



Office of the Auditor General of Alberta

Results Analysis, Financial Statements and
Other Performance Information for the
year ended March 31, 2009



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

I am honoured to send *Office of the Auditor General of Alberta—Results analysis, financial statements and other performance information for the year ended March 31, 2009* to the members of the Legislative Assembly. This document contains an analysis of Office operations and our audited financial statements for the fiscal period April 1, 2008 to March 31, 2009.

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

Edmonton, Alberta
September 25, 2009

Contents

Results analysis i

 Highlights 1

 Our mission statement 2

 Core businesses 3

 Office performance 4

 The future 9

Management’s Responsibility for Financial Reporting 11

Audited Financial Statements March 31, 2009 13

Other performance information 24

Results analysis

March 31, 2009

Highlights

We had a successful and challenging year at the Office of the Auditor General of Alberta (OAG).

Two public reports

Again this year, we delivered two public audit reports to the Legislative Assembly of Alberta. We want to provide timely reporting of recommendations to improve the use of public resources. The reports cover a total of 183 assurance audits and 50 systems audits. Most importantly our reports contain 136 recommendations to improve effectiveness and efficiency of government departments, governance of Boards and agencies, safety and welfare of Albertans and the security and use of the province's resources.

In the *October 2008 Report of the Auditor General*, we reported the results of nine significant audits:

- Chief executive officer selection, evaluation and compensation—guidance
- Protecting information assets—central security office
- Alberta's response to climate change—public reporting
- ATB Financial—treasury management
- Alberta's mental health service delivery system—mental health standards
- Alberta Investment Management Corporation (AIMCo)—internal control certification
- University academic pension plan unfunded liability
- Information technology control framework
- Managing Alberta's sand and gravel resources

In the *April 2009 Report of Auditor General*, we reported the results of three other major systems audits:

- Bow Valley College contracting in the international education and workplace training department
- University of Lethbridge's research investment Alberta Terrestrial Imaging Corp. (ATIC)
- Ministry of Transportation information technology incidents

We also released results of follow-up audits on drinking water, emergency preparedness and reforestation.

In the 2008–2009 fiscal year, our Office faced three significant challenges: managing high staff turnover, implementing new assurance auditing standards issued by the Canadian Institute of Chartered Accountants and meeting the demand brought about by structural changes within the government. These three factors required us to spend 31,000 more hours (29%) than we spent three years ago, or 17,000 more hours (12%) than last year, to complete our assurance work.

Managing high staff turnover

By the end of March 2009, Alberta's economy had begun to slow significantly. But throughout the 2008–2009 fiscal year, other organizations continued to recruit our qualified auditors. The OAG experienced a 16% turnover of all staff; turnover was 30% for senior level professional staff. 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

For the past two years, new auditing standards meant that we produce more documentation describing and analysing entities' internal controls, conduct more procedures in assessing risks, examine more transactions, especially financial instruments.

Training for these new national and international standards is costly. We are working with other Canadian legislative audit offices to efficiently and appropriately implement the revised standards. A new protocol for a National Professional Practices Group, will make for a more efficient and ultimately more cost-effective way of dealing with changing standards.

Government structural changes

This was a particular challenge in the 2008–2009 fiscal year, as the government's structural changes necessitated our Office's request for an increase in funding. Specifically, our audit base grew when the government restructured from 21 to 24 ministries. The structural change that had the greatest impact on our Office in 2008–2009 was being appointed the auditor of AHS. Previously we were the auditor of six of the nine Health Authorities.

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

Our mission statement

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 the Alberta government's management of, and accountability practices for, the public resources entrusted to it.

In fulfilling our mission, the Auditor General and the OAG 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 statement and performance measures auditing**

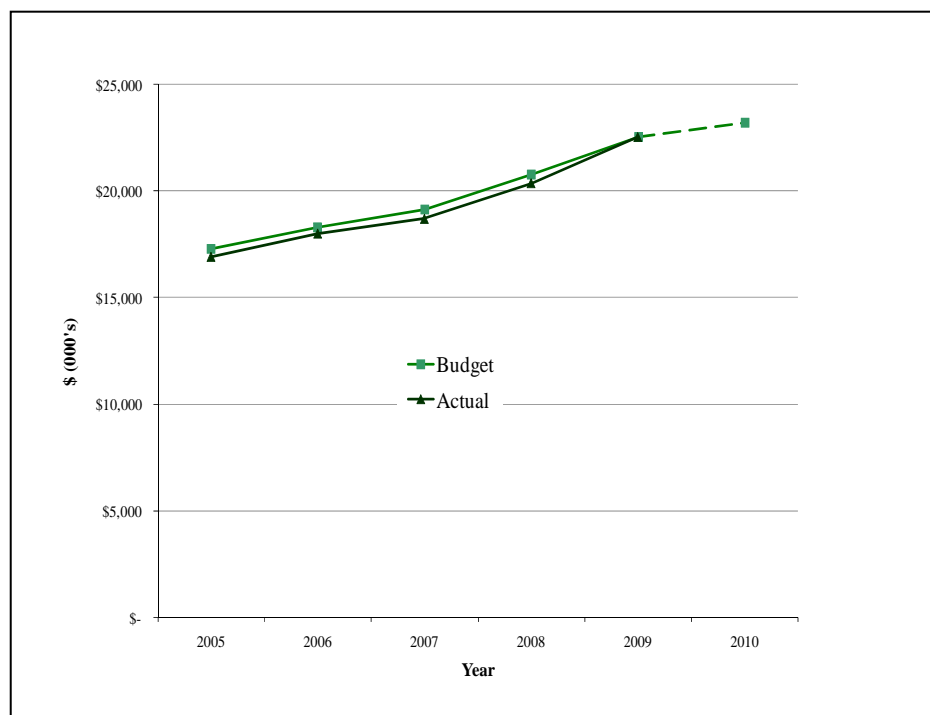
Assurance audits confirm that the performance reports of government organizations are credible. We say whether the government's consolidated financial statements and the financial statements of ministries, departments, funds and provincial agencies are presented fairly in accordance with applicable standards. We also check if transactions comply with the law. In addition, we review 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 2008–2009, it provided \$22,450,000 for operations (which includes \$750,000 supplementary funding) and \$95,000 for capital requirements.

We are returning \$16,000 (1/10 of 1% of our budget) to the Legislative Assembly for the 2008–2009 fiscal year. We will continue to make every effort to manage our resources within our budget allocation.

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

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

Schedule 1 of our 2008–2009 financial statements summarizes the costs by ministry—for the fiscal year ended March 31, 2009—of assurance and systems audits. We reported the results from much of this audit work in the *October 2008 Report of the Auditor General* and in the *April 2009 Report of the Auditor General*.

In 2008–2009, our overall assurance audit costs were \$2,016,000 (13%) above budget, while our systems audit costs were \$2,144,000 (31%) below budget. This is a significant spending shift from systems to assurance audits. The assurance audits for the ministries of Advanced Education and Technology, Finance and Enterprises, and Health and Wellness as well, exceeded their budgets. This was mainly due to increased auditing requirements related to the government's announced March 2008 restructuring, Alberta Health Services, our Office's continued use of more costly temporary audit staff, and changes to Canadian Institute of Chartered Accountants' assurance auditing standards. Conversely, our systems audits for the ministries of Advanced Education and Technology, Energy, Environment, Health and Wellness, and Sustainable Resource Development were significantly under budget. This was primarily due to reduced scope of audits and postponed audits.

These reduced costs were offset by costs that were over budget in auditing the ministries of Finance and Enterprises and Service Alberta due to special systems audits such as our audits of ATB's treasury management and the government's protection of its information assets. These system audits, including the Asset Backed Commercial Paper in ATB, generated unanticipated onetime costs that, along with the audit of Alberta Health Services, led to our request for supplementary funding of \$750,000 for the 2008–2009 fiscal year.

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

Overall, actual total costs increased by \$2.5 million (13%) over last year. For the reasons mentioned above, our overall assurance audit costs increased by \$2.2 million (15%) and systems audit costs increased by \$367,000 (9%).

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, employer benefit contributions, agent fees, fees for temporary audit staff and fees for advisory services.

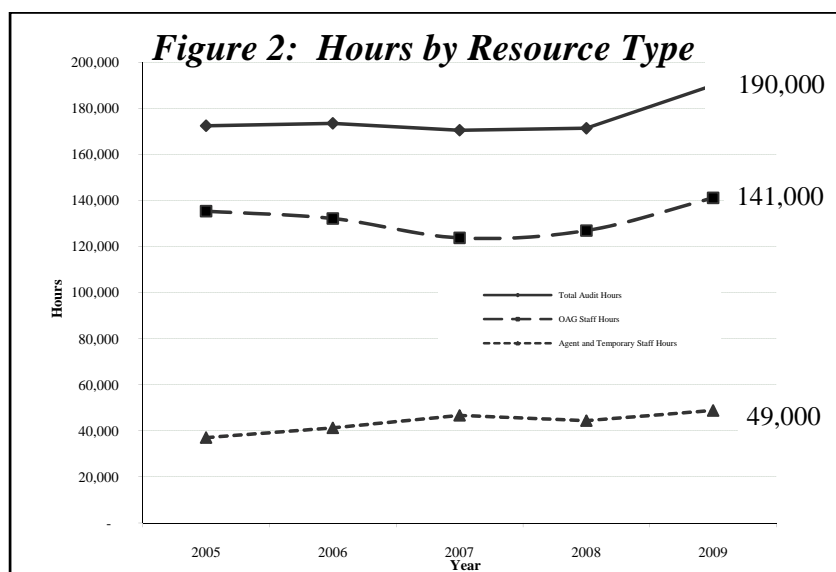
3.1.1 Salaries, wages and employer contributions

Budget to actual

We budgeted for 131 full-time equivalent positions (FTEs) in 2008–2009 and averaged about 129 FTEs throughout the year. However, there was a \$253,000 or 2% higher-than-budgeted overall compensation expense increase due to a shift to senior levels in our staff mix and some unanticipated in year salary adjustments by the Public Service.

Actual to actual

Compared to 2007–2008, our salaries, wages and employer contributions costs increased by \$1,258,000 (13%). This was caused by a 6% overall increase in average salary rates and an increase of 7 FTEs, from 122 to 129, in OAG staff. The increase of 6% over last year's compensation is based mainly on a 4.8% cost of living adjustment. Also, our employer contributions increased by \$283,000 (16%), due to more FTEs and a salary base increase.



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 increased by 19,000 hours (11%) since last year. This reflects increased OAG and agent audit assurance hours from the audit of the Alberta Health Services.

3.1.2 Fees for agents and other professional services

In the past year, 11 public accounting firms in Edmonton, Calgary, Fort McMurray, Grand Prairie, Lethbridge, Red Deer and other centres across the province acted as our agents. We oversee their audit work. This year we used agents in some cases as associate auditors, which meant that both OAG staff and agent staff were working closely on an audit. Examples of this are the Alberta Health Services sector and the University of Alberta audits. 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 2008–2009, agent fees were \$5,172,000, an increase of \$998,000 (24%) from 2007–2008, and above our original budget by \$537,000 (12%), but below our revised budget (including supplementary funding) by \$13,000 (0.3%), due to our audit work for Alberta Health Services, ATB Financial, the University of Calgary, and General Computer Control Review work, among others.

Average hourly costs of accounting firms are approximately 30% higher than our internal rates. Our budget for 2009–2010 for agent fees will be \$4.9 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 2008–2009, the cost of temporary staff services was \$1,395,000, under budget by \$105,000 (7%). This was also under last year's spending by \$157,000 (10%). The decrease came from better pricing from small independent contractors and 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 2009–2010.

3.1.4 Fees for advisory services

Advisory services include communications, legal counsel, information systems and professional practices. In 2008–2009, overall advisory services were under budget by \$69,000 (33%). 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 the authorized budget by \$13,000 (0.01%), the net result of increases and decreases in a number of expense categories. None of the individual variances was significant. The OAG allocated \$150,000 of the supplementary estimate to travel and \$50,000 to technology services, mainly due to travel for Alberta Health Services, unbudgeted systems audit travel and audit software licenses needed for agents as a result of new health audits.

3.3 Capital investment

In 2008–2009, our capital budget was mainly for information technology infrastructure purchases, scheduling software and replacement of the air conditioning unit for the IT server room. Expenses of \$207,000 were over our budget of \$112,000. Half of this spending was not a net increase, as it was a transfer from an operating to the capital line of our budget. The balance of the capital spending increase was for the cost of replacing air conditioning equipment to protect our valuable computer systems.

4. Other performance information

Schedule 2 of our 2008–2009 audited financial statements includes our performance measures for April 1, 2008 to March 31, 2009. We use specific measures to monitor performance throughout the fiscal year. These measures are the basis of this report on our performance.

4.1 Issuance of reports

We issued our reports on the 2007–2008 consolidated financial statements of the Province and on the 2007–2008 performance results for the government (*Measuring Up*) by our target date of June 2008. We exceeded our target for releasing 90% of audit reports for consolidated entities with March 31 year-ends by July 15. Our actual result was 100%. Starting 2005–2006, we increased the same target for reporting on non-consolidated entities from 70% to 80%. Our actual results were 59%, a drop of 16% from 2007–2008's 75%, and below our target for 2008–2009. We will continue to work with the organizations we audit to improve our audit completion performance.

We issued 95% of our reports (that is, all but one) on ministry performance measures by September 15, 2008—our target was 100%.

4.2 Budgets

Performance measure 1.f indicates the percentage of assurance audits completed within their original budgets. In 2008–2009, for assurance audits that require over 200 hours, our completion within 10% of the original budget increased from 63% to 66%. But we were still below the target (in 1.f) of 90%. Of the 139 audits over 200 hours, 92 (or 66%) 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, staff turnover required us to recruit 25 new employees. As is normal, these staff required more supervision and on-the-job training, thus increasing audit hours.

The other two measures in the budget (1.g and 2.d) compare the relative total costs for assurance and systems audits. In 2008–2009, again due to the AHS audit, timing of systems audits and staff turnover, we missed our revised targets of 70% of costs for assurance audits and 30% for systems audits. Actual results were 79% and 21% respectively.

4.3 Recommendations

We missed our target for the government to accept 95% of numbered recommendations in our *October 2008 Report* and *April 2009 Report*, the government accepted 32 of our 42 numbered recommendations, or 77%, for this current year, a decrease of 14% over last year.

Also, we missed our target of no unimplemented numbered recommendations after three years of the government accepting them. During 2008–2009, the government had not yet implemented 27 of our primary recommendations made before 2004–2005. It was making satisfactory progress on 26 of the 27, but unsatisfactory progress on one. The ministries concerned had not rejected the recommendations, but progress was slower than they had planned. As of October 2009, the status of recommendations more than 3 years old is that 27 recommendations made before 2005–2006 have not yet been implemented. For 26 recommendations, management has made satisfactory progress, but one recommendation is repeated.

We met our target of releasing the public reports in October 2008 and April 2009.

4.4 Corporate initiatives

Although we did not meet our target of 100% of employees meeting their goals for available time spent on core business functions, 93% (down 1% 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.

For 2008–2009, we had a new measure with a target rate of less than 20% for staff turnover. We achieved our target with a staff turnover rate of 16%. Actual staff turnover rate for the previous year was 22%.

We strive to ensure our corporate service functions operate efficiently. These functions include human resource management, training and development, information technology, and finance and administration. This year, we again met our target of keeping corporate costs no higher than 20% of total OAG costs—they were 15%.

As a training office for accounting professionals, we are focused on the success of our students. One other new measure for the 2008–2009 fiscal year is the pass rate of CA students in professional accounting programs compared to national averages. With a smaller number of students to base the percentage on, the pass rate can vary from one year to the next. The OAG pass rate was 12 out of 19, or 63.2%, whereas the national pass rate was 71.7% in 2008–2009. In the prior year, when 11 out of 12 students passed, our pass rate was 92% and the national pass rate was 74.7%. Every student and his or her success is important to our Office, so we will continue our efforts to improve and to exceed the national pass rate.

4.5 MLA survey objective

We believe Albertans want our work to help government improve its governance and ethical behaviour, the 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; 32 of 82 MLAs participated. The responses indicate that 94% of the MLAs, who responded, believe our work is valuable. The overall result will serve as a baseline in setting a performance target going forward. We have posted more information and results of the survey on our external site at www.oag.ab.ca.

The future

Next year will present challenges and opportunities similar to last year's, but we must recognize the reality of the current fiscal situation facing the province. In our 2009–2012 business plan, we established the following strategic priorities with that understanding:

- **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.
- **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 review all our audit contracts with agents and suppliers of audit staff to look for cost savings. We will also be looking at how performance measures work is done with the Departments and Treasury Board to improve efficiencies and effectiveness.

- **Focus our resources on making systems audit recommendations that result in improved:**
 - effectiveness and efficiencies in government departments
 - 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, and water quantityThis will require balancing our limited resources with the demands for more systems audits.

- **Use efficient processes**
 - employ audit processes that result in the most cost effective auditing and also align our supervisory, students, and agent resources to audit risk
 - take advantage of prior year improvements in internal control documentation to realize further efficiencies in assurance audits
 - recognize the cost in adapting to new auditing standards and therefore, we will continue to work closely with other legislative audit offices across Canada—under a protocol for a National Professional Practices Group—to benefit from sharing experience and services.

- **Respond to market demand for our professional staff**

To sustain our ability to conduct audits and improve staff turnover rates, we need to:

- manage succession to ensure continued high-quality leadership in the OAG
- emphasize retaining high-quality employees
- provide challenging work, a clear career path for our more senior or recently graduated 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]

Fred J. Dunn, FCA
Auditor General
May 29, 2009

**Alberta Legislature
Office of the Auditor General
Financial Statements
March 31, 2009**

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

May 29, 2009
Edmonton, Alberta

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, 2009 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, 2009 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, 2009**

| | 2009 | 2008 |
|--------------------------------------|--------------|--------------|
| Assets | | |
| Audit fees receivable | \$ 1,808,050 | \$ 1,917,065 |
| Other receivables and prepaids | 149,180 | 144,372 |
| Capital assets (Note 3) | 389,004 | 466,124 |
| | \$ 2,346,234 | \$ 2,527,561 |
| Liabilities | | |
| Accounts payable | \$ 1,704,892 | \$ 1,866,111 |
| Accrued vacation pay | 1,572,050 | 1,356,549 |
| | 3,276,942 | 3,222,660 |
| Net Assets (Liabilities) | | |
| Net liabilities at beginning of year | (695,099) | (1,071,970) |
| Net cost of operations | (19,209,989) | (16,760,824) |
| Net transfer from general revenues | 18,974,380 | 17,137,695 |
| | (930,708) | (695,099) |
| | \$ 2,346,234 | \$ 2,527,561 |

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, 2009**

| | 2009 | | | 2008 | |
|--|----------------------|-------------------------------------|---|----------------------|----------------------|
| | Budget | Authorized Supplementary | Authorized Budget (Note 5) | Actual | Actual |
| Expenses: | | | | | |
| Personnel | | | | | |
| Salaries and wages (Note 7) | \$ 10,960,000 | | \$ 10,960,000 | \$ 11,039,193 | \$ 9,781,294 |
| Agent and other audit services fees | 4,635,000 | \$ 550,000 | 5,185,000 | 5,171,579 | 4,173,637 |
| Employer contributions | 2,095,000 | | 2,095,000 | 2,087,272 | 1,804,301 |
| Temporary staff services | 1,500,000 | | 1,500,000 | 1,394,780 | 1,551,929 |
| Advisory services | 210,000 | | 210,000 | 141,153 | 221,130 |
| Miscellaneous | 10,000 | | 10,000 | 11,060 | 16,915 |
| | <u>19,410,000</u> | <u>550,000</u> | <u>19,960,000</u> | <u>19,845,037</u> | <u>17,549,206</u> |
| Supplies and services: | | | | | |
| Professional fees, training and development | 885,000 | | 885,000 | 785,523 | 696,295 |
| Travel | 420,000 | 150,000 | 570,000 | 623,614 | 475,650 |
| Technology services | 380,000 | 50,000 | 430,000 | 392,817 | 417,067 |
| Amortization of capital assets | 250,000 | | 250,000 | 284,072 | 279,671 |
| Materials and supplies | 145,000 | | 145,000 | 133,492 | 160,662 |
| Rental of office equipment | 100,000 | | 100,000 | 135,623 | 99,961 |
| Telephone and communications | 70,000 | | 70,000 | 73,295 | 69,404 |
| Repairs and maintenance | 15,000 | | 15,000 | 17,420 | 15,860 |
| Miscellaneous | 25,000 | | 25,000 | 30,837 | 22,691 |
| | <u>2,290,000</u> | <u>200,000</u> | <u>2,490,000</u> | <u>2,476,693</u> | <u>2,237,261</u> |
| Total office professional services | 21,700,000 | 750,000 | 22,450,000 | 22,321,730 | 19,786,467 |
| Less: Audit fee revenue | <u>(3,135,000)</u> | - | <u>(3,135,000)</u> | <u>(3,111,741)</u> | <u>(3,025,643)</u> |
| Net cost of operations for the year (Note 6) | <u>\$ 18,565,000</u> | <u>\$ 750,000</u> | <u>\$ 19,315,000</u> | <u>\$ 19,209,989</u> | <u>\$ 16,760,824</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, 2009**

| | <u>2009</u> | <u>2008</u> |
|--|---------------------|---------------------|
| Operating transactions: | | |
| Net cost of operations | \$ (19,209,989) | \$ (16,760,824) |
| Non-cash transactions: | | |
| Amortization of capital assets | <u>284,072</u> | <u>279,671</u> |
| | (18,925,917) | (16,481,153) |
| | | |
| Decrease (increase) in audit fees receivable | 109,015 | (387,144) |
| Increase in other receivables and advances | (4,808) | (66,086) |
| Increase (decrease) in accounts payable | (161,219) | 187,536 |
| Increase in accrued vacation pay | <u>215,501</u> | <u>184,618</u> |
| | | |
| Net cash used by operating transactions | <u>(18,767,428)</u> | <u>(16,562,229)</u> |
| | | |
| Capital transactions: | | |
| Acquisition of capital assets | <u>(206,952)</u> | <u>(575,466)</u> |
| | | |
| Financing transactions: | | |
| Net transfer from general revenues | <u>18,974,380</u> | <u>17,137,695</u> |
| | | |
| Net cash provided (used) | <u>-</u> | <u>-</u> |
| | | |
| Cash, beginning of year | - | - |
| | | |
| Cash, end of year | <u>\$ -</u> | <u>\$ -</u> |

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, 2009**

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.

In prior years, we billed the six regional health authorities that we audited with the approval of the Select Standing Committee on Legislative Offices. The fees billed to the regional health authorities were set to recover the fees charged to the Office by agents. During 2008—2009, the Office became the auditor of Alberta Health Services, including all regional health authorities and related entities. As these entities are primarily funded by the Provincial general revenues, fees are no longer billed to these entities starting with the audit of March 31, 2009 year-end.

(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

| | 2009 | | 2008 | |
|-------------------|---------------------|--------------------------|-------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Computer hardware | \$ 1,351,657 | \$ 1,081,758 | \$ 269,899 | \$ 379,882 |
| Computer software | 218,880 | 193,654 | 25,226 | - |
| Office equipment | 555,148 | 461,269 | 93,879 | 86,242 |
| | <u>\$ 2,125,685</u> | <u>\$ 1,736,681</u> | <u>\$ 389,004</u> | <u>\$ 466,124</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 \$1,293,892 for the year ended March 31, 2009 (2008: \$1,065,055).

At December 31, 2008, the Management Employees Pension Plan reported a deficiency of \$568,574,000 (2007: \$84,341,000) and the Public Service Pension Plan reported a deficiency of \$1,187,538,000 (2007: \$92,509,000 as restated). At December 31, 2008, the Supplementary Retirement Plan for Public Service Managers had a deficiency of \$7,111,000 (2007 surplus: \$1,510,000).

The Office also participates in a multi-employer Long Term Disability Income Continuance Plan. At March 31, 2009, the Management, Opted Out and Excluded Plan reported an actuarial deficiency of \$1,051,000 (2008 surplus: \$7,874,000). 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 and the supplemental funding that the Select Standing Committee on Legislative Offices approved on December 5, 2007 and December 5, 2008 respectively. The following table compares the Office's actual expenditures to the approved budgets.

| | | |
|--------------------------------|----|-------------------|
| Budget | | |
| Original voted budget | | |
| Operating expenses | \$ | 21,700,000 |
| Capital investments | | 95,000 |
| | | <u>21,795,000</u> |
| Approved supplementary funding | | 750,000 |
| | | <u>22,545,000</u> |
| Actual | | |
| Operating expenses | | 22,321,730 |
| Capital investments | | 206,952 |
| | | <u>22,528,682</u> |
| Unexpended | \$ | <u>16,318</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.

Effective 2008—2009, the responsibilities and charges for Alberta Government Integrated Management Information System (IMAGIS) were transferred to ministry of Service Alberta. The equivalent amount that was recorded in 2007—2008 under Technology Services was \$112,000.

| | <u>2009</u> | <u>2008</u> |
|---|-------------------|-------------------|
| Expenses incurred by Alberta Infrastructure | | |
| Accommodation | \$ 707,598 | \$ 570,747 |
| Amortization of leasehold improvements | 5,820 | 5,820 |
| | <u>\$ 713,418</u> | <u>\$ 576,567</u> |
| Expense incurred by Service Alberta | | |
| Integrated management information system (IMAGIS) | <u>\$ 112,000</u> | <u>Nil</u> |
| Expense incurred by the Legislative Assembly Office | | |
| Audit fee | <u>\$ 24,750</u> | <u>\$ 25,000</u> |

Note 7 Salaries and Benefits

(a) Salaries and benefits of the Auditor General and his executives

| | 2009 | | | 2008 | |
|---|----------------------------|------------------------------------|--|---------------------|---------------------|
| | Base Salary ⁽¹⁾ | Other Cash Benefits ⁽²⁾ | Other Non-cash Benefits ⁽³⁾ | Total | Total |
| Auditor General ⁽⁴⁾ | \$ 249,684 | \$ 12,228 | \$ 54,956 | \$ 316,868 | \$ 268,000 |
| Executives: | | | | | |
| Assistant Auditor General ⁽⁵⁾ | 150,000 | 20,000 | 36,461 | 206,461 | 151,353 |
| Assistant Auditor General ⁽⁶⁾ | 150,000 | 42,500 | 4,808 | 197,308 | 163,562 |
| Assistant Auditor General ⁽⁷⁾ | - | - | - | - | 103,785 |
| Executive Director ⁽⁸⁾ | 150,000 | 25,747 | 34,934 | 210,681 | 54,078 |
| Assistant Auditor General ⁽⁹⁾ | 154,800 | 25,000 | 48,833 | 228,633 | 154,383 |
| Assistant Auditor General ⁽¹⁰⁾ | 177,700 | 37,979 | 41,911 | 257,590 | 238,520 |
| Assistant Auditor General ⁽¹¹⁾ | 174,200 | 23,000 | 40,235 | 237,435 | 217,963 |
| Assistant Auditor General ⁽¹²⁾ | 170,000 | 25,000 | 40,301 | 235,301 | 214,638 |
| | <u>\$ 1,376,384</u> | <u>\$ 211,454</u> | <u>\$ 302,439</u> | <u>\$ 1,890,277</u> | <u>\$ 1,566,282</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. Accumulated vacation of \$5,747 was paid to the Executive Director⁽⁸⁾ (2008: \$0) and \$14,979 to the Assistant Auditor General⁽¹⁰⁾ (2008: \$12,623).

(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, 2009:

(5) Responsibilities—Information systems audits, ministry of Service Alberta

(6) Responsibilities—Ministry of Advanced Education and Technology

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

(8) Responsibilities—Chief Administrative Officer

(9) Responsibilities—Cross-Ministry (coordination), ministry of Executive Council, systems and forensic audits

(10) Responsibilities—Ministries of Education, Environment, Finance and Enterprise, Sustainable Resource Development, and Treasury Board

(11) Responsibilities—Cross-Ministry (governance and human resources), ministries of Agriculture and Rural Development, Culture and Community Spirit, Employment and Immigration, Health and Wellness, Seniors and Community Supports, and Tourism, Parks and Recreation

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

(b) Salaries and wages for the Office include achievement bonuses of \$704,000 for 2008—2009 and \$588,000 for 2007—2008.

Note 8 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 Ending March 31, 2009**

| | 2009 Budget | | | 2009 Actuals | | | 2008 Actuals | | |
|---|---------------------|--------------------|----------------------|---------------------|--------------------|----------------------|---------------------|--------------------|----------------------|
| | Assurance Auditing | Systems Auditing | Total | Assurance Auditing | Systems Auditing | Total | Assurance Auditing | Systems Auditing | Total |
| Work performed by Sector: | | | | | | | | | |
| Aboriginal Relations | \$ - | \$ - | \$ - | \$ 35,000 | \$ 2,000 | \$ 37,000 | \$ 19,000 | \$ 2,000 | \$ 21,000 |
| Advanced Education and Technology | 3,614,000 | 930,000 | 4,544,000 | 4,195,000 | 565,000 | 4,760,000 | 3,805,000 | 645,000 | 4,450,000 |
| Agriculture and Rural Development | 645,000 | 194,000 | 839,000 | 548,000 | 187,000 | 735,000 | 533,000 | 83,000 | 616,000 |
| Children and Youth Services | 910,000 | 33,000 | 943,000 | 756,000 | 6,000 | 762,000 | 855,000 | 417,000 | 1,272,000 |
| Cross-Government Issues | 208,000 | 785,000 | 993,000 | 571,000 | 871,000 | 1,442,000 | 472,000 | 975,000 | 1,447,000 |
| Culture and Community Spirit | 179,000 | - | 179,000 | 132,000 | 6,000 | 138,000 | 146,000 | - | 146,000 |
| Education | 486,000 | 62,000 | 548,000 | 481,000 | 41,000 | 522,000 | 481,000 | 47,000 | 528,000 |
| Employment and Immigration | 485,000 | 310,000 | 795,000 | 458,000 | 196,000 | 654,000 | 531,000 | 150,000 | 681,000 |
| Energy | 670,000 | 801,000 | 1,471,000 | 765,000 | 64,000 | 829,000 | 661,000 | 472,000 | 1,133,000 |
| Environment | 108,000 | 971,000 | 1,079,000 | 203,000 | 591,000 | 794,000 | 143,000 | 160,000 | 303,000 |
| Executive Council | 61,000 | 14,000 | 75,000 | 32,000 | 13,000 | 45,000 | 44,000 | - | 44,000 |
| Finance and Enterprise | 2,352,000 | 145,000 | 2,497,000 | 2,561,000 | 412,000 | 2,973,000 | 2,250,000 | 155,000 | 2,405,000 |
| Health and Wellness | 1,893,000 | 1,264,000 | 3,157,000 | 2,728,000 | 1,009,000 | 3,737,000 | 1,705,000 | 558,000 | 2,263,000 |
| Housing and Urban Affairs | 115,000 | 43,000 | 158,000 | 135,000 | 24,000 | 159,000 | 106,000 | 10,000 | 116,000 |
| Infrastructure | 449,000 | 144,000 | 593,000 | 432,000 | 25,000 | 457,000 | 422,000 | 105,000 | 527,000 |
| International and Intergovernmental Relations | 65,000 | 87,000 | 152,000 | 58,000 | 62,000 | 120,000 | 71,000 | 38,000 | 109,000 |
| Justice and Attorney General | 284,000 | - | 284,000 | 329,000 | - | 329,000 | 318,000 | - | 318,000 |
| Legislative Assembly | 121,000 | - | 121,000 | 144,000 | 13,000 | 157,000 | 104,000 | 6,000 | 110,000 |
| Municipal Affairs | 249,000 | 29,000 | 278,000 | 284,000 | 19,000 | 303,000 | 286,000 | 47,000 | 333,000 |
| Seniors and Community Supports | 585,000 | 101,000 | 686,000 | 526,000 | 11,000 | 537,000 | 504,000 | 1,000 | 505,000 |
| Service Alberta | 737,000 | 171,000 | 908,000 | 644,000 | 334,000 | 978,000 | 665,000 | 114,000 | 779,000 |
| Solicitor General and Public Security | 332,000 | 56,000 | 388,000 | 397,000 | 22,000 | 419,000 | 397,000 | 25,000 | 422,000 |
| Sustainable Resource Development | 274,000 | 629,000 | 903,000 | 322,000 | 198,000 | 520,000 | 279,000 | 111,000 | 390,000 |
| Tourism, Parks and Recreation | 106,000 | - | 106,000 | 103,000 | 21,000 | 124,000 | 135,000 | 24,000 | 159,000 |
| Transportation | - | 14,000 | 14,000 | 127,000 | 32,000 | 159,000 | - | 3,000 | 3,000 |
| Treasury Board | 601,000 | 138,000 | 739,000 | 579,000 | 53,000 | 632,000 | 444,000 | 262,000 | 706,000 |
| | \$15,529,000 | \$6,921,000 | \$ 22,450,000 | \$17,545,000 | \$4,777,000 | \$ 22,322,000 | \$15,376,000 | \$4,410,000 | \$ 19,786,000 |

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 2008-09 | Actual 2008-09 | Actual 2007-08 |
|--|---------------------|-------------------|-------------------|
| Issuance of Reports | | | |
| 1.a Issue our auditor's report on the consolidated financial statements of the Province by June 30 th each year. ¹ | By June 30, 2008 | June 19, 2008 | June 19, 2007 |
| 1.b Issue our specified auditing procedures report on the Government of Alberta's performance information contained in Measuring Up by June 30 th each year. ¹ | By June 30, 2008 | June 19, 2008 | June 19, 2007 |
| 1.c The percentage of auditor's reports on financial statements for consolidated entities with March 31 st year ends that we issue by July 15 th each year. | 90% | 100% | 90% |
| 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% | 59% | 75% |
| 1.e The percentage of specified auditing procedures reports on ministry performance information that we issue by September 15 th each year. | 100% | 95% | 95% |
| Budgets | | | |
| 1.f The percentage of assurance auditing projects over 200 hours completed within 10% of budgeted costs. | 90% | 66% | 63% |
| 1.g The percentage of costs dedicated to assurance auditing. | 70% | 79% | 78% |

¹ Required by June 30th 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 2008-09 | Actual 2008-09 | Actual 2007-08 |
|---|----------------------------|----------------------------------|--------------------|
| Recommendations | | | |
| 2.a The percentage of the Auditor General's primary recommendations accepted. ² | 95% | 77% | 91% |
| 2.b The number of the Auditor General's primary recommendations not implemented within 3 years of acceptance. | None | 27 | 26 |
| 2.c Release the Auditor General's Annual Report in April and October of each year. ³ | April & October 2008 | April 16 & October 2, 2008 | October 1, 2007 |
| Budgets | | | |
| 2.d The percentage of costs dedicated to systems auditing. | 30% | 21% | 22% |
| 2.e Canadian Council of Legislative Auditors conclusion that the Office's systems audit practice meets auditing standards. ⁴ | Standards Met | n/a | n/a |

² Acceptance does not include five recommendations accepted in principle, two under review, and three responded as policy matters outside the purview of the Auditor General.

³ Effective fiscal year 2008-09, we issue the report biannually in April and October (previously October of each year)

⁴ Introduced in last year's Business Plan for implementation date of 2008-09, but has been delayed at the national level. The new measure will be effective in 2009-10.

CORPORATE INITIATIVES

| Performance measures | Target 2008-09 | Actual 2008-09 | Actual 2007-08 |
|--|-------------------------------|--------------------------------------|--|
| 3.a The percentage of Members of the Legislative Assembly who believe our work is valuable. ⁵ | 80% | 94% | n/a |
| 3.b The percentage of employees expressing satisfaction working for the Office. ⁶ | 85% | n/a | 78% |
| 3.c The percentage of staff meeting Office targets for available time spent on core business functions. ⁷ | 100% | 93% | 94% |
| 3.d Corporate operating costs as a percentage of total Office costs. | Less than 20% | 15% | 16% |
| 3.e Staff turnover rate. ⁵ | Less than 20% | 16% | 22% |
| 3.f Pass rates of students in professional accounting programs compared to National average rates. ⁵ | Exceed National average – 72% | Below National average – 63% (12/19) | Exceed National average – OAG 92% (11/12) vs. National 75% |

⁵ These are new measures effective fiscal year 2008-09.

⁶ This measure is targeted to be conducted next year (2009-10).

⁷ The methodology annually limits each staff member to 25 hours of unassigned time and 100 hours for personal administration



Office of the Auditor General of Alberta
8th Floor, 9925 – 109 Street NW
Edmonton, Alberta, Canada T5K 2J8
Phone: 780-427-4222
Fax: 780-422-9555
Email: info@oag.ab.ca

This report is available online at www.oag.ab.ca.