July 22, 2016

CONFIDENTIAL

Via email

AUDITOR GENERAL Alberta

8th Floor, 9925-109 Street
Edmonton, AB T5K 2J8
Canada

Tel: 780.427.4222
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The Hon. Marguerite Trussler Q.C.
Ethics Commissioner
Office of the Ethics Commissioner
12th Floor, 9925 – 109 Street
Edmonton, AB T5K 2J8

Dear Ms. Trussler:

Office of the Ethics Commissioner

We have completed our audit of the financial statements of the Office of the Ethics Commissioner for the year ended March 31, 2016 and enclose a copy of the audited financial statements.

The purpose of the audit was to express an opinion on the financial statements. Our audit included consideration of internal control in order for us to design audit procedures, but was not for the purpose of expressing an opinion on the effectiveness of internal control, and it is not designed to identify all matters that may be of interest to you and management.

We discussed the financial statements with you and management on July 5, 2016. We did not identify any matters relating to internal control that merit a recommendation from the auditor general.

Please thank your staff for their courtesy and co-operation during the audit.

Yours truly,

ORIGINAL SIGNED BY

Graeme Arklie CPA, CA
Principal

Encs.
GA/rw

c/Encs. Mr. Kent Ziegler, Chief Administrative Officer
Mr. David Shepherd, MLA and Chair, Standing Committee on Legislative Offices
Ms. Jody Rempel, Committee Clerk, Standing Committee on Legislative Offices
Mr. Dan Stadlwieser, Acting Controller, Treasury Board and Finance

File Ref: LEG A 3494 16 [AS8.i]

Office of the Ethics Commissioner

Financial Statements

March 31, 2016

OFFICE OF THE ETHICS COMMISSIONER

FINANCIAL STATEMENTS

Year ended March 31, 2016

AUDITOR GENERAL *Alberta*

Independent Auditor's Report

To the Members of the Legislative Assembly

Report on the Financial Statements

I have audited the accompanying financial statements of the Office of the Ethics Commissioner, which comprise the statement of financial position as at March 31, 2016, the statements of operations, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Office of the Ethics Commissioner as at March 31, 2016, and the results of its operations, its changes in net debt, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

July 5, 2016

Edmonton, Alberta

OFFICE OF THE ETHICS COMMISSIONER
STATEMENT OF OPERATIONS
Year Ended March 31, 2016

	2016		2015
	Budget	**Actual**	**Actual**
REVENUES			
Total Revenues	$ -	$ -	$ -
EXPENSES - Directly Incurred (Note 3(b) and Schedule 3)			
Salaries, Wages and Employee Benefits	$ 703,000	$ 619,149	$ 642,539
Supplies and Services	450,000	157,637	253,408
Amortization of Tangible Capital Assets	24,000	15,745	16,677
Total Expenses	$ 1,177,000	$ 792,531	$ 912,624
Annual Deficit	$ (1,177,000)	$ (792,531)	$ (912,624)

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

OFFICE OF THE ETHICS COMMISSIONER
STATEMENT OF FINANCIAL POSITION
As at March 31, 2016

	2016	2015
Liabilities		
Accounts Payable and Accrued Liabilities	$ 9,524	$ 3,107
Accrued Vacation Pay	51,782	42,385
	$ 61,306	$ 45,492
Net Debt	$ (61,306)	$ (45,492)
Non-Financial Assets		
Prepaid Expenses	$ -	$ 1,061
Tangible Capital Assets (Note 4)	13,742	29,487
	$ 13,742	$ 30,548
Net Liabilities	$ (47,564)	$ (14,944)
Net Liabilities at Beginning of Year	$ (14,944)	$ (66,634)
Annual Deficit	$ (792,531)	(912,624)
Net Financing Provided from General Revenues	759,911	964,314
Net Liabilities at End of Year	$ (47,564)	$ (14,944)

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

OFFICE OF THE ETHICS COMMISSIONER
STATEMENT OF CHANGE IN NET DEBT
Year Ended March 31, 2016

	2016 Budget	2016 Actual	2015 Actual
Annual Deficit	$(1,177,000)	$(792,531)	$(912,624)
Amortization of Tangible Capital Assets (Note 4)	24,000	15,745	16,677
Change in Prepaid Expenses		1,061	5,128
Net Financing Provided from General Revenue		759,911	964,314
(Increase) / Decrease in Net Debt		$ (15,814)	$ 73,495
Net Debt at Beginning of Year		(45,492)	(118,987)
Net Debt at End of Year		$ (61,306)	$ (45,492)

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

OFFICE OF THE ETHICS COMMISSIONER
STATEMENT OF CASH FLOWS
Year Ended March 31, 2016

	2016	2015
Operating Transactions		
Annual Deficit	$ (792,531)	$ (912,624)
Non-Cash Items included in Net Operating Results:		
Amortization of Tangible Capital Assets	15,745	16,677
Valuation Adjustments	9,397	(11,574)
	(767,389)	(907,521)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	6,417	(61,921)
Decrease in Prepaid Expenses	1,061	5,128
Cash Applied to Operating Transactions	(759,911)	(964,314)
Financing Transactions		
Net Financing Provided from General Revenues	759,911	964,314
Increase in Cash	-	-
Cash at Beginning of Year	-	-
Cash at End of Year	$ -	$ -

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

OFFICE OF THE ETHICS COMMISSIONER
Notes to the Financial Statements
March 31, 2016

NOTE 1 AUTHORITY

The Office of the Ethics Commissioner (the Office) operates under the authority of the *Conflicts of Interest Act* and the *Lobbyists Act*. The net cost of the operations of the Office is borne by the General Revenue Fund of the Province of Alberta. Annual operating budgets are approved by the Standing Committee on Legislative Offices.

NOTE 2 PURPOSE

The Office of the Ethics Commissioner enhances public confidence in the integrity of Members of the Legislative Assembly ("Members"), former Ministers and former political staff members, and of the public service of Alberta by providing advice and guidance to Members and senior officials regarding their private interests in relation to their public responsibilities, by conducting investigations into allegations of conflicts of interest against Members, and by promoting the understanding by Members, senior officials and the public of the obligations regarding conflict of interest contained in legislation or directive.

The Office of the Ethics Commissioner is responsible for creating and maintaining a publicly-accessible lobbyists registry; providing advice and information to lobbyists and citizens on matters covered by the *Lobbyists Act*; and conducting investigations into possible contraventions of the *Lobbyists Act* which may require payment of an administrative penalty.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards, which use accrual accounting.

(a) Reporting Entity

The reporting entity is the Office of the Ethics Commissioner and for which the Ethics Commissioner is accountable.

The Office operates within the General Revenue Fund (the Fund). The Fund is administered by the President of Treasury Board and Minister of Finance. All cash receipts are deposited into the Fund and all cash disbursements made by the Office are paid from the Fund. Net financing provided from (for) general revenues is the difference between all cash receipts and all cash disbursements made.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Cont'd)

(b) Basis of Financial Reporting

Revenue accounting policy

All revenues are reported on the accrual basis of accounting.

Expenses

<u>Directly Incurred</u>
Directly incurred expenses are those costs the Office has primary responsibility and accountability for, as reflected in the Office's budget documents.

In addition to program operating expenses such as salaries, supplies, etc., directly incurred expenses also include:

- amortization of tangible capital assets,
- pension costs, which are the cost of employer contributions for current service of employees during the year, and
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay.

<u>Incurred by Others</u>
Services contributed by related other entities in support of the Office's operations are not recognized and are disclosed in Schedule 2 and allocated in Schedule 3.

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of Prepaid Expenses and Accounts Payable and Accrued Liabilities are estimated to approximate their carrying values because of the short-term nature of these instruments.

Financial Assets

Financial assets are present assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Cont'd)

(b) Basis of Financial Reporting (Cont'd)

Liabilities

Liabilities are present obligations of the Office to others arising from past transactions of events, the settlement of which is expected to result in the future sacrifice of economic benefits.

Non-Financial Assets

Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead:

(a) are normally employed to deliver the Office's services;
(b) may be consumed in the normal course of operations; and
(c) are not for sale in the normal course of operations.

Non-financial assets of the Office are limited to tangible capital assets and prepaid expenses.

Tangible Capital Assets
Tangible capital assets of the Office are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is $250,000 and the threshold for major systems enhancements is $100,000. The threshold for all other tangible capital assets is $5,000.

Amortization is only charged if the tangible capital asset is put into service.

(c) Net Debt

Net Debt indicates additional cash that will be required from General Revenues to finance the Office's cost of operations to March 31, 2016.

(d) Financial Instruments

As the Office does not have any transactions involving financial instruments that are classified in the fair value category and has no foreign currency transactions, there are no remeasurement gains and losses and therefore a statement of remeasurement gains and losses has not been presented.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Cont'd)

(e) Future Accounting Changes

In June 2015 the Public Sector Accounting Board issued these following accounting standards:

- **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)**
  PS 2200 defines a related party and establishes disclosures required for related party transactions; PS3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. Management is currently assessing the impact of these standards on the financial statements.

- **PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1, 2017)**
  PS3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights. Management is currently assessing the impact of these standards on the financial statements.

- **PS 3430 Restructuring Transactions (effective April 1, 2018)**
  This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities. Management is currently assessing the impact of these standards on the financial statements.

NOTE 4 TANGIBLE CAPITAL ASSETS

	Office Equipment and Furniture	Computer Hardware and Software	Total
Estimated Useful Life	10 years	3 years	
Historical Cost			
Beginning of year	$ 28,517	$ 218,212	$ 246,729
Additions	-	-	-
	$ 28,517	$ 218,212	$ 246,729
Accumulated Amortization			
Beginning of year	$ 18,824	$ 198,418	$ 217,242
Amortization Expense	2,238	13,507	15,745
	$ 21,062	$ 211,925	$ 232,987
Net Book value at March 31, 2016	$ 7,455	$ 6,287	$ 13,742
Net Book value at March 31, 2015	$ 9,693	$ 19,794	$ 29,487

NOTE 5 CONTRACTUAL OBLIGATIONS

Contractual obligations are obligations of the Office to others that will become liabilities in the future when the terms of the contract or agreement are met.

		2016	2015
Obligations under Operating Leases		$ 8,826	$ -
Obligations under Contract:			
System Development costs	$ 200,312		
Annual Maintenance Costs	$ 225,276	$ 425,588	
		$ 434,414	

Obligations under Operating Leases

	Total
2016-19 Operating Leases Costs:	
2016 (3 months) x $245	$ 735
2017 (12 months) x $245	$ 2,943
2018 (12 Months) x $245	$ 2,943
2019 (9 months) x $245	$ 2,205
	$ 8,826

Estimated payment requirements for each of the next five years are as follows:

Obligations under Lobbyist Registry Rebuild System Contract

		Total
2016-17 System Development and Maintenance costs		$ 200,312
2016-17 Maintenance Costs:		
6 (a) (i) System Development costs		
6 (a) (ii) Hosting Costs		
Nov 1, 2016 to Mar 31, 2017 (5 months) x $2,596	$ 12,980	
6 (a) (iii) Maintenance Costs		
Feb 1, 2017 to Mar 31, 2017 (2 months) x $1,935	$ 3,870	
2017-18 Maintenance Costs (12 months) x $4,531	$ 54,372	
2018-19 Maintenance Costs (12 months) x $4,531	$ 54,372	
2019-20 Maintenance Costs (12 months) x $4,531	$ 54,372	
2020-21 Maintenance Costs (10 months) x $4,531	$ 45,310	$ 225,276
		$ 425,588

NOTE 6 BENEFIT PLANS

The Office participates in the multi-employer pension plans: Management Employees Pension Plan, Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $68,294 for the year ended March 31, 2016 (2015 - $76,585). The Office is not responsible for future funding of the plan deficit other than through contribution increases.

At December 31, 2015, the Management Employees Pension Plan reported a surplus of $299,051,000 (2014 – surplus $75,805,000), the Public Service Pension Plan reported a deficiency of $133,188,000 (2014 - deficiency $803,299,000), and the Supplementary Retirement Plan for Public Service Managers reported a deficiency at December 31, 2015 $16,305,000 (2014 – deficiency $17,203,000).

The Office also participates in a Long Term Disability Income Continuance Plan. At March 31, 2016, the Management, Opted Out and Excluded Plan reported an actuarial surplus of $29,246,000 (2015 – surplus $32,343,000). The expense for this plan is limited to the employer's annual contributions for the year.

NOTE 7 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Ethics Commissioner.

OFFICE OF THE ETHICS COMMISSIONER **Schedule 1**
SCHEDULE TO FINANCIAL STATEMENTS
SALARY AND BENEFITS DISCLOSURE
Year Ended March 31, 2016

	2016				2015
	Base Salary [(b)]	**Other Cash Benefits** [(c)]	**Other Non-Cash Benefits** [(d)]	**Total**	**Total**
Senior Official					
Ethics Commissioner [(a)]	$146,600	$ 28,906	$ 4,700	$180,206	$ 187,504

(a) The position was occupied by two individuals in 2015.

(b) Base salary includes regular salary. The Commissioner currently holds a 0.7 FTE position.

(c) Other cash benefits include vehicle allowance, payment in lieu of pension contributions and payout of vacation. There were no bonuses paid in 2016.

(d) Other non-cash benefits include employer's share of all employee benefits and contributions or payments made on behalf of the Commissioner, including health care, dental coverage, group life insurance, short and long term disability plans, professional membership and Health Spending Account. The Commissioners did not contribute to the pension plans.

OFFICE OF THE ETHICS COMMISSIONER **Schedule 2**
SCHEDULE TO FINANCIAL STATEMENTS
RELATED PARTY TRANSACTIONS
Year ended March 31, 2016

Related parties are those entities consolidated or accounted for on the modified equity basis in the Government of Alberta's financial statements. Related parties also include key management personnel in the Office.

The Office and its employees paid or collected certain taxes and fees set by regulation for premiums, licences and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this schedule.

The Office had the following transactions with related parties recorded on the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

	Other Entities	
	2016	**2015**
Expenses - Directly Incurred		
Other Services	$ 1,386	$ 1,847
Total	$ 1,386	$ 1,847

The Office also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements but are disclosed in Schedule 3.

	Other Entities	
	2016	**2015**
Expenses - Incurred by Others		
Accommodation	$ 68,223	$ 66,816
Telephone Costs	$ 2,354	$ 2,358
Business Services	$ 3,000	
Total	$ 73,577	$ 69,174

OFFICE OF THE ETHICS COMMISSIONER
SCHEDULE TO FINANCIAL STATEMENTS
ALLOCATED COSTS
Year Ended March 31, 2016

Schedule 3

	2016					2015
		Expenses - Incurred by Others				
Program	Expenses [a]	Accommodation Costs [b]	Telephone Costs [c]	Business Services [d]	Total Expenses	Total Expenses
Operations	$ 792,531	$ 68,223	$ 2,354	$ 3,000	$866,108	$981,798

(a) Expenses - Directly Incurred as per Statement of Operations.
(b) Costs shown for Accommodation include grants in lieu of taxes, allocated by square footage.
(c) Telephone Costs are the line charges for all phone numbers.
(d) Business Services include charges for IT support and Financial Services.