



# Results Report for the Year Ended March 31, 2018

Office of the Auditor General of Alberta

The Independent Audit Office of the Legislative Assembly of Alberta



## Our Vision

Making a difference in the lives of Albertans.



## Our Mission

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



## Our Values

We are committed to our mission, and to achieving our vision. We use our values to 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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# Transmittal Letter

Mr. David Shepherd, MLA  
Chair  
Standing Committee on Legislative Offices

## **Office of the Auditor General of Alberta Results Report for the Year Ended March 31, 2018**

I am honoured to send you this report on the operations of the office for the fiscal year April 1, 2017 to March 31, 2018.



Auditor General  
Edmonton, Alberta  
June 26, 2018

# Accountability Statement

This results report of the Office of the Auditor General of Alberta summarizes and analyzes the work of our office for the fiscal year ended March 31, 2018.

In this report we explain how we used Albertans' money as the independent auditor of the Government of Alberta. We are reporting against our 2017–2018 business plan, which included our office's strategies and plans for fiscal 2018.

We believe this results report, which includes our independently audited 2017–2018 financial statements, presents our operations and results in a complete, fair and balanced manner.



W. Doug Wylie FCPA, FCMA, ICD.D  
Auditor General  
June 26, 2018



Ruth McHugh MBA, FCPA, FCMA, ICD.D  
Chief Operating Officer  
June 26, 2018



Photos by Paul Buckingham

# Serving the Public Interest

## Who We Are

We are an office of 150 people mandated by the *Auditor General Act* to examine and report publicly on the government of Alberta's management of the public resources entrusted to it.

The auditor general is the auditor of every ministry, department, regulated fund and most provincial agencies—139 entities for 2017. We audit the financial statements and selected management control systems and processes. Occasionally, at the request of an organization we audit, we may also research or advise on a proposed course of action.

## What We Do

We audit so we can report on how well government is managing the province's resources. Where necessary, we make recommendations for improvement.

Our **financial statement audits** provide independent opinions on whether each organization's financial statements are presented fairly and are free of material errors, misstatements or omissions. Each June we issue an auditor's report on the province's consolidated financial statements, encompassing every ministry, department, regulated fund and most provincial agencies.

Our **performance audits** assess the quality of the systems designed to deliver efficient and cost effective provincial programs and services. Our role includes providing an objective and independent view on whether government is reporting on the results achieved using Alberta's resources.

We look at the work of government through the lens of Albertans, and apply our professional expertise to provide conclusions on whether systems are working well and achieving the desired results. Where we find systems are not working as well as they could, we provide recommendations for improvement. These improvements aim to help the government succeed in delivering what it has set out to do for the people of Alberta.

## Who We Serve

We report directly to the 87 Members of Alberta's Legislative Assembly, and through them we serve the 4.3 million people who call Alberta home.

## How We Report on Our Work

Our auditor's reports accompany the financial statements of most government organizations and are included in the annual reports published by ministries and their related entities. These reports provide the auditor general's opinion on whether management's financial statements are presented fairly in accordance with the appropriate standards.

We make our audit findings and recommendations public in auditor general reports to the Legislative Assembly. Once the Government of Alberta has acted on our recommendations, we carry out follow-up audits to confirm that our recommendations have been implemented. Ideally, successful implementation by management and our follow-up reporting on their appropriateness are completed within three years of each original recommendation. The results of the follow-up audits are also included in the auditor general's reports to complete our reporting to Albertans.

## Our Independence

Our independence from those we audit ensures our work is objective—based on facts. The independence requirement is symbolized through the appointment of the auditor general by the Legislative Assembly and our liaison with the assembly through the all-party Standing Committee on Legislative Offices. A primary element of the relationship is the assembly's prerogative to authorize financing of the office's operations.

Our business practices are designed to ensure that our staff remain free of any association that could potentially impair their objectivity.



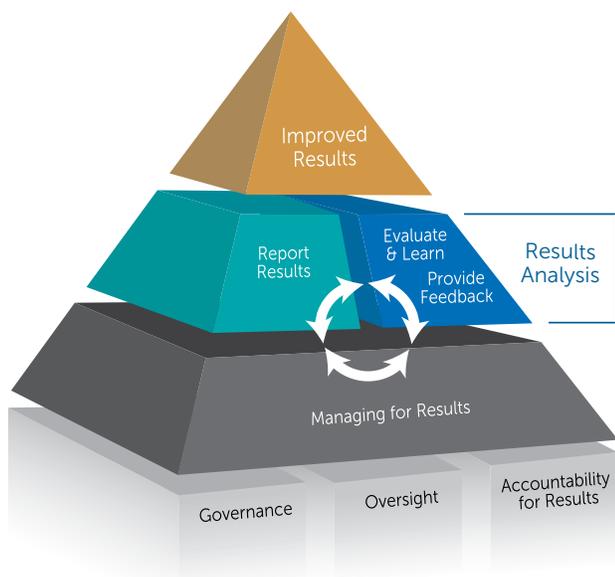
## Our Operating Framework

This results report summarizes the Office of the Auditor General of Alberta’s achievements for the year ended March 31, 2018 and identifies lessons we have learned and plan to incorporate into our business. It is our key annual public performance report and is prepared using our results management framework, which integrates three central processes: governance, oversight and accountability for results.

Effective results management starts with **GOVERNANCE**, the structure and processes we use to bring together capable people and relevant information to achieve cost effective results.

**OVERSIGHT** is the glue that holds our results management framework together. By applying good oversight we will know if we are managing our resources cost effectively in producing our audit results. Our team of management leaders exercises oversight in the pursuit of desired results by:

- Being vigilant and providing watchful care for the use of financial and human resources
- Checking that processes and systems are working well, including systems to ensure accountability for how effectively we use our resources
- Modelling and signalling preferred behaviours through mentorship and by example



**ACCOUNTABILITY FOR RESULTS** requires management to show continuous improvement in the context of fair and agreed on expectations. To ensure that Albertans receive the value for money they deserve from our office, we follow a clear process of accountability for results:

- Set and communicate measurable results and responsibilities
- Plan what needs to be done to achieve results
- Do the work and monitor progress
- Identify and evaluate results—and provide feedback for continued improvement
- Publicly report on the results of our work

## How We Work

The office leadership team’s four interrelated areas of focus are strategy, people, results and learning. Through governance, oversight and accountability for results in these focus areas, the leadership team requires our audits to be:

### RELEVANT

Our work must be relevant to the Legislative Assembly and Albertans.

### RELIABLE

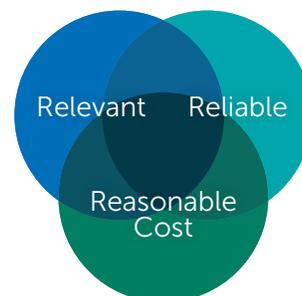
The Legislative Assembly and Albertans must be able to count on our work.

### REASONABLE COST

We must manage costs in producing relevant and reliable reports.

Optimizing the congruence (i.e., the degree of balance) among these three, sometimes competing, objectives helps focus our planning, operational and evaluation decisions.

Managing our risks through these objectives contributes to maintaining the credibility of our office within government and with Albertans.



# Legislated Committees and Working Relationships

## Standing Committee on Legislative Offices

As one of the Legislative Officers of the Legislative Assembly of Alberta, the Auditor General is accountable to the Standing Committee on Legislative Offices.

On behalf of all members of the Legislative Assembly, the committee reviews and approves the business plan and budget, financial statements and results report of the office, and is responsible for tabling documents in the Legislature on behalf of the Auditor General.

**The 2017-2018 members of the Standing Committee in Legislative Offices are:**

**David Shepherd (Chair)**  
*MLA for Edmonton-Centre*

**Brian Malkinson (Deputy Chair)**  
*MLA for Calgary-Currie*

**Leela Sharon Aheer**  
*MLA for Chestermere-Rocky View*

**Prab Gill**  
*MLA for Calgary-Greenway*

**Trevor Horne**  
*MLA for Spruce Grove-St. Albert*

**Jamie Kleinsteuber**  
*MLA for Calgary-Northern Hills*

**Jessica Littlewood**  
*MLA for Fort Saskatchewan-Vegreville*

**Annie McKittrick**  
*MLA for Sherwood Park*

**Angela Pitt**  
*MLA for Airdrie*

**Glenn van Dijken**  
*MLA for Barrhead-Morinville-Westlock*

**Denise Woollard**  
*MLA for Edmonton-Mill Creek*

## Provincial Audit Committee

Under the *Auditor General Act*, the Provincial Audit Committee is established primarily in an advisory role to the government and the Auditor General on any matter relating to the financial affairs of the Crown in accordance with a request of the President of Treasury Board and Minister of Finance.

The role of the committee is to review and advise on issues relating to financial statement presentation and disclosure, accounting policies and pronouncements, and non-financial performance information.

The committee also reviews and advises on matters related to the Auditor General's reports to the Legislative Assembly prior to its publication and any other reports made by the Auditor General.

We would like to acknowledge and thank the members of the Provincial Audit Committee for their review and input on our work in 2017-2018:

**Barry James (Chair)** FCPA, FCA, ICD.D

**Mark Anielski** BA, BSc, MSc

**Lori Bokenfor** LLM, LLB

**Randy Henderson** CPA, CA, CF, ICD.D

**Hilary Rose** BA, CPA, CA, CIA, CRMA

**Melanee Thomas** BA, MA, Ph.D.

**The Honourable Joe Ceci**

*Minister of Finance  
President of Treasury Board*



## Public Accounts Committee (PAC)

Public Accounts Committees (PACs) exist throughout the world and are an essential feature of Westminster democracies.

The PAC is a parliamentary committee that provides oversight by reviewing the government’s statement of accounts and the auditor general’s reports to examine how the government has accounted for and used public funds. It enables elected officials to hold a government to account for how it has spent taxpayers’ money. It also alerts the legislature to concerns regarding the government’s financial management practices and public administration.

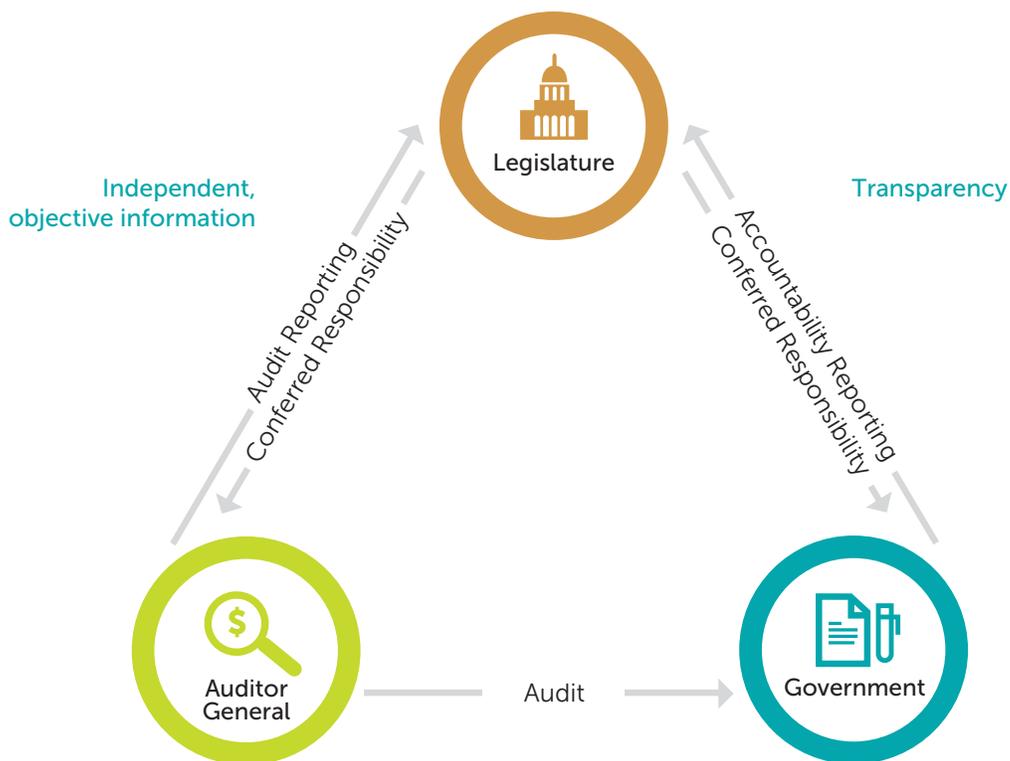
PAC and the Auditor General develop a mutually supportive relationship based on their distinct roles and independence of action.

PAC reviews, on behalf of the Legislative Assembly, reports tabled in the legislature by the Auditor General. This includes public accounts, performance reports, and special reports. PAC holds public hearings with departmental officials to examine the Auditor General’s findings and determine how the Auditor General’s recommendations will be implemented.

PAC may also:

- endorse the Auditor General’s recommendations, and may write and table its own report, with recommendations
- request that the government table a response within a required timeframe
- follow up on the implementation of recommendations (the Auditor General’s and/or its own)

PAC does not focus on policy. Rather, its focus is on public administration—that is, the implementation of policy.





## PAC Members

We recognize and appreciate the Members of the Legislative Assembly who serve on the 2017–2018 Public Accounts Committee; we value our partnership in providing independent oversight of government on behalf of Albertans:

**Scott Cyr (Chair)**

*MLA for Bonnyville–Cold Lake*

**Lorne Dach (Deputy Chair)**

*MLA for Edmonton–McClung*

**Drew Barnes**

*MLA for Cypress–Medicine Hat*

**Jon Carson**

*MLA for Edmonton–Meadowlark*

**Greg Clark**

*MLA for Calgary–Elbow*

**Richard Gotfried**

*MLA for Calgary–Fish Creek*

**Grant Hunter**

*MLA for Cardston–Taber–Warner*

**Jessica Littlewood**

*MLA for Fort Saskatchewan–Vegreville*

**Robyn Luff**

*MLA for Calgary–East*

**Brian Malkinson**

*MLA for Calgary–Currie*

**Barb Miller**

*MLA for Red Deer–South*

**Chris Nielsen**

*MLA for Edmonton–Decore*

**Prasad Panda**

*MLA for Calgary–Foothills*

**Marie Renaud**

*MLA for St. Albert*

**Bob Turner**

*MLA for Edmonton–Whitemud*





# Highlights and Accomplishments

# Our 2017–2018 Office Leadership Team



Our 2017–2018 Leadership Team includes the Auditor General, four Assistant Auditors General, the Chief Operating Officer responsible for strategic and day-to-day management for the organization, and two business leaders responsible for the processes of the financial statement and performance auditing practices.

The members of the Office Leadership Team in 2017–2018:

**Auditor General**

Merwan Saher FCPA, FCA

**Assistant Auditors General**

Robert Driesen CPA, CA, ICD.D

Brad Ireland CPA, CA

Eric Leonty CPA, CA

W. Doug Wylie FCPA, CMA, ICD.D

**Chief Operating Officer**

Ruth McHugh MBA, FCPA, FCMA, ICD.D

**Business Leader, Financial Statement Audit Practice**

Karen Zoltenko CPA, CA

**Business Leader, Performance Audit Practice**

Mary Gibson CPA, CA, CMC, ICD.D

# Introduction from the Office Leadership Team

On behalf of our entire office, we are pleased to report on our performance and results in serving the Legislative Assembly, and Albertans, in what we consider one of the most dynamic and exciting years in the history of the Office of the Auditor General of Alberta.

Throughout the pages of this—our annual Results Report—we share information how we delivered on the commitments we made in our Business Plan for the Year Ended March 31, 2018.

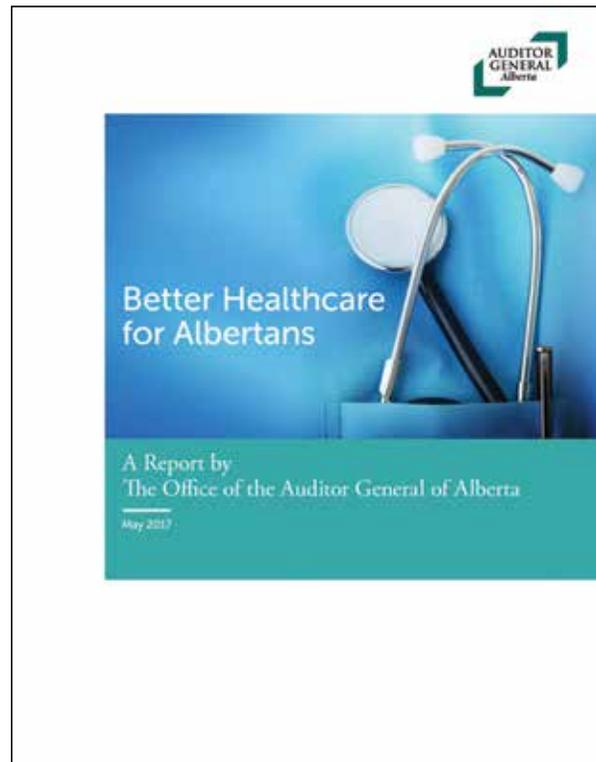
As an introduction to our results, we would like to highlight some activities and accomplishments we think are of interest to those we serve.

First, in 2017-2018, we completed and published three substantive public reports, encompassing a wide range of audits on matters of importance to Albertans. In May 2017, we also published a thought-provoking special report on *Better Healthcare for Albertans*, offering a view on why we have yet to achieve fully integrated healthcare focused on the needs of the individual patient, and the benefits for Albertans that would result.

This year we also publicly shared our multi-year program of performance audit work. In developing our program of work we introduced an advisory and engagement process with deputy ministers and an external panel of experts to help guide us to the optimal selection of performance audits with the greatest impact and importance to the public service and to Albertans.

With the publication of our multi-year program of performance audit work, and the accompanying invitation to Albertans to provide input and suggestions, we began a journey to better engage with those we serve to ensure our work remains relevant, reliable and of the highest value.

We are particularly proud of accomplishing this year's performance audit portfolio as it resulted from the capacity we unlocked by executing our strategy to deliver the right mix of relevant and reliable audit products at a reasonable cost. Three years ago we set out to fine-tune our resource allocations from an historical average of about 20 per cent of our resources dedicated to performance auditing and 80 per cent to financial statement auditing, to establish a sustainable mix of 30:70 by March 31, 2018.



We knew that the 30:70 balance would not happen automatically—along with strategy must come execution. In any organization, transformative changes require focus and discipline. We adopted a methodology designed to help organizations make significant change amidst day-to-day operations. We used this methodology to shift the allocation of our resources so that we could provide better value to Albertans. Because of our legislated mandate we couldn't simply stop financial statement auditing and replace it with performance auditing to shift the balance. And it wouldn't have been prudent to bridge the gap solely by spending more money to acquire more performance auditing resources. Instead, we set out to achieve our goal through process improvements, allowing more results-focused use of our existing resources.



We successfully executed our strategy and our changed and new activities have now been integrated into ongoing operations. We are pleased to report our resource allocation mix at March 31, 2018 was 31:69, 31 per cent of our resources dedicated to performance auditing and 69 per cent to financial statement auditing, surpassing our goal of 30:70. We will continue to measure and monitor our resource allocation to ensure it is sustainable into the future.

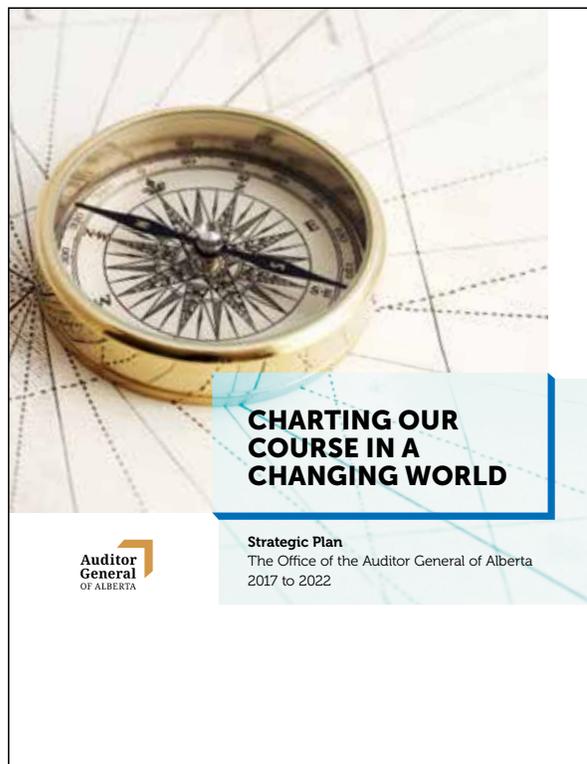
During this year we also undertook two major areas of transformation that set a new course for the office, our work, and how we will serve the public in the coming years—the introduction of our first five-year strategic plan and the focused approach we implemented that resulted in the successful transition to a new auditor general in April 2018.

## Charting Our Course in a Changing World

*Charting our Course in a Changing World* is our five-year strategic plan that sets a bold direction for the office and guides our efforts to fulfill our vision “making a difference in the lives of Albertans.”

In our plan, we identify strategies to ensure we have the resilience to identify, analyze and respond to disruptive events. As government systems change, we too must be nimble and able to adapt. We must use information strategically to help us look ahead and anticipate risks and opportunities in our own work.

As the legislative auditors of virtually all government of Alberta entities, in addition to conducting financial statement and performance audits, our plan sets out strategies designed to help improve and advance the government’s integrated financial and non-financial performance reporting.



Implementing our strategic plan, we will work to enhance our knowledge of audit entities’ businesses and environments to a sufficient level of breadth and depth to understand their evolving risks. This will help us determine the best areas on which to focus our scarce audit resources in order to recommend improvements and provide optimum value to government managers and the most impactful results for Albertans.

Our strategic plan calls for us to think differently and be open to new ways of working, and it lays the foundation for our future business and operational planning.

## Transition Planning for a New Auditor General

Our strategic plan was developed under the leadership of our Auditor General, Merwan Saher, whose term came to an end on April 28, 2018.

Having been with the office for 38 years—including eight years as the Auditor General—Merwan’s vision for the office will be felt long into the future through our strategic plan, as well as through the impact he has had on everyone in the office personally and professionally.

We thank Merwan for his commitment to public service, and for truly making a difference, not just in our lives, but in the lives of past, present and future Albertans, through his hundreds of recommendations for improvement to how programs and services are delivered, and how resources are managed on their behalf.



*Merwan N. Saher FCPA, FCA*

Wanting to ensure continuity and stability for the organization in welcoming a new Auditor General in 2018, over the course of the year we engaged in a comprehensive approach to leadership transition. Our transition steering committee successfully developed and operationalized a plan to enable a smooth transition experience for the entire organization, as well as for Merwan’s successor.

We are delighted that the independent special selection committee of the Legislative Assembly, conducting a global talent competition, chose a passionate Alberta legislative auditor, Assistant Auditor General Doug Wylie, as Alberta’s 11th Auditor General.

## Looking Forward

In the pages that follow, we invite you to read about how the 150 people, working together, at the Office of the Auditor General provide value to Albertans.

In addition to this Results Report, which focuses on accountability for the results achieved with monies spent delivering on our mission to *identify opportunities to improve the performance of and confidence in the public service*, this fall we also plan to issue a separate and complementary Impact Report that will focus more on how we achieving our vision of making a difference in the lives of Albertans.

We look forward to sharing our stories on how, working with legislators and the public service, we are making a difference in the lives of Albertans.

# Entities We Audit

As at March 31, 2018, we were appointed auditor of the 139 entities listed below. The organizations are grouped in accordance with the government's 2017–2018 priority areas and the ministries aligned under each priority area.

## Alberta's Economic Future

### ADVANCED EDUCATION

- Ministry of Advanced Education
- Department of Advanced Education
- Access to the Future Fund
- Athabasca University
- University of Alberta
- University of Calgary
- University of Lethbridge
- Alberta College of Art + Design
- Bow Valley College
- Grande Prairie Regional College
- MacEwan University
- Grant MacEwan University Foundation
- Keyano College
- Lakeland College
- Lethbridge College
- Medicine Hat College
- Mount Royal University
- NorQuest College
- Northern Alberta Institute of Technology
- Northern Alberta Institute of Technology Foundation
- Northern Lakes College
- Olds College
- Portage College
- Red Deer College
- Southern Alberta Institute of Technology

### AGRICULTURE AND FORESTRY

- Ministry of Agriculture and Forestry
- Department of Agriculture and Forestry
- Agriculture Financial Services Corporation
- Environment Protection and Enhancement Fund

### CULTURE AND TOURISM

- Ministry of Culture and Tourism
- Department of Culture and Tourism
- Historic Resources Fund
- Alberta Sport Connection
- Travel Alberta Corporation
- Alberta Foundation for the Arts
- Alberta Historical Resources Foundation

### ECONOMIC DEVELOPMENT AND TRADE

- Ministry of Economic Development and Trade
- Department of Economic Development and Trade
- Alberta Innovates
- Alberta Enterprise Corporation

### INDIGENOUS RELATIONS

- Ministry of Indigenous Relations

### INFRASTRUCTURE

- Ministry of Infrastructure

## Families and Communities

### CHILDREN'S SERVICES

- Ministry of Children's Services

### COMMUNITY AND SOCIAL SERVICES

- Ministry of Community and Social Services

### EDUCATION

- Ministry of Education
- Department of Education
- Alberta School Foundation Fund
- Alberta Teachers' Retirement Fund

### HEALTH

- Ministry of Health
- Department of Health
- Alberta Health Services
- Capital Care Group Inc.
- Calgary Laboratory Services Ltd.
- Carewest
- Health Quality Council of Alberta

### JUSTICE AND SOLICITOR GENERAL

- Ministry of Justice and Solicitor General
- Department of Justice and Solicitor General
- Human Rights, Education and Multiculturalism Fund
- Victims of Crime Fund
- Office of the Public Guardian and Trustee

### LABOUR

- Ministry of Labour
- Workers' Compensation Board

### SENIORS AND HOUSING

- Ministry of Seniors and Housing
- Department of Seniors and Housing
- Alberta Social Housing Corporation

## SERVICE ALBERTA

- Ministry of Service Alberta

## STATUS OF WOMEN

- Ministry of Status of Women

## Resource Stewardship

### ENERGY

- Ministry of Energy
- Department of Energy
- Alberta Utilities Commission
- Alberta Energy Regulator
- Post-closure Stewardship Fund
- Alberta Petroleum Marketing Commission

### ENVIRONMENT AND PARKS

- Ministry of Environment and Parks
- Department of Environment and Parks
- Climate Change and Emissions Management Fund
- Land Stewardship Fund
- Natural Resources Conservation Board
- Energy Efficiency Alberta

### MUNICIPAL AFFAIRS

- Ministry of Municipal Affairs
- Department of Municipal Affairs
- Improvement Districts' Trust (Improvement Districts 4, 9, 12, 13, 24, 25 and 349)
- Kananaskis Improvement District
- Special Areas Trust

### TRANSPORTATION

- Ministry of Transportation
- Department of Transportation
- Alberta Transportation Safety Board

### TREASURY BOARD AND FINANCE

- Ministry of Treasury Board and Finance
- Department of Treasury Board and Finance
- Alberta Cancer Prevention Legacy Fund
- Alberta Gaming and Liquor Commission
- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Savings Trust Fund
- Alberta Heritage Scholarship Fund
- Alberta Heritage Science and Engineering Research Endowment Fund
- Alberta Investment Management Corporation
- Alberta Lottery Fund
- Alberta Risk Management Fund

- Alberta Securities Commission
- ATB Financial
  - ATB Insurance Advisors Inc.
  - ATB Investment Management Inc.
  - ATB Securities Inc.
- Consolidated Cash Investment Trust Fund
- Long-term Disability Income Continuance Plan—Bargaining Unit
- Long-term Disability Income Continuance Plan—Management, Opted Out and Excluded
- N.A. Properties (1994) Ltd.
- Provincial Judges and Masters in Chambers (Registered) Pension Plan
- Provincial Judges and Masters in Chambers Reserve Fund
- Supplementary Retirement Plan Reserve Fund
- Consolidated Financial Statements of the Province of Alberta
- Gainers Inc.
- Alberta Capital Finance Authority
- Alberta Local Authorities Pension Plan Corporation
- Alberta Pensions Services Corporation
- Credit Union Deposit Guarantee Corporation
- Government of Alberta Dental Plan Trust
- Government Employees' Group Extended Medical Benefits Plan and Prescription Drug Plan Trust
- Local Authorities Pension Plan
- Management Employees Pension Plan
- Public Service Management (Closed Membership) Pension Plan
- Public Service Pension Plan
- Special Forces Pension Plan
- Supplementary Retirement Plan for Public Service Managers
- Health Spending Benefit Plan

## Executive Council

- Ministry of Executive Council

## Legislative Assembly

- Legislative Assembly Office
- Office of the Chief Electoral Officer
- Office of the Child and Youth Advocate
- Office of the Ethics Commissioner
- Office of the Information and Privacy Commissioner
- Office of the Ombudsman
- Office of the Public Interest Commissioner

# Our 2017-2018 Reports to the Legislative Assembly and Albertans

In addition to our financial statement audit reports, in 2017-2018, we also presented the following reports to the Legislative Assembly:

## MAY 3, 2017

- Alberta Justice and Solicitor General —Funding Sustainable and Cost-Effective Legal Aid Services
- Service Alberta—Systems to Manage a Comprehensive Inventory of IT Applications
- Alberta Treasury Board and Finance—Travel, Meal and Hospitality Expenses of the Premier, Ministers, Associate Ministers and Their Staff
- Alberta Environment and Parks—Alberta Climate Change Office—Managing the Specified Gas Emitters Regulation—Alberta Emissions Offset Registry—Follow-up
- Alberta Indigenous Relations Systems to Assess First Nations Development Fund Grants—Follow-Up
- Alberta Seniors and Housing—Alberta Social Housing Corporation’s Contracting Policy—Follow-Up
- Alberta Treasury Board and Finance—Oversight of the Premier’s and Ministers’ Expenses—Follow-Up
- Alberta Advanced Education—Post-secondary Institutions Report Card 2016 (June year-end)
- Alberta Justice and Solicitor General—Control Systems at the Office of the Public Guardian and Trustee—Progress Report

## MAY 25, 2017

- Alberta Health and AHS—Better Healthcare for Albertans

## OCTOBER 19, 2017

- Alberta Infrastructure—Government of Alberta Capital Planning
- Alberta Treasury Board and Finance—AGLC—Vendor Access Control

- Alberta Advanced Education—Collaborative Initiatives Among Alberta’s PSIs—Follow-Up
- Alberta Agriculture and Forestry, Alberta Health and AHS—Food Safety—Follow-Up
- Alberta Energy and Alberta Energy Regulator—IT Security for Industrial Control Systems in Alberta’s Oil and Gas Industry—Follow-Up
- Alberta Health and AHS—Infection Prevention and Control—Follow-Up
- Alberta Health—Non-hospital Contracted Surgical Services—Follow-Up
- Alberta Health—Primary Care Networks—Follow-Up
- Alberta Treasury Board and Finance—CEO Selection, Evaluation and Compensation, and Executive Compensation—Follow-Up

## FEBRUARY 22, 2018

- Alberta Advanced Education—PSIs Report Card 2017 (June year-end)
- Alberta Education—Processes to Manage the Student Class Size Initiative
- Alberta Education—Systems to Improve Student Attendance in Northland School Division—Progress Report
- Alberta Energy—Alberta Petroleum Marketing Commission—Management of Agreement to Process Bitumen at the Sturgeon Refinery
- Alberta Environment and Parks—Design of Systems to Manage the Climate Leadership Plan and Adaptation
- Alberta Health—Pure North Grants
- Alberta Transportation—Commercial Vehicle Safety—Follow-Up
- Alberta Treasury Board and Finance—Various Ministries—Travel, Meal and Hospitality Expenses of the Premier, Ministers and Their Staff

# Highlights & Accomplishments

## Achieving our Goal of 30:70

A key goal of our office over the last three years was to achieve a 30:70 balance between our performance audit and financial statement audit lines of business by March 31, 2018. As we report in the Our Results section of this report, we not only achieved this goal, we exceeded it with 31 per cent of our resources dedicated to performance audits, and 69 per cent to financial statement audits.

In achieving our goal, we refined our working processes and infrastructure and we measured, managed and tracked our work, making adjustments along the way to implement lessons learned.

We will continue to measure and monitor our resource allocation to ensure it is sustainable.

### UNDERSTANDING THE WORK OF THE ENTITIES WE AUDIT

The concept of gaining an improved understanding of our audit entities began to take focus as the business leaders of the financial statement audit and performance audit lines of business collaborated on initiatives that would benefit both lines of business.

In fiscal 2017-2018, we began developing a future process to improve our understanding of the entities we audit through an innovative approach to detailed data analysis and data visualization. Using public information and information we obtain through our annual audit activities, our data visualizations will present a holistic and flexible view of the audit entity—giving us the ability to see the entity's activities, resource usage, key risks, performance measurement and other key information in a single view. The process will be a key lever of our strategy—providing us enhanced insight into the entities we audit.





## Our Audit Practice

The vast diversity of the entities and areas we audit and our resulting recommendations at an individual entity level provide tremendous insight on similar issues across the Government of Alberta. These insights help us to identify opportunities to strengthen the overall public service.

Our audit work is performed by two lines of business – financial statement auditing and performance auditing.

## Financial Statement Auditing

We audit the consolidated financial statements of the province of Alberta, as well as every ministry, department, regulated fund and most provincial agencies. The Auditor General's report for each of these organizations provides an opinion on whether the financial statements are presented fairly in accordance with the appropriate financial reporting framework, usually public-sector accounting standards. These recurring annual audits provide independent assurance on the province's financial reporting to the Legislative Assembly.

The Auditor General issued 139 unqualified auditor's reports on financial statements and nine unqualified auditor's reports on specified financial information in 2018.

This year the financial statement audit team of Culture and Tourism undertook additional audit procedures to look more closely at grant funding provided under the Alberta Production Grant (APG). This work offers an excellent example of how the audit team, using their understanding of the audit entity, directed their efforts to provide a value-added recommendation to the department to improve controls over the administration of the APG program.



## Audit Methodology Review Project

A significant project this year was the Financial Statement Audit Methodology Project, involving a review of the Office of the Auditor General of Canada's methodology, manuals and training. We piloted the methodology on a sample of our audit files to determine whether our office should adopt OAG Canada's methodology.

The extensive review, critique and comparison of our existing methodology to OAG Canada's allowed us to take a close look at financial statement audits and think about how we could most effectively carry out our work in the future. It reinforced the value of flexibility as we encounter changes in our environment and within the auditing profession.

While we determined the federal methodology was not the best fit for our office's environment, undertaking the project was extremely valuable. It provided key insights we can use to make our existing methodology and audit processes even better, particularly in the areas of audit planning, increased guidance, and more comprehensive training.

## Performance Auditing

Performance audits are independent, objective and purposeful examinations of the performance of government organizations, programs or activities. The office leverages the knowledge of government operations developed through our audits of financial statements to assess the systems which deliver provincial programs and services. This includes providing an objective and independent view of government's processes for monitoring and reporting on results.

If we find that an organization could improve its internal controls or processes to deliver efficient and cost-effective programs and services, or improve its processes for reporting on the use of government resources, we make recommendations to management. We also make our findings and recommendations public in reports to the Legislative Assembly.

Once the organization's management has acted on our audit recommendations, we carry out follow-up audits to confirm that the recommendations have been implemented. Successful implementation is the return on investment of audit dollars spent to produce a recommendation. Ideally, implementation

by management and our follow-up reporting on the appropriateness of their implementation is complete within three years of each original recommendation. We carry out follow-up audits in accordance with the same standards we follow for original performance audits with the rigour Albertans expect from this office.

Our performance audit reports provide information, findings, observations and recommendations designed to promote an answerable, honest and productive public service, the adoption of best practices and accountability for results.

## Performance Audit Program of Work

In April 2017, we published our inaugural multi-year program of performance audit work.

Recognizing new priorities emerge each year and government programs and services change, this year we undertook a process to lead the first annual review and "refresh" of our plan to identify new risks and potential audits, and to reflect changes in the government's operating environment. This included removing some planned audits after gathering further information. We expect to publish our updated plan in early summer 2018.

Our aim is to make the best use of our resources, conducting audits of the greatest value to MLAs, the public service and the people of Alberta. By making our performance auditing program of work publicly available, we are also inviting input from Albertans as well as further input from MLAs and the public service on their priorities. Our goal is for all stakeholders to better understand and engage in the work of our office.

## Operational Accomplishments

Other initiatives in the performance audit line of business include:

- Developed a multi-year training curriculum for performance auditors and introduction of several new training offerings (logic models, statistical and judgmental sampling, project management).
- Conducted a six-year retrospective analysis of performance audit reports to discern root causes of reported findings, to inform risk assessment.
- Developed a suite of operating performance measures to support continuous improvement in the performance audit line of business.



## Data Analytics

In 2017-2018 we engaged a consultant to develop a data analytics strategy to grow the use of data analytics in our audit practices. This will help us gain additional insights on the delivery of government programs and services and improve the reliability, efficiency and quality of our audit reports.

Implementation of this strategy will be a key area of focus for the office in 2018-2019.

## Public Reporting

In 2017-2018 we also took actions towards improving the readability and accessibility of our audit reports. Beginning with the *Better Healthcare for Albertans* special report in May 2017, and with continuous improvement on the October 2017 and February 2018 reports, we introduced more user-friendly executive summaries and “At A Glance” documents. In February 2018, we also introduced short videos to highlight our audit findings, and to speak directly and personally on the importance of the specific audits to Albertans.

The OAG also gained a social media presence in 2017-2018, beginning conversations with Albertans through its Twitter, Facebook, LinkedIn and YouTube accounts. We also initiated work to rebuild the [oag.ab.ca](http://oag.ab.ca) website to make it a more interactive platform.

The work initiated in this past year lays the foundation for on-going improvement for how we better communicate and engage MLAs, the public service, stakeholders and the public in our work.

## Investing in Our People

This past year we brought together the operational elements of human resources, training and development, workforce management and accommodations and facilities to create a strategic group focused on People & Culture, reinforcing our approach to work in a new and more collaborative way.

In this past year we also invested significant effort into attracting, training, and retaining talent.

As a CPA training office we successfully attracted some of Alberta’s best and brightest. We optimized our capability by promoting from within to find the right mix of talent with new external expertise, at the Auditor,



Manager, and Principal level. In focusing on our future and obtaining the right people and skills to do our work, we also targeted and acquired executive and specialist expertise in the areas of people & culture, stakeholder engagement, information and related technology, as well as legislative audit legal matters.

As a professional audit office, skill development and the value of learning is paramount. In 2017-2018 we began to formalize and map the career development journey for legislative auditors. The roadmap outlines the path to leadership, clarifies the knowledge and experience needed for various roles, and aims to increase organizational capabilities through greater diversity in experience and development. Providing team members with a clear picture of the skills, competencies and experiences they need—as well as the opportunity to advance—is important in attracting, retaining, and developing talent.

The war for talent in the marketplace continues to heat up with greater demand for audit talent. We have been diligent to anticipate and prepare for positive and planned turnover, while improving our workplace and team member experience to minimize undesirable churn. Among a variety of approaches, we introduced office-wide catalyst events to open up communication, engage team members in our strategic journey, and to light the sparks that enable movement and momentum in delivering results and bringing our strategic story to life.

Under the banner of “REimagination” we also engaged all team members, challenging them to reimagine how we do all elements of what we do. Innovation and diversity of thought combined with practical application has had some powerful early results.

## Staff Secondment to New Brunswick

Our office invests in growing talent with learning programs that support our business and the ongoing technical requirements of our people. We provide access and exposure to a variety of learning experiences that can advance personal and career growth in new ways. When the Auditor General of New Brunswick appealed to fellow Canadian legislative audit offices for additional resources our office was pleased to assist.

Three OAG team members travelled across Canada to assist the New Brunswick Auditor General on their public accounts audit and the residential property assessment performance audit. Our team members were able to apply their knowledge and experience to help with these audits as well as bring valuable learnings home from this opportunity. It was a great demonstration of the legislative audit community coming together and collaborating for the benefit of all Canadians. Our staff also gained valuable insights to bring back to their legislative audit work in Alberta.

## Business Resilience Project

The OAG recognized that in order to sustain ongoing business resilience, a more formalized program was required. Our business resilience framework ensures we have processes in place to deal with business disruptions, with the safety and well-being of our staff being paramount.

The Business Resilience Project was launched in October 2016 as a collaborative organization-wide initiative to develop plans for both our Edmonton and Calgary Offices.

Development of the program was divided into two phases—the first phase focused on developing a framework and policy supported by standards, procedures and templates and the second phase focused on implementation.

In 2017-2018, the office:

- Approved the framework and policy
- Established the governance structure
- Filled permanent roles with individuals responsible for carrying out the duties of the program
- Conducted a thorough risk assessment and business impact analysis resulting in several recommendations to improve the overall safety of the OAG
- Developed plans to enable the OAG to respond to incidents, emergencies and crises, recover from IT disasters, and resume operations

The second phase will continue in the summer of 2018 with a testing exercise that will ensure the plans are complete and everyone is confident in their roles.



### WHY A NEW POLICY FRAMEWORK?

Our goal was to create a policy framework and control environment to create a transparent, consistent and comprehensive process guided by the following principles:

- Policies will be grounded in the fundamental objectives of our office, legislation and supporting regulations
- Policies will be consistent with our strategic direction
- Policies will provide clear direction to stakeholders (staff, contractors, agents, visitors)
- We will consider input received through consultation regarding new and/or substantially revised policies
- Policies will be fair, practical and effective to ensure they can be applied with timeliness, transparency and consistency
- Policies will be fiscally responsible and ensure long-term sustainability

This new policy framework will have a profound effect on how we define, manage and view policy within our office, and we believe is a model for effective organizational governance and management.

## Policy Framework Project

In 2017-2018, the office completed our new Policy Framework, effective April 1, 2018, streamlining from seventy down to seven core policies.

Built on the requirements of the *Auditor General Act* and key functions required to support achievement of those requirements, these seven policies are:

- Governance & Management Policy
- Audit Practice Policy
- Financial Stewardship Policy
- People & Culture Policy
- Information & Related Technology (IRIT) Policy
- Stakeholder Engagement Policy
- Business Resilience Policy

The policies provide principles and guidance (the statement of desired results, or why), and are complemented by the related standards (rules, or what) and procedures (who/how/when) that provide information on how the policies are implemented.

In developing this new framework, all existing policies were converted, modified and/or consolidated into standards and procedures to support the new policies. This was done with a view to:

- Limiting risk of policy overlaps and gaps
- Providing clear management direction and accountability
- Aligning policy with strategic direction
- Developing policy and controls proactively and collaboratively
- Assigning ownership and sponsorship of policies and controls
- Establishing a control environment to ensure policies are sustainable

# Making a Difference as Individuals

Our shared values and commitment to making a difference in the lives of Albertans extends beyond our audit work on behalf of Albertans. From office-wide initiatives, such as supporting the United Way, to employee-driven fundraising with the YWCA Walk A Mile in Her Shoes, our office and our team members continue to demonstrate their passion and commitment to making a difference in the lives of Albertans through our work and also through our community engagement.

## United Way

The office comes together in this two week long campaign to raise funds through auctions, raffles, and payroll deductions. This past year, we once again participated in the annual United Way campaign. Through various activities such as 50/50 raffles, a pumpkin carving contest, Be Seen in Jeans, a hockey "pick-em" contest and individual employee donations we collectively raised over \$45,000 and were honored to receive the 2017 Government of Alberta campaign award for the highest average gift. We are proud of our people and their contributions towards helping lift families and individuals out of poverty. This is one of the tangible ways we can all make a difference in the lives of Albertans.



## Corporate Challenge

Our office has been a proud participant in the Edmonton and Area Corporate Challenge for the past four years. Corporate Challenge has been great success for the office, in terms of both achievement and the way it engages more than half of our staff in a wide range of team-based activities.

We continue to view Corporate Challenge as a small but important tool in implementing our strategic plan—it engages our staff, it gives us an opportunity to meet the public service outside of the audit and it gives us another venue to meet and engage with the Albertans we serve. We get fit and we have fun doing it!

## YWCA Walk A Mile in Her Shoes

From the Auditor General himself to staff auditors, our guys surely know how to strut their stuff. From pumps to stilettos, our team of nine were able to raise over \$5,500 looking stylish while supporting a good cause. As an office we come together supporting one another and good causes. The team's effort resulted in our office being in the top 10 Edmonton companies, contending with other much larger organizations.



Photo courtesy of David Goertzen

## Heart and Stroke Foundation

This year over 20 of our employees put their leg power to work meandering around downtown on the Big Bike. The team's efforts raised over \$5,500 for the Heart and Stroke Foundation. This was the office's second year riding the big bike, supporting a charity close to many team members' hearts.



## November

The OAG-MoMembers was a team created by our own IT audit specialist Rob Smadella joined by Legal Advisor Phil Peters, fellow IT audit specialist Karl Capupus and Staff Auditor Nick Lee who all put their upper lip on the line by putting a line on their upper lip for charity. This staff-led initiative generated over \$600 in fundraising in a short time while growing their 'staches' for a good cause.

# National & Professional Contributions

## Canadian Council of Legislative Auditors (CCOLA)

The Canadian Council of Legislative Auditors (CCOLA) is an organization devoted to sharing information, building consensus, and supporting the continued development of auditing methodology, practices and professional development among legislative audit offices at the federal and provincial levels. The Auditor General of Canada is also the Auditor General for the three territories – Nunavut, the Northwest Territories and the Yukon. CCOLA has one associate member – the Auditor General of Bermuda.

The CCOLA and its committees and groups meet throughout the year either in person or remotely to further their respective annual plans. In addition, each year the CCOLA sponsors three main events: the Financial Statement Symposium and Public Accounts Forum; the Performance Audit Symposium; and the CCPAC-CCOLA Annual Conference.

Staff from our office lead and/or participated on all CCOLA Committees and study groups.

### Committees

- Canadian Council of Legislative Auditors (CCOLA) – Merwan Saher
- Human Resources Committee (HRC) – Ruth McHugh, Steve Fedorchuk, Ken Freier
- Information Technology Committee (ITC) – Rene Pelletier (Chair), Tim Gallagher
- Peer Review Committee (PRC) – Todd Wellington
- Strategic Matters Committee (SMC) – Eric Leonty
- Training Oversight Committee – Financial Statement Audit (TOC-FS) – Ibi Power
- Training Oversight Committee – Performance Audit (TOC-PA) – Mary Gibson (Chair), Ibi Power

### Groups

- Collaborative Climate Change Audit – Eric Leonty, Marcela Zicha-Green
- Education Study Group (ESG) – Diana Potapovich, Maureen Debaji
- Emerging Leaders' Summit – Jean Becker, John Zabos
- Environment, Energy and Natural Resources Group (EENRG) – Eric Leonty, Marcela Zicha-Green
- Governance Study Group (GSG) – Robert Driesen, Nelson Robe-From
- Information Technology Administration Group (ITAG) – Christopher Michell-Viret, Shawn Dineen, Karen Schmidt
- Infrastructure Study Group (ISG) – Michelle Fleming
- Justice Study Group (JSG) – Mike Shorter
- National Professional Practices Group (NPPG) – Wayne Morgan
- Communications Group (CG) – Val Mellesmoen



## Audit Peer Reviews

We performed eight audit peer reviews to support high quality audit practices, covering both lines of business within our office (financial statement audits and performance audits). The peer review results provide assurance that professional standards and methodology are being complied with. They also support continuous improvement in methodology, training and audit processes by identifying areas where our office needs to take corrective action.

Consistent with our commitment to strengthening the CCOLA community, we also performed one inter-jurisdictional audit peer review for each of two other provinces. In both cases, our provincial counterparts are considering what changes they may make to office processes and file methodology to respond to our review observations.

Interjurisdictional peer reviews are mutually beneficial because we identify efficiencies for our office to consider based on the processes used by other provinces.

## Canadian Audit and Accountability Foundation (CAAF)

The Canadian Audit and Accountability Foundation (CAAF) is a not-for-profit organization dedicated to promoting and strengthening public sector performance audit, oversight, and accountability in Canada and abroad through research, education, and knowledge sharing.

Our office is a strong contributor to the CAAF, and over the past year our staff were involved in a number of key initiatives that helped advance its work, including:

- Playing a leadership role in initiating and developing a training program on Root Causes.
- Contributing to the *Auditing of Gender Equity* initiatives training design.
- Facilitating CAAF training and support for the Alberta Public Accounts Committee.

Auditor General Merwan Saher also served on the CAAF Oversight Advisory Group.

## CPA Canada

Chartered Professional Accountant (CPA) is the Canadian business and accounting designation representing more than 200,000 professional accountants across the country.

They represent highly qualified professionals who demonstrate an ongoing commitment to providing the highest standards of accounting, ethics and best business practices.

Auditor General Merwan Saher serves as a member of the Public Sector Accounting Board (PSAB) Conceptual Framework Task Force.

## Auditing and Assurance Standards Board (AASB)

The Auditing and Assurance Standards Board (AASB) establishes standards for assurance and related services engagements. The AASB contributes to the development of International Standards on Auditing (ISAs), which it adopts as Canadian Auditing Standards (CASs), by participating in consultations and activities of the International Auditing and Assurance Standards Board (IAASB) to ensure Canadian entities' auditing needs are considered.

Mary Gibson, Business Leader Performance Audit Practice, is a member of the AASB's public sector task force, which is charged with aligning the public sector series of auditing standards with the new CSAE 3001, the umbrella auditing standard.



## **CPA Alberta**

As part of the CPA profession in Canada, CPA Alberta is the professional organization for more than 28,000 designated accountants across the province.

Chief Operating Officer Ruth McHugh is an elected member of the CPA Alberta board of directors, Chair of the Bylaws and Rules Committee, and the CPA Alberta board representative on the CPA Education Foundation Nominating Committee.

In 2017-2018, Assistant Auditor General Doug Wylie served as the Chair for the CPA Education Foundation. He was also the Chair of its Strategy Development Committee, and a member of its nominating committee.

## **International Auditing and Assurance Standards Board (IAASB)**

Information Technology (IT) audit principal Tim Gallagher serves on the Data Analytics Project Advisory Panel working group of the International Auditing and Assurance Standards Board (IAASB). This places both our expertise and the province our office on the international stage, and speaks to the industry leading work of our office.

## **Institute of Corporate Directors (ICD)**

With 13,000+ members and a network of 11 regional chapters from coast to coast, the Institute of Corporate Directors (ICD) is the voice of Canadian directors and boards. As a national not-for-profit association, the ICD provides education, advocacy, thought leadership and governance resources to strengthen Canadian director performance.

Chief Operating Officer Ruth McHugh is Treasurer of the Edmonton ICD Chapter and serves on the Governance Committee as well as Co-Chair of the Member Engagement Committee.

## **The Association of Professional Engineers and Geoscientists of Alberta (APEGA)**

Chief Operating Officer Ruth McHugh serves as a subject matter expert on The Association of Professional Engineers and Geoscientists of Alberta (APEGA) Governance Committee.

# The Year in Review: Our Numbers

# of public reports completed

175

# of new recommendations

26

# of responses to public inquiries

226

% of follow-up audits initiated in 12 months of notification

100

% of recommendations accepted by government for implementation

100

% of financial statement audits completed within budget

71

millions of \$ OAG budget 2017–2018

26.8

# of staff (FTE)

151

% of staff turnover

13

% of resources

performance auditing

31

financial statement auditing

69

billions of \$ of government revenue audited\*

42.4

billions of \$ of government expenses audited\*

53.2

billions of \$ of government assets audited\*

116

\* Government of Alberta March 31, 2017 Financial Statements for 2016–2017



# Our Performance Results

# Our Performance Results

## Our Strategy

The 2017-2018 budget year has been one of transition for the Office of the Auditor General, as we began implementation of our new five-year strategic plan—*Charting our Course in a Changing World*.

We have laid a foundation for the future by achieving a positive and improving trend in each of our performance measures:

- 100 per cent of our audit recommendations were accepted for implementation.
- We commenced all of our follow-up audits within 12 months of notification by auditees that our recommendations were implemented.
- We issued our auditor's report on Alberta's consolidated financial statements by June 30 for the preceding March 31.
- We achieved a resource mix of 31:69, exceeding our target of 30 per cent of our resources dedicated to performance audits and 70 per cent to financial statement audits.
- We maintained staff turnover within our target range.
- We improved our performance to 71 per cent of our financial statement audits completed within budget (slightly behind our target of 75 per cent).

Our goal is to sustain this momentum and develop new ways of measuring our success by refreshing our performance measures to align with our strategic intentions moving forward.

## Performance Measures

### Percentage of the auditor general's recommendations accepted for implementation

#### *Relevant, Reliable*

One way that we monitor the relevance and reliability of our work is through the acceptance of our audit recommendations by Government for implementation. The return on investment for audit dollars spent is implementation of our recommendations for improvement and the resulting value to Albertans. Our target acceptance rate was 95 per cent. We exceeded this target with an acceptance rate of 100 per cent.

## Strategy to Execution: Performance Measures

Our measures correspond to the audit quality assurance framework described on page 4 of this report. It specifies that audits are of high quality when they are:

- **Relevant**—our work must be relevant to the Legislative Assembly and Albertans.
- **Reliable**—the Legislative Assembly and Albertans must be able to count on our work.
- **Reasonable cost**—we must manage costs in producing relevant and reliable reports.

In addition to ensuring audit quality, optimizing the congruence (i.e., the degree and balance) among these three, sometimes competing objectives, help focus our planning, operational and evaluation decisions.

A summary of our audited performance measures results, including prior year information and targets, is found in Schedule 3 on page 56 of this report.



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## **Percentage of follow-up audits initiated within 12 months of notification of implemented recommendations**

### *Relevant*

This measure monitors our responsiveness and timeliness in commencing follow-up audit work once government managers advise that the implementation of our audit recommendations is complete.

We targeted to initiate 75 per cent of follow-up audits within one year of the formal “ready for follow-up” notification being received by our office. We initiated 100 per cent of our follow-up audits within the desired 12 months of being notified of implementation by the audit entity. This included 14 recommendations from performance audits and 11 recommendations from financial statement audits.

Examples of the implemented performance audit recommendations were: improving compliance with tax systems and protocols for corporate income tax, medical contracting, and Alberta’s long-term oil sands planning project to ensure sufficient financial security for land use.

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## **Issue auditor’s report on Alberta’s consolidated financial statements by June 30 (for the preceding March 31 fiscal year end)**

### *Relevant*

We strive to issue the auditor’s report on the consolidated financial statements of the government by June 30 every year to give timely assurance to the Legislative Assembly on the quality of the government’s financial reports.

This year we issued our unqualified report on June 20, 2017 for the province’s March 31, 2017 consolidated statements.

Subsequent to our current year end, we issued an unqualified audit report on June 19, 2018 for the province’s March 31, 2018 consolidated financial statements.

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## **Auditing standards – pass professional practice review**

### *Reliable*

Our office is registered as a practising audit and training office with the Chartered Professional Accountants of Alberta (CPA Alberta). Our goal is to meet all standards, including those for practice review, and to continue to maintain our registration in good standing.

CPA Alberta reviewed our financial statement auditing practice in the 2016 fiscal year, and we successfully passed the inspection. Since the practice review is carried out every three years, the next review is expected in 2019.



## Percentage of costs dedicated to performance/ financial statement auditing

### *Relevant, Reasonable Cost*

This performance measure reflects the resource allocation ratio of our operating bottom line. Of our \$25.9 million operating expenses, 31 per cent of our resources were dedicated to performance auditing and 69 per cent to financial statement auditing. This result exceeded our goal of 30:70 and demonstrated a significant improvement on our previous year result of 26:74.

The table below illustrates our journey to achieving our goal over the past five years:

PERCENTAGE OF TOTAL EXPENSES	Prior-year actual results				Target	Actual
	2014	2015	2016	2017	2018	
Performance auditing	23%	28%	29%	26%	30%	31%
Financial statement auditing	77%	72%	71%	74%	70%	69%
	100%	100%	100%	100%	100%	100%

There were three main reasons we succeeded in our goal to achieve a sustainable ratio of 30:70, while cost effectively staying within our allocated budget: *demand, capacity and structure*.

- **Demand**—through our 3-year program of performance audit work established last year and renewed this year, as well as implementation of a “performance audit job jar” of small projects staff could work on for short bursts of availability, we created a steady supply of performance audit work.
- **Capacity**—we built capacity by implementing a new performance audit staffing model; by targeted recruitment with the aim to achieve a fully staffed audit division and by the focused efforts of our auditors to do more performance audit work.
- **Structure**—our strategy execution methodology facilitated a structured approach and a cadence of accountability to focus our efforts in achieving our 30:70 goal.

## Percentage of financial statement audits completed within budget

### *Reasonable Cost*

Our goal was to complete 75 per cent of our financial statement audits within budget. We achieved 71 per cent. While short of our goal, this was a significant improvement over last year’s 62 per cent.

There were three key operational factors that contributed to the improved result and that we will continue to work on to further improve:

- Standardized approach to project planning and management.
- Scheduling audits more closely in correlation with the government’s financial reporting process and preparation of financial statements, in order to mitigate the effect of delays by the audit entity.
- Staff continuity on audit assignments.

In addition to learning how to improve the efficiency of some of our audits, our budgets sometimes are not achieved as we identify unexpected financial reporting issues with the entities we are auditing. In those cases, we invest additional audit time over and above what we originally budgeted to ensure management resolves these issues appropriately to ensure Albertans have accurate and complete financial reporting they can rely on.



Through our audit project management results analysis, we learned from those audits that didn't meet their project budgets that we must focus our attention on:

- time devoted to project planning
- realistic audit assumptions
- audit scheduling
- continuing to improve audit team staff continuity and mix, and
- the extent of discussion with auditees on audit reports

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## **Staff turnover rate**

### *Reasonable Cost, Reliable*

This measure considers the number of staff departures as a percentage of the total number of people employed by the office during the year.

Understanding staff turnover is a critical component of business planning and managing costs. We strive to hire and retain highly competent professionals and create a work environment that is positive, engaging and proactive.

Replacing employees adds cost and disruption to our operations: hiring, onboarding, training, mentoring, supervising and reassigning work portfolios. These costs can also be reflected in additional temporary audit staff and extra time spent on audits affected by staff turnover, both of which negatively impact our ability to perform audits within budget.

As a CPA training office, and considering our overall staff mix, the nature of our business and the current economic climate, our target turnover rate for 2018 was 10 to 20 per cent. Our actual turnover rate was 13 per cent. This represents a two percentage points overall increase from last year. Resignations increased by four percentage points while other vacancies such as retirements and leaves decreased.

Through exit interviews with departing staff, we concluded that this increase was driven primarily by the opportunity to make more money somewhere else. The legislative office salary freeze has been in effect since April 1, 2015, and has resulted in a gap between compensation for our professional CPAs and our competitors. Our inability to compensate our staff at levels comparable to public firms and industry, as well as other unionized government organizations (our office is an independent, non-unionized legislative office), has resulted in an increase in staff departures. Our HR team will use the feedback from all exit interviews to understand what lessons we can learn to improve retention of high performing staff going forward.

As competition for qualified CPAs grows within the accounting sector, the requirement to provide industry comparable compensation also grows. This has resulted in our office being at a material disadvantage to attract and retain talented staff, as salary levels are no longer competitive. This will continue to be a challenge for our office moving forward, as the number of senior managers retiring across the public sector continues to increase over the next five to 10 years.



## Accomplishments to Commitments Made in Business Plan for Year Ended March 31, 2018

### Refine our performance audit selection process

- ✓ Completed our performance audit selection process through government consultation and the focus on a risk based, multi-year performance audit plan.
- ✓ Defined a rolling three-year program of performance audit work that focused on programs and services that enable economic diversification, healthy and successful Albertans and environmental sustainability.

### Preserve Albertan's investment in their team of expert legislative auditors

- ✓ Invested resources into attracting, training and retaining staff and creating a positive, engaging work environment.
- ✓ Performed eight audit peer reviews to support high quality audit practices, covering both lines of business within our office (financial statement audits and performance audits).
- ✓ Contributed to the Canadian Audit and Accountability Foundation (CAAF) by initiating and developing a training program on "*Root-cause Analysis*", and participating in design of the training for "*Auditing Gender Equity*" initiatives.
- ✓ Developed a process for certifying competencies of performance auditors, making effective use of CAAF resources.
- ✓ Produced the first Canadian multi-year training curriculum for performance auditors based on the Canadian Council of Legislative Auditors (CCOLA) approved competencies, and shared the curriculum with the CCOLA community.
- ✓ Facilitated growing of external relationships through support for the Office's interaction with the Standing Committee on Public Accounts, regular interaction with the CAAF on a variety of matters, membership in performance audit focus group and participation in the public sector task force.

### Support our people at work; locally, nationally and internationally

- ✓ Supplied audit staff to New Brunswick to support national cooperation and sharing of knowledge, where our staff also gained valuable insights to bring back to their legislative audit work in Alberta.
- ✓ Provided leadership, staff and resources to assist CCOLA, an organization devoted to sharing information and supporting the continued development of legislative auditing methodology, practices and professional development.
- ✓ Participated on CPA Canada standard-setting task forces, to maintain our commitment to leadership in important areas such as accounting for pensions, the conceptual framework underlying public sector accounting standards, and auditing standards for legislative auditors.
- ✓ Completed our partnership initiative with the CAAF in spring 2017, through sharing professional knowledge and personal time hosting Vietnamese guest auditors, and a commitment to continue to encourage and support this global initiative and others like it.



## **Enhance processes; audit and audit support**

- ✓ Developed a five-year Data Analytics strategy to enable us to improve the reliability, efficiency and quality of our reports and provide additional insights on the delivery of government programs and services.
- ✓ Completed extensive review, critique and comparison of our existing financial statement audit methodology with OAG Canada's. While we decided to keep our existing methodology, which is purpose built for our environment, we will use what we learned on the project and where relevant, incorporate good practices from Canada's methodology.
- ✓ Developed more computer-assisted audit techniques (CAATs) to reduce manual testing and enhance the quality and usefulness of data analysis.
- ✓ Implemented a new performance audit methodology that is conformed to Canadian Standards on Assurance Engagement (CSAE) 3001, with increased complexity and scalability to accommodate a larger spectrum of audit entities, as well as new audit standards.
- ✓ Introduced new tools and provided training to our audit staff to further improve audit project management.
- ✓ Developed a succession charter identifying critical roles and critical audit projects which has evolved into a "People and Culture" talent planning project capturing high performing and high potential staff members for recognition and further development.
- ✓ Utilized new avenues for recruitment including LinkedIn mining techniques, Indeed and CPA advertising, and usage of Twitter and Facebook, to attract and retain world class professionals.

## **Engage stakeholders in implementing our performance audit strategic direction and align audit work with government enterprise level risks**

- ✓ Communicated the rationale for the program of performance audit work to audit entities and stakeholders to advance their understanding and engagement.
- ✓ Consulted with an external advisory panel made up of former elected officials, former Deputy Ministers and individuals who have been active in a wide array of public policy roles, to provide input on their view of the risks faced by the Government of Alberta.
- ✓ Developed a process to improve our understanding of the entities we audit through an innovative approach to detailed data analysis and data visualization, in order to align our audit work with the government of Alberta enterprise level risks, and present a holistic and flexible view of the audit entity.

## **Support public engagement in oversight**

- ✓ Began a follow-up performance audit on systems which support the development of integrated reporting in order to provide assurance with respect to each ministry's processes and systems, including accountability for results systems.

## **Transition leadership**

- ✓ Retained external expertise to facilitate effective transition of the new Auditor General in 2018.
- ✓ Engaged in a comprehensive approach to leadership transition, by developing and operationalizing our leadership transition plan.





# Our Finances

# Management Discussion & Analysis

We received an unqualified auditor's report on our externally audited 2018 financial statements. The auditor did not identify any recommendations to improve our financial processes and controls, nor were there any recommendations made or outstanding in previous years.

The following discussion and analysis should be read in conjunction with our audited financial statements.

For the year ended March 31, 2018, the Legislative Assembly provided \$26.8 million for our office's operating and capital expenditures, the same as last year's budget. Our actual spending was \$26.2 million, \$550,000 or two per cent lower than our approved budget, of which \$25.7 million was on operating expenditures and \$483,000 for capital investment.

## Cost of operations by core lines of business

Cost of operations for the year was \$25.9 million, which included "operating expenditures" of \$25.7 million and "annual amortization of capital investment" of \$165,000.

### Performance auditing line of business

- Within the \$7.9 million cost of performance audit operations, about one third related to the publishing of 25 reports in the current year (10 in 2016–2017). The majority of the cost for nine of the 25 reports (those released in May 2017) was incurred in prior years. Two-thirds of the cost was for in-progress work on future years' output.
- We conducted and delivered more performance audit work by dedicating 31 per cent of our total operating resources to performance audit work. The cost of performance auditing was higher than the prior year by \$1.2 million due to the increased volume of performance audit work. The reasons for our success in conducting more performance audit work were centered around **demand, capacity and structure**. See more discussion in our performance measure *Percentage of Costs Dedicated to Performance/ Financial Statement Auditing* on page 32.

### Financial statement auditing line of business

- Within the \$18 million financial statement auditing line of business, about two thirds of the cost contributed to the completion of 139 auditor's reports on financial statements (150 in 2016–2017) and nine auditor's reports on specified financial information (nine in 2016–2017). One third of the cost was for interim work contributing to next year's output.
- Our operating costs for financial statement auditing were under budget by \$817,000 and lower than last year by \$810,000. Cost savings were mainly from reductions in staffing (internal and temporary audit services) and lower than anticipated use of agent and consulting services for certain audits. See detailed reasons and discussions in the spending by expense category section on pages 39 to 40. More financial statement audit projects were completed within budget through better project planning, management, staff scheduling and continuity. See "Performance Measure—Percentage of Financial Statement Audits Completed Within Budget" on page 32 for further discussion. Our improved result demonstrates that emphasis on project planning, staff continuity and collaborative relationships with our auditees will continue to be important to our success.

**From both lines of auditing business**, we generated 26 new recommendations (28 in 2016–2017) and 41 past recommendations were implemented by auditees (16 in 2016–2017).

Learning from our results analysis, we have identified several operational determinants of success in delivering cost effective audits and reliable and relevant recommendations. At the highest level they include:

- Auditee related risks
- Audit staffing
- Audit execution

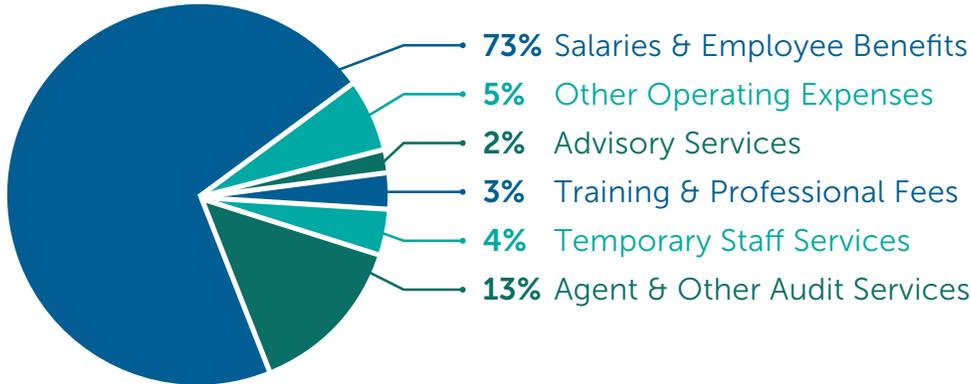
These are influenceable operational areas that our audit leaders can measure and act upon. And by engaging with our auditees, we can work together to learn more about their businesses, which will encourage trust and cooperation and in turn improve the results for Albertans.



## Spending by expense categories

Our actual spending, including operating expenses and capital investment, was \$550,000 (two per cent) under budget and \$731,000 (three per cent) above prior year.

Cost savings to budget were mainly found in our personnel cost pool. The chart on this page illustrates our expense mix. As expected in a “people organization” such as ours, salaries, employee benefits, agents, temporary staff advisory services and training represent the significant majority (95 per cent) of our total expenses.



Salaries and employee benefits were below budget by \$577,000 (three per cent) due to employer pension rate reductions, overall lower salary base as a result of senior staff departures at the top pay range being replaced by junior staff at a lower pay range, and partially offset by the cost increase of three full-time equivalent positions. Although the continued Government of Alberta salary freeze since 2015-2016 reduced the overall salary base, as the job market recovers we are facing an increasing challenge in retaining our skilled professional workforce.

Salaries and employee benefits were higher than the prior year by \$579,000 (three per cent) as a result of focused recruitment initiatives aimed to achieve a fully staffed audit division. A fully staffed audit division is crucial in sustaining our resource allocation mix of 30 per cent performance auditing and 70 per cent financial statement auditing.

We use agent and audit specialists to meet peak work demands and to augment skills not developed in house. Agent and other audit services were under budget by \$461,000 (12 per cent) and lower than prior year by \$260,000 (seven per cent) mainly due to:

- Performance audits—we spent less than anticipated on audit specialists due to auditees not being prepared for certain follow up audits, therefore the related work budgeted in 2017-2018 was moved to 2018-2019.
- Financial statement audits—lower usage of audit specialists on projects due to delays in certain auditee work development, shifting the related planned audit work to 2018-2019 as well as reduction in agent fees due to reorganizations of four auditees.

Actual spending in temporary staff services was under budget by \$158,000 (14 per cent) and comparable to prior year. Our budget, set in November 2016, anticipated eight to 10 staff departures between January to March 2017, before the busy audit season, and it usually takes two to three months to refill vacant positions. However, in January to March 2017, there were only two departures. As a result, fewer temporary audit staff were required for the April to May 2017 busy season. As discussed in our salary section, due to the persistent salary freeze, we are now experiencing higher staff departures, therefore we anticipate our temporary audit staff spending to rise in 2018-2019.



Advisory services were \$350,000 (200 per cent) over budget and \$38,000 (eight per cent) higher than prior year due to:

- External consultation to improve the readability and accessibility of our audit reports and related materials. This included significant redesign of our audit and corporate public reports in support of our strategy to engage stakeholders and the public in our work. We also began development of a new interactive website, which we hope to launch in the summer of 2018.
- Use of a consultant to develop a data analytics strategy for both financial statement and performance audit lines of business. This project will help enhance our understanding of business processes, related risks, and information related to our auditees. We believe data analytics will also enhance our efficiency and cost-effectiveness. The funding was reallocated from the agent fees budget. See discussion in “Agent fees” section on previous page.
- Extension of prior year contracts to complete two projects—Business Resilience and Policy Review. The funding was reallocated from payroll (former special project director’s salary).
- Auditor General transition consultant to engage external stakeholders and provide a report.
- Unbudgeted use of executive search agencies for replacement recruitment of an audit principal and a legislative audit legal advisor. Funds were shifted from salaries budget; available due to the time elapsed between the staff vacancies and the positions being refilled.

Information systems and technology were comparable to budget and higher than the prior year by \$69,000 (14 per cent) as we replaced our mobile devices during the year due to outdated software leaving us open to security vulnerabilities. During the year, we also acquired additional user-based licenses as more staff are using file secure transfer to transmit documents to external stakeholders to ensure security of confidential information.

Travel was under budget by \$76,000 (15 per cent) and \$43,000 (nine per cent) lower than the prior year, as interim audit work requiring travel initially planned within 2017-2018 was moved to the beginning of 2018-2019.

Materials and supplies were comparable to budget and higher than the prior year by \$45,000 (24 per cent) mainly due to increased printing costs for public reports as the number of reported audits more than doubled from the prior year (10 to 25) and new printed materials were required to support auditor recruitment.

Capital investments were over budget by \$419,000 (656 per cent) and higher than the prior year by \$235,000 (95 per cent) mainly due to our laptop fleet replacement. Replacement was initially intended for April and May of 2018 but as the fleet hardware was outdated and warranty for the current fleet expired in March 2018, we needed to replace them before the 2018 busy season in order to minimize disruption and inefficiencies in our audits.

It is normal to have a surplus or deficit in any given fiscal year and this year’s variance of two per cent was within the normal range. We budget according to planned audit timelines, however some of our audits span multiple years and therefore a small variance is not unexpected.

We are pleased to report achievement of the goals we set out in our 2017-2018 business plan, while cost-effectively staying within our approved budget. The lessons we learned as we monitored our results and implemented correcting and improving actions reinforce what we’ve set out to accomplish with the five strategies identified in our 2017-2022 strategic plan *Charting Our Course in a Changing World*:

1. Engage our people in meeting future opportunities and challenges
2. Strengthen our working relationship with the public services
3. Engage our stakeholders and the public in our work
4. Improve and advance the government’s integrated financial and non-financial performance reporting
5. Develop capacity and resilience to identify, analyze and respond to disruptive events

We are excited to continue to move forward in our goal to make a difference in the lives of Albertans by performing relevant, reliable, reasonably priced work that is acted upon.



# Management's Responsibility for Financial Reporting

## Legislative Assembly of Alberta Office of the Auditor General

### Management's Responsibility for Financial Reporting

The financial statements of the Office of the Auditor General, including the performance measures, are the responsibility of office management.

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards. Financial statements are not precise, since they include certain amounts based on estimates and judgments. When alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances to ensure that the financial statements are presented fairly in all material respects.

The performance measures and related targets match those included in the office's 2017–2018 business plan. The performance information is reliable, agrees with the underlying source data, methodologies are clearly set and applied consistently for the current and prior year's results.

The office maintains control systems designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the relevance and reliability of internal and external reporting, and compliance with authorities. The costs of control are balanced against the benefits, including the risks that the control is designed to manage.

The financial statements, including performance measure results, have been audited by St. Arnaud Pinsent Steman, Chartered Professional Accountants, on behalf of the members of the Legislative Assembly.



W. Doug Wylie FCPA, FCMA, ICD.D  
Auditor General  
June 26, 2018



Ruth McHugh MBA, FCPA, FCMA, ICD.D  
Chief Operating Officer  
June 26, 2018

# Legislative Assembly of Alberta Office of the Auditor General Financial Statements March 31, 2018

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# Independent Auditors' Report



## ST. ARNAUD PINSENT STEMAN

CHARTERED PROFESSIONAL ACCOUNTANTS

Daniel J. St. Arnaud, CPA, CA\*\*  
John H.C. Pinsent, FCPA, FCA, ICD.D\*\*  
Benantus C. Steman, CPA, CA, CFA\*\*

## INDEPENDENT AUDITORS' REPORT

To the Members of the Legislative Assembly

### Report on the Financial Statements

We have audited the accompanying financial statements of the Legislative Assembly of Alberta Office of the Auditor General, which comprise the statement of financial position as at March 31, 2018, and the statement of operations, statement of change in net debt and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting principles, and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian public sector auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Unqualified Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Legislative Assembly of Alberta Office of the Auditor General as at March 31, 2018, and its financial performance, its net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting principles.

Edmonton, Alberta  
June 26, 2018

  
John H. C. Pinsent Professional Corporation  
Chartered Professional Accountant

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\*An Association to Practice Chartered Accountancy \*\* Operates as a Professional Corporation

Legislative Assembly of Alberta  
Office of the Auditor General  
**Statement of Operations**  
Year Ended March 31, 2018

	<b>2018</b>		<b>2017</b>
	<b>Budget</b>	<b>Actual</b>	<b>Actual</b>
<b>Expenses by core lines of business</b>			
Performance auditing <sup>1</sup>	\$ 8,010,000	\$ 7,903,404	\$ 6,676,345
Financial statement auditing <sup>2</sup>	18,800,000	17,982,743	18,793,373
<b>Cost of operations for the year (Note 7)</b>	<b><u>\$ 26,810,000</u></b>	<b><u>\$ 25,886,147</u></b>	<b><u>\$ 25,469,718</u></b>

The accompanying notes and schedules are an integral part of these financial statements.

- 
- 1 Performance audits examine major programs or initiatives an organization undertakes to achieve its goals.
  - 2 Financial statement audits include reporting on financial statements, compliance with authorities, and research and advice.

Legislative Assembly of Alberta  
Office of the Auditor General  
**Statement of Financial Position**  
As at March 31, 2018

	<u>2018</u>	<u>2017</u>
<b>Financial asset</b>		
Accounts receivable	\$ 22,356	\$ 16,760
<b>Liabilities</b>		
Accounts payable and accrued liabilities	1,967,545	1,693,323
Accrued vacation pay	2,500,437	2,390,849
	<u>4,467,982</u>	<u>4,084,172</u>
<b>Net debt</b>	<u>(4,445,626)</u>	<u>(4,067,412)</u>
<b>Non-financial assets</b>		
Tangible capital assets (Note 3)	755,015	437,296
Prepaid expenses	157,866	228,001
	<u>912,881</u>	<u>665,297</u>
<b>Net liabilities</b>	<u>\$ (3,532,745)</u>	<u>\$ (3,402,115)</u>
<b>Net liabilities at beginning of year</b>	\$ (3,402,115)	\$ (3,394,232)
Cost of operations	(25,886,147)	(25,469,718)
Net financing provided from General Revenues	25,755,517	25,461,834
<b>Net liabilities at end of year</b>	<u>\$ (3,532,745)</u>	<u>\$ (3,402,115)</u>

The accompanying notes and schedules are an integral part of these financial statements.

Legislative Assembly of Alberta  
Office of the Auditor General  
**Statement of Change in Net Debt**  
Year Ended March 31, 2018

	<b>2018</b>		<b>2017</b>
	<b>Budget</b>	<b>Actual</b>	<b>Actual</b>
<b>Cost of operations</b>	\$ (26,810,000)	\$ (25,886,147)	\$ (25,469,718)
Purchase of tangible capital assets	(64,000)	(483,056)	(248,264)
Amortization and write-down of tangible capital assets	120,000	165,337	244,743
Decrease (increase) in prepaid expenses		70,135	(90,676)
Net financing provided from General Revenues		25,755,517	25,461,834
<b>Increase in net debt</b>		(378,214)	(102,082)
<b>Net debt at beginning of year</b>		(4,067,412)	(3,965,331)
<b>Net debt at end of year</b>		<u>\$ (4,445,626)</u>	<u>\$ (4,067,412)</u>

The accompanying notes and schedules are an integral part of these financial statements.

Legislative Assembly of Alberta  
Office of the Auditor General  
**Statement of Cash Flows**  
Year Ended March 31, 2018

	<u>2018</u>	<u>2017</u>
<b>Operating transactions:</b>		
Cost of operations	\$ (25,886,147)	\$ (25,469,718)
Non-cash item included in net operating results:		
Amortization and write-down of tangible capital assets	<u>165,337</u>	<u>244,743</u>
	(25,720,810)	(25,224,975)
(Increase) decrease in accounts receivable	(5,596)	5,212
Decrease (increase) in prepaid expenses	70,135	(90,676)
Increase (decrease) in accounts payable and accrued liabilities	274,222	(8,797)
Increase in accrued vacation pay	<u>109,588</u>	<u>105,666</u>
Net cash used by operating transactions	<u>(25,272,461)</u>	<u>(25,213,570)</u>
<b>Capital transactions:</b>		
Purchase of tangible capital assets	<u>(483,056)</u>	<u>(248,264)</u>
<b>Financing transactions:</b>		
Net financing provided from General Revenues	<u>25,755,517</u>	<u>25,461,834</u>
<b>Net cash provided (used)</b>	<u>-</u>	<u>-</u>
<b>Cash beginning of year</b>	<u>-</u>	<u>-</u>
<b>Cash end of year</b>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes and schedules are an integral part of these financial statements.

Legislative Assembly of Alberta  
Office of the Auditor General  
**Notes to the Financial Statements**  
Year Ended March 31, 2018

**Note 1 Authority and Purpose**

The Auditor General is an officer of the Legislature operating under the authority of the *Auditor General Act, Chapter A-46, Revised Statutes of Alberta 2000*. General Revenues of the Province of Alberta fund both the cost of operations of the Office of the Auditor General and the purchase of tangible capital assets. The all-party Standing Committee on Legislative Offices reviews and approves the office's annual budget, and also appoints the independent auditor for the office's financial statements.

The Office of the Auditor General serves the Legislative Assembly and the people of Alberta. Our mandate is to examine and report publicly on government's management of, and accountability practices for, the public resources entrusted to it. The auditor general is the auditor of every ministry, department, regulated fund, and most provincial agencies. The results of the office's work are included in the public reports of the auditor general presented to the Legislative Assembly.

**Note 2 Significant Accounting Policies and Reporting Practices**

These financial statements are prepared in accordance with Canadian public sector accounting standards, which use accrual accounting. The adoption of PS 3450 Financial Instruments standard has no material impact on the financial statements of the office, which is why there is no statement of remeasurement gains and losses.

Other pronouncements issued by the Public Sector Accounting Board that are not yet effective are not expected to have a material impact on future financial statements of the office.

**(a) Expenses**

The office's expenses are either directly incurred or incurred by others:

**Directly incurred**

Directly incurred expenses are those costs incurred under the authority of the office's budget as disclosed in Note 5. Pension costs included in directly incurred expenses comprise employer contributions to multi-employer plans. The contributions are based on actuarially determined amounts that are expected to provide the plans' future benefits.

**Incurred by others**

Services contributed by other entities in support of the office's operations are not recognized and are disclosed in Note 7.

**(b) Tangible capital assets**

Tangible capital assets are recorded at historical cost less accumulated amortization. Amortization begins when the assets are put into service and is recorded on a straight-line basis over the estimated useful lives of the assets as disclosed in Note 3.

**(c) Net debt**

Net debt indicates additional cash that will be required from General Revenues to finance the office's cost of operations to March 31, 2018.

**(d) Cost of operations**

Statement of operations summarizes the allocation of operating expenses between our two core lines of business, equivalent to reporting by major programs required by Canadian public sector accounting standards. Expenses by object are disclosed in Schedule 1.

**Note 3 Tangible Capital Assets**

	Computer hardware	Computer software	Furniture and equipment	2018 Total	2017 Total
Estimated useful life	3-4 years	3-4 years	10 years		
Historical cost <sup>1</sup>					
Beginning of year	\$ 1,452,858	\$ 277,245	\$ 661,056	\$ 2,391,159	\$ 2,209,719
Additions	421,444	-	61,612	483,056	248,264
Write-downs and disposals	(70,071)	-	-	(70,071)	(66,824)
	<u>1,804,231</u>	<u>277,245</u>	<u>722,668</u>	<u>2,804,144</u>	<u>2,391,159</u>
Accumulated amortization					
Beginning of year	1,129,481	230,462	593,920	1,953,863	1,775,944
Amortization expense	135,511	15,982	13,844	165,337	244,743
Write-downs and disposals	(70,071)	-	-	(70,071)	(66,824)
	<u>1,194,921</u>	<u>246,444</u>	<u>607,764</u>	<u>2,049,129</u>	<u>1,953,863</u>
Net book value at March 31, 2018	<u>\$ 609,310</u>	<u>\$ 30,801</u>	<u>\$ 114,904</u>	<u>\$ 755,015</u>	
Net book value at March 31, 2017	<u>\$ 323,377</u>	<u>\$ 46,783</u>	<u>\$ 67,136</u>		<u>\$ 437,296</u>

<sup>1</sup>Historical cost includes work-in-progress at March 31, 2018 totalling \$415,584 (2017: \$195,277).

**Note 4 Benefit Plans**

The office participates in multi-employer pension plans: Management Employees Pension Plan, Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of \$2,155,215 for the year ended March 31, 2018 (2017: \$2,249,145). The office is not responsible for future funding of the plan deficits other than through contribution increases.

At December 31, 2017, the Management Employees Pension Plan reported a surplus of \$866,006,000 (2016: surplus \$402,033,000), the Public Service Pension Plan reported a surplus of \$1,275,843,000 (2016: surplus \$302,975,000) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of \$54,984,000 (2016: deficiency \$50,020,000).

The office also participates in a multi-employer Long Term Disability Income Continuance Plan. At March 31, 2018, the Management, Opted Out and Excluded Plan reported an actuarial surplus of \$29,805,000 (2017: surplus \$31,439,000). The expense for this Plan is limited to the employer's annual contributions for the year.

**Note 5 Budget**

The budget shown on the statement of operations is based on the budgeted expenses that the all-party Standing Committee on Legislative Offices approved on December 2, 2016. The following table compares the office's actual expenditures, excluding non-voted amounts such as amortization, to the approved budgets:

	<u>Voted budget</u>	<u>Actual</u>	<u>Unexpended</u>
Operating expenditures	\$ 26,690,000	\$ 25,720,810	\$ (969,190)
Capital investment	64,000	483,056	419,056
	<u>\$ 26,754,000</u>	<u>\$ 26,203,866</u>	<u>\$ (550,134)</u>

**Note 6 Contractual Obligations**

Contractual obligations are obligations of the office to others that will become liabilities in the future when the terms of the contracts or agreements are met.

As at March 31, 2018, the office had the following contractual obligations:

	<u>2018</u>	<u>2017</u>
Obligations under contracts and operating lease	<u>\$ 4,866,000</u>	<u>\$ 7,404,000</u>

Estimated payment requirements for the unexpired terms of these contractual obligations are as follows:

2019	\$ 2,723,000
2020	<u>2,143,000</u>
	<u>\$ 4,866,000</u>

**Note 7 Expenses Incurred by Others**

The office had transactions with other Government of Alberta entities for which no consideration was exchanged. The amounts for the following transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements.

	<u>2018</u>	<u>2017</u>
Expenses incurred by Alberta Infrastructure office premises	<u>\$ 1,015,040</u>	<u>\$ 993,100</u>
Expenses incurred by Service Alberta technology services	<u>\$ 163,000</u>	<u>\$ 167,000</u>
Expense incurred by the Legislative Assembly Office independent auditor's fee	<u>\$ 29,500</u>	<u>\$ 34,000</u>

**Note 8 Comparative Figures**

Certain 2017 figures have been reclassified to conform to the 2018 presentation.

**Note 9 Approval of the Financial Statements**

These financial statements were approved by the Auditor General and the Chief Operating Officer on June 26, 2018.

## Schedule 1

Legislative Assembly of Alberta  
Office of the Auditor General  
**Expenses—Directly Incurred Detailed by Object**  
Year Ended March 31, 2018

	2018		2017
	Budget	Actual	Actual
<b>Expenses</b>			
Personnel			
Salaries	\$ 15,485,000	\$ 15,479,469	\$ 14,848,814
Employee benefits	3,880,000	3,308,635	3,360,099
	<u>19,365,000</u>	<u>18,788,104</u>	<u>18,208,913</u>
Agent and other audit services	3,790,000	3,328,670	3,588,495
Temporary staff services	1,095,000	936,889	914,979
Advisory services	175,000	525,221	487,361
	<u>24,425,000</u>	<u>23,578,884</u>	<u>23,199,748</u>
Supplies and services			
Training and professional fees	785,000	760,291	732,636
Information systems and technology	560,000	541,745	472,299
Travel	510,000	433,944	477,410
Materials and supplies	230,000	232,112	187,270
Telephone and communications	85,000	68,042	67,516
Equipment rental	50,000	59,317	53,365
Repairs and maintenance	25,000	29,374	17,302
Miscellaneous	20,000	17,101	17,430
	<u>2,265,000</u>	<u>2,141,926</u>	<u>2,025,227</u>
Operating expenditures	26,690,000	25,720,810	25,224,975
Amortization and write-down of tangible capital assets	120,000	165,337	244,743
<b>Cost of operations for the year</b>	<u>\$ 26,810,000</u>	<u>\$ 25,886,147</u>	<u>\$ 25,469,718</u>

## Schedule 2

Legislative Assembly of Alberta  
Office of the Auditor General  
**Salary and Benefits Disclosure**  
Year Ended March 31, 2018

The tables below summarize the salary and benefits of the office leadership team:

2018						
	Base salary <sup>(1)</sup>	Cash benefits <sup>(2)</sup>	Non-cash benefits <sup>(3)</sup>	Total	Cashed out vacation	Total including cashed out vacation
Auditor General <sup>(4)</sup>	\$ 271,870	\$ -	\$ 18,839	\$ 290,710	\$ 20,733	\$ 311,443
Assistant Auditor General <sup>(5)</sup>	206,416	-	52,019	258,435	-	258,435
Assistant Auditor General <sup>(6)</sup>	200,404	-	49,681	250,085	-	250,085
Assistant Auditor General <sup>(7)</sup>	190,436	50	48,515	239,001	20,508	259,509
Assistant Auditor General <sup>(8)</sup>	190,436	-	47,802	238,238	35,457	273,695
Chief Operating Officer <sup>(9)</sup>	190,436	42,326	11,284	244,046	-	244,046
Business Leader <sup>(10)</sup>	176,444	39,121	12,069	227,634	-	227,634
Business Leader <sup>(11)</sup>	162,375	-	63,709	226,084	-	226,084
	<u>\$ 1,588,817</u>	<u>\$ 81,497</u>	<u>\$ 303,918</u>	<u>\$ 1,974,233</u>	<u>\$ 76,698</u>	<u>\$ 2,050,931</u>

2017						
	Base salary <sup>(1)</sup>	Cash benefits <sup>(2)</sup>	Non-cash benefits <sup>(3)</sup>	Total	Cashed out vacation	Total including cashed out vacation
Auditor General <sup>(4)</sup>	\$ 272,916	\$ -	\$ 22,425	\$ 295,341	\$ 31,370	\$ 326,711
Assistant Auditor General <sup>(5)</sup>	207,210	-	58,142	265,352	-	265,352
Assistant Auditor General <sup>(6)</sup>	201,175	-	55,646	256,821	19,270	276,091
Assistant Auditor General <sup>(7)</sup>	191,168	-	54,219	245,387	-	245,387
Assistant Auditor General <sup>(8)</sup>	191,168	-	53,945	245,113	-	245,113
Chief Operating Officer <sup>(9)</sup>	191,168	44,271	12,014	247,453	15,154	262,607
Business Leader <sup>(10)</sup>	177,123	40,951	11,734	229,808	-	229,808
Business Leader <sup>(11)</sup>	26,914	9,893	9,858	46,665	-	46,665
	<u>\$ 1,458,843</u>	<u>\$ 95,116</u>	<u>\$ 277,985</u>	<u>\$ 1,831,944</u>	<u>\$ 65,793</u>	<u>\$ 1,897,737</u>

- (1) Due to bi-weekly pay schedule, there were 260 working days in 2018 and 261 working days in 2017.
- (2) Cash benefits include employee recognition award, lump sum parental payments and payments in lieu of certain employer contributions towards non-cash benefits such as long-term disability insurance and pensions. No bonuses were paid in 2018 and 2017.
- (3) Non-cash benefits include the office's share of all employee benefits, and contributions or payments made on behalf of employees including Canada pension plan, employment insurance, employer pension plan, supplementary retirement plans, health care, dental coverage, group life insurance, short-term and long-term disability plans, Workers' Compensation Board premiums, professional memberships and fair market value of parking.
- (4) Non-cash benefits for the auditor general paid by the office includes \$12,600 (2017: \$14,100) being the lease, fuel, insurance and maintenance expenses for an automobile provided.

**Office Leadership Team responsibilities as at March 31, 2018:**

- (5) Children's Services, Community Social Services, Executive Council, Health, Legislative Assembly and Officers of the Assembly, Seniors and Housing
- (6) Infrastructure, Municipal Affairs, Treasury Board and Finance
- (7) Advanced Education, Economic Development and Trade, Education, Indigenous Relations, Labour, Transportation
- (8) Agriculture and Forestry, Culture and Tourism, Energy, Environment and Parks, Justice and Solicitor General, Service Alberta, Status of Women
- (9) Office operations including Administration, Finance & Accountability, Information & Related Technology, People & Culture and Stakeholder Engagement
- (10) Performance audit practice
- (11) Financial statement audit practice (on leave from January 4, 2016 to February 6, 2017)

Legislative Assembly of Alberta  
Office of the Auditor General  
**Performance Measures Summary**  
Year Ended March 31, 2018

PERFORMANCE MEASURES	ACTUAL 2016	ACTUAL 2017	TARGET 2018	ACTUAL 2018
<b>RELEVANT AUDITING</b>				
Percentage of the auditor general's recommendations accepted for implementation <sup>1</sup> (also <i>Reliable auditing</i> )	100%	100%	95%	100%
Percentage of follow-up audits initiated within twelve months of notification of implemented recommendations	New for 2017	100%	100%	100%
Issue auditor's report on Alberta's consolidated financial statements by June 30 (for the preceding March 31 fiscal year end)	June 23, 2015	June 23, 2016	June 30, 2017	June 20, 2017
Percentage of costs dedicated to performance: financial statement auditing <sup>2</sup> (also <i>Reasonable cost auditing</i> )	29:71%	26:74%	30:70%	31:69%
<b>RELIABLE AUDITING</b>				
Assessment of compliance with the Chartered Professional Accountants (CPA) Alberta practice review standards for the office's audits of financial statements <sup>3</sup>	Compliance achieved	No assessment	No assessment	No assessment
<b>REASONABLE COST AUDITING</b>				
Staff turnover rate <sup>4</sup> (also <i>Reliable auditing</i> )	16%	11%	10-20%	13%
Percentage of financial statement audits completed within budget	59%	62%	75%	71%

- 1 Acceptance for implementation does not include audit recommendations accepted in principle or under review by ministries and other entities.
- 2 31:69% is a positive result that exceeded our target of 30:70%.
- 3 The practice review is carried out every three years. An assessment was done in 2016 and the next one is expected in 2019.
- 4 As a CPA training office, we consider a turnover rate in the 10 to 20 per cent range to be realistic and reasonable.

# Not the end, just the beginning ...

As we end this report, we wanted the last note to be a look to the future by recognizing the major career accomplishment of eight of Alberta's newest accounting professionals.

As a CPA training office, in December 2017 we celebrated the success of our CPA Common Final Exam (CFE) writers (pictured left to right) for passing one of the most challenging professional exams in the country:

- Theo Kim
- Ali Charkeih
- Amarveer Bajwa
- Brian Law
- Lily Vuong
- Ian St. Dennis
- Marilyn Tran
- Fariha Naomi

You represent the future of the accounting and auditing profession, and our office, and we are honoured to be part of your journey towards achieving your CPA designations.

***Congratulations!***



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