

Indigenous Relations

SUMMARY

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

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from prior audits

Estimation processes—repeated

BACKGROUND

In 2014¹ we recommended that the department improve its financial reporting processes to ensure estimates are reasonable and reliably supported. We repeated this recommendation in 2015.²

Management within the department must estimate the value of some financial statement balances for which complete information is not available at the time. Making estimates requires good judgment and strong 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. While estimates in the department are typically simple in nature, the department is responsible for managing the province's recovery efforts on First Nations lands affected by the 2013 Alberta flood. The department must update estimated flood recovery costs and liabilities and determine which costs continue to be eligible for reimbursement from the Government of Canada. The department also makes payments toward flood projects during the year. The process of regularly reviewing and adjusting estimates helps management make more precise estimates in the future.

We found in 2014 that the department did not have processes in place to assess the unique and complex nature of certain estimates. The department did not have processes to ensure that management had gathered all information relevant to making a reasonable estimate to account for the cost of the 2013 Alberta flood. We found during our 2015 follow-up that the department had improved gathering new information on flood costs. However, the department did not formally analyze if new information it received throughout the fiscal year changed estimation methods and assumptions applied in the original cost estimate. The department also did not document, using up-to-date information, its analysis and conclusions throughout the year on required contingencies and costs eligible for federal disaster recovery program assistance.

We again repeat our recommendation as department management cannot support with documented evidence that it analyzed and concluded on the reasonableness of estimates throughout the fiscal year.

RECOMMENDATION 18: IMPROVE FINANCIAL REPORTING PROCESSES—REPEATED

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

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

² *Report of the Auditor General of Alberta—October 2015*, no. 7, page 69.

CRITERIA: THE STANDARDS FOR OUR AUDIT

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

OUR AUDIT FINDINGS**KEY FINDING**

The department has not documented throughout the year its analysis and conclusions that significant estimates are accurate and complete.

Management continues to make improvements to its estimation process. We found this year that management put in place processes to obtain and share information from specialists and other departments. Management accomplished the sharing of information through various meetings between three management groups as evidenced through documented meeting minutes. The management groups consist of finance staff, assistant deputy ministers and deputy ministers from the departments involved with the recovery work. Budget forecasts are prepared regularly and communicated between the management groups. Management adjusted estimated cost reimbursements from the Government of Canada by using information on the extent of damages to residences. The information came from additional inspections performed by the Alberta Emergency Management Agency.

Management could not provide documentation of its analyses and conclusions completed throughout the year to support decisions on the estimates, such as adjustments to the receivable from the Government of Canada for flood reimbursements. Management completed this analysis and recorded adjustments after year end. The risk to the department by not assessing throughout the year is that decisions may be incorrect if management does not consider all the best information available at the time. Based on our examination during the financial statement audit, we identified no material differences in the year-end analysis, considering the measurement uncertainty disclosures made in the department's financial reporting.

Management could also not provide documented evidence of a retrospective examination of estimates to identify whether adjustments were required during the year. Management should assess actual work completed and the associated costs to help identify adjustments or confirm the validity of the remaining estimate.

The department should have complete processes throughout the year 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 risks 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 processes used in 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 2016, no. 18, p. 125

(originally October 2014, no. 14, p. 109, repeated October 2015, no. 7, p. 69)

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

