

Treasury Board and Finance

SUMMARY

DEPARTMENT

Matters from the current audit

Treasury Board and Finance—Compliance systems for unfiled corporate income tax returns
—see page 156

Matters from prior audits

Treasury Board and Finance—Air Transportation Services Program Follow-up—see page 63

The department implemented our recommendation related to compensation disclosure for seconded executives—see page 157.

ALBERTA GAMING AND LIQUOR COMMISSION

Matters from the current audit

There are no new recommendations to the Alberta Gaming and Liquor Commission in this report.

ALBERTA INVESTMENT MANAGEMENT CORPORATION

Matters from the current audit

There are no new recommendations to the Alberta Investment Management Corporation in this report.

Matters from prior audits

We provide a progress report on an outstanding recommendation from a prior audit—starting on page 158

ATB FINANCIAL

Matters from the current audit

There are no new recommendations to ATB Financial in this report.

Matters from prior audits

ATB Financial implemented our recommendation related to IT risk assessments—see page 158.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Compliance systems for unfiled corporate income tax returns

Background

The Tax and Revenue Administration division of the Department of Treasury Board and Finance is responsible for ensuring corporations file their tax returns within six months of their tax year-end, unless the corporation is exempt from doing so.¹ Corporations are charged a penalty if they file returns late or not at all, or if they do not pay outstanding taxes when required.

As of November 2014, the TRA assigns a risk score to corporations which have not filed their returns. Supervisors assign high-risk files to filing compliance officers to contact corporations to file their returns. The TRA can issue a demand to a corporation, its officers or directors to file a return, and can estimate the corporation's tax payable if the demand or requests are ignored. This process is known as default assessment.

RECOMMENDATION 17: IMPROVE COMPLIANCE SYSTEMS FOR UNFILED CORPORATE INCOME TAX RETURNS

We recommend that the Department of Treasury Board and Finance improve its compliance systems to deal with unfiled corporate income tax returns.

Criteria: the standards we used for our audit

The department should:

- have comprehensive policies and procedures to ensure corporations file returns as required
- monitor and analyze its inventory of unfiled returns to determine the appropriate steps to take, including issuing demands and default assessments
- periodically monitor the filing compliance officers' inventory to ensure that they are taking appropriate steps to encourage corporations to file their returns

Our audit findings

KEY FINDINGS

The TRA does not:

- have strategies to deal with outstanding tax returns—some are more than eight years in arrears
- use default assessments to require corporations to file returns and pay any owed taxes
- have comprehensive management reports that contain key information to oversee filing compliance activities
- monitor filing compliance officers' work sufficiently

The TRA implemented a new risk scoring system in November 2014 and closed a large number of files which it considered to be low risk. However, there still are a significant number of outstanding corporate tax returns—some dating back more than eight years. The TRA either continues to follow up with these corporations or awaits information from the Canada Revenue Agency in order to close these outstanding files.

Policies and procedures

The TRA does not have comprehensive policies and processes to ensure corporations file their returns or to issue a default assessment as allowed by the *Alberta Corporate Tax Act*. Such policies and

¹ *Corporate Income Tax Act*, Section 36.

processes should include criteria to determine when to issue demands or default assessments, outline roles and responsibilities to review and approve actions, indicate how to calculate default assessments, and specify the collection actions that should be taken.

Management reports

The TRA management reviews a monthly report that includes an aged breakdown of the filing inventory, the number of new unfiled returns, the number of files that filing compliance officers closed, the number of returns filed by corporations, and the number of files that the system automatically closed. The report does not contain information on the risk ranking for files or actions on long outstanding files to allow management to determine if compliance activities are effective or whether changes are required to policies and resources.

Monitoring compliance officers' work

The TRA's processes to monitor compliance officer actions regarding unfiled returns need improvement. Supervisors review all files that compliance officers with less than three-months experience process. As filing compliance officers gain experience and process files appropriately, supervisors reduce their file review until they no longer review these files. The only other review that supervisors perform is a review of the inventory to determine if filing compliance officers are meeting their targets for closing files. This review is conducted to replenish the inventories of the filing compliance officers; not to ensure compliance officers are taking appropriate action so that corporations file their tax returns.

Furthermore, the TRA's IT system has built-in controls to automatically notify the supervisor when certain criteria or conditions on a particular file are met. The TRA has configured several of these automated controls, but could further enhance this to ensure the compliance processes are more efficient and effective. For example, enabling an automated control to route files to supervisors if a compliance officer has not made a recommendation for action on a work item would be an improvement.

Implications and risks if recommendation not implemented

The department will not take appropriate actions to ensure corporations file their returns and pay corporate taxes owing.

Compensation disclosure for seconded executives—implemented

Background

In 2008² we found that not all seconded executive salaries were disclosed. In a seconded arrangement the seconded executive continues to receive their salary from their employer. The government department reimburses the employer for the salary while the executive is seconded to the government department.

Our audit findings

The Alberta Interchange Secondment Agreement template, which the seconded employee agrees to, was amended to allow the government department to disclose in its financial statements the amount reimbursed to the employer.

The circumstances that this recommendation applies to are rare. Management could not identify an instance where the agreement has been used. Therefore, we were unable to test that it was applied in

² *Report of the Auditor General of Alberta—October 2008*, unnumbered, page 371.

practice. We concluded that the recommendation is implemented as the department amended the template. We will test for compliance with the new process the next time an executive, to whom the compensation disclosures would otherwise apply, is seconded to a department.

ALBERTA INVESTMENT MANAGEMENT CORPORATION

Matters from prior audits

Valuing investments in life settlements—progress report

In 2014³ we recommended that AIMCo ensure that its Statement of Investment Valuation Principles and Practices is applied when valuing and accounting for its life settlement investments.

AIMCo engaged a public accounting firm to assess the methodology used to value life settlements. The firm reached similar conclusions to those we reported last year including:

- day-one gains were recognized without the appropriate support required under IFRS
- the discount rate did not reflect the current market yield
- life expectancy assumptions were not updated

In December 2014 AIMCo revalued the portfolio by approximately \$437 million. This revaluation accounted for the reversal of previously recognized day-one gains and adjusting the discount rates used to the internal rates of return inherent in the purchase price of the policies. The revaluation also accounts for the effect of adjustments made to the mortality tables of one of the underwriters, as well as new medical underwriting for a portion of the portfolio policies.

We reviewed AIMCo's new life settlement valuation methodology and concluded that overall it is reasonable. To finish implementing this recommendation AIMCo still needs to establish a method of updating the discount rate in the future for changes in market yield. AIMCo also must finish updating the medical underwriting on the balance of policies in the portfolio.

We plan to follow up and report whether this recommendation has been fully implemented during the 2015–2016 audit.

ATB FINANCIAL

Matters from prior audits

IT Risk assessments—implemented

Background

In 2013⁴ we recommended that ATB put in processes to identify, assess and remediate or accept IT risks. Effective risk management is important to ensure that ATB identifies and manages the IT risks it is exposed to. This allows ATB to develop and implement effective policies, procedures and controls to mitigate those risks.

Our audit findings

ATB implemented our recommendation by establishing an IT risk management process.

In 2014 ATB conducted an IT risk assessment by interviewing senior management across its key business areas to understand the current state of IT risk management. It then assessed the impact and likelihood of identified IT risks and identified controls to mitigate these risks. A risk registry was prepared to define the risk assessment results. Key control procedures were defined.

³ *Report of the Auditor General of Alberta—October 2014*, no. 25, page 199.

⁴ *Report of the Auditor General of Alberta—October 2013*, no.12, page 156.

ATB also developed a new initiative risk assessment process to evaluate new (or changes to) products, services or strategies that could alter the IT risk profile of ATB. The process requires ATB to assess the risks associated with new initiatives, as well as ensure appropriate controls and monitoring tools are in place to mitigate risks. ATB's operational risk committee provides oversight of this process.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

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

Chief executive officer compensation disclosure—October 2008, no. 3, p. 32

We recommend that the Treasury Board and Finance consider applying the new private-sector compensation-disclosure requirement to the Alberta public sector.

Improve ministry annual report processes—July 2012, no. 10, p. 65

We recommend that the Department of Treasury Board and Finance work with ministries to improve annual report:

- preparation processes for identifying significant performance measure variances and developing explanations for these variances for reporting
- approval processes, including senior management sign-off of a summary of the year's performance measure variances and significant variance assessments

Improve performance measure reporting guidance and standards—July 2012, no. 11, p. 67

We recommend that the Department of Treasury Board and Finance improve its guidance for:

- performance measure target setting
- variance identification
- significant performance measure variance assessments and annual report explanation development
- preparing the results analysis

Policies designed to achieve plan objectives—February 2014, no. 1, p. 24

We recommend that the Department of Treasury Board and Finance set standards for the public sector pension plan boards to establish funding and benefit policies with:

- tolerances for the cost and funding components
- alignment between plan objectives and benefit, investment and funding policies
- pre-defined responses when tolerances are exceeded or objectives are not met

Risk management system—February 2014, no. 2, p. 26

We recommend that the Department of Treasury Board and Finance establish an Alberta public sector pension plan risk management system to support the minister in fulfilling his responsibilities for those plans.

Sustainability support processes—February 2014, no. 3, p 28

We recommend that the Department of Treasury Board and Finance:

- validate the objectives for the pension plan sustainability review with stakeholders
- evaluate and report on how each proposed change meets the objectives for the review
- cost and stress-test all proposed changes to assess the likely and possible future impacts on Alberta's public sector pension plans
- conduct or obtain further analysis of the impact of proposed pension plan design changes on employee attraction and retention
- prepare a detailed implementation plan for the changes

Results analysis reporting: Guidance, training and monitoring needed—July 2014, no. 1, p. 18

We recommend that the Department of Treasury Board and Finance, working with the Deputy Ministers' Council, improve:

- the guidance and training for ministry management to identify, analyze and report on results in ministry annual reports
- processes to monitor ministry compliance with results analysis reporting standards

Collection of outstanding corporate taxes: Maintain policies and train staff

—October 2014, no. 6, p. 51

We recommend that the Department of Treasury Board and Finance:

- update and maintain its policies and procedures for tax compliance officers
- review its training program to ensure it provides relevant and ongoing training to tax compliance officers

Collection of outstanding corporate taxes: Develop internal and external performance measures and targets—October 2014, no. 7, p. 52

We recommend that the Department of Treasury Board and Finance develop comprehensive performance measures and targets for tax collections and determine which to report publicly.

Collection of outstanding corporate taxes: Improve management information and analyze data periodically—October 2014, no. 8, p. 54

We recommend that the Department of Treasury Board and Finance:

- update its management reports to include additional information on the status of tax collection files and the success of its various collection activities
- periodically analyze the characteristics of the corporate taxes outstanding to identify potential changes to legislation, policies and collections strategies
- deal with the backlog of files submitted for write-off and low value accounts

Enterprise risk management systems—October 2014, no. 22, p. 194

We recommend that the Department of Treasury Board and Finance update and follow its enterprise risk management system by identifying, monitoring, communicating and appropriately mitigating relevant risks.

Improve access controls over the tax and revenue administration systems

—October 2014, no. 23, p. 195

We recommend that the Department of Treasury Board and Finance improve the security of its tax and revenue information systems to ensure that it:

- assigns access based on job roles and responsibilities
- defines, monitors and enforces its rules for segregation of duties
- periodically reviews if access to its systems remains appropriate

Corporate tax refunds—October 2014, no. 24, p. 197

We recommend that the Department of Treasury Board and Finance approve tax refunds before making payments in accordance with the requirements of the *Financial Administration Act*.

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

Public agencies: Disclosure of termination benefits paid—October 2009, no. 2, p. 29

We recommend that the Ministry of Treasury Board and Finance increase transparency of termination benefits by adopting disclosure practices for Alberta public agencies that disclose termination benefits paid.

Oversight of premier's office expenses and use of government aircraft—August 2014, no. 1, p. 19

We recommend that the Treasury Board:

- establish a process to provide oversight through monitoring of the Office of the Premier's expenses and usage of government aircraft
- consider what type of oversight should be used for the expenses of ministers' offices

ALBERTA INVESTMENT MANAGEMENT CORPORATION

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

Help clients meet financial reporting requirements—October 2010, no. 17, p. 156

We recommend that Alberta Investment Management Corporation identify financial reporting requirements in its investment management agreements with clients. The Alberta Investment Management Corporation should meet with the clients to understand their financial reporting frameworks, their financial accounting requirements and the investment-related information they need to prepare financial statements.

Valuing investment in life settlements—October 2014 no. 25, p. 199

We recommend that Alberta Investment Management Corporation ensure that its Statement of Investment Valuation Principles and Practices is applied when valuing and accounting for its life settlement investments.

ATB FINANCIAL

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

Payment card industry—October 2012, no. 31, p. 149

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

Borrower risk ratings—October 2013, no. 14, p. 158

We recommend that ATB Financial fix the borrower risk ratings in the banking system.

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

Service auditor reports—October 2014, no. 26, p. 202

(Originally October 2009, p. 227)

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