



Western Economic  
Diversification Canada

Diversification de l'économie  
de l'Ouest Canada

## **Audit of Regional Operations – Alberta Region**

**WESTERN ECONOMIC DIVERSIFICATION CANADA**

**Audit & Evaluation Branch**

**March 2011**

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## 1.0 Executive Summary

- 1.1 The audit of the Alberta Regional Operations was identified in Western Economic Diversification Canada's approved 2010-2013 Risk-Based Audit Plan. The audit objective was to provide reasonable assurance to the Deputy Minister that the Alberta Region has sound governance, forecasting, and reporting processes to support effective decision making.
- 1.2 The audit covered the period from April 2009 through to March 2010. The audit focused on governance structures and strategic directions, planning, budgeting, forecasting, and performance reporting in the region. In addition, transaction processing and appropriate delegation of authorities were examined. The audit team interviewed key personnel in the region and examined relevant documents, reports, and files to support the conclusions reached.

## Findings

- 1.3 An appropriate governance framework was in place in the region to support decision making. Committees existed with clearly defined mandates and documented terms of reference. Minutes to meetings were kept and often posted on the intranet. Project officers were included in the decision making process through presentations made at Grants and Contributions Committee meetings. Regular town hall meetings were held in the region with all employees.
- 1.4 There is a process in place to identify financial resource requirements for delivering on departmental priorities. The audit noted that 81% of expenditures in the region occurred in the last quarter of the 2009-2010 fiscal year.
- 1.5 Departmental guidelines for financial reporting were followed in the region. Reports were comprehensive and there was an active process in place for adequate review. Forecasted information was accurate at predicting year end results and the variance between forecast and actual for salary and operating and maintenance expenses was less than 1%.
- 1.6 The region has good management practices and processes in place with respect to performance reporting. Performance reporting would be more effective and useful for regional senior management's decision making if outcome results, reasons for significant variances from established targets and actions planned to address any gaps, and business plan strategies that require management attention to meet targets are reported and documented.
- 1.7 Transaction processing was found to be accurate and no exceptions were noted. Third party delivery coding was reviewed, and three of four third party delivery programs were correctly coded. The coding of the Community Futures Network was an isolated non-

compliance with the program guidelines resulting in an immaterial misstatement of reported strategic outcomes.

- 1.8 Compliance with the Delegation of Authority instrument was reviewed, and found to have been met.

### **Statement of Assurance**

In my professional judgement as Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the conclusion that the Alberta Region has sound governance, planning, budgeting, forecasting and reporting processes in place, subject to the implementation of the recommendations in the report.

The assurance is based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed upon with management. The assurance is applicable to the policies and processes examined. The evidence was gathered in accordance with Treasury Board policies, directives, and standards on internal audit for the Government of Canada. The evidence has been gathered to be sufficient to provide senior management with the proof of the conclusions derived from this audit.

## 2.0 Introduction

### Background

- 2.1 Western Economic Diversification Canada operates in four regions, each with a degree of regional diversity and flexibility. A coherent alignment to corporate goals and priorities is required to achieve overall corporate objectives. Regional Assistant Deputy Ministers are responsible for the controls and processes within their respective regions. Regional Assistant Deputy Ministers are being asked to provide regular assurance as to the adequacy of controls in their respective regions.
- 2.2 In fiscal year 2009-2010, the Alberta Region expended \$106 million to deliver and/or administer federal programs in Alberta. As at March 31, 2010, the Alberta Region had 104 full-time equivalent positions.

### Audit Objectives

- 2.3 The overall objective of the audit was to provide reasonable assurance to the Deputy Minister that the Alberta Region has in place sound governance, planning, budgeting, forecasting, and reporting processes to support effective decision making. The sub-objectives were:
- To assess that an appropriate governance structure exists in the region;
  - To ensure that regional performance results are reported and monitored;
  - To assess regional budgeting and forecasting processes and ensure they reflect corporate priorities and financial requirements; and
  - To assess the adequacy of financial monitoring processes in the region.

### Key Risks

- 2.4 Management designs controls to mitigate risks. The audit is intended to provide assurance on the existence and effectiveness of management's controls to mitigate the following risks:
- The region's governance structure and framework are inappropriate, incoherent and ineffective;
  - Regional and departmental strategic objectives, plans and priorities are not effectively communicated to all staff and other stakeholders;
  - There is no formal process in place to challenge the assumptions and related resource allocations within the budget;
  - Inaccurate budget and forecast information is provided to management, resulting in flawed decision-making;
  - No formal process of reporting to management exists in the region;
  - Complete, accurate and timely reports are not produced;
  - Performance results are not accurately measured or communicated;
  - Transactions are not accurately coded;

- Unauthorized individuals approve transactions; and
- There is non-compliance with Treasury Board and departmental policies, directives and guidelines for the delegation of authorities.

## **Scope and Methodology**

2.5 The audit covered the period from April 1, 2009 to March 31, 2010. The audit focused on management controls, processes and practices in place in the areas of:

- Governance structure and strategic directions;
- Planning, budgeting, forecasting and reporting;
- Results and performance reporting;
- Transaction processing and coding; and
- Delegation of authorities.

The auditors interviewed key personnel in the Alberta Region, examined records, documents, reports, files, and sampled transactions.

## **Acknowledgements**

2.6 The auditors would like to thank management and staff of the Alberta Region for their timely cooperation and assistance provided the audit team throughout the engagement.

## 3.0 Findings and Recommendations

### 3.1 Governance Structure and Strategic Directions

*Criteria: An appropriate governance framework exists in the region to ensure fulfilment of their mandate aligned with departmental strategic objectives, plans and priorities. Policies and procedures are in place, consistent with Treasury Board policies and communicated to staff with financial management responsibilities. Regional oversight bodies have clearly defined mandates including terms of reference, which is well documented and appropriately communicated. The oversight bodies perform their responsibilities as required by the Terms of Reference. Regional and departmental strategic objectives, plans and priorities are effectively communicated to staff and other stakeholders.*

- 3.1.1 The Alberta Senior Management Committee is responsible for providing overall management and strategic oversight for the region, to ensure outcomes are achieved, and to set priorities for the region to achieve those outcomes. The committee, chaired by the Assistant Deputy Minister, includes all executives and functional leads. The Senior Management Committee operates with terms of reference that outlines the mandate, outcomes, role, and membership of the committee. Agendas are prepared for the meetings which are held weekly. Minutes including records of decisions are prepared.
- 3.1.2 In addition to the Senior Management Committee in the Alberta Region, there is also a Grants and Contributions Committee. The terms of reference for this committee indicate the purpose of the committee is to act as a venue for collective review and advice on potential grants and contributions investments in the region. The Grants and Contributions Committee supports the due diligence process by providing assurance that projects funded are sound and support the strategic outcomes of the department. Membership of the committee which is chaired by the Director General Operations or a designate, include all interested Alberta Region staff. The committee typically meets once per month and records of decision are documented at those meetings.
- 3.1.3 The Assistant Deputy Minister has identified and posted his roles and responsibilities on the intranet where staff can access and read it. Regular town hall meetings were held in the region as a means of including all staff in regional issues.
- 3.1.4 Overall, the audit found that there was an appropriate governance framework in the region to support decision making in the region. Project officers were included in the decision making process through attendance at the regular Grants and Contributions Committee meetings. Town hall meetings solicited input from all regional staff.

### **3.2 Planning, Budgeting, Forecasting and Reporting**

*Criteria: Financial planning processes are in place to identify financial resource requirements and to develop annual budgets consistent with priorities. Financial policies, comprehensive monitoring and internal financial reporting that provides senior management with timely information, analysis, and options on resource utilization exist. Compliance with both Treasury Board and departmental policies is monitored in the region.*

3.2.1 The region has processes to identify financial resource requirements for delivering on departmental priorities. Corporate Finance notifies the regions in writing of their budgets for grants and contributions, salaries, and operating and maintenance. The responsibility of the region is to determine how to allocate their regional budget within those basic categories given the particular priorities and programs of the region. For operating and maintenance and salaries, the base budget is determined considering historical data as well as anticipated additional fixed costs. The remaining amount is then allocated based on program requirements with a reserve set aside for future discussion and decision-making at Alberta Senior Management meetings. Input was solicited from all managers to identify priorities and pressures for their current year budgets. Grants and contributions budget allocations were determined as part of the regional planning process. Senior management established regional priorities in accordance with the corporate plan for the department.

3.2.2 The auditors observed a trend whereby the bulk of the funds allocated were spent in the final quarter of the year. During the 2009-2010 fiscal year, 81% of Alberta Region's expenditures for grants and contributions programs occurred in the last quarter of the year.

*Criteria: Guidelines, tools, systems and data are available and adequate to support the allocation of resources in a consistent and transparent manner.*

3.2.3 The region follows departmental requirements and guidelines for reporting of financial information and forecasts. Corporate Finance communicates guidelines to the regions for preparing headquarters reports, and a standardized reporting template is used. Alberta Region's financial results, budgeting and forecasting reports are prepared in accordance with these guidelines using the standardized template.

3.2.4 Regions are required to provide reports to Corporate Finance in accordance with the financial planning cycle requirements outlined in the management framework guidelines. Alberta Region prepared the required reports in accordance with the financial planning cycle. Corporate Finance coordinates regional reporting to ensure receipt of the required information on a timely basis for completion of financial reports for departmental Executive Committee approval.

*Criteria: Financial monitoring reports are prepared on a periodic and timely basis and supported by sufficient evidence.*

- 3.2.5 Regional Finance prepares monthly financial monitoring reports for operating and maintenance and salary to regional management. Budget and forecast data is entered in the financial system so the reporting system is able to provide managers information in real time. In addition, monthly budget reports are prepared which roll up the financial system data from the detailed level of the responsibility center to the executive summary branch level.
- 3.2.6 Grants and contribution reports are prepared in accordance with the financial planning cycle by the Finance Officer for reporting to Corporate Finance showing the year-end forecast. A separate set of reports are prepared monthly by the Manager of Monitoring and Payments for internal operational review showing the forecast at a point in time. The internal reporting on grants and contributions is very comprehensive. In addition to monitoring commitments and expenditures against budget these reports aid in planning and project development. Individual projects and project status information under each subprogram area are linked to strategic outcomes. Detailed and high level summary information allows management to assess where they are on achieving strategic outcomes as well as look at the projects in development according to those outcomes.
- 3.2.7 The region follows Treasury Board and departmental policies to ensure that transactions entered are valid and accurate. Financial reports are prepared using the departmental financial information system data.

*Criteria: A process is in place to review financial monitoring reports to reallocate resources as needed and to take corrective actions.*

- 3.2.8 The auditors found that the Alberta Regional office has an active process in place to review financial monitoring reports in order to reallocate resources as needed and to take corrective action.
- 3.2.9 The Alberta Regional Finance team meets on a monthly basis with Regional Managers to discuss salary and operating and maintenance information, update forecasts and challenge managers to explain how unused free balances will be utilized. For grants and contributions, financial updates are provided at mid month and at month end and are also presented monthly to the Grants and Contributions Committee for discussion, review and decision making. The Grants and Contributions Committee meeting minutes are on a shared directory that can be accessed by all Alberta Region staff.
- 3.2.10 Alberta's forecasted information was very accurate at predicting year end actual results as the variance between actual and forecast at year end for salary and operating and maintenance was less than 1%.

### 3.3 Results and Performance Reporting

*Criteria: Performance measurement results in the region are documented, reported corporately and factored into decision making. Monitoring to assess the success of regional operations in contributing to overall corporate strategies is undertaken and appropriate steps are taken in response to variances or deviations from goals and objectives.*

- 3.3.1 The Alberta Region has good management practices and processes related to results and performance reporting. Regional senior managers, middle managers and staff are actively involved in the business planning process, including establishing regional goals, objectives, plans and priorities, strategies and performance targets. Managers are actively engaged in monitoring and reporting results against established performance targets, planned strategies and actions.
- 3.3.2 The Alberta Region adopts the departmental Performance Measurement Framework and provides annual regional output and outcome targets to Headquarters for corporate performance measurement. The performance targets are well-documented and appropriately approved. The region prepares mid-year and third quarter performance reports, monthly grants and contributions status reports and year-end grants and contributions results summary. The performance results are communicated in the region through meetings and e-mail. The region shares its performance reports with other regions and Headquarters through the departmental Performance Integration Team comprised of regional and corporate staff members. There is a process in place to effectively monitor the departmental service standards related to grants and contributions.
- 3.3.3 The auditors reviewed the mid-year, third quarter performance reports, and year-end grants and contributions results summary for 2009-2010. The mid-year and third quarter reports provided clear assessment of the region's performance against business plans and strategies, and established output targets. However, the outcome results, reasons for significant variances from output targets, and any actions planned to address the gaps were not included in the reports. In addition, the reports did not specify the planned actions for the strategies that were at risk and required management attention to meet the targets by fiscal year-end. The year-end grants and contributions results summary included the output results and key achievements but not the outcome results and the assessment of strategies adopted. The regional discussions of the progress of the business plans, strategies, output targets and variances were documented in the minutes of the grants and contributions meetings. However, the outcome results, reasons for significant variances from output targets and planned actions to meet targets were not contained in the minutes.
- 3.3.4 Performance reporting would be more effective and useful for regional senior management's decision making if outcome results, reasons for significant variances from established targets and actions planned to address any gaps are reported and documented.

**Recommendation # 1:** The Alberta Region should enhance its performance reporting framework by:

- tracking and reporting on results against outcome targets, and
- documenting the reasons for any significant variances and actions planned to address the gaps.

### **3.4 Transaction Processing and Coding**

*Criteria: Financial transactions are coded correctly and processed in an efficient and timely manner.*

- 3.4.1 Internal Audit selected a judgemental sample of 20 transactions from all grants and contributions programs and five transactions from operations and maintenance for review of transaction processing and coding. The coding for the individual sample payments examined was accurate. No exceptions were identified.
- 3.4.2 In addition to the sample selected, auditors performed an analytical review of coding for all third party grants and contributions payments for fiscal year 2009-2010. The auditors found the coding to be accurate for three of the four third party delivery programs. The coding allocation for the Community Futures Network was not compliant with the program guidelines, resulting in an immaterial misstatement of reported strategic outcomes.

### **3.5 Delegation of Authorities**

*Criteria: Authorized individuals approve transactions in compliance with Treasury Board and departmental policies, directives and guidelines.*

- 3.5.1 The sample payments examined had the approval of regional staff with proper financial signing authority. The training requirements of Treasury Board policy for delegation of authorities have been met. Regional Finance actively monitors compliance with Treasury Board and departmental policies, directives and guidelines related to financial controls.

## 4.0 Conclusion

- 4.1 Overall, the Alberta Region has a sound governance framework that provides effective decision making, strong leadership and oversight. Except for the opportunities for improvement identified in this report, the Alberta Region has good and effective management controls and practices. Processes exist in planning, budgeting, forecasting and results and performance reporting, coding and delegation of authorities.
- 4.2 Audit criteria were used to assess the identified key risks, management control framework and practices. The following is a summary of results.

<b>Assessed Area</b>	<b>Result</b>
Governance structure and strategic directions	Criteria met
Planning, budgeting, forecasting and reporting	Criteria met
Results and performance reporting	Criteria partially met
Transaction processing and coding	Criteria mostly met
Delegation of authorities	Criteria met

## 5.0 Audit Approach

### Planning

- 5.1 Audit planning started in June 2010 and fieldwork was completed in December 2010. Pre-engagement meetings and preliminary survey were conducted to facilitate identification of key risks, audit criteria, control elements and audit strategies. Departmental employees were involved as necessary throughout the audit process.

### Standards and Methodology

- 5.2 Government of Canada internal auditing standards were used throughout the planning, conducting and reporting phases of the audit. The audit was evidence-based in order to ensure the audit assurance is fully supported. All available evidence has been examined and analyzed against the audit criteria in order to recap the results. Sources of evidence included: interviews and document reviews at the region, review and analysis of policies, background literature and management practices, review of previous audits or reviews by other assurance providers, analytical reviews, elaboration on cause and effect of conditions, and follow-up on previous internal audits.

### Sampling

- 5.3 As part of the audit evidence, the auditors judgementally selected 25 representative sample payments (20 grants and contribution transactions and 5 operating expenditures) processed by the region in 2009-2010. The sample payments were selected to provide appropriate audit coverage of grants and contribution programs and various types of transactions. The sample selected also took into consideration identified key risks, dollar amounts and program activities. A risk based sample methodology was used to determine the appropriate sample size. The sample selected represented 25% of the grants and contributions dollars in the population for the audit period, and 3.5% of the operating expenditure dollars for the audit period. The auditors conclude that the sampling methodology and the sample size are adequate upon which to form conclusions.

### Audit Team

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