



Report of the Auditor General of Alberta

Results Analysis, Financial Statements,
and Other Performance Information for
the Year Ended March 31, 2010



Mr. Leonard Mitzel, MLA
Chair
Standing Committee on Legislative Offices

I am honoured to send, *Office of the Auditor General of Alberta—Results analysis, financial statements and other performance information for the year ended March 31, 2010* to the members of the Legislative Assembly. This document has an analysis of Office operations and our audited financial statements for the fiscal period April 1, 2009 to March 31, 2010.

[Original signed by Merwan N. Saher]
Merwan N. Saher, CA
Auditor General

Edmonton, Alberta
October 15, 2010

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Message from the Auditor General

I am pleased to provide this report on the operations of the Office of the Auditor General of Alberta. It summarizes the activity of our Office in fiscal year 2010, and includes highlights from our business plan, our budget, and our results.

Although this report has my signature, for most of this fiscal year the Office was under the leadership of Mr. Fred Dunn. I thank Mr. Dunn for more than seven years of thoughtful service to the Legislature and, ultimately, to the people of Alberta. The audit opinions and reports of this Office reflect the work of highly trained and dedicated professionals who benefitted from his leadership.

Each year, we produce two public reports with recommendations to improve the systems that provide services to Albertans. In my term as Auditor General, I plan to demonstrate that our work is relevant, reliable and done at a reasonable cost.

I look forward to working with Members of the Legislative Assembly, and government, as I carry out my mandate.

[Original signed by Merwan N. Saher]
Merwan N. Saher, CA
Auditor General of Alberta

Office overview

Role and mandate

The Office of the Auditor General exists to serve the Legislative Assembly and the people of Alberta. Under the *Auditor General Act*, the Auditor General is the auditor of all government ministries, departments, funds and provincial agencies including Alberta Health Services and other entities, such as universities, public colleges and technical institutes.

Our mandate is to examine and provide independent reporting to the Legislative Assembly on government's management of, and accountability practices for, the public resources entrusted to it. Our public reports describe the results of auditing the consolidated financial statements of the province and the financial statements of ministries, departments, funds and provincial agencies. These reports also include significant recommendations to the government for improving performance reporting and the use of public resources. In addition to our semi-annual reports, we may produce special reports when appropriate.

Mission statement

To identify opportunities and propose solutions for the improved use of public resources, and to improve and add credibility to performance reporting, including financial reporting to Albertans.

Core businesses: assurance auditing and systems auditing

We focus on our two major goals that link to the two core businesses in our *Business Plan 2010–2013*.

Goal 1

Conduct independent audits that confirm the reliability and relevance of financial and non-financial performance reporting to the Legislative Assembly.

Corresponding core business—assurance auditing

Reports from assurance audits provide credibility to performance reports of government organizations. We provide these assurance audit reports on the consolidated financial statements of the province and the financial statements of the ministries, departments, funds and provincial agencies. The reports state our opinion on whether financial statements are presented fairly in accordance with applicable standards. We also examine transactions for compliance with legislation. In addition, we review and report on the non-financial performance measures that government organizations include in their reports.

Goal 2

Provide solutions to improve government systems, including organizations' systems for identifying and managing their business risks.

Corresponding core business—systems auditing

System audits lead to relevant, timely recommendations that help the Legislative Assembly hold government accountable for its management of public resources. Our systems audits identify opportunities and propose solutions—through these recommendations—for improved use of public resources and improved reports on government performance—both financial and non-financial.

Discussion and analysis of our results—highlights

1. Overview of fiscal year 2010 financial results

- In fiscal 2010, the total actual costs of our operations and capital spending was \$22.4 million. We returned \$779,000 (3.4% of our total approved budget) to the Legislative Assembly. A small surplus or deficit in any one fiscal year is normal due to changes in planned audit work because our audits can span two fiscal years. We change audit scope and defer audits if departments are not ready for a follow-up audit.
- Salary and benefits, plus professional service contracts for agents and temporary services, represent over 90% of our total operating expenses. Most of the money we returned came from lower spending in these areas. Unspent payroll funding of about \$647,000 resulted from lower compensation to staff. Our staff turnover rate of about 15% this year was high, and we could not promptly replace all the people who left.
- For several audits, we hire auditing firms to do the audit work for us, as our agents. For fiscal year 2010, our agent costs decreased by about \$460,000. This reduction was mainly from changes we made to our systems audit plans. For example, we postponed the Infection Prevention and Control systems audit to permit Alberta Health Services (AHS) to have Accreditation Canada conduct a scheduled review of AHS's infection prevention and control practices. In other cases, we used our own staff instead of more costly agents. And finally, we saved almost \$200,000 in the second year of the Office of the Auditor General doing the entire AHS audit by applying efficiencies learned from the previous year's audit.
- We saved almost \$140,000 by reducing spending on professional development, training, travel, printing costs and temporary services. We had planned to cut professional development and training in fiscal year 2010 because we knew those areas would need more spending in fiscal year 2011. For example, we will have to train our auditors on International Financial Reporting Standards and reissued Canadian Auditing Standards.
- We had planned to spend \$465,000 to replace our laptop computers and associated software in the summer of 2010. But because the laptops could no longer meet our needs, we replaced them sooner, in spring 2010. This change meant we spent the funds this year instead of next year.

2. Overview of fiscal year 2010 non-financial results

- Our two public reports in October 2009 and April 2010, were our most visible products. But, just as significant are the almost 200 recurring risk-based assurance audits, both financial and non-financial. These audits provide independent assessments to help the Legislative Assembly hold government accountable. For fiscal year 2010, this represents 80% of our activity.
 - Financial statement reports that assess if the consolidated financial statements of the Province and the financial statements of the ministries, departments, funds and Provincial agencies are presented fairly in accordance with applicable standards.
 - Compliance audits that assess if government follows laws, regulations, central agency directives, and departmental procedures.
 - Management letters that recommend improvements to internal controls, governance and accountability.

- System audits focus on major programs or initiatives that organizations take to achieve their goals and objectives. A systems audit assesses if an organization has the policies, processes, and controls in place to accomplish its goals and mitigate its risks economically and efficiently. For fiscal year 2010, this represents 20% of our activity.

- Performance Measure Results

The results shown by our performance measures are included in Schedule 2 in our financial statements. The performance measures results are audited in conjunction with the audit of the financial statements by our external auditor. Our measures are grouped into three sections corresponding to the goals in our business plan. The first two goals are for our core businesses: assurance and systems audits, and the last section focuses on our corporate initiatives. Here is a summary of key results: further information is available in section 4 below.

 - For assurance audits, the issuance date of auditor's reports is a performance measure. The key one achieved by the Office was the issuance of our auditor's report on the consolidated financial statements of the Province by June 30. This was achieved by June 25 in fiscal year 2010.
 - Also, a key performance measure in our systems and assurance audits is the percentage of the Auditor General's primary recommendations accepted by government. In the April 2009 and October 2009 reports, we had 97 recommendations, of which 37 required a government response. The government has accepted 33 of the 37 recommendations, or 90%, a 13-percentage point increase over last year's 77%.
 - We are concerned with the performance measure staff turnover rate. It has improved over the last couple of years, decreasing to 15% from 22% in fiscal year 2008, but we still need to lower it. This year, we will survey employee satisfaction to identify problems and then solve them. That should improve employee satisfaction and reduce the staff turnover rate.

- The *October 2009 Report of the Auditor General* included five significant systems audits and two follow-up audits. In addition, there were recommendations related to financial statements and other audits. The significant and follow-up systems audits were:
 - Public Agencies—Executive Compensation
 - Alberta's Response to Climate Change—Part 2
 - Public Affairs Bureau—Media Contracting Services

Electronic Health Records
 Commercial Vehicle Safety
 Recruiting, Evaluating and Training Boards of Directors—Follow-up
 Food Safety—Follow-up

- The *April 2010 Report of Auditor General* included seven significant systems audits and five follow-up audits. In addition, there were recommendations related to financial statements and other audits. The significant and follow-up systems audits were:
 - Alberta Schools Alternative Procurement
 - Occupational Health and Safety
 - Managing Alberta's Water Supply
 - ATB—New Banking System Implementation
 - Oversight of Financial Institutions
 - Land Titles Registration System
 - Oversight of Peace Officers
 - Executive Corporate Credit Cards—Follow-up
 - Child Intervention Services—Follow-up
 - MLA Expense Payments—Follow-up
 - Sand and Gravel—Follow-up
 - Identifying and Managing Conflicts of Interest for Contracted IT Professionals—Follow-up

Detailed Office performance

1. Variance of this year's total actual costs compared to budget

Schedule 1 of our 2009–2010 financial statements summarizes costs by ministry of assurance and systems audits—for the fiscal year ended March 31, 2010. We reported the results from much of this work in the *October 2009 Report of the Auditor General* and the *April 2010 Report of the Auditor General*.

In 2009–2010, our overall assurance audit costs were \$558,000 (3%) above budget, while our systems audit costs were \$1,746,000 (29%) below budget. The biggest increase in assurance audits was in the Ministry of Advanced Education and Technology, mainly to audit the restatement of prior-year financial statements for provincial consolidation. We also did additional work on certain universities and colleges, some resulting in multiple recommendations.

Conversely, our systems audits for the ministries of Children's Services, Energy, Finance and Enterprise, Housing and Urban Affairs, Service Alberta, and Sustainable Resource Development were under budget. This was primarily because we shifted priorities, postponing some audits and reducing the scope of others. The lower costs were partly offset by increased costs in auditing the ministries of Agriculture and Rural Development and Environment. The increase was caused mainly by timing. We had to carry forward to this fiscal year some audits that we thought, when we set the budget, would be complete last year. As well, some audits were more complex than we initially thought and we started other audits after finalizing the budget.

2. Variance of this year's total actual costs to last year's

Total costs decreased by \$440,000 (2%) over last year. This was mostly due to a cost reduction of \$488,000 (10%) in systems audits, for the same reasons explained above. On the other hand, our overall assurance audit costs were similar to the prior year with a minor increase of \$48,000 (0.3%).

3. Variances by expense category

3.1 Staff costs

Staff costs make up about 90% of our operating expenses. These comprise salaries and wages, employer benefit contributions, agent fees, and fees for temporary audit staff and advisory services.

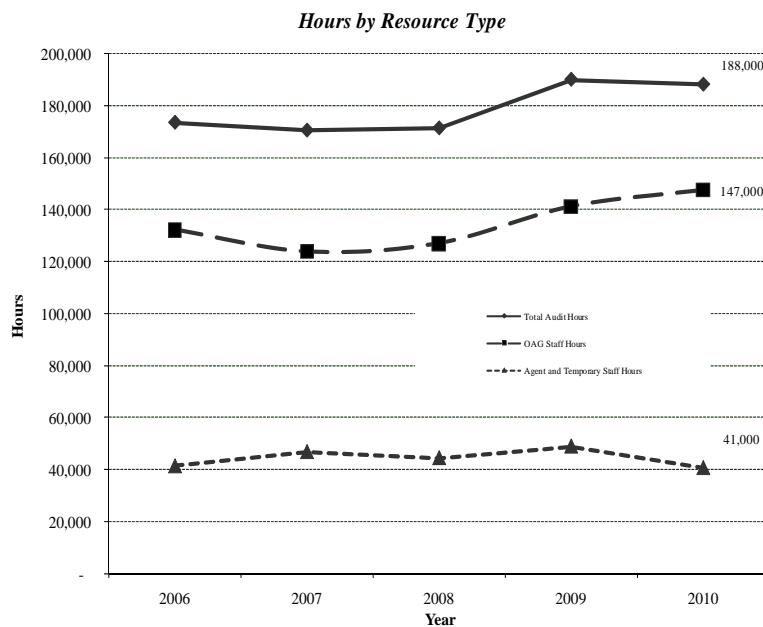
3.1.1 Salaries, wages and employer contributions

Budget to actual

We budgeted for 134 full-time-equivalent positions (FTEs) in 2009–2010 and averaged about 132 FTEs throughout the year. Our shortfall of two FTEs, plus lower overall staff compensation, reduced our salaries, wages, and employer contributions by about \$647,000 or 4.5% compared to budget.

Actual to actual over past year

Compared to 2008–2009, our salaries, wages and employer contributions increased by \$607,000 or 4.6%. This was caused by severance payments and an increase of three FTEs from 129 to 132.



Our business plan identifies key forces and trends that shape our auditing work: responding to stakeholder expectations and keeping pace with the changing environment. Our challenge continues to be building and sustaining organizational capacity. As the Figure shows, our total audit hours remained similar to last year, but we shifted a significant number of hours from more expensive external sources (agents and temporary audit services) to more cost effective FTEs.

3.1.2 Fees for agents and other professional services

In the past year, 10 public accounting firms in Edmonton, Calgary, Fort McMurray, Grand Prairie, Lethbridge, Red Deer and other centres across the province, acted as our agents. We oversee their audit work. In some cases, we used agents as associate auditors, with both our staff and agent staff working closely on an audit. Examples of this are audits of Alberta Health Services and the University of Alberta. By using agents, we gain skilled resources to meet peak-period demands, acquire cost-effective specialist skills, obtain a point of reference for comparing our methodology and costs, and save travel costs.

In 2009–2010, agent fees were \$4,439,000, a decrease of \$732,000 (14%) from 2008–2009, and below our original budget by \$461,000 (9%). March 31, 2010 was the second year-end since the reorganization of the Alberta Health Services and other health entities. We saved about \$200,000 in agent fees on the audits of these entities due to lessons learned and efficiencies from previous audits. We did not need to pay for specialized knowledge, originally estimated at up to \$120,000, after we started the audit of “Regulatory Oversight of Financial Institutions”. A further \$70,000 reduction came from the audit of “Core Banking” when we avoided duplicating the auditee’s efforts. We also redirected resources to priority areas within our operations, based on a strategic review. As a result, we discontinued the audit of University of Technologies Group—a subsidiary of University of Calgary, saving about \$60,000 in agent fees.

The agent average hourly costs of accounting firms are about 35% higher than our internal rates. Our budget for 2010–2011 for agent fees will be \$4.8 million.

3.1.3 Fees for temporary audit staff

We contract with public accounting firms for temporary audit staff during peak work periods. Up to \$1,000,000 of the budget will always be required for such services—even if we maintain the targeted 134 FTEs during the year. In 2009–2010, the cost of temporary staff services was \$1,185,000, close to our budget of \$1.2 million. It was under last year’s spending by \$210,000 (15%). The decrease was due to better pricing from small independent contractors and more permanent staff as we brought in students to replace more costly temporary staff from private-sector audit firms.

Due to the market demand for accountants and auditors and the challenges of recruiting and keeping staff in times of provincial restraint, we expect to keep using more temporary staff than we prefer.

3.1.4 Fees for advisory services

Advisory services include communications, legal, information systems, and professional practices. In 2009–2010, overall advisory services were under budget by \$19,000 (9%). Most of the variance resulted from the nature and number of special or unusual issues that arose.

3.2 Supplies and services expenses

This spending was under the authorized budget by \$42,000 (2%), the net result of cost controls in professional development and related travel, along with increases and decreases in other categories.

3.3 Capital investment

In 2009–2010, besides our regular capital spending on items such as information technology infrastructure, we replaced our computers sooner, in spring 2010 instead of summer. As a result, our capital investment of \$559,000 exceeded the budget of \$151,000 by \$408,000.

4. Other performance information

Schedule 2 of our 2009–2010 audited financial statements includes our performance measures for April 1, 2009 to March 31, 2010. We use specific measures to monitor performance throughout the fiscal year. These measures are the basis of this report on our performance.

4.1 Issuance of reports

We issued our reports on the 2009–2010 consolidated financial statements of the Province and on the performance measures selected for audit in the government's *Measuring Up* on target, in June 2010. Starting in 2009–2010, we increased from 90% to 100% the target for releasing audit reports—for consolidated entities with March 31 year-ends—by July 15. Our actual result was 99%, not significantly different from our new target. We were also close to our target of 80% for reporting on entities with non-March 31st year-ends within 120 days of the entity's year-end. Actual results were 78%, 19 percentage points better than 2008–2009's 59%. We will continue working with the entities we audit to improve our audit completion performance.

We issued 96% of our reports (all but one) on ministry performance measures by September 15, 2010—our target was 100%.

4.2 Budgets

Performance Measure 1.f is the percentage of assurance audits completed within their original budgeted costs. In 2009–2010, for assurance audits needing over 200 hours, our completion within 10% of the original budgets decreased from 66% to 61%, below the 90% target. Of the 143 audits we conduct that are over 200 hours, 87 (or 61%) were under or within 10% of the budget. In general, we exceeded assurance audit budgets due to unanticipated audit issues, auditee delays, staff turnover (especially at the manager or in-charge level) during peak season, and the restatement of prior-year financial statements for provincial consolidation.

The other two measures in the budget (1.g and 2.d) compare the relative total costs for assurance and systems audits. In 2009–2010, again due to unanticipated audit work, auditee delays in both assurance and systems audits, and the timing of systems audits, we did not meet our revised targets for the percentage of costs for assurance audits (in the high 70s) and for systems audits (in the low 20s). Actual results were 80% and 20% respectively. In our next business plan for 2011–2014, we will be evaluating these performance targets.

4.3 Professional Standards

As part of our strategic priorities, the Office has striven to keep pace with the changes in our audit environment and standards. We met our target of meeting the assurance auditing standards based on the conclusion released by the Institute of Chartered Accountants of Alberta on their review of our audit practice during the year. A potential review of the Office's auditing standards on systems audit has been delayed at the national level.

4.4 Recommendations

We did not meet our target for the government to accept 95% of the numbered recommendations in our *April 2009 Report* and *October 2009 Report*. The government accepted 33 of our 37 numbered recommendations, or 90% for this year, an increase of 13 percentage points over last year.

Also, we did not meet our target of no unimplemented numbered recommendations more than three years after the government accepts them. The government had not yet implemented 27 of our primary recommendations made before 2005–2006. Although setting a performance target of none for primary recommendations not implemented within three years may be considered as unrealistic, the Office views the low number of outstanding primary recommendations over three years as a sign of good accountability.

We met our target of releasing the public reports in October 2009 and April 2010.

4.5 Corporate initiatives

Although we did not meet our target of 100% of employees meeting their goals for available time spent on core business functions, 87% of employees (down 6 percentage points from last year) spent all their available time on assurance audits, systems audits and core business functions. Employees who missed their targets were most likely affected by entities not ready for their audit. We managed this situation by redeploying these staff to needed training and professional development. While we reduced the use of more expensive external temporary audit services by using our own staff, we have also been taking new initiatives to provide continuous, on-the-job training to staff and offer them challenging work.

Staff continuity and retention are critical for us to complete high quality audits on time, especially during our peak audit seasons. We achieved our target of a staff turnover rate of less than 20% for 2009–2010. The actual result was 15%, slightly lower than last year's 16%.

We strive to ensure our corporate service functions operate efficiently. These functions include human resource management (including training and development), information technology, and finance and administration. This year, we again met our target of keeping corporate costs no higher than 20% of total OAG costs—they were 16%.

As a training office for accounting professionals, we focus on our students' success. To reflect this, starting last year, we introduced a measure that is the pass rate of Chartered Accountant students in professional accounting programs compared to national averages. But as of September 2009, the national average, the similar western Canadian (CASB) average, and the Alberta average were no longer available, so we can no longer use this measure. As part of our upcoming business planning process for 2011–2014, we will review and revise the performance measures that we use and report.

The future

Next year will present challenges and opportunities similar to last year's, but we must recognize the current fiscal situation facing Alberta. In the upcoming business plan we will be reviewing our current business plans to better reflect our goals and priorities, and just as importantly, improve our accountability to the legislative assembly and people of Alberta. Our 2010–2013 business plan does that, in establishing the following strategic priorities:

1. Deliver relevant, high quality results

- to maximize our value, we must ensure that our assurance reports and recommendations are the most relevant and useful to our clients and public-sector management.

2. Strengthen the organization's operations and reporting systems

- review and update our vision, mission and core businesses, and performance measures.
- investigate how the Office can improve its accountability reporting systems.

3. Ensuring the right mix of technical knowledge and expertise continues to be a priority

- we will review all our audit contracts with agents and suppliers of audit staff to save costs.
- professional training will increase to meet the introduction of IFRS and reissued CAS.

4. Focus resources on making systems audit recommendations that result in improved

- effectiveness and efficiencies in government departments
- governance and ethical behaviour—these underpin the success of any organization
- safety and welfare of Albertans—such as mental health, capital infrastructure
- security and use of the province's resources

5. Use efficient audit processes that:

- result in the most cost effective auditing and match our supervisory, students, and agent resources to audit risks.
- take advantage of previous improvements in internal control documentation to realize further efficiencies in assurance audits.
- recognize the cost of meeting new auditing standards, which involves continuing to work closely with other legislative audit offices across Canada—under a protocol for a National Professional Practices Group—to benefit by sharing experience and services.

6. Respond to market demand for our professional staff

To sustain our ability to conduct audits and improve staff turnover rates, we need to:

- manage succession to ensure we have continued high-quality leadership.
- retain high-quality employees.
- provide challenging work and a clear career path for our more senior and recently graduated employees.
- survey employees in autumn 2010 to identify key areas for improvement.



**Alberta Legislature
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 generally accepted accounting principles. 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]
Merwan N. Saher, CA
Auditor General
June 2, 2010

**Alberta Legislature
Office of the Auditor General
Financial Statements
March 31, 2010**

Auditors' Report

Statement of Financial Position

Statement of Operations

Statement of Cash Flows

Notes to the Financial Statements

Schedule 1: Output Costs by Ministry

Schedule 2: Other Performance Information



ST. ARNAUD PINSENT STEMAN

CHARTERED ACCOUNTANTS

Daniel J. St. Arnaud, CA**
John H. C. Pinsent, CA**
Bernardus C. Steman, CA, CFA**

AUDITOR'S REPORT

To the Members of the Legislative Assembly

We have audited the statement of financial position of the Office of the Auditor General of Alberta as at March 31, 2010 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General of Alberta as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for public sector entities.

Comparative information as presented in the financial statements and accompanying schedules were audited by other chartered accountants.

[Original signed by John H. C. Pinsent Professional Corporation]

Edmonton, Alberta
June 2, 2010

John H. C. Pinsent Professional Corporation
Chartered Accountant

**Alberta Legislature
Office of the Auditor General
Statement of Financial Position
As at March 31, 2010**

	2010	2009
Assets		
Audit fees receivable	\$ 1,762,038	\$ 1,808,050
Other receivables and prepaids	232,069	149,180
Capital assets (Note 3)	652,814	389,004
	\$ 2,646,921	\$ 2,346,234
Liabilities		
Accounts payable	\$ 1,694,072	\$ 1,704,892
Accrued vacation pay	1,619,221	1,572,050
	3,313,293	3,276,942
Net Assets (Liabilities)		
Net liabilities at beginning of year	(930,708)	(695,099)
Net cost of operations	(19,470,446)	(19,209,989)
Net transfer from general revenues	19,734,782	18,974,380
	(666,372)	(930,708)
	\$ 2,646,921	\$ 2,346,234

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

**Alberta Legislature
Office of the Auditor General
Statement of Operations
Year Ended March 31, 2010**

	<u>2010</u>		<u>2009</u>
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
Expenses:			
Personnel			
Salaries and wages (Note 7)	\$ 12,080,000	\$ 11,492,742	\$ 11,053,093
Agent and other audit services fees	4,900,000	4,439,104	5,171,579
Employer contributions	2,315,000	2,254,871	2,087,272
Temporary staff services	1,200,000	1,184,569	1,394,780
Advisory services	220,000	200,635	141,153
Miscellaneous	10,000	6,859	(2,840)
	<u>20,725,000</u>	<u>19,578,780</u>	<u>19,845,037</u>
Supplies and services:			
Professional fees, training and development	795,000	729,050	785,523
Travel	580,000	552,603	623,614
Amortization of capital assets	310,000	295,603	284,072
Technology services	300,000	373,699	392,817
Materials and supplies	180,000	168,086	182,978
Rental of office equipment	65,000	68,027	86,136
Telephone and communications	70,000	80,051	73,295
Repairs and maintenance	15,000	11,392	17,420
Miscellaneous	30,000	24,992	30,837
	<u>2,345,000</u>	<u>2,303,503</u>	<u>2,476,693</u>
Total office professional services	23,070,000	21,882,283	22,321,730
Less: Audit fee revenue	<u>(2,450,000)</u>	<u>(2,411,837)</u>	<u>(3,111,741)</u>
Net cost of operations for the year (Note 6)	<u>\$ 20,620,000</u>	<u>\$ 19,470,446</u>	<u>\$ 19,209,989</u>

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

**Alberta Legislature
Office of the Auditor General
Statement of Cash Flows
Year Ended March 31, 2010**

	<u>2010</u>	<u>2009</u>
Operating transactions:		
Net cost of operations	\$ (19,470,446)	\$ (19,209,989)
Non-cash transactions:		
Amortization of capital assets	<u>295,603</u>	<u>284,072</u>
	(19,174,843)	(18,925,917)
Decrease in audit fees receivable	46,012	109,015
Increase in other receivables and prepaids	(82,889)	(4,808)
Decrease in accounts payable	(10,820)	(161,219)
Increase in accrued vacation pay	<u>47,171</u>	<u>215,501</u>
Net cash used by operating transactions	<u>(19,175,369)</u>	<u>(18,767,428)</u>
Capital transactions:		
Acquisition of capital assets	<u>(559,413)</u>	<u>(206,952)</u>
Financing transactions:		
Net transfer from general revenues	<u>19,734,782</u>	<u>18,974,380</u>
Net cash provided (used)	<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.

Alberta Legislature
Office of the Auditor General
Notes to the Financial Statements
Year Ended March 31, 2010

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 net cost of operations of the Office of the Auditor General and the purchase of capital assets. The Select 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 and other health entities, universities, public colleges and technical institutes. With the approval of the Assembly's Select 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 generally accepted accounting principles for public sector entities and reflect the following policies and practices:

(a) Audit fees

Audit fee revenue is recognized when billable assurance audits are performed. Audit fees are charged to organizations that are funded primarily from sources other than provincial general revenues.

Prior to 2008–2009, we billed the six regional health authorities that the Office audited with the approval of the Select Standing Committee on Legislative Offices. The fees billed to the regional health authorities were set to recover the fees charged to the Office by agents. During 2008–2009, the Office became the auditor of Alberta Health Services, including all regional health authorities and related entities. As these entities are primarily funded by the Provincial general revenues, fees are no longer billed to these entities starting with the audit of March 31, 2009 year-end.

(b) Output costs

Schedule 1 provides detailed costs for our two outputs:

- Assurance auditing results in auditor's reports on financial statements and performance measures.
- Systems auditing produces recommendations for improved government management of, and accountability for, public resources. The Office includes the recommendations in the Auditor General's public reports to the Legislative Assembly

(c) Expenses incurred by others

Services contributed by other entities in support of the Office's operations are disclosed in Note 6.

(d) Capital assets

Capital assets are recorded at cost. Amortization is calculated on a straight-line basis, over the estimated useful lives of the assets, at the following rates:

Computer hardware	33%
Computer software	33%
Office equipment	10%

(e) Pension expense

Pension costs included as part of these statements refer to employer contributions for the current service of employees during the year and additional employer contributions for service relating to prior years.

(f) Valuation of financial assets and liabilities

The amounts reported as audit fees receivable, other receivables and prepaids, accounts payable and accrued vacation pay approximate their fair values.

Note 3 Capital Assets

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	\$ 1,838,417	\$ 1,313,963	\$ 524,454	\$ 269,899
Computer software	241,048	213,656	27,392	25,226
Office equipment	588,830	487,862	100,968	93,879
	<u>\$ 2,668,295</u>	<u>\$ 2,015,481</u>	<u>\$ 652,814</u>	<u>\$ 389,004</u>

Note 4 Defined Benefit Plans

The Office participates in the multi-employer Management Employees Pension Plan and Public Service Pension Plan. The Office also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of \$1,421,958 for the year ended March 31, 2010 (2009: \$1,293,892).

At December 31, 2009, the Management Employees Pension Plan reported a deficiency of \$483,199,000 (2008: \$568,574,000) and the Public Service Pension Plan reported a deficiency of \$1,729,196,000 (2008: \$1,187,538,000). At December 31, 2009, the Supplementary Retirement Plan for Public Service Managers had a deficiency of \$39,516,000 (2008: \$7,111,000).

The Office also participates in a multi-employer Long Term Disability Income Continuance Plan. At March 31, 2010, the Management, Opted Out and Excluded Plan reported an actuarial surplus of

\$7,431,000 (2009 deficiency: \$1,051,000). 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 Select Standing Committee on Legislative Offices approved on December 5, 2008. The following table compares the Office's actual expenditures to the approved budgets.

Budget		
Original voted budget		
Operating expenses	\$ 23,070,000	
Capital investments	151,000	
	<u>23,221,000</u>	
Actual		
Operating expenses	21,882,283	
Capital investments	559,413	
	<u>22,441,696</u>	
Unexpended	\$ 779,304	

Note 6 Expenses Incurred by Others

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

	<u>2010</u>	<u>2009</u>
Expenses incurred by Alberta Infrastructure		
Accommodation	\$ 832,381	\$ 707,598
Amortization of leasehold improvements	5,820	5,820
	<u>\$ 838,201</u>	<u>\$ 713,418</u>
Expense incurred by Service Alberta		
Integrated management information system (IMAGIS)	<u>N/A</u>	<u>\$ 112,000</u>
Expense incurred by the Legislative Assembly Office		
Audit fee	<u>\$ 28,000</u>	<u>\$ 24,750</u>

Effective 2009–2010, the responsibilities and charges for certain information technologies were transferred to the Ministry of Service Alberta. The equivalent amount that was recorded in 2008–2009 under Technology Services was \$54,000.

For 2009–2010, Service Alberta no longer allocated the amount of expenses on IMAGIS and information technologies to the Office due to immateriality.

Note 7 Salaries and Benefits

(a) Salaries and benefits of the Auditor General and his executives

2010						
	Pensionable Base Salary	Cash Benefits ⁽¹⁾	Non-cash Benefits ⁽²⁾	Total	Cashed Out Vacation	Total Including Cashed Out Vacation
Auditor General ^{(3),(11)}	\$ 264,069	\$ 11,413	\$ 61,260	\$ 336,743	\$ 18,035	\$ 354,777
Executives:						
Assistant Auditor General ⁽⁴⁾	186,094	-	45,580	231,674	18,429	250,103
Assistant Auditor General ⁽⁵⁾	181,652	-	44,388	226,040	-	226,040
Assistant Auditor General ⁽⁶⁾	179,655	-	44,052	223,707	20,611	244,318
Assistant Auditor General ⁽⁷⁾	164,684	-	43,957	208,641	-	208,641
Assistant Auditor General ⁽⁸⁾	160,167	24,025	5,262	189,454	-	189,454
Assistant Auditor General ⁽⁹⁾	158,695	-	40,400	199,095	-	199,095
Chief Administrative Officer ⁽¹⁰⁾	158,695	-	39,082	197,777	11,575	209,352
	<u>\$ 1,453,711</u>	<u>\$ 35,438</u>	<u>\$ 323,981</u>	<u>\$ 1,813,131</u>	<u>\$ 68,650</u>	<u>\$ 1,881,780</u>
2009						
	Pensionable Base Salary	Cash Benefits ⁽¹⁾	Non-cash Benefits ⁽²⁾	Total	Cashed Out Vacation	Total Including Cashed Out Vacation
Auditor General ^{(3),(11)}	\$ 249,684	\$ 12,228	\$ 54,956	\$ 316,868	\$ -	\$ 316,868
Executives:						
Assistant Auditor General ⁽⁴⁾	177,700	23,000	41,911	242,611	14,979	257,590
Assistant Auditor General ⁽⁵⁾	174,200	23,000	40,235	237,435	-	237,435
Assistant Auditor General ⁽⁶⁾	170,000	25,000	40,301	235,301	-	235,301
Assistant Auditor General ⁽⁷⁾	154,800	25,000	48,833	228,633	-	228,633
Assistant Auditor General ⁽⁸⁾	150,000	42,500	4,808	197,308	-	197,308
Assistant Auditor General ⁽⁹⁾	150,000	20,000	36,461	206,461	-	206,461
Chief Administrative Officer ⁽¹⁰⁾	150,000	20,000	34,934	204,934	5,747	210,681
	<u>\$ 1,376,384</u>	<u>\$ 190,728</u>	<u>\$ 302,439</u>	<u>\$ 1,869,551</u>	<u>\$ 20,726</u>	<u>\$ 1,890,277</u>

- (1) Cash benefits include variable pay, payments in lieu of certain employer contributions towards non-cash benefits such as long-term disability insurance and pensions.
- (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) Fred J. Dunn, the Auditor General, retired on February 15, 2010.

Ministerial and other responsibilities of the executives as at March 31, 2010 as follows:

- (4) Acting Auditor General from February 15, 2010, Education, Environment, Finance and Enterprise, Treasury Board
 - (5) Agriculture and Rural Development, Culture and Community Spirit, Employment and Immigration, Health and Wellness, Seniors and Community Supports, Tourism, Parks and Recreation.
 - (6) Performance Measures Audit, Children and Youth Services, Energy, Housing and Urban Affairs, Infrastructure, Justice and Attorney General, Municipal Affairs, Solicitor General and Public Security, Sustainable Resource Development, Transportation
 - (7) Systems and Forensic Audit, Aboriginal Relations, Cross-Ministry, Executive Council, International and Intergovernmental Relations, Legislative Assembly
 - (8) Advanced Education and Technology
 - (9) Information Systems Audit, Service Alberta
 - (10) All Corporate Services
 - (11) Automobile provided, no dollar amount included in non-cash benefits
- (b) Salaries and wages for the entire office included variable pay of \$0 for 2009–2010 and \$704,000 for 2008–2009.

Note 8 Comparative Figures

Certain 2009 figures have been reclassified to conform to the 2010 presentation.

Note 9 Approval of the Financial Statements

These financial statements were approved by the Auditor General.

Schedule 1

**Alberta Legislature
Office of the Auditor General
Schedule of Output Costs by Ministry
For the Year Ended March 31, 2010**

	2010 Budget			2010 Actuals			2009 Actuals		
	Assurance Auditing	Systems Auditing	Total	Assurance Auditing	Systems Auditing	Total	Assurance Auditing	Systems Auditing	Total
Work performed by Sector:									
Aboriginal Relations	\$ 64,000	\$ -	\$ 64,000	\$ 64,000	\$ -	\$ 64,000	\$ 35,000	\$ 2,000	\$ 37,000
Advanced Education and Technology	3,703,000	480,000	4,183,000	4,230,000	586,000	4,816,000	4,195,000	565,000	4,760,000
Agriculture and Rural Development	880,000	143,000	1,023,000	600,000	335,000	935,000	548,000	187,000	735,000
Children and Youth Services	685,000	280,000	965,000	648,000	56,000	704,000	756,000	6,000	762,000
Cross-Government Issues	161,000	938,000	1,099,000	667,000	579,000	1,246,000	571,000	871,000	1,442,000
Culture and Community Spirit	195,000	43,000	238,000	130,000	4,000	134,000	132,000	6,000	138,000
Education	459,000	170,000	629,000	437,000	205,000	642,000	481,000	41,000	522,000
Employment & Immigration	517,000	151,000	668,000	474,000	237,000	711,000	458,000	196,000	654,000
Energy	666,000	410,000	1,076,000	718,000	33,000	751,000	765,000	64,000	829,000
Environment	250,000	430,000	680,000	376,000	555,000	931,000	203,000	591,000	794,000
Executive Council	43,000	93,000	136,000	42,000	108,000	150,000	32,000	13,000	45,000
Finance and Enterprise	2,767,000	713,000	3,480,000	2,553,000	251,000	2,804,000	2,561,000	412,000	2,973,000
Health & Wellness	2,700,000	761,000	3,461,000	2,649,000	652,000	3,301,000	2,728,000	1,009,000	3,737,000
Housing and Urban Affairs	246,000	190,000	436,000	190,000	4,000	194,000	135,000	24,000	159,000
Infrastructure	171,000	51,000	222,000	227,000	19,000	246,000	432,000	25,000	457,000
International & Intergovernmental Relations	81,000	-	81,000	95,000	-	95,000	58,000	62,000	120,000
Justice and Attorney General	323,000	-	323,000	423,000	-	423,000	329,000	-	329,000
Legislative Assembly	119,000	-	119,000	128,000	10,000	138,000	144,000	13,000	157,000
Municipal Affairs	253,000	9,000	262,000	257,000	21,000	278,000	284,000	19,000	303,000
Seniors and Community Supports	563,000	20,000	583,000	480,000	17,000	497,000	526,000	11,000	537,000
Service Alberta	531,000	671,000	1,202,000	541,000	227,000	768,000	644,000	334,000	978,000
Solicitor General & Public Security	430,000	50,000	480,000	371,000	116,000	487,000	397,000	22,000	419,000
Sustainable Resource Development	255,000	316,000	571,000	250,000	47,000	297,000	322,000	198,000	520,000
Tourism, Parks & Recreation	220,000	-	220,000	98,000	-	98,000	103,000	21,000	124,000
Transportation	203,000	19,000	222,000	233,000	111,000	344,000	127,000	32,000	159,000
Treasury Board	550,000	97,000	647,000	712,000	116,000	828,000	579,000	53,000	632,000
	<u>\$ 17,035,000</u>	<u>\$ 6,035,000</u>	<u>\$ 23,070,000</u>	<u>\$ 17,593,000</u>	<u>\$ 4,289,000</u>	<u>\$ 21,882,000</u>	<u>\$ 17,545,000</u>	<u>\$ 4,777,000</u>	<u>\$ 22,322,000</u>

Schedule 2

**Alberta Legislature
Office of the Auditor General
Other Performance Information**

GOAL ONE

1

Independent audits that confirm the reliability and relevance of financial and non-financial performance reporting to the Legislative Assembly

Performance measures	Target 2009-2010	Actual 2009-2010	Actual 2008-2009
Issuance of Reports			
1.a Issue our auditor's report on the consolidated financial statements of the Province by June 30th each year. ¹	By June 30, 2009	June 25, 2009	June 19, 2008
1.b Issue our auditor's report on the key performance measures included in Government of Alberta's Measuring Up by June 30th each year. ^{1,2}	By June 30, 2009	June 25, 2009	June 19, 2008
1.c The percentage of auditor's reports on financial statements for consolidated entities with March 31st year ends that we issue by July 15th each year.	100%	99%	100%
1.d The percentage of auditor's reports for entities (not reported on under 1.c) that we issue within 120 days of the entity's year end.	80%	78%	59%
1.e The percentage of review engagement reports on ministry performance information that we issue by September 15th each year. ²	100%	96%	95%
Budgets			
1.f The percentage of assurance auditing projects over 200 hours completed within 10% of budgeted costs.	90%	61%	66%
1.g The percentage of costs dedicated to assurance auditing.	% - High 70s	80%	79%
Professional Standards			
1.h Institute of Chartered Accountants of Alberta conclusion that Office's assurance audit practice meets auditing standards.	Standards Met	Standards Met	N/A

¹ Required by June 30th each year per s.10 of the *Government Accountability Act*.

² This is a new audit effective 2009-10. It was previously conducted as "Specified auditing procedures"

GOAL TWO **2** Solutions to improve government systems, including organizations' systems for identifying and managing their business risks

Performance measures	Target 2009-2010	Actual 2009-2010	Actual 2008-2009
Recommendations			
2.a The percentage of the Auditor General's primary recommendations accepted. ³	95%	90%	77%
2.b The number of the Auditor General's primary recommendations not implemented within 3 years of acceptance.	None	27	27
2.c Release the Auditor General's Annual Report in April and October of each year.	April & October 2009	April 20 & October 2, 2009	April 16 & October 2, 2008
Budgets			
2.d The percentage of costs dedicated to systems auditing.	% -Low 20s	20%	21%
Professional Standards			
2.e Canadian Council of Legislative Auditors conclusion that the Office's systems audit practice meets auditing standards. ⁴	Standards Met	N/A	N/A

³ Acceptance does not include recommendations accepted in principle, under review, and responded as policy matters outside the purview of the Auditor General.

⁴ This was a new measure introduced in 2008-09, but has been delayed at the national level.

CORPORATE INITIATIVES

Performance measures	Target 2009-2010	Actual 2009-2010	Actual 2008-2009
3.a The percentage of Members of the Legislative Assembly who believe our work is valuable. ¹	80%	N/A	94%
3.b The percentage of employees expressing satisfaction working for the Office. ²	85%	N/A	N/A
3.c The percentage of staff meeting Office targets for available time spent on core business functions. ³	100%	87%	93%
3.d Corporate operating costs as a percentage of total Office costs.	Less than 20%	16%	15%
3.e Staff turnover rate.	Less than 20%	15%	16%
3.f Pass rate of students in professional accounting programs compared to National average rate. ⁴	Exceed National average	N/A	Below National average - 63% (12/19)

¹ The survey will be conducted in 2010-11.

² The survey will be conducted in 2010-11.

³ The methodology annually limits each staff member to 25 hours of unassigned time and 100 hours for personal administration.

⁴ Effective September 2009 UFE and onward, the Office will no longer be able to implement the measure, as the National average or the similar Western Canadian (CASB) average, and the Alberta average were no longer being disclosed.



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