2020–2021 Consolidated Financial Statements of the Province of Alberta

Auditor General
OF ALBERTA

Report of the Auditor General

November 2021

Introduction

We prepared this chapter to help readers of the Province's Consolidated Financial Statements understand our audit and the audit matters or items that in our professional judgement were most significant to the audit of the Province's Consolidated Financial Statements. These include the government's contracts related to the Keystone XL pipeline and North West Redwater partnership, and environmental liabilities. We also include information on the impact of COVID-19 and the government's implementation of its new enterprise resource planning system (1GX) in our audit.

Alberta Treasury Board and Finance is responsible for preparing the Province's Consolidated Financial Statements and ensuring that transactions and events are fairly presented in accordance with Canadian Public Sector Accounting Standards (PSAS). It is our responsibility to express an independent opinion that provides reasonable assurance that the consolidated financial statements are free of material misstatements and are fairly presented in accordance with PSAS.

We issued an unqualified (clean) audit opinion for the Province's Consolidated Financial Statements. Based on our work, we have concluded the 2020–2021 financial statements are fairly presented in accordance with PSAS.

Background

The Province's Consolidated Financial statements account for the full nature and extent of the financial affairs and resources of government, including the financial results of departments; regulated funds; agencies, boards and commissions; the legislative assembly and legislative offices; schools, universities, colleges and health entities such as Alberta Health Services; and government business enterprises such as ATB Financial and the Alberta Petroleum Marketing Commission. The financial statements provide a comprehensive view of the revenues that the province recognized, its spending on various programs for 2020–2021, and its financial position at March 31, 2021.

The Office of the Controller is responsible for preparing the Province's Consolidated Financial Statements in accordance with PSAS. These standards ensure the financial information is presented fairly and on a comparable basis to prior years and to other governments. Departments, provincial agencies, and crown-controlled organizations are responsible for:

- implementing internal controls related to the collection and disbursement of money and safeguarding of assets
- ensuring transactions comply with applicable legislation and regulations
- ensuring transactions are properly recorded in financial systems to reflect the substance of the transactions in accordance with the applicable financial reporting frameworks

Management also uses judgement to prepare estimates included in the financial statements. The significant estimates include, for example, income taxes and non-renewable resource revenue.

Understanding the financial statements

The Province's Consolidated Financial Statements provide information for Albertans and Members of the Legislative Assembly. They tell an important story about the province's financial condition and the financial results for the year ended March 31, 2021. They show how much revenue the government raised and the sources and degree of uncertainty in estimating some of those revenues, such as income taxes. The financial statements also provide accountability information to show how money was spent compared to approved budgets and in which areas, such as healthcare and education. The financial statements further provide information about the province's financial assets, liabilities and capital assets.

The financial statements alone are not sufficient to communicate the complete picture of the province's financial health and annual results. The *Government of Alberta Annual Report 2020-2021* includes a section *Budget 2020 Key Results* that supplements the financial statements. The government also publishes the 2021 Final Results – Year-end report[1] with the annual report. These reports provide additional explanations for significant variances from budgets and prior years' financial results.

In addition, ministry annual reports include more detailed variance analysis of ministry revenues and expenses, comparing actual results to the budget approved by the Legislative Assembly and to prior-year results. The ministry annual reports also include financial information about significant programs and information required by legislation, such as reporting payments under agreements.

What is debt, gross debt, net debt and net assets/(liabilities)?

The financial statements include important information about debt, gross debt, net debt and net assets/(liabilities). Questions often arise about what these terms mean. On the following page, we explain these terms and factors that readers and decision makers should consider when analyzing the information.

[1] https://open.alberta.ca/dataset/9c81a5a7-cdf1-49ad-a923-d1ecb42944e4/resource/732c465a-196e-488f-8b79-c774197dedf9/download/2020-21-final-results-year-end-report.pdf

Alberta's Debt, Net Debt and Net Assets / (Liabilities) as at March 31, 2021

Balance	What it means	What to consider
Debt **$111.7 billion**	This is the money the government borrows and must repay. Government borrows money to pay for programs and capital expenditures and to lend to: • various entities, such as cities, towns, villages, and regional airport authorities through the Department of Treasury Board and Finance[2] • entities and farmers in the agriculture sector through the Agriculture Financial Services Corporation The financial statements, Schedule 11, disclose the province's debt, including liabilities related to Public-Private Partnerships of $3.1 billion and capital leases of $268 million.	Debt can be broken down into: • Debt for which the government must raise revenues and surpluses to repay the debt. Government refers to this as "Taxpayer supported debt". This totals $93.3 billion, which includes P3 liabilities and capital leases. Government must generate enough revenues and surpluses to pay off this debt. Alternatively, government can also "roll-over" the debt when it borrows money again to pay off a debt that becomes due. • Debt that government issues to lend the money to various entities, such as cities, towns, villages, regional airport authorities, and entities in the agriculture sector that are required to repay their loans. This totals $18.4 billion. This debt is mostly offset by the loans receivable from the above entities. These are included in Loans and Advances on the statement of financial position and have further details in Schedule 9 to the financial statements.
Gross debt **$117.8 billion**	This is the $111.7 billion in debt described above, plus $6.1 billion in debt of government business enterprises, such as ATB Financial, the Balancing Pool, and the Alberta Petroleum Marketing Commission.	The Department of Treasury Board and Finance issues debt on behalf of these government business enterprises. These entities generate revenues from their commercial operations to pay off the debt.
Net debt **$59.5 billion**	This is the difference between the province's financial assets and liabilities. When the difference is negative, it means that the government must generate future surpluses to pay for past transactions and events (net debt). When the difference is positive, it means the province has financial resources available to pay for future programs and capital expenditures (net financial assets).	Financial assets include endowment investments of $2.7 billion. Entities must maintain endowments in perpetuity and can only use the income from the endowment investments for specific purposes that donors specify. Post-secondary institutions hold most of the province's endowments. Financial assets also include investments held in regulated funds, such as the Alberta Heritage Savings Trust Fund, that are restricted by legislation. Generally, these funds are not available to pay off liabilities.

2 The Alberta Capital Finance Authority was dissolved on October 31, 2020, and its responsibilities were transferred to the Department of Treasury Board and Finance.

Balance	What it means	What to consider
Net assets/ (liabilities) ($5.8 billion)	This is the province's net debt plus tangible capital assets and other non-financial assets. If the difference is positive, it means that the province's assets (financial and non-financial) exceed its liabilities. When the difference is negative, it means the province's liabilities exceed its assets.	The government often incurs debt to build or buy tangible capital assets. Thus, while there is an increase in debt, there is also often an increase in the province's assets, and the province will use these assets over a long period of time. However, as the province borrows more for operating purposes, the net assets may become negative. This is what happened in 2021. The province moved from net assets of $11.4 billion in 2020 to net liabilities of $5.8 billion in 2021.

Audit Opinion on 2020-2021 Consolidated Financial Statements

The Office of the Auditor General, under the *Auditor General Act*, is responsible for the annual audit of the Province’s Consolidated Financial Statements. The objective of our audit is to provide reasonable assurance that the consolidated financial statements are free of material misstatements and are fairly presented in accordance with PSAS.

On June 21, 2021, we issued an unqualified (clean) audit opinion on the Province’s Consolidated Financial Statements for the year ended March 31, 2021. A clean audit opinion means that we concluded, based on obtaining sufficient and appropriate audit evidence, that the financial statements are free of material misstatements and are presented fairly in accordance with PSAS.

Our audit opinion on the Province’s Consolidated Financial Statements provides confidence to readers about the financial statements because we:

- are independent of government
- have a professional obligation to comply with Canadian Auditing Standards when auditing the financial statements

As part of our audit, we are required by Canadian Auditing Standards to:

- understand the entities and business activities included in the Province's Consolidated Financial Statements
- assess the risks of material misstatement
- perform appropriate audit procedures to obtain sufficient and appropriate audit evidence to support our conclusion
- evaluate and conclude whether the Province's Consolidated Financial Statements fairly present the financial position, results of operations, cash flows, and changes in net debt

Our audit included consideration of internal control in order to design audit procedures but was not for the purpose of expressing an opinion on the effectiveness of internal control and is not designed to identify all matters that may be of interest to users. Internal control and other matters are limited to those we identified during the audit.

An effective and efficient internal control program that mitigates key financial and operational risks is an essential part of any organization. A key part of such an internal control program is evaluating the substance of transactions and events based on applicable accounting standards to ensure the complete, accurate and appropriate accounting and disclosures in financial statements. In an environment where financial and operational risks are continually changing and emerging, a structured program for internal controls can assist an organization in identifying, assessing and responding when appropriate to the changing environment. Effective internal controls ensure reliable financial reporting, effective and efficient operations, and compliance with legislation and internal policies.

Key Audit Matters

Our audit of the *2020-2021 Consolidated Statements of the Province of Alberta* focused on the following key risks—or those matters that, in our professional judgement, were of most significance—during our audit:

- Impact of COVID-19
- Implementation of the new enterprise resource planning system, called 1GX. This is an integrated system that manages various business processes, such as human resources and payroll, procurement, capital asset management, financial transactions and financial reporting.
- Investment in the Keystone XL pipeline
- Government's contracts with the North West Redwater Partnership
- Environmental liabilities

The communication of key audit matters does not alter in any way our opinion about the consolidated financial statements, taken as a whole, and we are not, by communicating the key audit matters below, providing separate opinions about the key audit matters or the accounts or disclosures to which they relate.

COVID-19 impacts, government's actions and our audit procedures for the audit of the Province's Consolidated Financial Statements

Overview of Risk

The impacts of COVID-19 on the economy and financial markets and government's actions in response to these introduced additional audit risks such as the valuation of investments, collectability of loans and other receivables, and whether recipients met eligibility requirements for new COVID-19 programs. Governments implemented emergency measures to combat the spread of the virus. Significant uncertainties remain about the impacts of COVID-19. The unprecedented nature of COVID-19 and the emergency measures had a significant impact on the economy, stock markets, individuals, businesses and organizations.

In response, the Alberta government implemented various programs and publicly announced supports and financial relief to individuals, businesses and organizations. In addition, the federal government also announced various programs and provided funding to the Province of Alberta. Some of the funding had stipulations on its use, affecting when revenue is recognized.

What We Examined

We:

- requested management to provide us an accounting assessment of the impacts on their financial statements
- updated our understanding and risk assessments, including the impact of any emergency measures, new programs or relief measures, government announcements, ministerial orders, and relevant changes in processes and internal controls
- performed additional audit procedures to ensure that management appropriately recognized and disclosed the transactions in their financial statements. This included:
    - additional testing of investment valuations and other-than-temporary declines in investment values
    - testing the collectability of loans and other receivables
    - performing a range of control and substantive audit procedures related to COVID-19 spending to verify that transactions were appropriately accounted for and disclosed
    - verifying that transactions and events were recorded in the correct period
    - examining whether disclosures such as measurement uncertainty and subsequent events appropriately described the impacts of COVID-19
    - evaluating management's accounting assessment whether the federal government set stipulations on the use of the funding, and verifying that management deferred revenue when stipulations were not met or recognized revenue when stipulations were met

What We Found

We found that entities assessed the impact of COVID-19 and appropriately reflected these impacts and transactions in their financial statements. We conclude amounts and disclosures in the consolidated financial statements relating to COVID-19 related expenses, inventory balances, revenue and deferred revenues were reasonable.

Context

The province announced various programs to provide financial supports to Albertans, businesses and other organizations. Some of these programs were funded by the federal government. Below is a table of some of the significant programs included in our audit.

Program	Expenses recognized to March 31, 2021
Small and Medium Enterprise Relaunch Grant (SMERG)	$626 million
Critical Workers Benefit	$365 million
Site Rehabilitation Program	$128 million
Various programs funded under the Safe Restart Agreement with the federal government. The most significant components are:	
• Health related programs for:	
› healthcare capacity	• $276 million
› mental health and problematic substance use	• $45 million
› vulnerable populations	• $147 million
› testing, contact tracing and data management	• $264 million
• Municipal Operating Support Transfer	$576 million
• Personal Protective Equipment	$539 million

The federal government provided significant funding to the province for various programs related to COVID-19. For example, it provided $1 billion for the site rehabilitation program and $1.3 billion under the Safe Restart Agreement.[3] Most of this funding had stipulations on how the province must use it or that the province must provide matching funding. The province recognized the funding as deferred revenue until it met the stipulations, at which time the province would recognize the revenue. For example, for the site rehabilitation program, the federal government provided $1 billion to the province to remediate and reclaim inactive wells. At March 31, 2021, the province had spent $128 million. Thus, it had met the stipulations for that amount and recognized $128 million as revenue, while the remaining $872 million is reported as deferred revenue since the province has not yet met the stipulations at March 31, 2021. The province will recognize the deferred revenue into revenue in future years when it pays companies for the eligible cleanup work under the Site Rehabilitation Program.

The province recorded the fair value of contributed personal protective equipment and supplies it received at no cost from the Government of Canada in response to COVID-19. The province did not record the COVID-19 vaccines because the fair value of the vaccines could not be reasonably determined as the Government of Canada could not share the price per vaccine with the province due to confidentiality clauses embedded in contracts between the Government of Canada and the various COVID-19 vaccine manufacturers.

[3] https://www.canada.ca/en/intergovernmental-affairs/services/safe-restart-agreement/letters/alberta.html

Implementation of new enterprise resource planning system

Overview of Risk

The government implemented a new enterprise resource planning (ERP) system (called 1GX for "one government experience") and common business processes and controls for finance, procurement and human resources. Three departments piloted 1GX starting July 1, 2020, while all other departments transitioned on December 1, 2020.

What We Examined

We performed the following work over the implementation of 1GX to allow us to issue our audit opinion regarding the province's financial statements. We:

- reviewed and relied on the work that Corporate Internal Audit Services (CIAS) completed on the design and implementation of controls over 1GX, including access controls and data conversion. On a sample basis, we reperformed audit procedures on a sample basis that CIAS completed to allow us to rely on their audit work
- tested the financial data to ensure that IMAGIS (the government's previous enterprise resource planning system) data was completely and accurately converted to 1GX systems
- examined the delegation of authority for approvals implemented in 1GX
- assessed whether that Service Alberta implemented adequate controls to verify that interfaces between government departments' legacy applications and 1GX are operating effectively
- assessed the design, implementation and operation of business processes and controls over payroll, purchases, payables and payments, and capital assets
- assessed the design, implementation and operation of IT general controls, including interfaces between 1GX and GOA legacy applications and assurance over the controls at IT service organizations
- tested transactions and balances to ensure they are appropriately recorded
- performed various data analytics to identify anomalies and trends and to verify the accuracy of reports

What We Found

Overall, we found that departments implemented well-designed processes and controls over significant business processes, and completely and accurately converted data from IMAGIS to 1GX. Service Alberta also implemented processes and controls to continuously transfer data between legacy applications and 1GX. Finally, we performed a range of controls testing, substantive testing and data analytics to conclude that the Province's Consolidated Financial Statements are not materially misstated.

Context

The government implemented a new ERP system. The new ERP system uses cloud-based capabilities and introduces standard processes for finance, treasury, budgets and forecasting, supply chain management, payroll and human capital management. Along with transforming financial services in government, the government's new ERP system is aimed at strengthening government's financial management and maximizing the benefits of new technologies, such as process robotics and artificial intelligence. The new technology will automate many processes and controls across government.

Investment in the Keystone XL pipeline

Overview of Risk

The Alberta Petroleum Marketing Commission (APMC) signed an Investment Agreement with TC Energy, effective March 31, 2020. APMC, through five newly created subsidiaries, agreed to provide financial support for the construction of the KXL expansion pipeline. APMC provided equity contributions up to December 31, 2020, and also signed a guarantee agreement for the TC Energy credit facility on January 4, 2021. On January 20, 2021, U.S. President Biden revoked the presidential permit for the cross-border portion of the KXL pipeline. As a result, TC Energy suspended the construction of the pipeline. On June 9, 2021, the government announced[4] that it reached an agreement to exit the KXL project and partnership. Due to these events, significant judgment and estimation are required about the fair value of equity contributions and the loss allowance for the debt guarantee.

What We Examined

We examined the agreements and transactions with TC Energy and the impacts of the cancellation of the KXL project to determine if the investments and guarantee were appropriately valued and accounted for in the Province's Consolidated Financial Statements.

We also examined the disclosures in the Province's Consolidated Financial Statements to ensure the equity contributions, guarantee and the impacts of the cancellation of the KXL project on the government's investment were completely and properly described.

What We Found

APMC analyzed the various transactions and events to completely and accurately account for the KXL transactions.

Overall, we were satisfied that the:

- controls that APMC implemented were appropriately designed and implemented. APMC properly analyzed the various transactions and events to completely and accurately account for the KXL transactions
- transactions recorded and related disclosures to the KXL arrangement were reasonable

[4] https://www.alberta.ca/release.cfm?xID=7934377BC4B2A-9A8A-DDD0-DF72AF17F370A44B

Context

Schedule 8 of the Province's Consolidated Financial Statements discloses the investment agreement. Based on this agreement, APMC agreed to extend financial support of up to USD $5.3 billion, beginning with an equity commitment of up to USD $1.06 billion by December 31, 2020. The balance of the support, commencing January 1, 2021, was to be in the form of a debt guarantee to backstop TC Energy's credit facility for the KXL expansion pipeline. APMC was to earn a specified return on equity contributions paid until March 31, 2026, and was to earn a loan guarantee fee on outstanding debts on TC Energy's KXL credit facility. Approximately one year after project completion, TC Energy was to pay APMC the value of the outstanding equity contributions and accretion earned thereon. Further, TC Energy was to pay the debt guarantee fee at the same time APMC's debt guarantees are released.

The government made equity contributions of CAD $1.036 billion and earned a CAD $33 million return on these contributions. On January 8, 2021, TC Energy exercised their contractual rights to purchase substantially all of the U.S. Class A interests held by an APMC subsidiary for CAD $632 million. TC Energy financed the repurchase by drawing on the TC Energy credit facility covered by the province's guarantee.

On January 20, 2021, U.S. President Biden revoked the Presidential Permit for the cross-border portion of the KXL pipeline. As a result, TC Energy suspended the advancement of the KXL project, while TC Energy and APMC, along with the Alberta government, assessed the implications of the revocation and considered their options.

APMC signed the Debt Guarantee Agreement effective January 4, 2021, for the TC Energy credit facility. On March 26, 2021, TC Energy reduced the total amount available under the credit facility from USD $4.1 billion to USD $1.6 billion pursuant to negotiated amendments.

On June 9, 2021, the government announced that it reached an agreement to exit the KXL project and partnership.

APMC recorded a liability related to the guarantee of CAD $1.035 billion at March 31, 2021, as management expected that there was a significant risk that the borrowers would default on the debt on or before the middle of June 2021. On June 16, 2021, APMC paid CAD $1.035 billion under the guarantee agreement.

Below is a breakdown of the costs recorded in the province's financial statements for the year ended March 31, 2021. This is an estimate (in Canadian dollars) of the cost (in millions), and this number may change as assets are being liquidated.

Fair value loss on investment in KXL Expansion Project	$256
Foreign exchange loss	35
Loss allowance for KXL Expansion Project Debt Guarantee	1,035
Administration and finance costs	7
Total KXL Expansion Project expenses	$1,333

Government's Contracts with the North West Redwater Partnership

Overview of Risk

APMC manages contracts with the North West Redwater Partnership (NWRP) on behalf of the government. The NWRP owns and operates the Sturgeon refinery. The refinery refines bitumen to produce ultra low-sulfur diesel, among other refined products. The partnership acquired the financing and will own, construct, and operate the refinery. Under the original 30-year tolling agreement, when the refinery reached commercial operation date on June 1, 2020, APMC provides 75 per cent of the bitumen, shares 75 per cent of the refined product sales, and pays 75 per cent of the monthly cost of service toll. The Processing Agreement began at Toll Commencement Date (June 1, 2018) and therefore expires May 31, 2048. This toll includes a component for the operating cost of the refinery, NWRP's debt and debt servicing costs, and equity for financing the refinery. APMC has the option to renew the processing agreement for successive five-year terms.

The Lieutenant Governor in Council prescribed a change in year-end for APMC from December 31 to March 31. As at March 31, 2021, the contracts commit the government to $26.4 billion in toll payments over the remainder of the Processing Agreement. APMC assessed, using a forecasting model, if the unavoidable costs of the obligations under the NWRP agreements exceed the economic benefits APMC will receive (that is, has the contract become onerous). APMC concluded the contract is onerous by $2.5 billion at March 31, 2021, and adjusted their provision as a result.

On July 5, 2021, government announced that it had signed a new agreement related to the refinery. Under the new agreement, APMC became a 50 per cent equity partner with Canadian Natural Resources Limited, and extended the original agreement by an extra 10 years. However, this occurred after the date of our auditor's report and thus is not reflected in the Province's Consolidated Financial Statements for March 31, 2021. We will audit the impact of the new agreement during our audit of the Province's Consolidated Financial Statements for March 31, 2022. The information presented below does not consider the new agreement and reflects the agreements in effect at March 31, 2021.

What We Examined

We audited:

- management's process to assess whether the unavoidable costs of meeting the obligations under the processing agreement exceed the economic benefits APMC expects to receive. To do this, we examined management's financial model and the key assumptions used to estimate the net present value of the arrangement
- the design and implementation of controls for the new business processes for handling the transition to commercial operations

We also examined the disclosures within the Province's Consolidated Financial Statements to ensure the nature of the arrangement, including the onerous contract provision, future toll commitments and loans by government to the NWRP, was properly described.

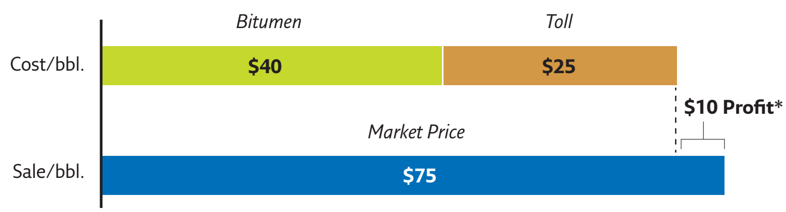
What We Found

We were satisfied that the onerous contract provision, contractual obligations and cost of service tolls were reasonable, and that the agreement, onerous contract provision, term loan and contractual obligation to pay a monthly toll over the remainder of the processing agreement were appropriately disclosed. APMC designed adequate controls for managing the Sturgeon refinery transactions.

Context

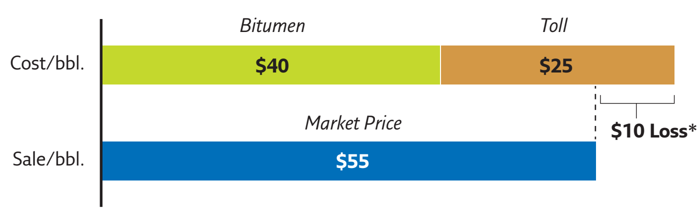
Schedule 8 to the consolidated financial statements discloses the impacts of the agreements with the NWRP. Using an example[5], we illustrate below the financial benefits and risks to the government. The refined product will typically have a higher market value than the bitumen the government supplies to the refinery. For the government to make money, the difference between the market price of refined product and the cost of bitumen (the value-add of the refinery) must be higher than the toll the government is required to pay. However, this potential benefit is uncertain because the market price of refined products and cost of bitumen are hard to forecast. In addition, the debt toll the government is required to pay also increases as the capital cost of the refinery increases.

Refined Product at Profit to Albertans (Benefits)



*The government is entitled to a portion of this profit calculated based on terms of the agreement

Refined Product at Loss to Albertans (Risks)



*The government is obligated to pay for 75 per cent of the loss

At March 31, 2021, the facility capital costs were $10 billion, from an original estimate of $5.7 billion in 2014. The NWRP reported[6] that, effective June 1, 2020, it achieved Commercial Operation Date (COD) and started processing bitumen on behalf of the Government of Alberta and Canadian Natural Resources Limited.

5 Hypothetical numbers used for illustrative purposes

6 https://nwrsturgeonrefinery.com/assets/uploads/2020/05/Behind-the-Scenes-Status-Update-Notification-of-COD.jpg

Onerous contract assessment

The contracts with NWRP entitle APMC to a share of the revenues from the sale of refined products but also require APMC to pay a monthly cost-of-service toll. International Financial Reporting Standards require APMC to determine if the net present value (NPV) of the unavoidable future costs of meeting the obligations under the processing agreement exceed the future economic benefits expected to be received. Where the NPV of the expected costs exceed the expected benefits, the contract is defined as "onerous" and APMC must record an expense and a corresponding liability in its financial statements to recognize the NPV of the expected loss. In subsequent years, APMC will normally adjust the liability based on future annual assessments.

APMC is using a cash-flow valuation model to determine the future economic benefits. The model calculates the net present value (NPV) of cash flows until March 2061. The model is inherently complex because the NPV calculation depends on a number of variables, such as crude oil prices (WTI), heavy light differentials, ultra-low-sulphur diesel-WTI premiums, exchange rates, capital and operating costs, interest and discount rates, and the operating performance of the refinery compared to its capacity.

APMC completed the onerous contract assessment at March 31, 2021. APMC determined that the contract is onerous by $2.5 billion at March 31, 2021. This amount is subject to measurement uncertainty due to the assumptions used in determining the estimate. For example, if the WTI-WCS differential changes by USD $1 per barrel, the estimate changes by approximately $295 million. Also, for every $0.01 change in the Canadian dollar, the estimate will change by $112 million.

The onerous contract provision will be adjusted each year to a new NPV (either higher or lower) with the offset being recorded through the income statement. If the NPV turns positive, then the reversal of the provision on the balance sheet is to zero (i.e., the contract cannot become an asset).

Tolls

In accordance with the processing agreement, APMC started paying the debt toll effective the Toll Commencement Date (defined as the earlier of June 1, 2018, and COD). The debt toll covers the debt and debt servicing costs that the NWRP incurs to finance the construction of the refinery. APMC paid $837 million in "cost of service" tolls for the 15 months ended March 21, 2021 ($201 million in "debt" tolls for the 12 months ended December 31, 2019). The cost of service tolls for 2020-2021 include the operating tolls since the refinery reached COD on June 1, 2020, while for the 12 months ended December 31, 2019, does not include these portions of the toll. APMC expensed these payments in accordance with International Financial Reporting Standards. Effective June 1, 2020, APMC also started to receive its share of the revenues as per the agreements. APMC's share of refinery sales was $1.1 billion for the year ending March 31, 2021.

Environmental Liabilities

Overview of Risk

At March 31, 2021, environmental liabilities recorded in the Province's Consolidated Financial Statements totaled $278 million (2020: $248 million) representing future funding required to comply with environmental legislation. Under environmental legislation, the province is responsible to clean up contamination on sites that it owns and operates. Government has also accepted responsibility to clean up contamination on some orphan sites[7] created by industrial activity over the last century before and after current environmental laws and standards existed. There are also sites across various industries where, in government's capacity as a regulator, environmental liabilities can exist due to care and custody work required to ensure a site does not pose an undue risk to Albertans and the environment. The operators of these sites often no longer exist. Sites were not always cleaned up, and remaining contamination often exceeds current environmental standards.

The government is not directly responsible, and it has not accepted responsibility, for sites of private operators and the orphan wells that the industry-funded Orphan Well Association (OWA) is responsible for cleaning up. As a result, the Province's Consolidated Financial Statements appropriately exclude the environmental liabilities of private operators and the OWA.

What We Examined

We audited whether entities recorded environmental liabilities in the Province's Consolidated Financial Statements and whether the disclosures of environmental liabilities are reasonable.

What We Found

In June 2021, we issued a report that describes the weaknesses and recommendations related to the government's processes to provide information about government's environmental liabilities. That report recommends process improvements that entities must make. Since we brought the weaknesses to management's attention, we found that the entities made some improvements to their processes, which resulted in additional liabilities being recorded in 2020–2021. However, further improvements are necessary.

Despite the weaknesses, we found that management's estimates and disclosures of environmental liabilities in the Province's Consolidated Financial Statements comply with public sector accounting standards.

As government completes environmental assessments and determines what work is required, the cost of that work and who is responsible to do the work, management may need to account for additional liabilities in future years when the accounting criteria for a liability are met.

[7] Orphan sites are industrial sites for which regulators have exhausted every way to identify a responsible party and hold it accountable to clean up a site but could not do so. This includes sites that government cannot transfer to the Orphan Well Association because the current orphan levy does not cover these sites, or there is no orphan levy. Orphan sites occur across several industries and include oil and gas wells and facilities, pipelines, coal mines, wood treatment plants, and sand and gravel pits.

Context

Canadian Public Sector Accounting Standards[8] require management to prepare a best estimate of the costs necessary to remediate and reclaim a site to an appropriate level for its specific use as well as the costs for any post-remediation operations, maintenance, and monitoring activities. This includes sites that the government owns and operates and sites for which the government accepted responsibility to manage, remediate and reclaim the site.

An estimate for a liability to remediate and reclaim sites is not necessarily determinable at a specific point in time. The estimate becomes known over time and over various phases. Specialists first determine the type and extent of contamination, then assess the risks to humans and the environment, and then develop appropriate plans to clean up and restore sites. Public sector accounting standards recognize this and thus require disclosure of the reasons why the province did not record a liability.

Sometimes, it is uncertain who is responsible to remediate and restore sites. There may be situations in which the government might become responsible to remediate and restore sites in the future. This is contingent on the government determining if there are any private parties it can hold responsible. PSAS require the province to disclose details about when the responsible party is unknown. This tells readers of the province's financial statements that there is a risk that taxpayers may have to pay the costs to clean up and restore certain sites in the future.

Note 7(e) of the Province's Consolidated Financial Statements discloses the liabilities that management recorded and information about the nature and extent of environmental liabilities. It also includes:

- the reasons for not recording a liability on certain sites and where there are sites for which the parties responsible for remediating and reclaiming the sites are unknown
- a description that the province may record additional environmental liabilities as it completes or updates assessments and determines which party is responsible to do the work

At March 31, 2021, the province recorded the following environmental liabilities totaling $278 million. This includes:

- $179 million related to the future remediation and reclamation costs for the Swan Hills treatment plant
- $99 million related to contaminated sites and other environmental liabilities across various entities

8 PS 3200—Liabilities, PS 3260—Liability for contaminated sites, PS 3270—Solid waste landfill closure and post-closure liability, and PS 3300—Contingent liabilities.

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