

Report Highlights

- In August 2018 the Office of the Auditor General received a complaint alleging a number of serious concerns with activities related to the International Centre of Regulatory Excellence (ICORE) at the Alberta Energy Regulator (AER). AER is a provincial government agency tasked with ensuring the safe, efficient and environmentally responsible development of Alberta's energy resources. p. 6
- After determining there was much more to ICORE activities at AER than disclosed in the annual reports, board minutes and other publicly accessible information, and that the allegations warranted detailed examination, we conducted a comprehensive examination of AER ICORE-related activities. p. 6

Key Findings



A prevalent finding in our examination was ineffective controls in relation to ICORE activities. Specifically:

- AER engaged in activities outside of its mandate and public money was spent inappropriately on ICORE activities. p. 21
- Controls and processes to protect against potential conflicts of interest failed. p. 26
- AER Board oversight was ineffective. p. 31
- Financial, information management, and human resource controls were ineffective. p. 40
- Controls to track and monitor expenses related to ICORE activities were at first non-existent and then poorly implemented. p. 45
- The tone at the top at AER did not support a strong control environment or compliance with policies. p. 52

The objectives of this examination are multi-faceted, but perhaps **the most important objective is to make recommendations for improvement that will assist AER in the future, and to communicate lessons learned** that will also be of benefit to other board-governed provincial agencies and organizations. p. 6

Recommendations p. 9

- We recommend that the AER Board improve its oversight by:
 - Ensuring the effectiveness of processes to evaluate corporate culture and senior executive performance
 - Obtaining formal and periodic assertions from management that activities comply with legislation and AER policies, including policies related to conflict of interest
 - Ensuring officers in key risk management, compliance and internal control roles are well-positioned and supported to provide complete information about AER activities
 - Reviewing and approving CEO travel and expenses
 - Ensuring the primary channel of communication to the responsible Ministers is through the Board
 - Establishing processes to engage with executive staff, and other staff within the organization, to gain comfort that all significant matters have been brought to the attention of the Board p. 39
- We recommend that AER perform sufficient due diligence to assess the risk of further waste of public resources not already identified. p. 44
- We recommend AER evaluate whether any additional funds expended on ICORE activities are recoverable. p. 51
- We recommend AER staff are made aware of and are sufficiently trained on recent enhancements to AER's whistleblowing process, consistent with Section 6 of the *Public Interest Disclosure (Whistleblower Protection) Act*. p. 54



Lessons to be learned p. 10

- A healthy corporate culture, including tone at the top, matters above all else.
- Directors need to be vigilant and ask challenging and probing questions of management, particularly when new risks to the organization emerge.
- In pursuing new and innovative concepts, government organizations need to ensure any specific activities are an appropriate fit within their mandate.
- Effective whistleblowing mechanisms are critical in uncovering undesired practices.