

# Office of the Auditor General of Alberta

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Results analysis, financial statements and  
other performance information  
for the year ended March 31, 2008





Mr. Leonard Mitzel, MLA  
Chair  
Standing Committee on Legislative Offices

I am honoured to send my *Office of the Auditor General of Alberta—Results analysis, financial statements and other performance information for the year ended March 31, 2008* to the members of the Legislative Assembly. This document contains an analysis of Office operations and our audited financial statements for the fiscal year April 1, 2007 to March 31, 2008.

[Original signed by Fred J. Dunn, FCA]  
Fred J. Dunn, FCA  
Auditor General

Edmonton, Alberta  
September 22, 2008



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# Results analysis

March 31, 2008

## Highlights

We had a successful and challenging year, with a number of new initiatives for the Office of the Auditor General of Alberta (OAG). Two initiatives, in particular, stand out in fiscal year 2007–2008.

**Two public reports**—we delivered two multi-ministry public audit reports to the Legislative Assembly of Alberta. We wanted to provide timely reporting of recommendations to improve the use of public resources. The reports account for a total of 190 assurance audits and 106 system audits. Most importantly in this Office, an increased focus on system audits resulted in nine major systems audits completed, exceeding last year’s total of five.

In the *Report of the Auditor General* (October 2007), we reported the results of four major systems audits:

- Assessing and prioritizing Alberta’s infrastructure needs
- Child intervention services
- Energy’s royalty review systems
- The Government’s revenue forecasting systems

We also included key recommendations on improving controls for the use of government credit cards, improving information technology service-level agreements among departments, ranking compliance and enforcement activities of the Natural Resource Conservation Board by risk, and strengthening policies for Members Services Allowance.

In the *Report of Auditor General of Alberta* (April 2008), we released results of five other major systems audits:

- Post-Secondary Institutions—non-credit programs
- Implementing the Provincial Mental Health Plan—phase 1
- Seniors Care and Programs—follow up
- Conflict of interest at Transportation
- Managing Information Technology risks in government departments.

**MLA survey**—our second initiative was to survey—through an independent consultant—Alberta MLAs on the value of our work. We asked MLAs for input on where we can direct future resources for systems (value-for-money) audits. Although we will post the results in the 2008–2009 fiscal year, they are already helpful. For example, MLAs overwhelmingly believe that our work is valuable and meets their expectations. They suggest focusing systems audits on Health, Environment, Energy, and Investments and Finance. This guidance supports our current 2008–2009 priority systems audits and gives us direction for the future.

Our Office continued to face two significant challenges: managing high staff turnover and implementing new assurance auditing standards issued by the Canadian Institute of Chartered Accountants (CICA). These two factors required us to spend 14,000 more hours (11%) than we spent two years ago to complete our assurance work.

**Managing high staff turnover**—the heated Alberta economy means that other organizations are seeking our qualified auditors. We lost 22% of our professional staff, primarily at senior audit levels. Qualified staff are crucial to manage our assurance and systems audits and oversee new and temporary audit staff. New staff—permanent and temporary—increased the demand for coaching and supervision from remaining senior audit staff, resulting in high overtime hours by senior staff.

**Implementing new assurance auditing standards**—we had to produce more documentation describing and analysing entities' internal controls, conduct more procedures in assessing risks, and examine more transactions, especially financial instruments, more closely. Our teams gained a deeper understanding of entities' risks and controls. In 2007–2008, we started to save audit time in certain jobs and we look to capitalize on these efforts to achieve greater audit efficiency and effectiveness.

Training for these new national and international standards is costly and we are working with other Canadian Legislative Audit Offices to efficiently and appropriately implement the revised standards. In September 2008, a protocol for a National Professional Practices Group was finalized. This will make for a more efficient and ultimately more cost-effective way of dealing with changing standards.

Given the changes in our internal and external environments, we must continue to focus on managing our workload and obtaining the necessary expertise at the best cost available to complete our broad range of audits.

## Mission

*To identify opportunities and propose solutions for the improved use of public resources, and to improve and add credibility to performance reporting, including financial reporting, to Albertans.*

Under the *Auditor General Act*, the Auditor General and the staff of the Office of the Auditor General (OAG) must provide independent reporting on government's management of, and accountability practices for, the public resources entrusted to it.

In fulfilling our mission, the Auditor General and his Office must be—and be seen to be—objective. To ensure this objectivity, we:

- are independent of government.
- comply with accounting and auditing standards recommended by the Canadian Institute of Chartered Accountants.
- are subject to professional, ethical, independence, and quality-assurance standards.

## Core businesses

We operate two separate but complementary core businesses:

1. Assurance auditing—known as attest, financial statements, and performance measures auditing

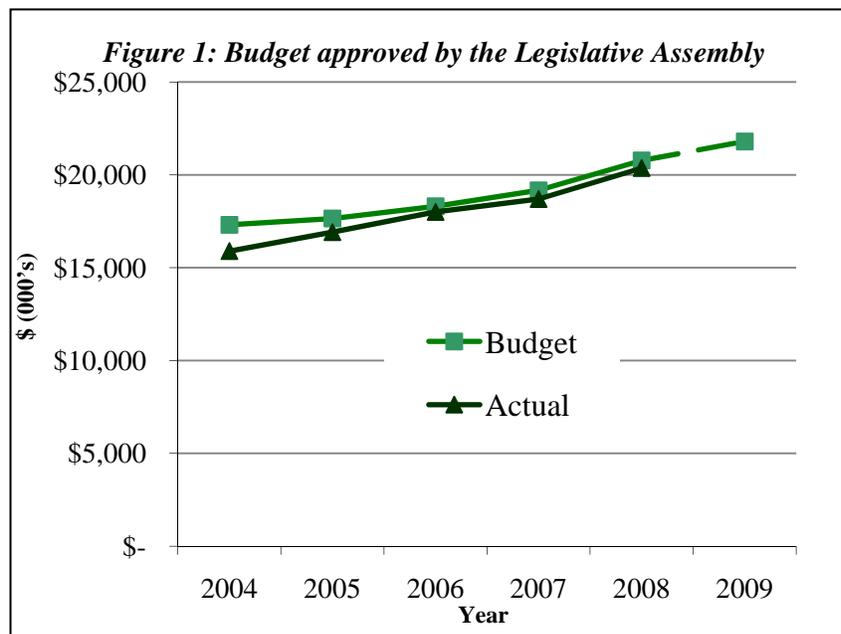
Assurance audits confirm that the performance reports of government organizations are credible. We say whether the consolidated financial statements of the Province and the financial statements of ministries, departments, funds, and Provincial agencies are presented fairly in accordance with applicable standards. We also check if transactions comply with the law. In addition, we examine and report on non-financial performance measures in government organizations' annual reports.

2. Systems auditing—known as value-for-money auditing

Systems audits examine financial and management control systems of government organizations to identify opportunities for improvement. Government organizations use these systems to measure the effectiveness of their programs and to manage the risks of missing their objectives of economy and efficiency.

Our Information Systems Audit (ISA) team is critical to our success. It uses advanced technology to support our core businesses. This makes our Office more efficient and increases the value of our recommendations for both attest and systems audits.

## Office performance



The Legislative Assembly funds our operations. For 2007–2008, it provided \$20,190,000 for operations and \$580,000 for capital requirements.

We are returning \$408,000 (2% of our budget) to the Legislative Assembly for the 2007–2008 fiscal year. This unspent funding is mainly from using less costly OAG staff in audits, as well as changes in planned audit work.

Figure 1 shows our approved budgets and actual spending over the last 5 years.

### 1. Variance of this year's total actual costs compared to budget

Schedule 1 of our 2007–2008 financial statements summarizes the costs by ministry—for the fiscal year ended March 31, 2008—of assurance and systems audits. We reported the results from much of this audit work in the *Annual Report of the Auditor General* (October 2007) and in the *Report of the Auditor General* (April 2008).

In 2007–2008, our overall assurance-audit costs were \$422,000 (3%) above budget, while our systems-audit costs were \$825,000 (16%) below budget. This is a significant spending shift from systems to assurance audits. The assurance audits for the ministries of Advanced Education and Technology, Energy, Health and Wellness, and Solicitor General exceeded their budgets. This was mainly due to staff turnover, continued use of more costly temporary audit staff, and the new CICA assurance auditing standards (mentioned in *Highlights*). Conversely, our systems audits for the ministries of Employment, Immigration and Industry, Environment, and Sustainable Resource Development, as well as our cross-ministry systems audits, were significantly under budget. This was primarily due to reduced scope of audits and postponed audits.

### 2. Variance of this year's total actual costs to last year's

Overall, actual total costs increased by \$1.2 million, or 6%, over last year. For the same reasons as mentioned above, our overall assurance audit costs increased by \$655,000 or over 4% and systems audit costs increased by \$510,000 or 13%.

### 3. Variances by categories of expenses

#### 3.1 Staff costs

Staff costs make up about 90% of our operating expenses. These comprise salaries and wages for OAG staff, employer-benefit-program contributions, agent fees, fees for temporary audit staff, and fees for advisory services.

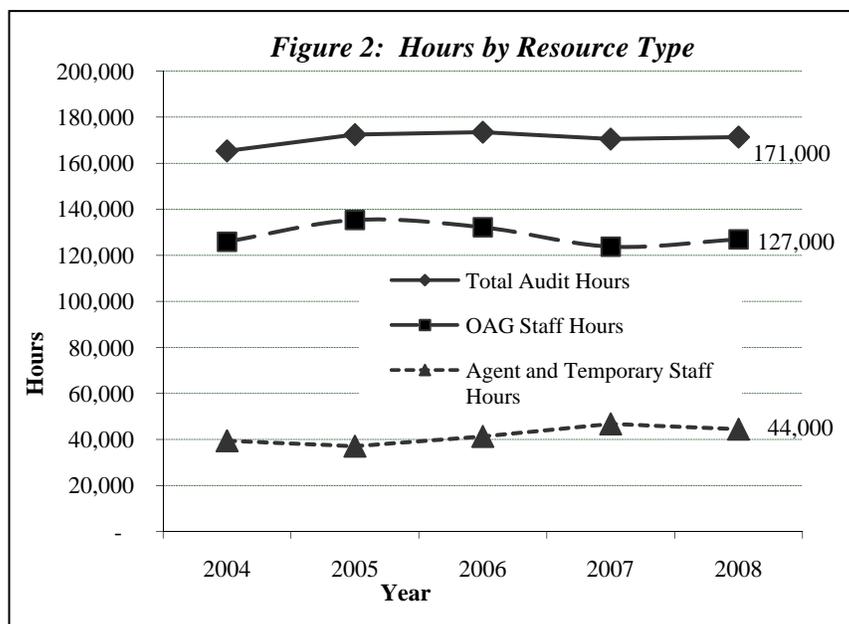
##### 3.1.1 Salaries, wages, and employer contributions

###### Budget to actual

We budgeted for 122 full-time equivalent positions (FTEs) in 2007–2008 and averaged about 122 FTEs throughout the year. However, there was a \$221,000 or 2% higher-than-budgeted overall compensation increase due to a 4.9% cost-of-living adjustment, which was 1.4% over our budget assumption of 3.5% and the unbudgeted economic adjustment of \$1,500 per FTE.

###### Actual to actual

Compared to 2006–2007, our salaries and wages costs increased by \$949,000 or 11%. This was caused by a 6% overall increase in average salary rates and an increase of 5 FTEs from 117 to 122 in OAG staff. The increase of 6% over last year compensation is mainly based on a 4.9% cost-of-living adjustment and the \$1,500-per-FTE economic adjustment. Also, our employer contributions increased by \$201,000 or 13%, due to the employer premium rate increases on various pension plans and medical benefit plans.



Our business plan identifies the key forces and trends that shape our auditing work: responding to stakeholder expectations and keeping pace with the changing environment. Our challenge continues to be building and sustaining organizational capacity.

As Figure 2 shows, our total audit hours have not changed significantly since last year. We will continue to recruit our own staff for 2008–2009. Our FTE budget increased from 122 to 131 and our temporary audit services budget decreased from \$1,955,000 to \$1,500,000. We believe that we can action our cost saving by reducing our reliance on higher cost temporary audit services.

### **3.1.2 Fees for agents and other professional services**

In the past year, 11 public accounting firms in Edmonton, Calgary, Fort McMurray, Grande Prairie, Lethbridge, Red Deer, and other centres across the Province acted as our agents. We oversee their audit work. By using agents, we gain skilled resources to meet peak-period demands, acquire cost-effective specialist skills, obtain a point of reference for comparing our methodology and costs, and save travel costs.

In 2007–2008, agent fees were \$4.2 million, an increase of \$510,000 or 14% from 2006–2007, but below budget by \$201,000 or 5%. This budget surplus resulted mainly from postponing 7 systems projects due to a lack of available suitable agents and a lack of experienced OAG senior staff to oversee the agent work.

Average hourly costs of accounting firms are approximately 30% higher than our internal rates. Our budget for 2008–2009 for agent fees has increased slightly to \$4.6 million.

### **3.1.3 Fees for temporary audit staff**

We contract with public accounting firms for temporary audit staff during peak work periods. Up to \$1,000,000 of the budget will always be required for such services—even if we maintain the targeted 131 FTEs during the year. In 2007–2008, the cost of temporary staff services was \$1,552,000, under budget by \$403,000, or 21%. This was also under last year's spending by \$512,000, or 25%. The decrease came from having more permanent staff as we brought in students to replace more costly temporary staff from private-sector audit firms.

Due to the market demand for accountants and auditors and the challenges of recruiting and keeping staff, we expect to continue using more temporary staff than we prefer. But as mentioned in our salaries discussion, we have budgeted for lower spending on temporary staff services for 2008–2009.

### **3.1.4 Fees for advisory services**

Advisory services include communications, legal counsel, information systems, and professional practices. In 2007–2008, overall advisory services were over budget by \$16,000 or 8%. Most of the variance resulted from the nature and number of special or unusual issues that arose.

## **3.2 Supplies and services expenses**

This spending was under budget, by \$133,000 or 6%, the net result of the increases and decreases in a number of expense categories. None of the individual variances was significant.

Supplies and services costs also decreased slightly by \$15,000 (0.6%) over 2006–2007 due to a combination of:

- decreased costs for central data processing and one-time licenses.

- decreased costs for external courses and conferences due to more in-house training.
- increased audit-related travel costs.

### 3.3 Capital investment

In 2007–2008, our capital budget was mainly for technology, such as replacing laptop computers and network security hardware. Spending was \$575,000, close to our budget of \$580,000.

In 2008–2009, we have budgeted \$95,000 in capital investment to reconfigure certain offices and workstations and replace certain network hardware.

## 4. Other performance information

Schedule 2 of our 2007–2008 audited financial statements includes our performance measures for the period April 1, 2007 to March 31, 2008. We use specific measures to monitor performance throughout the fiscal year. These measures are the basis of the performance measures in this report.

As part of our upcoming business-planning process for 2009–2012, we have reviewed and revised certain performance measures that we use and report.

### 4.1 Issuance of reports

We issued our reports on the 2006–2007 consolidated financial statements of the Province and on the 2006–2007 *Measuring Up* results (performance measures for the Province) on target, in June 2007. We also met our target of releasing—by July 15—90% of auditor's reports for consolidated entities with March 31 year-ends. Starting 2005–2006, we increased the same target for reporting on non-consolidated entities from 70% to 80%. Our actual results were 75%, an improvement of 8% from 2006–2007's 67%, but below target. We will continue to work with the organizations we audit to improve our audit completion performance.

We issued all but one, or 95% of our reports on ministry performance measures on or before the target date of September 15, 2007—our target was 100%.

### 4.2 Budgets

Two of our performance measures (1.f & 2.d) indicate the percentage of assurance and systems audit projects completed within their original budgets. In 2007–2008, the number of assurance audits over 200 hours completed within 10% of their original budget increased from 59% to 63%. But we were still below the target (in 1.f) of 90%. Of the 144 completed audits over 200 hours, 91 (or 63%) were under or within 10% of budget. In general, we exceeded assurance-audit budgets due to the new assurance-auditing standards and staff turnover, especially at the manager level. During the year, due to turnover, we recruited 35 new employees. As is normal, these staff needed more supervision and on-the-job training, thus increasing audit hours.

For performance measure 2.d, the percentage of systems audits completed within budget was 57%. This was similar to last year's result, but still short of our target of 70%. Budgeting for systems audits is challenging because the scope and hours depend largely on the number and type of issues encountered during the audit. We continue to refine our budgeting process by gathering as much information as possible at the planning stage.

These two measures, while useful from a project-management perspective, do not necessarily show audit quality or effectiveness. For example, an audit may uncover significant issues that require more time to investigate and then report to management. Although this would cause a budget overrun, it would also produce a higher-quality audit that adds more value. So we reviewed the relevance of these two measures as indicators of Office performance. And we decided to replace the budget measure for systems audits by an MLA survey of audit quality and effectiveness as a more relevant measure. This first-year survey was mentioned in our *Highlights* section. We will use the 2008–2009 result for this new measure as a guide in setting future performance targets.

The other two measures in the budget (1.g & 2.e) compare the relative total Office costs for assurance and systems audits. In 2007–2008, again due to the new assurance-auditing standards and staff turnover, we marginally missed our revised targets of 75% of costs for assurance audits and 25% for systems audits. Actual results were 78% and 22% respectively.

#### 4.3 Recommendations

Although we missed our target for the government to accept 95% of numbered recommendations in our *October 2007 Report* and *April 2008 Report*, the government accepted 38 of our 42 numbered recommendations, or 91% for this current year, an increase of 9% over last year.

Also, we missed our target of no unimplemented numbered recommendations after 3 years of the government accepting them. During 2007–2008, the government had not yet implemented 26 of our primary recommendations made before 2003–2004. It was making satisfactory progress on 25 of the 26, but unsatisfactory progress on one. The ministries concerned had not rejected the recommendations, but progress was slower than they had planned. As of October 2008, the status of recommendations more than 3 years old is that 27 recommendations made before 2004–2005 have not yet been implemented. For 25 recommendations, management has made satisfactory progress, but for 2, progress is unsatisfactory.

We met our target of releasing multi-ministry reports in October 2007 and April 2008.

#### 4.4 Corporate initiatives

We survey staff satisfaction every two years. The latest survey was completed in 2007–2008 with a new target raised from 80% to 85%. The actual result was 78%, a small

increase from the previous result of 77%. We recognize the importance of staff morale and will continue to improve the overall working environment of the Office. For example, we will focus on increasing communication across the Office, ensuring workloads are fair and reasonable, and compensation is competitive.

Although we did not meet our target of 100% of employees meeting their goals for available time spent on core business functions, 94% (up by 2% from last year) of employees spent all of their available time on assurance audits, systems audits and core business functions. Employees who missed their targets are working with their career advisors to ensure they meet them next year.

We strive to ensure our corporate service functions operate efficiently. These functions include human-resource management, training and development, information technology, and accounting and administration. This year, we again met our target of keeping corporate costs no higher than 20% of total Office costs—they were 16%.

#### 4.5 MLA survey objective

We believe Albertans want our work to help government improve governance and ethical behaviour, safety and welfare of Albertans, and the security and use of the province's resources. We also believe the requirement that the Auditor General report publicly to the Members of the Legislative Assembly is key in achieving these goals.

The objective of the MLA survey is to obtain feedback from Members of the Legislative Assembly on the value of our work and seek input for future audit planning.

The survey, the first of its kind in Alberta, was completed by late Spring 2008 and 32 of 82 MLAs participated. It indicated that 94% of MLAs believe that our work is valuable. The overall result will serve as a baseline in setting a performance target going forward. Equally important, the survey gives MLA input on what we should focus on, pointing to Health, Environment, Energy, and Investments and Finance. This input supports our current direction for priority systems audits.

## The future

Next year will present challenges and opportunities similar to last year's. As part of our *2008–2011 Business Plan*, we established the following strategic priorities to meet them:

- Deliver relevant, high-quality results—to maximize the value of our resources, we must ensure that the assurance reports and recommendations we deliver are the most relevant and useful to our clients and public-sector management. To that end, we have begun our MLA survey to evaluate our performance and obtain MLA input on allocating future audit resources.
- Ensure that the right resourcing mix of technical knowledge and expertise to provide high-quality audits continues to be a priority. For example, we will begin a new type of audit

relationship with agents as associate auditors on high-profile audits, such as Alberta Health Services and the Universities of Calgary and Alberta. This relationship will involve our staff more in identifying and conducting subsequent system examinations.

- Focus our resources on making systems audit recommendations that result in improved:
  - governance and ethical behaviour—these underpin the success of any organization.
  - safety and welfare of Albertans—such as mental health, climate change, and seniors care.
  - security and use of the province’s resources—such as reforestation.
- Use efficient processes—to adapt to the changing standards that apply to auditors of financial statements and government systems, we need to:
  - confirm that our processes are consistent with the standards, and are both efficiently designed and followed by all staff.
  - encourage improved governance practices with boards, audit committees and management.
  - improve management’s ability to report on the design and effectiveness of the government’s internal control systems.

We recognize the cost in adapting to new standards. To control that cost, we will work closely with other Legislative Audit Offices across Canada—under a protocol for a National Professional Practices Group—to benefit from shared experience and services.

- Respond to market demand for our professional staff—to sustain our ability to conduct audits and adapt to a market-driven increase in staff turnover, we need to:
  - manage succession to ensure continued high-quality leadership in the Office.
  - emphasize attracting, training, and retaining high-quality employees.
  - provide challenging work, a clear career path, and competitive compensation to employees.



**Alberta Legislature  
Office of the Auditor General  
Management's Responsibility for Financial Reporting**

The accompanying financial statements of the Office of the Auditor General are the responsibility of the management of the Office.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. 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 deems most appropriate in the circumstances in order to ensure that the financial statements are presented fairly in all material respects.

The Office of the Auditor General 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 have been audited by Kingston Ross Pasnak LLP, Chartered Accountants, on behalf of the members of the Legislative Assembly.

[Original signed by Fred J. Dunn, FCA]  
Fred J. Dunn, FCA  
Auditor General  
July 1, 2008



**Alberta Legislature  
Office of the Auditor General  
Financial Statements  
March 31, 2008**

Auditors' Report

Statement of Financial Position

Statement of Operations

Statement of Cash Flows

Notes to the Financial Statements

Schedule 1: Output Costs by Ministry

Schedule 2: Other Performance Information



**AUDITORS' REPORT**

July 1, 2008  
Edmonton, Alberta

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To the Members of the Legislative Assembly:

We have audited the statement of financial position of the Office of the Auditor General as at March 31, 2008 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for public sector entities.

[Original signed by Kingston Ross Pasnak LLP]

**Kingston Ross Pasnak LLP**

Chartered Accountants

**Alberta Legislature  
Office of the Auditor General  
Statement of Financial Position  
As at March 31, 2008**

	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Audit fees receivable	\$ 1,917,065	\$ 1,529,921
Other receivables and prepaids	144,372	78,287
Capital assets (Note 3)	466,124	170,328
	<b>\$ 2,527,561</b>	<b>\$ 1,778,536</b>
<b>Liabilities</b>		
Accounts payable	\$ 1,866,111	\$ 1,678,575
Accrued vacation pay	1,356,549	1,171,931
	3,222,660	2,850,506
<b>Net Assets (Liabilities)</b>		
Net liabilities at beginning of year	(1,071,970)	(395,372)
Net cost of operations	(16,760,824)	(15,976,813)
Net transfer from general revenues	17,137,695	15,300,215
	(695,099)	(1,071,970)
	<b>\$ 2,527,561</b>	<b>\$ 1,778,536</b>

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

**Alberta Legislature  
Office of the Auditor General  
Statement of Operations  
Year Ended March 31, 2008**

	<u>2008</u>		<u>2007</u>
	<u>Budget</u> (Note 5)	<u>Actual</u>	<u>Actual</u>
Personnel			
Salaries and wages (Note 7)	\$ 9,560,000	\$ 9,781,294	\$ 8,832,699
Agent and other audit services fees	4,375,000	4,173,637	3,663,331
Employer contributions	1,720,000	1,804,301	1,603,037
Temporary staff services	1,955,000	1,551,929	2,063,932
Advisory services	205,000	221,130	203,799
Miscellaneous	5,000	16,915	3,296
	<u>17,820,000</u>	<u>17,549,206</u>	<u>16,370,094</u>
Supplies and services:			
Professional fees, training and development	840,000	696,295	730,196
Technology services	430,000	417,067	477,175
Travel	455,000	475,650	439,808
Amortization of capital assets	290,000	279,671	256,602
Materials and supplies	145,000	160,662	134,014
Rental of office equipment	95,000	99,961	97,588
Telephone and communications	75,000	69,404	68,458
Repairs and maintenance	15,000	15,860	23,329
Miscellaneous	25,000	22,691	24,635
	<u>2,370,000</u>	<u>2,237,261</u>	<u>2,251,805</u>
Total office professional services	20,190,000	19,786,467	18,621,899
Audit fee revenue	<u>(2,595,000)</u>	<u>(3,025,643)</u>	<u>(2,645,086)</u>
Net cost of operations for the year (Note 6)	<u>\$ 17,595,000</u>	<u>\$ 16,760,824</u>	<u>\$ 15,976,813</u>

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

**Alberta Legislature  
Office of the Auditor General  
Statement of Cash Flows  
Year Ended March 31, 2008**

	<b>2008</b>	<b>2007</b>
Operating transactions:		
Net cost of operations	\$ (16,760,824)	\$ (15,976,813)
Non-cash transactions:		
Amortization of capital assets	279,671	256,602
	(16,481,153)	(15,720,211)
Increase in audit fees receivable	(387,144)	(214,071)
Decrease (increase) in other receivables and advances	(66,086)	44,658
Increase in accounts payable	187,536	573,881
Increase in accrued vacation pay	184,618	86,603
Net cash used by operating transactions	(16,562,229)	(15,229,140)
Capital transactions:		
Acquisition of capital assets	(575,466)	(71,075)
Financing transactions:		
Net transfer from general revenues	17,137,695	15,300,215
Net cash provided (used)	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -

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

**Alberta Legislature**  
**Office of the Auditor General**  
**Notes to the Financial Statements**  
**Year Ended March 31, 2008**

**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 net cost of operations of the Office of the Auditor General and the purchase of capital assets. The Select Standing Committee on Legislative Offices reviews the Office's annual operating and capital budgets.

The Office of the Auditor General exists to serve the Legislative Assembly and the people of Alberta. The Auditor General is the auditor of all government ministries, departments, funds, and Provincial agencies, including regional health authorities, universities, public colleges, and technical institutes. With the approval of the Assembly's Select Standing Committee on Legislative Offices, the Auditor General may also be appointed auditor of a Crown controlled corporation or another organization. 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 have been prepared in accordance with Canadian generally accepted accounting principles for public sector entities and reflect the following policies and practices:

**(a) Audit fees**

Audit fee revenue is recognized when billable assurance audits are performed. Audit fees are charged to organizations that are funded primarily from sources other than Provincial general revenues, and to regional health authorities audited with the approval of the Select Standing Committee on Legislative Offices. The fees billed to the regional health authorities only recover the fees charged to the Office by agents.

**(b) Output costs**

Schedule 1 provides detailed costs for our two outputs:

- Assurance auditing results in auditor's reports on financial statements and performance measures.
- Systems auditing produces recommendations for improved government management of, and accountability for, public resources. We include the recommendations in the Auditor General's public reports to the Legislative Assembly.

**(c) Expenses incurred by others**

Services contributed by other entities in support of the Office's operations are disclosed in Note 6.

**(d) Capital assets**

Capital assets are recorded at cost. Amortization is calculated on a straight-line basis, over the estimated useful lives of the assets, at the following rates:

Computer hardware	33%
Computer software	33%
Office equipment	10%

**(e) Pension expense**

Pension costs included as part of these statements refer to employer contributions for the current service of employees during the year and additional employer contributions for service relating to prior years.

**(f) Valuation of financial assets and liabilities**

The amounts reported as audit fees receivable, other receivables and advances, accounts payable and accrued vacation pay approximate their fair values.

**Note 3—Capital Assets**

	2008			2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	\$ 1,287,620	\$ 907,738	\$ 379,882	\$ 91,160
Computer software	198,526	198,526	-	-
Office equipment	778,057	691,815	86,242	79,168
	<u>\$ 2,264,203</u>	<u>\$ 1,798,079</u>	<u>\$ 466,124</u>	<u>\$ 170,328</u>

**Note 4—Defined Benefit Plans**

The Office participates in the multi-employer Management Employees Pension Plan and Public Service Pension Plan. The Office also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of \$1,065,055 for the year ended March 31, 2008 (2007: \$920,767).

At December 31, 2007, the Management Employees Pension Plan reported a deficiency of \$84,341,000 (2006: \$6,765,000) and the Public Service Pension Plan reported a deficiency of \$92,070,000 (2006 surplus: \$153,024,000). At December 31, 2007, the Supplementary Retirement Plan for Public Service Managers had a surplus of \$1,510,000 (2006: \$3,698,000).

The Office also participates in a multi-employer Long Term Disability Income Continuance Plan. At March 31, 2008, the Management, Opted Out and Excluded Plan reported an actuarial surplus of \$7,874,000 (2007: \$10,148,000). 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 Select Standing Committee on Legislative Offices approved on December 14, 2006. The following table compares the Office’s actual expenditures to the voted budgets.

Operating expenses:	
Voted budget	\$ 20,190,000
Actual expenses	<u>19,786,467</u>
Unexpended	<u><u>\$ 403,533</u></u>
Capital investments:	
Voted budget	\$ 580,000
Actual expenditure	<u>575,466</u>
Unexpended	<u><u>\$ 4,534</u></u>

**Note 6—Expenses Incurred by Others**

The Office had the following transactions with other entities for which no consideration was exchanged. The amounts for these transactions are estimated based on the costs incurred by the service provider to provide the service.

	<u>2008</u>	<u>2007</u>
Expenses incurred by Alberta Infrastructure and Transportation		
Accommodation	\$ 570,747	\$ 580,623
Amortization of leasehold improvements	<u>5,820</u>	<u>5,820</u>
	<u><u>\$ 576,567</u></u>	<u><u>\$ 586,443</u></u>
Expense incurred by the Legislative Assembly Office		
Audit fee	<u><u>\$ 25,000</u></u>	<u><u>\$ 23,250</u></u>

## Note 7—Salaries and Benefits

Salaries and benefits of the Auditor General and his Executives comprise:

	2008			2007	
	Base Salary <sup>(1)</sup>	Other Cash Benefits <sup>(2)</sup>	Other Non-cash Benefits <sup>(3)</sup>	Total	Total
Auditor General <sup>(4)</sup>	\$ 216,094	\$ 3,674	\$ 48,232	\$ 268,000	\$ 262,465
Executives:					
Executive Director <sup>(5)</sup>	102,795	20,750	27,808	151,353	N/A
Assistant Auditor General <sup>(6)</sup>	102,808	56,990	3,764	163,562	N/A
Assistant Auditor General <sup>(7)</sup>	70,906	16,220	16,659	103,785	213,870
Executive Director <sup>(8)</sup>	29,319	17,250	7,509	54,078	N/A
Executive Director <sup>(9)</sup>	104,700	26,000	23,683	154,383	N/A
Assistant Auditor General <sup>(10)</sup>	164,736	35,123	38,661	238,520	226,488
Assistant Auditor General <sup>(11)</sup>	158,886	22,500	36,577	217,963	200,918
Assistant Auditor General <sup>(12)</sup>	155,772	22,500	36,366	214,638	194,370
	<u>\$ 1,106,016</u>	<u>\$ 221,007</u>	<u>\$ 239,259</u>	<u>\$ 1,566,282</u>	<u>\$ 1,098,111</u>

(1) Base salary comprises pensionable base pay.

(2) Other cash benefits include bonuses, vacation payments, and payments in lieu of employer contributions towards employee non-cash benefits. Bonuses for Executives who transferred from other government entities during the year are funded entirely by the Office on March 31. Accumulated vacation of \$20,819 was paid to the Assistant Auditor General<sup>(6)</sup> (2007: N/A), \$14,720 to the Assistant Auditor General<sup>(7)</sup> (2007: \$0), and \$12,623 to the Assistant Auditor General<sup>(10)</sup> (2007: \$12,069).

(3) Other non-cash benefits include the Office's share of all employee benefits, and contributions or payments made on behalf of employees, including pension, supplementary retirement plans, health care, dental coverage, group life insurance, short and long-term disability plans, WCB premiums, professional memberships and tuition fees.

(4) Automobile provided, no dollar amount included in non-cash benefits.

Major responsibilities as at March 31, 2008:

(5) Responsibilities—Promotion on July 1, 2007 (9 months), information systems audits,

(6) Responsibilities—Promotion on July 1, 2007 (9 months), ministry of Advanced Education and Technology

(7) Responsibilities—Retirement on August 31, 2007 (5 months), ministry of Health and Wellness

(8) Responsibilities—Position filled on January 14, 2008 (2.5 months), Chief Administrative Officer

(9) Responsibilities—Promotion on July 1, 2007 (9 months), systems and forensic audits

(10) Responsibilities—Cross-Ministry (coordination), ministries of Education, Environment, Executive Council, Finance, Service Alberta, Sustainable Resource Development, and Treasury Board

(11) Responsibilities—Cross-Ministry (governance and human recourses), ministries of Agriculture and Food, Employment, Immigration and Industry, Health and Wellness, Seniors and Community Supports, and Tourism, Parks, Recreation and Culture

(12) Responsibilities—Cross-Ministry (business plan and performance measures), ministries of Children's Services, Energy, Infrastructure and Transportation, International, Intergovernmental, and Aboriginal Relations, Justice and Attorney General, Legislative Assembly, Municipal Affairs and Housing, and Solicitor General

**Note 8—Comparative Figures**

Certain 2007 figures have been reclassified to conform to the 2008 presentation.

**Note 9—Approval of the Financial Statements**

These financial statements were approved by the Auditor General.

Schedule 1

**Alberta Legislature  
Office of the Auditor General  
Schedule of Output Costs by Ministry  
For the Year Ended March 31, 2008**

	2008 Budget			2008 Actuals			2007 Actuals		
	Assurance Auditing	Systems Auditing	Total	Assurance Auditing	Systems Auditing	Total	Assurance Auditing	Systems Auditing	Total
<b>Work performed by Sector:</b>									
Advanced Education and Technology	\$ 3,610,000	\$ 438,000	\$ 4,048,000	\$ 3,862,512	\$ 669,876	\$ 4,532,388	\$ 3,431,129	\$ 716,080	\$ 4,147,209
Agriculture and Food	552,000	132,000	684,000	548,803	87,079	635,882	533,111	58,623	591,734
Children's Services	852,000	492,000	1,344,000	863,927	428,913	1,292,840	837,179	269,569	1,106,749
Cross-Ministry	179,000	1,672,000	1,851,000	169,659	1,081,979	1,251,638	196,706	1,163,809	1,360,515
Education	445,000	47,000	492,000	495,308	48,717	544,025	454,723	27,499	482,222
Employment, Immigration and Industry	659,000	540,000	1,199,000	520,206	154,541	674,747	743,381	31,352	774,733
Energy	490,000	135,000	625,000	681,195	483,850	1,165,045	598,363	166,781	765,144
Environment	94,000	446,000	540,000	146,593	165,150	311,742	200,742	242,972	443,714
Executive Council	52,000	9,000	61,000	45,082	-	45,082	56,355	11,678	68,033
Finance	2,475,000	151,000	2,626,000	2,348,203	143,983	2,492,187	2,424,583	119,657	2,544,240
Health and Wellness	1,626,000	239,000	1,865,000	1,772,066	526,285	2,298,351	1,750,353	417,649	2,168,002
Infrastructure and Transportation	484,000	94,000	578,000	426,646	301,965	728,610	376,180	313,720	689,900
International, Intergov and Aboriginal Relations	101,000	-	101,000	92,211	39,547	131,758	119,346	64,410	183,756
Justice and Attorney General	270,000	-	270,000	325,161	-	325,161	257,744	8,650	266,394
Legislative Assembly	85,000	-	85,000	107,167	5,691	112,857	107,336	2,684	110,020
Municipal Affairs and Housing	404,000	-	404,000	397,717	59,582	457,299	321,647	50,185	371,832
Seniors and Community Supports	565,000	175,000	740,000	520,020	990	521,009	512,365	4,616	516,981
Service Alberta	756,000	144,000	900,000	715,121	61,381	776,502	639,334	41,666	681,000
Solicitor General	275,000	74,000	349,000	389,989	26,118	416,106	316,002	27,495	343,496
Sustainable Resource Development	239,000	451,000	690,000	265,000	114,708	379,708	191,473	137,467	328,940
Tourism, Park, Recreation and Culture	419,000	11,000	430,000	285,904	24,417	310,320	339,828	20,619	360,447
Treasury Board	308,000	-	308,000	383,207	-	383,207	298,793	18,046	316,839
	<u>\$ 14,940,000</u>	<u>\$ 5,250,000</u>	<u>\$ 20,190,000</u>	<u>\$ 15,361,695</u>	<u>\$ 4,424,772</u>	<u>\$ 19,786,467</u>	<u>\$ 14,706,673</u>	<u>\$ 3,915,226</u>	<u>\$ 18,621,899</u>

Schedule 2

**Alberta Legislature  
Office of the Auditor General  
Other Performance Information**

GOAL ONE **1** Independent audits that confirm the reliability and relevance of financial and non-financial performance reporting to the Legislative Assembly

Performance measures	Target 2007-08	Actual 2007-08	Actual 2006-07
<b>Issuance of Reports</b>			
1.a Issue our auditor's report on the consolidated financial statements of the Province by June 30 <sup>th</sup> each year. <sup>1</sup>	June 30 2007	<b>June 19 2007</b>	June 22 2006
1.b Issue our specified auditing procedures report on the Government of Alberta's performance information contained in Measuring Up by June 30 <sup>th</sup> each year. <sup>1</sup>	June 30 2007	<b>June 19 2007</b>	June 22 2006
1.c The percentage of auditor's reports on financial statements for consolidated entities with March 31 <sup>st</sup> year ends that we issue by July 15 <sup>th</sup> each year.	90%	<b>90%</b>	91%
1.d The percentage of auditor's reports for entities (not reported on under 1.c) that we issue within 120 days of the entity's year end.	80%	<b>75%</b>	67%
1.e The percentage of specified auditing procedures reports on ministry performance information that we issue by September 15 <sup>th</sup> each year.	100%	<b>95%</b>	96%
<b>Budgets</b>			
1.f The percentage of assurance auditing projects over 200 hours completed within 10% of budgeted costs.	90%	<b>63%</b>	59%
1.g The percentage of costs dedicated to assurance auditing.	< 75%	<b>78%</b>	79%

<sup>1</sup> Required by June 30<sup>th</sup> each year per s. 10 of the *Government Accountability Act*.

GOAL TWO **2** Solutions to improve government systems, including organizations' systems for identifying and managing their business risks

Performance measures	Target 2007-08	Actual 2007-08	Actual 2006-07
<b>Recommendations</b>			
2.a The percentage of the Auditor General's primary recommendations accepted. <sup>2</sup>	95%	<b>91%</b>	82%
2.b The number of the Auditor General's primary recommendations not implemented within 3 years of acceptance.	None	<b>26</b>	24
2.c Release the Auditor General's Annual Report in October of each year.	October 2007	<b>October 1 2007</b>	October 2 2006
<b>Budgets</b>			
2.d The percentage of systems auditing projects completed within budgeted costs. <sup>3</sup>	70%	<b>57%</b>	58%
2.e The percentage of costs dedicated to systems auditing.	25%	<b>22%</b>	21%

<sup>2</sup> Acceptance does not include recommendations accepted in principle or under review. In addition to the 33 out of 42 primarily accepted recommendations based on the government's responses to reports of the Auditor General, 5 recommendations related to the energy royalty review initially accepted in principle are now fully accepted, which brings our result to 91% (38 out of 42).

<sup>3</sup> Methodology focuses on all systems audits, whether completed or not during the year. We treated projects with actual costs less than 15% of budget as not yet started and excluded them from the count.

## Corporate initiatives

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<b>Performance measures</b>	<b>Target 2007-08</b>	<b>Actual 2007-08</b>	<b>Actual 2006-07</b>
3.a The percentage of employees expressing satisfaction working for the Office. <sup>4</sup>	85%	<b>78%</b>	N/A
3.b The percentage of staff meeting Office targets for available time spent on core business functions. <sup>5</sup>	100%	<b>94%</b>	92%
3.c Corporate operating costs as a percentage of total Office costs.	Less than 20%	<b>16%</b>	16%

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<sup>4</sup> This biennial survey was last conducted in March 2006 (77% actual).

<sup>5</sup> The methodology annually limits each staff member to 25 hours of unassigned time and 100 hours for personal administration.





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