

Financial Statement Auditing

November 2018

Vision

Making a difference
in the lives of Albertans

Mission

Identifying opportunities
to improve the performance
of and confidence in the
public service

Values

We are committed to our mission and to achieving our vision. Our values guide us in our internal and external relationships:

Trust

We earn it with everything we say and do. We are accountable for our actions.

Respect

Everyone has the right to be heard and deserves to be treated with dignity and courtesy.

Diversity of thought

We encourage open minds, innovative thinking and constructive challenge.

Teamwork

With integrity, we work together to generate better solutions.

Growth

We view individual success as professional growth together with a fulfilling personal life. We value both.

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Summary of Recommendations

We conducted our audits in accordance with the *Auditor General Act* and the standards for assurance engagements as set out in the CPA Canada Handbook—Assurance.

This report contains five new and three repeated recommendations to government. The repeated recommendations have been made because we do not believe there has been sufficient action taken to implement our previous recommendations.

As part of the audit process, we provide recommendations to government in documents called management letters. We use public reporting to bring recommendations to the attention of Members of the Legislative Assembly. For example, members of the all-party Standing Committee on Public Accounts refer to the recommendations in our public reports during their meetings with representatives of government departments and agencies.

The auditor general is the auditor of every ministry, department and regulated fund, and most provincial agencies. Under the *Government Organization Act*, ministers are responsible for administering departments and provincial legislation. Deputy ministers are delegated responsibility to support the minister in his or her role, and to act as the chief operator of a department. Ministers may also establish any boards, committees or councils they consider necessary to act in an advisory or administrative capacity for any matters under the minister's administration. A minister is responsible for oversight of the work and actions of the department and any provincial agencies under his or her administration. However, we make our recommendations to departments and provincial agencies rather than to the minister directly, given the delegated operational responsibilities and that they are in the best position to respond to and implement our recommendations. With respect to recommendations related to ministerial oversight of a provincial agency, we generally make the recommendation to the department supporting and providing advice to the minister.

We believe all of the recommendations in this report require a formal public response from the government. In instances where a recommendation has been made to a board-governed organization, we expect the organization to implement the recommendation and report back to its respective government ministry as part of proper oversight of the organization.

Reporting the Status of Recommendations

We follow up on all recommendations. The timing of our follow-up audits depends on the nature of our recommendations. To encourage timely implementation and assist with the planning of our follow-up audits, we require a reasonable implementation timeline on all recommendations accepted by the government or the entities we audit that report to the government. We recognize some recommendations will take longer to fully implement than others, but we encourage full implementation within three years.

Typically, we do not report on the progress of an outstanding recommendation until management has had sufficient time to implement the recommendation and we have completed our follow-up audit work.

We repeat a recommendation if we find that the implementation progress has been insufficient.

We report the status of our recommendations as:

- Implemented—We explain how the government implemented the recommendation.
- Repeated—We explain why we are repeating the recommendation and what the government must still do to implement it.

On occasion, we may make the following comments:

- Satisfactory progress—We may state that progress is satisfactory based on the results of a follow-up audit.
- Progress report—Although the recommendation is not fully implemented, we provide information when we consider it useful for MLAs to understand management’s actions.

New Recommendations

Alberta Advanced Education

University of Calgary

Page 17

RECOMMENDATION:

Improve internal controls program to mitigate key financial risks

We recommend that the University of Calgary improve the design and effectiveness of its internal controls program to mitigate key financial risks.

Consequences of not taking action

An inadequate or ineffective internal controls program increases the university’s exposure to financial errors, financial loss and reputational damage.

Keyano College

Page 19

RECOMMENDATION:

Improve financial reporting processes—recommendation repeated

We again recommend that Keyano College improve its financial reporting by:

- training staff on Canadian public sector accounting standards
- improving its monitoring and reviewing process to ensure that financial information is accurate

Consequences of not taking action

Without effective controls over its financial reporting processes, management and the board will not have reliable financial information on which to base their decisions.

Keyano College

Page 20

RECOMMENDATION:**Improve systems to ensure compliance with legislation—recommendation repeated**

We again recommend that Keyano College implement systems to:

- understand what legislation it must comply with
- develop appropriate policies, procedures, and controls to ensure compliance with legislation
- monitor and report non-compliance to senior management and the audit committee

Consequences of not taking action

Without a clear process to ensure it complies with legislation, an institution faces significant financial, operational, legal, and reputational risks.

Alberta Economic Development and Trade

Page 45

RECOMMENDATION:**Improve financial reporting system controls**

We recommend that Alberta Innovates improve user access controls and segregate incompatible duties within the financial reporting system.

Consequences of not taking action

Without appropriate internal controls over user access and segregation of incompatible duties, Alberta Innovates risks unauthorized system changes and undetected fraud and error.

Alberta Education

Page 53

RECOMMENDATION:**Improve monitoring, assessing, and reporting processes on school jurisdictions' accumulated reserve balances**

We recommend that the Department of Education improve its processes to monitor, assess, and report on school jurisdictions' accumulated operating reserves.

Consequences of not taking action

Without adequate monitoring and reporting processes over the financial health of school jurisdictions, the department cannot take the actions necessary to ensure funding is appropriately aligned with the changing needs of school jurisdictions, likely resulting in sub-optimal outcomes for students, parents, and teachers.

Alberta Energy

Page 69

RECOMMENDATION:
Improve controls over the cash-flow model

We recommend that the Alberta Petroleum Marketing Commission implement stronger access and change-management control procedures to ensure that access and changes to the financial model are working in a controlled and consistent manner

RECOMMENDATION:
Improve controls over the cash-flow model

We recommend that the Alberta Petroleum Marketing Commission improve its method for supporting, updating, and documenting assumptions and key judgements applied to its model analysis.

Consequences of not taking action

Without good access and change-management controls, uncontrolled changes could introduce failures in the model and impair the quality of model outcomes.

Without a good process and documentation for management’s reasoning, assumptions, and judgements, the underlying process may be perceived as not transparent, and management may be challenged in defending its decisions. A sound and well evidenced process also demonstrates how the risk of bias is appropriately minimized in the financial model.

Alberta Health

Alberta Health Services

Page 88

RECOMMENDATION:
Fees and charges—recommendation repeated

We again recommend that Alberta Health Services:

- reinforce its admission policies to ensure consistent application
- review its controls over the processes that generates fees and charges revenue to ensure they are appropriately designed, consistent across regions and aligned with current policies

Consequences of not taking action

If Alberta Health Services employees do not fully understand admissions information, patients may not be billed appropriately.

Implemented Recommendations

Alberta Advanced Education

Athabasca University

Original: October 2010, no. 1, p. 111

Repeated: October 2013, no. 9, page 96

Repeated: October 2016, no. 99, p. 66

Implemented: November 2018, Financial Statement Auditing, p. 17

RECOMMENDATION:

Establish information technology resumption capabilities

We again recommend that Athabasca University:

- assess the risks and take the necessary steps to establish appropriate off-site disaster recovery facilities that include required computer infrastructure to provide continuity of critical IT systems
- complete and test its existing disaster recovery plan to ensure continuous services are provided in the event of a disaster

Alberta Agriculture and Forestry

Agriculture Financial Services Corporation

Original: October 2016, p. 75

Implemented: November 2018, Financial Statement Auditing, p. 27

RECOMMENDATION:

Ensure compliance with established protocols

We recommend that the Agriculture Financial Services Corporation:

- ensure that agreements between AFSC and its employees comply with the corporation's established policies. If deviations from policies are necessary, adequate justification and support should be documented
- improve its training policy and reimbursement agreements to make them more specific and in line with the guidance by Government of Alberta Corporate Human Resources
- consider recovering expenses that do not comply with AFSC's policies

Alberta Economic Development and Trade

Alberta Innovates

Original: October 2017, Financial Statement Auditing, p. 44

Implemented: November 2018, Financial Statement Auditing, p. 45

RECOMMENDATION:
Improve financial reporting processes

We recommend that Alberta Innovates improve its financial reporting processes by implementing effective internal controls and quality review processes to ensure accurate and complete financial reporting.

Alberta Education

Original: October 2017, Financial Statement Auditing, p. 51

Implemented: November 2018, Financial Statement Auditing, p. 53

RECOMMENDATION:
Improve controls over tracking and reporting cost obligations for school construction projects

We recommend that the Department of Education improve controls over tracking and reporting cost obligations for school construction projects.

Alberta Health

Alberta Health Services

Original: October 2009, no. 32, p 271

Implemented: November 2018, Financial Statement Auditing, page 85

RECOMMENDATION:
Capital project monitoring systems

We recommend that Alberta Health Services improve the efficiency and effectiveness of its financial capital project monitoring and reporting systems and processes by:

- implementing common systems, policies and procedures to track and monitor key financial information
- providing relevant, timely and accurate information to Executive Management and the Audit and Finance Committee

Original: October 2009, no. 29, p. 262

Repeated: October 2014, no. 17, p. 138

Implemented: November 2018, Financial Statement Auditing, page 66

RECOMMENDATION:

Information technology control policies and processes

We again recommend that Alberta Health Services:

- develop an information technology control framework, including appropriate risk management processes and controls, for the management of its information technology resources
- monitor compliance with security policies, implementing effective change management processes and improving passwords controls

Alberta Municipal Affairs

Original: October 2015, no. 16, p. 144

Implemented: November 2018, Financial Statement Auditing, page 119

RECOMMENDATION:

Improve systems for updating the estimated disaster recovery program liability

We recommend that the Department of Municipal Affairs develop and implement an improved method for updating and supporting its estimated disaster recovery program liability.

Alberta Seniors and Housing

Alberta Social Housing Corporation

Original: October 2013, no. 11, p. 145

Implemented: November 2018, Financial Statement Auditing, page 125

RECOMMENDATION:

Review housing management body cash reserve policy

We recommend that the Alberta Social Housing Corporation review the housing management body cash reserve policy to determine if the policy continues to meet its objective of providing appropriate short-term operational cash flow requirements to the housing management bodies.

Original: October 2017, Financial Statement Auditing, p. 113
Implemented: November 2018, Financial Statement Auditing, page 125

RECOMMENDATION:
Improve change management control procedures

We recommend that the Alberta Social Housing Corporation improve and implement change management control procedures to ensure changes to the information systems within its computing environment are implemented in a controlled and consistent manner.

Service Alberta

Original: October 2008, p. 346
Implemented: November 2018, Financial Statement Auditing, page 129

RECOMMENDATION:
Access and security monitoring of the revenue application systems

We recommend that the Department of Service Alberta ensure adequate logging and monitoring processes are in place in all application systems that host or support financial information and Albertans' personal information.

Alberta Treasury Board and Finance:

ATB Financial

Original: October 2009, page 227
Repeated October 2014, no. 26, page 202
Implemented: November 2018, Financial Statement Auditing, page 143

RECOMMENDATION:
Service auditor reports

We again recommend that ATB Financial improve its processes related to service providers by ensuring its business areas:

- receive service provider audit reports
- review service provider audit reports and assess the impact of identified internal control weaknesses
- put end user controls in place to complement service provider controls

Original: October 2012, no. 31, page 149
Implemented: November 2018, Financial Statement Auditing, page 144

RECOMMENDATION:
Payment card industry

We recommend that ATB Financial put in place processes to monitor its compliance with the Payment Card Industry's requirements.

2017–2018 Consolidated Financial Statements for the Province of Alberta

The Government of Alberta prepares financial statements and makes them public to inform Albertans about the province's financial performance. The Office of the Auditor General audits the consolidated financial statements of the Province of Alberta and the financial statements of every ministry, government department, regulated fund, and most provincial agencies.

An audit is the collection and evaluation of evidence about the fairness of financial statements. By obtaining this evidence, the auditor general is able to provide a high level of assurance to Albertans about whether the financial statements prepared by management are fairly presented and free from material misstatements. An audit includes assessing where errors (misstatements) could occur in the financial statements, testing management's internal control over financial information, and performing additional audit procedures.

The audit, and the auditor's report, adds credibility to the financial statements by telling Albertans whether the financial statements are reasonable. This auditing does not mean that the auditor general examines every transaction or guarantees that the financial statements are error free. Millions of transactions are summarized into the province's financial statements. Audits, therefore, necessarily focus on areas of risk and on the places where errors that matter to users' understanding of the financial statements as a whole are likely to occur.

On June 19, 2018, we issued our unqualified independent *Auditor's Report on the 2017–2018 Consolidated Financial Statements for the Province of Alberta*. We had issued unqualified auditor's reports on the financial statements of all the other entities that we audit. The province's consolidated financial statements account for the full nature and extent of the financial affairs and resources that the government controls and provide a comprehensive view of the revenues that the province earned, its spending on various programs for 2017–2018, and its financial position at fiscal year end.

From our perspective, a key item within the province's audited 2017–2018 consolidated financial statements is net debt. Net debt is the difference between the government's financial assets and liabilities and shows the government's requirement to generate future revenues to pay for past services. The overall net debt position increased from \$8.9 billion in fiscal 2017 to \$19.3 billion at March 31, 2018 (page 35, *Government of Alberta 2017–2018 Annual Report*).

