

# Aboriginal Relations

## SUMMARY

### DEPARTMENT

#### Matters from the prior audits

We again recommend that the Department of Aboriginal Relations improve its financial reporting processes—see below

## FINDINGS AND RECOMMENDATIONS

### DEPARTMENT

#### Matters from prior audits

#### Estimation processes—repeated

##### Background

In 2014 we recommended that the department improve its financial reporting processes to ensure estimates are reasonable and reliably supported.<sup>1</sup>

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 majority of the department's valuation estimates are simple in nature. The department is responsible for managing the province's recovery efforts on First Nations lands affected by the 2013 Alberta flooding. Department management based its original flood recovery cost estimates in large part on analysis by the departments of Municipal Affairs and Seniors of flood recovery costs elsewhere in the province.

In 2014 we found that 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. The department did not have processes to ensure that management had gathered all information relevant to make a reasonable estimate to account for the 2013 Alberta flooding. The department estimated the total expense for flood recovery on First Nations land to be \$193 million, of which \$164 million is eligible for federal disaster assistance funding.

We repeat this recommendation because the department's processes are still incomplete to make reasonable and properly supported estimates.

#### **RECOMMENDATION 7: IMPROVE FINANCIAL REPORTING PROCESSES—REPEATED**

We again recommend that the Department of Aboriginal Relations improve its financial reporting processes to ensure its estimates are reasonable and properly supported.

<sup>1</sup> *Report of the Auditor General of Alberta—October 2014*, no. 14, page 109.

**Criteria: The standards for our audit**

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

**Our audit findings****KEY FINDINGS**

- The department obtained new information during the fiscal year related to expected costs for 2013 flood recovery projects on First Nations land.
- The department did not formally analyze throughout the fiscal year if the new information required changes to the estimation methods and assumptions applied in the original cost estimate.
- The department did not document its analysis and conclusions on required contingencies and costs eligible for federal disaster recovery program assistance, based on up-to-date information.
- Analysis prepared during the financial statement audit by management reasonably supported no material adjustments to the year-end estimate.

In fiscal 2015, the department obtained new data on estimated costs to recover properties on First Nations land damaged in the 2013 flood. Most recovery projects were still in the planning stage during the year. The department executed some recovery projects and made payments on the actual costs incurred. The department is using this new information when entering into agreements with contractors to perform future recovery work. Management concluded based on this information that changes to original cost estimates are not required.

While the department was able to obtain new cost information during the year, it did not prepare documented analysis to assess if the new cost information required changes to the estimation methods and assumptions applied in the original cost estimate. Actual experience either confirms or challenges management's assumptions for the original estimate. As the department relied significantly on specialists when determining the original estimate, careful continuous analysis is required to identify when changes to the methods and assumptions are required and if additional specialist support is required in making new estimates.

The department's original cost estimate included a contingency figure given the measurement uncertainty of the valuation of the estimated costs. As the department obtains new cost information over time, it must refine its conclusion on the amount of the contingency, if any, that is still required. Management could not provide any analysis it has made throughout the year of the required contingency based on new information obtained.

The department's original cost estimate also included anticipated costs eligible for assistance under the Government of Canada Disaster Financial Assistance Arrangements guidelines or directly with Aboriginal Affairs and Northern Development Canada. The department's understanding of what costs will be eligible for federal assistance is critical to communicating the amount of the flood recovery Albertans will fund solely. Management was unable to provide an analysis of how new cost information obtained from the year changes the original estimates of costs eligible for federal assistance, if at all.

Management prepared analysis on overall cost, contingencies and eligible federal assistance when requested during our audit of the department's financial statements. Based on our examination, we identified no material differences in the analysis, considering the measurement uncertainty disclosures made in the department's financial reporting.

The department must continually assess its outstanding flood liabilities and recoveries throughout the year and have the ability to adjust the balances if needed, as new information becomes available. Management's decisions on the 2013 flood recovery projects and estimated expected costs risk being incorrect if they do not consider all the best information available at the time.

The department must have complete processes to:

- gather and verify the information it relies on for updating original 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. Estimates are often material to the decision making of users of the ministry's financial reporting.

## OUTSTANDING RECOMMENDATIONS

The following recommendation is outstanding and not yet ready for a follow-up audit:

**Improve financial reporting processes—October 2015, no. 7, p. 69**  
(Originally October 2014, no. 14, p. 109)

We again recommend that the Department of Aboriginal Relations improve its financial reporting processes to ensure its estimates are reasonable and properly supported.

Management has identified these recommendations as implemented—to be confirmed with a follow-up audit:

**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.

