

Aboriginal Relations

SUMMARY

DEPARTMENT

Matters from the current audit

We recommend the Department of Aboriginal Relations improve its financial reporting estimation processes.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from the current audit

Estimation processes

Background

In preparing the ministry's financial reporting, department management must estimate the value of some balances for which complete information is not available at the time. Reasonable estimates require good judgment and strong estimation processes to gather, understand and analyze the best information available. Management must also retrospectively examine these estimates and adjust their value when better information becomes available. The process of reviewing and adjusting estimates should also help management identify ways to make more precise estimates in the future.

Historically, the department's valuation estimates are simple, with the exception of potential liabilities related to legal claims. For these complex estimates, the department relies on analysis from the Ministry of Justice.

During the year, the department was responsible for managing the province's recovery efforts on First Nations lands affected by the 2013 Alberta flooding. The department had to estimate expected total flood recovery costs related to First Nations and determine which costs were eligible for reimbursement from the Government of Canada under the Disaster Financial Assistance Arrangements (DFAA) guidelines or directly with Aboriginal Affairs and Northern Development Canada. The department's estimates were based in large part on the Department of Municipal Affairs' analysis of flood recovery costs elsewhere in the province.

RECOMMENDATION 14: IMPROVE ESTIMATION PROCESSES

We recommend that the Department of Aboriginal Relations improve its financial reporting processes to ensure its estimates are reliable and supportable.

Criteria: The standards for our audit

The department should have processes in place to obtain, understand and analyze information management uses to make valuation estimates in its financial reporting.

Our audit findings

KEY FINDINGS

- The department's processes to obtain, understand and analyze information to make reliable estimates are incomplete. For complex estimates, management relied solely on the work of specialists in other departments.
- The ministry's draft 2014 financial statements required material adjustments to estimates related to the 2013 Alberta flooding.

Management's ability to make reliable and supportable estimates was significantly weakened by the department's lack of formal estimation processes. The department did not have processes in place to assess the unique and complex nature of estimates such as those related to the 2013 Alberta flooding. Consequently, management had to make material adjustments to their estimates when they finalized the ministry's financial reporting.

The department did not have processes to ensure that managers had gathered all relevant information to make a reliable estimate. The department, the Department of Municipal Affairs and First Nations developed by April 2014 a project charter that defined the scope of flood recovery efforts on the Stoney Nakoda and Siksika First Nations. Although the document identified the entities' general responsibilities, it did not state how they would share information with each other.

During the year, a program area within the department received cost estimate information from the Department of Municipal Affairs and did its own substantial analysis on that information. However, we found two problems with the department's use of this information:

- Management in the program area that first received the information did not share the information itself, or their subsequent analysis of it, with the department's finance branch.
- Management did not adequately understand or seek to understand the information they received from the Department of Municipal Affairs. For example, management did not know that some First Nation homes to be rebuilt under the program were not eligible for full cost recovery under federal DFAA guidelines.

This complete understanding is important to ensure that management has accurate and complete information to support the estimate and to adjust it, if necessary, as new information becomes available. This understanding is also critical to the department's ability to identify that all amounts eligible for reimbursement are properly supported and recovered under federal programs.

The department did not clearly document its estimation methods and assumptions. Clear documentation helps formalize management's process on how the estimate was determined. That understanding in turn helps them to adjust their methods and change their assumptions when new information becomes available. The department relied heavily on the Department of Municipal Affairs as a specialist in compiling cost information and determining the methodology and assumptions for their estimates. Management did not have adequate processes to ensure they understood the key variables the Department of Municipal Affairs used, and whether the analysis provided could be relied on for the department's estimates. The department must have processes to understand and conclude it can apply a specialist's analysis as their own, based on a complete understanding of the best information available.

The department has no formal process to update estimates based on actual experience. Actual experience will either confirm or challenge management's assumptions for the original estimate.

Processes must be in place to:

- ensure the department gathers and verifies the information it relies on for estimates
- periodically reassess the reasonability and completeness of its financial reporting estimates and disclosures

Implications and risks if recommendation not implemented

Regardless of the complexity of the estimate to be made, management is at risk of making improper conclusions if processes are not in place to appropriately obtain, understand and analyze the information used to make estimates. This may materially impact the financial reporting that the ministry and outside users rely on in their decision making.

OUTSTANDING RECOMMENDATIONS

The following recommendations are outstanding and not yet ready for follow-up audits:

Formalize and communicate interpretation of eligible uses—July 2013, no. 1, p. 23

We recommend that the Department of Aboriginal Relations formalize and communicate its interpretation of eligible uses of funds.

Improve review process—July 2013, no. 2, p. 24

We recommend that the Department of Aboriginal Relations improve its processes to review and approve grant applications by:

- formalizing the additional review processes it developed for complex grant applications
- consistently obtaining sufficient information to support its assessment of grant applications

Monitor for and correct non-compliance—July 2013, no. 3, p. 26

We recommend that the Department of Aboriginal Relations improve monitoring processes by consistently ensuring First Nations comply with reporting requirements and acting to correct non-compliance with the grant agreement.

