable Resource Development 	<ul style="list-style-type: none"> Environment Protection and Enhancement Fund Land Stewardship Fund Climate Change and Emissions Management Fund Natural Resources Conservation Board
Municipal Affairs	
<ul style="list-style-type: none"> Ministry of Municipal Affairs Department of Municipal Affairs Alberta Social Housing Corporation 	
For the year ended December 31, 2013	
<ul style="list-style-type: none"> Improvement Districts 4, 9, 12, 13, 24, 25 and 349 Kananaskis Improvement District 	<ul style="list-style-type: none"> Special Areas Trust Account
Transportation	
<ul style="list-style-type: none"> Ministry of Transportation 	
Treasury Board and Finance	
<ul style="list-style-type: none"> Ministry of Treasury Board and Finance Department of Treasury Board and Finance Alberta Cancer Prevention Legacy Fund Alberta Gaming and Liquor Commission Alberta Heritage Foundation for Medical Research Endowment Fund Alberta Heritage Savings Trust Fund Alberta Heritage Scholarship Fund Alberta Heritage Science and Engineering Research Endowment Fund Alberta Investment Management Corporation Alberta Lottery Fund 	<ul style="list-style-type: none"> Alberta Risk Management Fund Alberta Securities Commission ATB Financial <ul style="list-style-type: none"> ATB Insurance Advisors Inc. ATB Investment Management Inc. ATB Securities Inc. Consolidated Cash Investment Trust Fund N.A. Properties (1994) Ltd. Provincial Judges and Masters in Chambers (Registered) Pension Plan Provincial Judges and Masters in Chambers Reserve Fund Supplementary Retirement Plan Reserve Fund
For year ended September 30, 2013	
<ul style="list-style-type: none"> Gainers Inc. 	

Appendix A —2014 Financial statements reports

For the year ended December 31, 2013	
<ul style="list-style-type: none"> • Alberta Capital Finance Authority • Alberta Local Authorities Pension Plan Corp. • Alberta Pensions Services Corporation • Credit Union Deposit Guarantee Corporation • Local Authorities Pension Plan • Management Employees Pension Plan 	<ul style="list-style-type: none"> • Public Service Management (Closed Membership) Pension Plan • Public Service Pension Plan • Special Forces Pension Plan • Supplementary Retirement Plan for Public Service Managers
Executive Council and Legislative Assembly	
<ul style="list-style-type: none"> • Ministry of Executive Council • Long Term Disability Income Continuance Plan - Bargaining Unit 	<ul style="list-style-type: none"> • Long Term Disability Income Continuance Plan - Management, Opted Out and Excluded • The Public Service Health Spending Account Plan
For the year ended December 31, 2013	
<ul style="list-style-type: none"> • Government of Alberta Dental Plan Trust 	<ul style="list-style-type: none"> • Government Employees' Group Extended Medical Benefits Plan and Prescription Drug Plan Trust
Legislative Assembly	
<ul style="list-style-type: none"> • Legislative Assembly Office 	<ul style="list-style-type: none"> • Office of the Chief Electoral Officer • Office of the Child and Youth Advocate • Office of the Ethics Commissioner • Office of the Information and Privacy Commissioner • Office of the Ombudsman • Office of the Public Interest Commissioner (10 months ended March 31, 2014)

Appendix B—2014 Performance measures reports

Government of Alberta	
Measuring Up - March 31, 2014 audit report on selected performance measures	
Ministries and other organizations	
The following ministries and organizations engaged us to review ¹ selected performance measures in their March 31, 2014 annual reports. We issued unqualified review engagement reports on the measures reviewed.	
Aboriginal Relations Agriculture and Rural Development Culture Education Energy Environment and Sustainable Resource Development Executive Council Health * December 31, 2013 annual report	Human Services Infrastructure Innovation and Advanced Education International and Intergovernmental Relations Jobs, Skills, Training and Labour Justice and Solicitor General Municipal Affairs Service Alberta Tourism, Parks and Recreation Transportation Treasury Board and Finance Alberta Pensions Services Corporation*

¹ A review is not an audit, and provides a limited/moderate level of assurance.

Appendix C—2014 Systems auditing reports

July 2013 Public Report

Stand-alone auditing

New

- | | |
|-----------------------------------|---|
| Aboriginal Relations | • Systems to Assess First Nations Development Fund Grants |
| Innovation and Advanced Education | • Athabasca University Administrative Systems Renewal Project |
| | • Collaborative Initiatives Among Alberta's Post-secondary Institutions |
| | • Medicine Hat College International Education Division |
| Municipal Affairs | • Affordable Housing Grants |
| Treasury Board and Finance | • Alberta Pension Services Corporation Next Generation Project |
| | • The Budget for Financial Reporting Purposes |

Follow-up

- | | |
|--|---|
| Energy | • Bioenergy Grant Programs |
| Environment and Sustainable Resource Development | • Natural Resources Conservation Board—Confined Feeding Operations |
| Innovation and Advanced Education | • University of Alberta Integration of Research into Strategic Planning |
| | • University of Calgary Research Management Systems |
| Human Services | • Monitoring of Daycare and Day Home Providers |
| Justice and Solicitor General | • Justice Online Information Network System |
| Treasury Board and Finance | • Oversight of Financial Institutions |

October 2013 Public Report

Stand-alone auditing

New

- | | |
|------------------------------------|---|
| Health and Alberta Health Services | • Infection Prevention and Control at Alberta Hospitals |
|------------------------------------|---|

Follow-up

- | | |
|---|---|
| Agriculture and Rural Development, Health and Alberta Health Services | • Provincial Food Safety |
| Energy | • Royalty Review Systems |
| Health | • Select Electronic Health Record Processes |

Appendix C—2014 systems auditing reports

Other auditing

Education—Review of school jurisdiction audited financial statements and management letters
Innovation and Advanced Education¹

February 2014 Public Report

Stand-alone auditing

New

Treasury Board and Finance • The Department's Oversight Systems for Alberta's Public Sector Pension Plans

Follow-up

Education	• School Board Budgeting
Human Services	• PDD Service Provider Monitoring
	• Systems to Monitor Training Provider Compliance
	• Administrative Support Systems for Child Intervention Services
Infrastructure	• Alberta Schools Alternative Procurement
Innovation and Advanced Education	• Post-secondary Institutions Non-credit Programs
Service Alberta	• Information Technology Control Framework

Other auditing

Innovation and Advanced Education¹

¹ includes reports on multiple post-secondary education institutions

The public reports of the Auditor General of Alberta are available online at <http://www.oag.ab.ca/reports>

Management's responsibility for financial reporting



**Legislative Assembly of Alberta
Office of the Auditor General
Management's Responsibility for Financial Reporting**

The accompanying financial statements of the Office of the Auditor General, including the performance measures, are the responsibility of office management.

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards. Financial statements are not precise, since they include certain amounts based on estimates and judgments. When alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances to ensure that the financial statements are presented fairly in all material respects.

The Office of the Auditor General maintains control systems designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the relevance and reliability of internal and external reporting, and compliance with authorities. The costs of control are balanced against the benefits, including the risks that the control is designed to manage.

The financial statements, including performance measure results, have been audited by St. Arnaud Pinsent Steman, Chartered Accountants, on behalf of the members of the Legislative Assembly.

[Original signed by Merwan N. Saher, FCA]

Auditor General
June 18, 2014

Financial statements (audited) - March 31, 2014

Legislative Assembly of Alberta
Office of the Auditor General
Financial Statements
March 31, 2014

Independent Auditors' Report

Statement of Operations

Statement of Financial Position

Statement of Cash Flows

Notes to the Financial Statements

Schedule 1—Lines of Business Cost by Sector and Ministry

Schedule 2—Performance Measures Summary



ST. ARNAUD PINSENT STEMAN
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Members of the Legislative Assembly

Report on the Financial Statements

We have audited the accompanying financial statements of the Office of the Auditor General, which comprise the statement of financial position as at March 31, 2014, and the statement of operations and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting principles, and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian public sector auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Unqualified Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General as at March 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting principles.

[ORIGINAL SIGNED BY JOHN H.C. PINSENT PROFESSIONAL CORPORATION]

June 18, 2014

John H.C. Pinsent Professional Corporation
Chartered Accountant

Legislative Assembly of Alberta
Office of the Auditor General
Statement of Operations
Year Ended March 31, 2014

	2014		2013
	Budget	Actual	Actual
Expenses			
Personnel			
Salaries and wages (Note 7)	\$ 14,580,000	\$ 13,844,254	\$ 13,498,671
Agent and other audit services fees	4,380,000	4,757,443	4,252,654
Employer contributions	3,285,000	3,438,991	3,175,190
Temporary staff services	1,350,000	1,124,257	1,271,327
Advisory services	275,000	279,785	416,262
	<u>23,870,000</u>	<u>23,444,730</u>	<u>22,614,104</u>
Supplies and services			
Training and professional fees	825,000	836,686	759,151
Travel	570,000	556,007	646,084
Technology services	430,000	435,884	472,150
Materials and supplies	200,000	238,742	202,660
Telephone and communications	85,000	78,999	81,027
Rental of office equipment	50,000	51,004	49,544
Repairs and maintenance	25,000	24,150	19,930
Miscellaneous	20,000	18,607	18,252
	<u>2,205,000</u>	<u>2,240,079</u>	<u>2,248,798</u>
Total professional services expenses	26,075,000	25,684,809	24,862,902
Add: amortization of tangible capital assets	295,000	141,778	341,613
Total operating expenses	<u>26,370,000</u>	<u>25,826,587</u>	<u>25,204,515</u>
Less: audit fee revenue	<u>(2,450,000)</u>	<u>(952,689)</u>	<u>(2,454,977)</u>
Cost of operations for the year (Note 6)	<u>\$ 23,920,000</u>	<u>\$ 24,873,898</u>	<u>\$ 22,749,538</u>

The accompanying notes and schedules are an integral part of these financial statements.

**Legislative Assembly of Alberta
Office of the Auditor General
Statement of Financial Position
As at March 31, 2014**

	<u>2014</u>	<u>2013</u>
Assets		
Audit fees revenue receivable	\$ -	\$ 1,757,238
Other receivables and prepaids	271,563	151,416
Tangible capital assets (Note 3)	<u>579,684</u>	<u>256,565</u>
	<u>\$ 851,247</u>	<u>\$ 2,165,219</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 2,046,136	\$ 1,665,312
Accrued vacation pay	<u>2,082,458</u>	<u>1,871,064</u>
	<u>4,128,594</u>	<u>3,536,376</u>
Net Assets (Liabilities)		
Net liabilities at beginning of year	(1,371,157)	(249,037)
Cost of operations	(24,873,898)	(22,749,538)
Net financing provided from General Revenues	<u>22,967,708</u>	<u>21,627,418</u>
	<u>(3,277,347)</u>	<u>(1,371,157)</u>
	<u>\$ 851,247</u>	<u>\$ 2,165,219</u>

The accompanying notes and schedules are an integral part of these financial statements.

**Legislative Assembly of Alberta
Office of the Auditor General
Statement of Cash Flows
Year Ended March 31, 2014**

	<u>2014</u>	<u>2013</u>
Operating transactions:		
Cost of operations	\$ (24,873,898)	\$ (22,749,538)
Non-cash item included in cost of operations:		
Amortization of tangible capital assets	<u>141,778</u>	<u>341,613</u>
	(24,732,120)	(22,407,925)
Decrease in audit fees revenue receivable	1,757,238	387,889
(Increase) Decrease in other receivables and prepaids	(120,147)	46,280
Increase in accounts payable and accrued liabilities	380,824	666,304
Increase (Decrease) in accrued vacation pay	<u>211,394</u>	<u>(27,257)</u>
Net cash applied to operating transactions	<u>(22,502,811)</u>	<u>(21,334,709)</u>
Capital transactions:		
Acquisition of tangible capital assets	<u>(464,897)</u>	<u>(292,709)</u>
Financing transactions:		
Net financing provided from General Revenues	<u>22,967,708</u>	<u>21,627,418</u>
Net cash provided	<u>-</u>	<u>-</u>
Cash, beginning of year	-	-
Cash, end of year	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes and schedules are an integral part of these financial statements.

**Legislative Assembly of Alberta
Office of the Auditor General
Notes to the Financial Statements
Year Ended March 31, 2014**

Note 1 Authority and Purpose

The Auditor General is an officer of the Legislature operating under the authority of the *Auditor General Act, Chapter A-46, Revised Statutes of Alberta 2000*. General revenues of the Province of Alberta fund both the cost of operations of the Office of the Auditor General and the purchase of tangible capital assets. The Standing Committee on Legislative Offices reviews the office's annual operating and capital budgets.

The Office of the Auditor General exists to serve the Legislative Assembly and the people of Alberta. The auditor general is the auditor of all government ministries, departments, funds and provincial agencies, including Alberta Health Services, universities, and public colleges and technical institutes. With the approval of the Assembly's Standing Committee on Legislative Offices, the auditor general may also be appointed auditor of a Crown-controlled corporation or another organization. The results of the office's work are included in the public reports of the auditor general presented to the Legislative Assembly.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements have been prepared in accordance with Canadian public sector accounting standards.

(a) Revenue

Audit fee revenue is reported on the accrual basis of accounting when billable financial statements audits are performed. Audit fees are charged to organizations that are funded primarily from sources other than provincial general revenues. Effective for auditee year-ends post March 31, 2013, the office ceased the practice of billing organizations.

(b) Expenses

Directly incurred

Directly incurred expenses are those costs incurred under the authority of the office's budget (Note 5).

Incurring by others

Services contributed by other entities in support of the office's operations are not recognized and are disclosed in Note 6.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(b) Expenses (continued)

Pension expense

Pension costs included in the directly incurred expenses as part of these statements refer to employer contributions for current service of employees during the year and additional employer contributions for service relating to prior years and are disclosed in Note 4.

(c) Financial instruments

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of accounts receivable, other receivables and prepaids, accounts payable and accrued liabilities, and accrued vacation pay are estimated to approximate their carrying values because of the short-term nature of these instruments.

The office does not have any transactions involving financial instruments that are classified in the fair value category and has no foreign currency transactions. There are no remeasurement gains and losses and therefore a statement of remeasurement gains and losses has not been presented.

(d) Tangible capital assets

Tangible capital assets are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new tangible capital assets is \$5,000. Amortization is only charged if the tangible capital asset is in use over the following estimated useful lives:

Computer hardware	3 years
Computer software	3 years
Office equipment	10 years

(e) Liabilities

Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

Note 2 Significant Accounting Policies and Reporting Practices (continued)
(f) Net liabilities

Net liabilities represent the difference between the office's liabilities and the carrying value of its assets.

Canadian public sector accounting standards require a "net debt" presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as "net debt" or "net financial assets" as an indicator of the future revenues required to pay for past transactions and events. The office operates within the government reporting entity, and does not finance its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

(g) Lines of business costs

Schedule 1 provides detail of the office's lines of business costs by sector and ministry.

Note 3 Tangible Capital Assets

	2014			2013
	Historical cost	Accumulated amortization	Net book value	Net book value
Computer hardware	\$ 1,598,246	\$ 1,069,947	\$ 528,299	\$ 185,851
Computer software	224,681	220,036	4,645	11,072
Office equipment	593,940	547,200	46,740	59,642
	<u>\$ 2,416,867</u>	<u>\$ 1,837,183</u>	<u>\$ 579,684</u>	<u>\$ 256,565</u>

Note 4 Benefit Plans

The office participates in multi-employer pension plans: Management Employees Pension Plan, Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of \$2,189,398 for the year ended March 31, 2014 (2013: \$1,998,842). The office is not responsible for future funding of the plan deficit other than through contribution increases.

At December 31, 2013, the Management Employees Pension Plan reported a surplus of \$50,457,000 (2012: deficiency \$303,423,000), the Public Service Pension Plan reported a deficiency of \$1,254,678,000 (2012: deficiency \$1,645,141,000) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of \$12,384,000 (2012: deficiency \$51,870,000).

Note 4 Benefit Plans (continued)

The office also participates in a multi-employer Long Term Disability Income Continuance Plan. At March 31, 2014, the Management, Opted Out and Excluded Plan reported an actuarial surplus of \$24,055,000 (2013: surplus \$18,327,000). The expense for this Plan is limited to the employer's annual contributions for the year.

Note 5 Budget

The budget shown on the statement of operations is based on the budgeted expenses that the Standing Committee on Legislative Offices approved on November 23, 2012. The following table compares the office's actual expenditures, excluding non-voted amounts such as amortization and audit fee revenue, to the approved budgets:

	<u>Voted budget</u>	<u>Actual</u>	<u>Unexpended</u>
Operating expenses			
Total professional services expenses	\$ 26,075,000	\$ 25,684,809	\$ 390,191
Capital investment	<u>560,000</u>	<u>464,897</u>	<u>95,103</u>
	<u>\$ 26,635,000</u>	<u>\$ 26,149,706</u>	<u>\$ 485,294</u>

Note 6 Expenses Incurred by Others

The office had transactions with other entities for which no consideration was exchanged. The amounts for the following transactions are estimated based on the costs incurred by the service provider.

	<u>2014</u>	<u>2013</u>
Expenses incurred by Alberta Infrastructure accommodation	<u>\$970,308</u>	<u>\$960,036</u>
Expenses incurred by Service Alberta technology services	<u>\$159,000</u>	<u>\$170,000</u>
Expense incurred by the Legislative Assembly Office audit fee	<u>\$ 30,000</u>	<u>\$ 30,000</u>

Note 7 Salary and Benefits Disclosure

	2014						
	Pensionable base salary	Cash benefits ⁽¹⁾	Non-cash benefits ⁽²⁾	Severance	Total	Cashed out vacation	Total including cashed out vacation
Auditor general ⁽³⁾	\$ 254,820	\$ 1,850	\$ 83,213	\$ -	\$ 339,883	\$ 13,669	\$ 353,552
Assistant auditors general:							
AAG ⁽⁴⁾	192,890	1,850	54,909	-	249,649	-	249,649
AAG ⁽⁵⁾	189,690	1,850	53,041	-	244,581	14,536	259,117
AAG ⁽⁶⁾	164,000	1,850	44,522	-	210,372	-	210,372
AAG ⁽⁷⁾	164,000	26,450	5,600	-	196,050	-	196,050
AAG ⁽⁸⁾	73,904	-	21,245	-	95,149	-	95,149
	<u>\$ 1,039,304</u>	<u>\$ 33,850</u>	<u>\$ 262,530</u>	<u>\$ -</u>	<u>\$ 1,335,684</u>	<u>\$ 28,205</u>	<u>\$ 1,363,889</u>
	2013						
	Pensionable base salary	Cash benefits ⁽¹⁾	Non-cash benefits ⁽²⁾	Severance	Total	Cashed out vacation	Total including cashed out vacation
Auditor general ⁽³⁾	\$ 242,688	\$ -	\$ 80,919	\$ -	\$ 323,607	\$ 18,205	\$ 341,812
Assistant auditors general:							
AAG ⁽⁴⁾	192,890	-	53,790	-	246,680	-	246,680
AAG ⁽⁵⁾	180,090	-	48,682	-	228,772	13,800	242,572
AAG ⁽⁶⁾	26,391	-	8,148	-	34,539	-	34,539
AAG ⁽⁷⁾	26,391	3,959	1,942	-	32,292	-	32,292
AAG ⁽⁸⁾	192,890	-	52,608	-	245,498	-	245,498
AAG ⁽⁹⁾	161,850	40,463	5,193	-	207,506	25,412	232,918
AAG ⁽¹⁰⁾	145,262	-	40,904	310,328	496,494	40,441	536,935
	<u>\$ 1,168,452</u>	<u>\$ 44,422</u>	<u>\$ 292,186</u>	<u>\$ 310,328</u>	<u>\$ 1,815,388</u>	<u>\$ 97,858</u>	<u>\$ 1,913,246</u>

- (1) Cash benefits include lump sum payments, payments in lieu of certain employer contributions towards non-cash benefits such as long-term disability insurance and pensions. No bonuses were paid in 2014 and 2013.
- (2) Non-cash benefits include the office's share of all employee benefits, and contributions or payments made on behalf of employees including pension, supplementary retirement plans, health care, dental coverage, group life insurance, short and long term disability plans, WCB premiums, professional memberships and tuition fees.
- (3) Non-cash benefits for the auditor general includes \$10,995 (2013: \$10,414) being the lease, fuel and maintenance expenses for an automobile provided.

Note 7 Salary and Benefits Disclosure (continued)

Responsibilities of the Assistant Auditors General as at March 31, 2014 are as follows:

- (4) Executive Council, Health, Human Services, Legislative Assembly, Measuring Up and Ministry Performance Measures
- (5) Infrastructure, Municipal Affairs, Treasury Board and Finance
- (6) Aboriginal Relations, Education, Innovation and Advanced Education, International and Intergovernmental Relations, Jobs, Skills, Training and Labour, Transportation; Promoted on February 1, 2013 (2 months in 2013)
- (7) Agriculture and Rural Development, Culture, Energy, Environment and Sustainable Resource Development, Justice and Solicitor General, Service Alberta, Tourism, Parks and Recreation; Promoted on February 1, 2013 (2 months in 2013)
- (8) Left on August 9, 2013 (5.3 months in 2014)
- (9) Left on January 31, 2013 (10 months in 2013)
- (10) Left on January 4, 2013 (9 months in 2013)

Note 8 Comparative Figures

Certain 2013 figures have been reclassified to conform to the 2014 presentation.

Note 9 Approval of the Financial Statements

These financial statements were approved by the Auditor General.

**Legislative Assembly of Alberta
Office of the Auditor General
Lines of Business Costs by Sector¹ and Ministry
Year Ended March 31, 2014**

	2014 Budget			2014 Actual			2013 Actual		
	Auditing			Auditing			Auditing		
	Financial statements ²	Systems ³	Total	Financial statements ²	Systems ³	Total	Financial statements ²	Systems ³	Total
Alberta's Economic Future									
Aboriginal Relations	\$ 82,000	\$ 523,000	\$ 605,000	\$ 78,000	\$ 378,000	\$ 456,000	\$ 44,000	\$ 133,000	\$ 177,000
Agriculture and Rural Development	706,000	10,000	716,000	702,000	44,000	746,000	637,000	85,000	722,000
Infrastructure	221,000	181,000	402,000	231,000	45,000	276,000	221,000	6,000	227,000
Innovation and Advanced Education	4,763,000	463,000	5,226,000	5,253,000	671,000	5,923,000	5,001,000	957,000	5,958,000
Intergovernmental and International Relations	53,000	-	53,000	63,000	30,000	93,000	73,000	17,000	90,000
Tourism, Parks and Recreation	247,000	-	247,000	246,000	-	246,000	190,000	1,000	191,000
	<u>6,072,000</u>	<u>1,177,000</u>	<u>7,249,000</u>	<u>6,573,000</u>	<u>1,168,000</u>	<u>7,741,000</u>	<u>6,166,000</u>	<u>1,199,000</u>	<u>7,365,000</u>
Families and Communities									
Culture	187,000	-	187,000	194,000	-	194,000	141,000	-	141,000
Education	576,000	388,000	964,000	572,000	280,000	852,000	600,000	74,000	674,000
Health	2,442,000	1,191,000	3,633,000	2,457,000	1,717,000	4,173,000	2,441,000	1,748,000	4,189,000
Human Services	1,504,000	52,000	1,556,000	1,559,000	274,000	1,833,000	1,425,000	596,000	2,021,000
Jobs, Skills, Training and Labour	482,000	-	482,000	501,000	2,000	503,000	402,000	-	402,000
Justice and Solicitor General	468,000	201,000	669,000	457,000	148,000	605,000	496,000	1,000	497,000
Service Alberta	817,000	330,000	1,147,000	553,000	129,000	682,000	631,000	251,000	882,000
	<u>6,476,000</u>	<u>2,162,000</u>	<u>8,638,000</u>	<u>6,293,000</u>	<u>2,550,000</u>	<u>8,843,000</u>	<u>6,136,000</u>	<u>2,670,000</u>	<u>8,806,000</u>
Resource Stewardship									
Energy	1,016,000	258,000	1,274,000	796,000	298,000	1,094,000	811,000	36,000	847,000
Environment and Sustainable Resource Development	981,000	746,000	1,727,000	587,000	647,000	1,234,000	695,000	667,000	1,362,000
Municipal Affairs	495,000	105,000	600,000	743,000	90,000	833,000	595,000	375,000	970,000
Transportation	233,000	-	233,000	265,000	18,000	283,000	250,000	412,000	662,000
Treasury Board and Finance	4,859,000	1,284,000	6,143,000	4,268,000	1,020,000	5,288,000	4,060,000	742,000	4,802,000
	<u>7,584,000</u>	<u>2,393,000</u>	<u>9,977,000</u>	<u>6,659,000</u>	<u>2,073,000</u>	<u>8,732,000</u>	<u>6,411,000</u>	<u>2,232,000</u>	<u>8,643,000</u>
Executive Council	111,000	168,000	279,000	158,000	73,000	231,000	144,000	22,000	166,000
Legislative Assembly	227,000	-	227,000	280,000	-	280,000	224,000	1,000	225,000
	<u>338,000</u>	<u>168,000</u>	<u>506,000</u>	<u>438,000</u>	<u>73,000</u>	<u>511,000</u>	<u>368,000</u>	<u>23,000</u>	<u>391,000</u>
	<u>\$ 20,470,000</u>	<u>\$ 5,900,000</u>	<u>\$ 26,370,000</u>	<u>\$ 19,963,000</u>	<u>\$ 5,864,000</u>	<u>\$ 25,827,000</u>	<u>\$ 19,081,000</u>	<u>\$ 6,124,000</u>	<u>\$ 25,205,000</u>
Percentage of costs dedicated to financial statements/systems auditing	78%	22%	100%	77%	23%	100%	76%	24%	100%

¹ Ministry auditing work is aligned with the Government's 2014 priority areas.

² Financial statements audits include reporting on financial statements, compliance with authorities, performance measures, results analysis, and research and advice.

³ Systems audits examine major programs or initiatives an organization undertakes to achieve its goals.

**Legislative Assembly of Alberta
Office of the Auditor General
Performance Measures Summary
Year Ended March 31, 2014**

Performance measures	Actual 2012	Actual 2013	Target 2014	Actual 2014
Relevant auditing				
Percentage of the auditor general's recommendations accepted for implementation ¹ (<i>also Reliable</i>)	100%	98%	95%	89%
Number of auditor general's recommendations not implemented within three years of acceptance	42	55	Zero	47
Issue auditor's report on Alberta's consolidated financial statements by June 30 (for the preceding March 31 fiscal year-end)	June 23, 2011	June 21, 2012	June 30, 2013	June 20, 2013
Percentage of costs dedicated to financial statements/systems auditing (<i>also Reasonable cost</i>)	79/21%	76/24%	78/22%	77/23%
Reliable auditing				
Institute of Chartered Accountants of Alberta's conclusion that the office's financial statements audits meet practice review standards ² (<i>also Relevant and Reasonable Cost</i>)	No review	Met	Next review expected in 2016	Next review expected in 2016
Reasonable cost auditing				
Staff turnover and vacancy rate (<i>also Reliable</i>)	22%	21%	Under 20%	18%
Percentage of financial statements audits completed within budget	68%	67%	90%	59%

¹ Acceptance for implementation does not include audit recommendations accepted in principle or under review.

² The practice review is done triennially



Office of the Auditor General of Alberta
8th Floor, 9925 109 Street NW
Edmonton, Alberta, Canada T5K 2J8

Phone: 780.427.4222

Fax: 780.422.9555

Email: info@oag.ab.ca

This report is available at
www.oag.ab.ca ISSN 1927-9604