
1 Introduction

- 1.1 The Offices of the Auditors General of New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island commenced a performance audit of the Atlantic Lottery Corporation (ALC) in the fall of 2015. This was the first time since 1996 the Corporation was audited by a provincial auditor general.
- 1.2 For over 40 years ALC has been an example of the four Atlantic provinces working together. Similarly, completion of this performance audit required significant coordination and cooperation between the Auditors General, senior management, and staff of our four offices. Staff members from each Office were involved in conducting the audit. This report is organized into three chapters and discusses our observations, conclusions and recommendations in the following key areas:
 - Corporate Governance;
 - Executive and Employee Compensation and Benefits;
 - Travel, Hospitality, and Board Expenses;
 - Contract Management; and
 - Procurement of Services.
- 1.3 Chapter 2 provides our observations and recommendations relating to the governance of ALC, including the involvement of the four government shareholders, their representatives, and the Board of Directors of the Corporation. The Auditor General of Newfoundland and Labrador did not participate in the governance section of the audit.
- 1.4 Chapter 3 covers areas primarily under the control of management (typically subject to oversight by the Board of Directors of the Corporation), including executive and employee compensation and benefits; travel, hospitality and board expenses; contract management; and procurement of services. All four Auditor General Offices participated in this part of the audit.
- 1.5 The audit found that ALC's governance framework is insufficient to deal with its strategic challenges. All shareholder governments have not provided ALC with clear direction as to their performance expectations for the Corporation, nor have they clearly established the parameters within which the board of directors and management may make autonomous decisions. Further, the governments have not clearly defined the roles and responsibilities of governments, responsible ministers who oversee ALC, and shareholder representatives.

- 1.6 This has made it much more difficult for ALC to address its strategic challenges. For example, pursuing new opportunities for revenue growth within the current governance framework has been difficult and inefficient, even in cases where tacit government approval of initiatives may have been thought to exist. The \$640,000 internet gaming initiative discussed in this report provides an example of the cost of this uncertainty.
- 1.7 Providing clear performance expectations and operating parameters to the board and management of ALC may also address some of the other problem areas we observed during our audit of the Corporation. For example, increases in executive compensation were made without shareholder consultation and have been significant. Also, in some cases, stakeholder relations, board and staff expenditures lacked due regard for economy. These expenditures may or may not have been acceptable to the four shareholder governments.
- 1.8 Improvements to the governance framework are necessary for ALC to:
- function effectively and efficiently in maximizing shareholder governments' returns in an increasingly competitive and constantly evolving gaming market; and
 - ensure ALC knows and respects the operating limits placed on it by the shareholder governments.
- 1.9 It is our hope that this report will encourage necessary changes to ALC's governance framework and operating practices. The implementation of recommendations contained in this report should provide significant improvement in this regard. The four shareholders and ALC have agreed with most of our recommendations.
- 1.10 Finally, we would like to express our appreciation to the four shareholder governments and their representatives, and the board of directors and management of ALC for their excellent cooperation and assistance throughout our work.