

NEWS RELEASE

December 14, 2023

Alberta's Auditor General releases 2023 Annual Report

Edmonton, Alberta, Canada... The Auditor General's December 2023 Report highlights the importance of effective processes, controls, and reporting to ensure the success of government programs and services for the benefit of all Albertans.

The report includes the results of the audit of the *2022-2023 Consolidated Financial Statements of the Province of Alberta* along with the results of three new performance audits, six assessment of implementation reports, and a *Summary of the 2022 Financial Audit Results of School Jurisdictions in Alberta*. Also included is a summary of recommendations that the Auditor General has made to government over the years, along with the potential consequences of not taking action.

"I am pleased to report to Albertans that we have issued a clean audit opinion on the Province's Consolidated Financial Statements for the year ended March 31, 2023," said Auditor General Doug Wylie. "Albertans can be confident that the financial statements of the province are free of material misstatements and are presented fairly in accordance with public sector accounting standards."

"Our work provides Albertans with assurance that the government programs, processes, and services we audited are working as intended," said Wylie. "The December 2023 Report includes seven new recommendations to government and highlights the implementation of 13 previous recommendations. Our findings and recommendations help improve performance and promote accountability within government."

The *Report of the Auditor General—December 2023* was presented to Members of the Legislative Assembly earlier today and is available online at oag.ab.ca.

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NOTE: Please see the following Backgrounder for additional information on the work contained in the *Report of the Auditor General—December 2023*.

Appointed under Alberta's *Auditor General Act*, the Auditor General is the legislated auditor of the Consolidated Financial Statements of the Province of Alberta and most provincial agencies, boards, commissions, and regulated funds. The work of the office improves performance and promotes accountability within government by making recommendations that can result in better outcomes, better services, and better programs for Albertans.

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BACKGROUND

2022-2023 Consolidated Financial Statements of the Province of Alberta

Work in this area focused on three key risks—or those matters that, in the Auditor General’s professional judgement—were of most significance during the audit:

Environmental liabilities (see page 20)

At March 31, 2023, the Province’s Consolidated Financial Statements included \$117 million for environmental liabilities. This represents future funding required to comply with environmental legislation.

We identified accounting for environmental liabilities as a key audit matter since:

- there are a significant number of sites where responsibility for who will do the work, if anyone, and/or costs of required work to protect people and the environment have not been established
- our *Processes to Provide Information about Government’s Environmental Liabilities, Report of the Auditor General—June 2021*, describes weaknesses related to the processes to provide information about environmental liabilities
- it requires significant interpretation of environmental law and standards to determine who is responsible to do the work, if anyone, when private operators will not do the work or no longer exist
- it requires significant expertise to assess the nature and extent of contamination and the work required to remediate and reclaim sites, and then to estimate the costs to do that work

Adoption of the New Public Sector Accounting Standard for Asset Retirement Obligations (see page 23)

At March 31, 2023, the province recorded \$2.3 billion in asset retirement obligations. The majority relates to removing asbestos in the province’s buildings.

We identified this as a key audit matter since adopting this new standard and estimating these liabilities are complex and requires significant judgements, assumptions, and inputs. It includes identifying legal requirements to retire tangible capital assets, determining the nature and extent of the asset retirement activities required, estimating the costs to complete the work, and determining when that work will be completed.

Adoption of the New Public Sector Accounting Standards for Financial Instruments and Foreign Currency Translation (see page 25)

The new standards included significant changes to the measurement and disclosures for financial instruments. The impacts included increasing the opening net assets of the province by \$2.8 billion, mostly due to the difference in the book value and fair values of portfolio investments, and separately recording \$1.1 billion in derivative financial assets and \$1.9 billion in derivative financial liabilities on the statement of financial position.

We identified the adoption of the new standards as a key audit matter since there are significant changes to the way financial instruments are measured and disclosed in the Province’s Consolidated Financial Statements. This requires significant judgements and assumptions to determine the fair values of private equities, inflation sensitive and alternative investments.

December 2023 Report issues seven new recommendations

Performance Audit Work

Procurement Processes Performance Audit (Transportation and Economic Corridors)

(see page 183)

The department has processes to ensure fair and competitive procurement of its construction tenders but not all of these processes are effective, and improvements can be made.

Recommendations:

- improve its controls to ensure solicitation posting periods comply with trade agreement requirements
- ensure it has adequate controls to document support for its shortlisting and award decisions, including key procurement information
- improve its access controls for its procurement information systems

Why this conclusion matters to Albertans: Construction contracts are often in the millions of dollars and are significant for Albertans, the department and for proponents. Proponents invest time and money in the development of their submissions, including their bids, and they rely on and expect fair and competitive procurement processes.

Alberta Jobs Now Program Performance Audit (Jobs, Economy and Trade)

(see page 123)

In 2021, the Government of Alberta used available federal funding to create the Alberta Jobs Now Program, part of the Alberta Recovery Plan.

The department had effective processes overall to design, deliver, and monitor the first application intake of the program. Improvements can be made to the reporting process. However, the Auditor General is not making a new recommendation to the department on reporting because its previous recommendation on improving performance reporting to Albertans in ministry annual reports is still outstanding.

Travel, Meal and Hospitality Expenses of the Premier, Ministers and Their Staff Performance Audit (Treasury Board and Finance)

(see page 209)

The Auditor General concluded that the departments examined had effective processes, for the period from April 1, 2022 to March 31, 2023, to verify that the travel, meal and hospitality expenses of the Premier, ministers, associate ministers and their staff comply with policies.

Note: The Auditor General conducted a ***Cybersecurity—Data Protection, Incident Detection and Response Performance Audit (Technology and Innovation)*** which identified areas of improvement in the department's cybersecurity program. The detailed findings and related recommendations were shared with management. In order not to increase the cybersecurity risks of government, the results of this audit will be publicly reported once management has implemented the identified improvements to its cybersecurity program. (page 163)

Ministry Audit Work

Department of Advanced Education (see page 31)

Recommendation: Improve the financial consolidation process

Consequences of not taking action: Without a strong and sustainable financial reporting process over the ministry consolidation, management and those charged with governance will not have reliable financial information to base their decisions on and to show accountability to Albertans.

Agriculture Financial Services Corporation (AFSC) (see page 41)

Recommendation: Improve process to ensure compliance with AgrilInsurance policies and procedures

Consequences of not taking action: Non-compliance with policies, procedures, and authorities could result in invalid, incomplete, and inaccurate insurance payments or legislative non-compliance. Not completing required procedures may expose AFSC to challenges during future processing of claims and potential disputes with clients.

Environment and Protected Areas (see page 79)

Recommendation: Ensure that underpayments to the Technology Innovation and Emissions Reduction (TIER) Fund are collected when errors are found

Consequences of not taking action: The department may not collect amounts owing to the TIER Fund which could negatively impact emissions reduction and climate adaptation efforts. This would also impede the regulatory system's design to ensure fairness, transparency, and equity across facilities. It could also misrepresent Alberta's greenhouse gas emissions and compliance results.

Environment and Protected Areas (see page 81)

Recommendation: Improve financial information preparation and reporting processes

Consequences of not taking action: Without effective and sustainable financial reporting processes, management may not have reliable financial information to base their decisions on and the risk of inaccurate and late financial information being supplied to users is substantially increased. Additionally, there are inefficiencies and waste that result from ineffective financial reporting processes.

Recommendation Assessment Work

Assessments of Implementation

Site Rehabilitation Program (Energy and Minerals) (see page 75)

The Auditor General completed his assessment of implementation work resulting from the March 2022 audit of Energy and Mineral's *Site Rehabilitation Program*, and found that the outstanding recommendation had been implemented:

- Formalize risk management process

Processes to Manage Bail Hearings and Case Management of Adult Criminal Prosecutions (Justice) (see page 143)

The Auditor General completed his assessment of implementation work resulting from the June 2021 audit of Justice's *Processes to Manage Bail Hearings and Case Management of Adult Criminal Prosecutions*, and found that the three outstanding recommendations had been implemented:

- Resume its bail results analysis and evaluate and report on the effectiveness of implemented solutions
- Continue cause analysis of cases stayed due to *Jordan* applications
- Comply with Triage Practice Protocol tracking and reporting requirements

Systems to Manage the Assured Income for the Severely Handicapped (AISH) Program (Seniors, Community and Social Services) (see page 159)

The Auditor General completed his assessment of implementation work resulting from the October 2016 audit of the department's processes to administer the Assured Income for the Severely Handicapped (AISH) Program, and found that the outstanding recommendation had been implemented:

- Set service standards and improve eligibility procedures and guidelines

Systems to Manage a Comprehensive Inventory of IT Applications / IT Disaster Recovery Program (Technology and Innovation) (see page 169)

The Auditor General completed his assessment of implementation work resulting from the May 2017 and November 2019 audits of the department's processes to manage its IT application inventory across government and its IT disaster recovery program, and found that both recommendations had been implemented:

- Establish a comprehensive inventory system for information technology applications
- Improve recovery of critical information technology applications

Processes to Report on Value Generation (Technology and Innovation—Alberta Enterprise Corporation) (see page 175)

The Auditor General completed his assessment of implementation work resulting from the November 2021 audit of Alberta Enterprise Corporation's *Processes to Report on Value Generation*, and found that the outstanding recommendation had been implemented:

- Improve processes to measure, monitor, and report value generated by investment and ecosystem activities

Public Agency Board Member Recruitment and Selection (Treasury Board and Finance—Public Service Commission) (see page 215)

The Auditor General completed his assessment of implementation work resulting from the August 2019 audit of the Public Agency Secretariat's *Public Agency Board Member Recruitment and Selection*, and found two recommendations had been implemented and a change in circumstance in another:

- Improve guidance for usage of succession plans and reappointments
- Strengthen the recruitment, screening, and selection processes
- Improve guidance on use of professional recruitment (*changed circumstance*)

Summary of additional ministry audit work

- **The Department of Health** has implemented recommendations to:
 - enhance processes to check for receipt of services for which physicians billed (October 2015) (see page 93)
 - improve grant management processes (March 2022) (see page 94)
- **Invest Alberta Corporation** has implemented a November 2021 recommendation to improve processes to analyze and conclude on financial reporting of significant transactions. (see page 219)

- **Treasury Board and Finance**

- Bill 22, the *Reform of Agencies, Boards and Commissions and Government Enterprises Act* was passed into law in 2019 and required the Alberta Teachers Retirement Fund (ATRF) to use the Alberta Investment Management Corporation (AIMCo) as its investment manager. The transfer of the investments from ATRF to AIMCo was completed in October 2021. Investments were transferred completely from ATRF to AIMCo and were reflected accurately in AIMCo's investment accounting system.

(see page 201)

- **Extra compensation paid to employees in response to the COVID-19 pandemic**
(see page 202)

The matter of "bonus" compensation paid to government employees was raised both publicly and directly with the Office of the Auditor General of Alberta. As a result, the office examined what extra compensation policies exist in relation to emergencies and whether those policies were adhered to.

Overall, we found that policies existed to pay extra compensation and the compensation was paid in accordance with those policies. The Auditor General did note that timeliness of some of the supervisor reviews could have been better which led to some employees being underpaid and time records not always promptly signed off and approved.

Summary of the 2022 Financial Audit Results of School Jurisdictions in Alberta

(see page 55)

The December 2023 report also includes a summary of the results of examination of audits performed by the independent auditors of all school jurisdictions in Alberta. The purpose of the Auditor General's summary of the financial information and recommendations made to school jurisdictions is to identify trends across the sector, and it is not intended to provide an assurance opinion on the work of the school jurisdictions' auditor.

The Department of Education and school jurisdictions can use information on recommendations to work together to rectify identified common control weaknesses. Management of individual school jurisdictions can also use this information to proactively consider the sustainability of their jurisdictions' control environment.