

Office of the Auditor General

Business Plan 2010–13

Description of Office

The Office of the Auditor General exists to serve the Legislative Assembly and the people of Alberta. Under the *Auditor General Act*, the Auditor General is the auditor of all government ministries, departments, funds and Provincial agencies, universities, public colleges and technical institutes. Under the *Regional Health Authorities Act*, the Auditor General may be appointed the auditor of a regional health authority and has been appointed the auditor of the new Alberta Health Services entity. With the approval of the Assembly's Select Standing Committee on Legislative Offices, the Auditor General may also be appointed as auditor of a Crown controlled corporation or another organization.

The mandate of the Auditor General is to examine and provide independent reporting to the Legislative Assembly on government's management of, and accountability practices for, the public resources entrusted to it. Our public reports describe the results of auditing the consolidated financial statements of the Province and the financial statements of ministries, departments, funds and Provincial agencies. These reports also include significant recommendations made to the government for improving performance reporting and the use of public resources. In addition to the two semi-annual reports, the Auditor General may produce special reports when appropriate.

The Auditor General and the staff of his Office are independent of government.

We believe Albertans want our work to result in the government more effectively managing the province's resources, and improving governance and ethical behaviour. To meet the expectation of being relevant, we listen carefully to those who voice concerns, and continuously update our knowledge of public sector program objectives, risks and controls. Drawing from these and other sources of information we implement our business plan by focusing audits on adding credibility to key public reports, and proposing solutions to strengthen important management systems. By digging below the surface of apparent problems to get at the root causes of weak systems, we can ensure that the resources we are given are well spent.

Mission

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.

Significant opportunities and challenges

The environment in which we operate has a significant impact on the work that we do, and the way we plan and carry out our audits. Our ability to recognize and respond to changes in our environment is critical to our success. Particularly, this Office must recognize and respond to the fiscal challenge facing the province today.

Also, sound risk management is essential for us to meet our goals. As part of our strategic planning process, we identify risks that could impact achievement of our goals and establish processes to manage those risks. Key forces and trends that shape our work are:

- **Responding to MLAs and Albertans expectations for audits**—within the context of the province’s economic challenges, the Members of the Legislative Assembly (MLAs) and the public expects to see efficient and proper use of resources resulting in sustainable improvements in government services and operations. Our clients, the MLAs, tell us that, in addition to being able to rely on performance reports, they benefit from relevant and timely systems audits to assist them in assessing the cost-effectiveness of government services and operations. In our 2008 survey to MLAs, it was reported that MLAs believe the Office’s work is valuable and meets their expectations.

The increasing importance of systems audits requires auditors to be highly creative, strategic thinkers who understand complex government and business systems and their inherent strengths and weaknesses. With this increased emphasis, the MLA survey also identified a need to focus on system audits in health, environment, energy, finance and investments. The Public Accounts Committee is changing its practices and expectations of the Office. It is meeting more often and seeking advice from our senior staff on operational issues and matters reported by the Office. It also may advise the Office on areas that it believes should be subject to audit.

- **Building and sustaining organizational capacity**—despite the significant slowdown of Alberta’s economy, the demand for accountants with experience and talent still remains. This is particularly true for our accountants who have recently graduated and for new managers. Turnover at these critical levels was 30% for the year ended March 31, 2009. These staff lead audit work in the field and are our future senior leaders. We will seek opportunities to retain high quality employees thereby reducing the need for more expensive external resources.
- **Keeping pace with the changes in our audit environment**—organizations we audit, while already delivering a broad range of programs, are establishing new and revised programs to address emerging needs and issues of Albertans. The restructuring of government from 21 to 24 ministries has a direct impact on this Office. Also in 2008, the Regional Health Authorities were amalgamated and the Auditor General Office now audits the entire system. Also, organizations that we audit are implementing costly and complex information technology systems to deliver programs and manage their business. Accounting and auditing standards continue to change and expand. The need to conform to international auditing and accounting standards has had significant impacts on both us and the organizations we audit. These organizations often look to us for advice on adopting new standards. We understand that the responsibility for the standards for auditing of both financial and non-financial results will shift as the standard setter, the Canadian Institute of Chartered Accountants, adopts the international auditing, assurance and ethics standards. These changes in the profession will result in increased training needs for our staff and increased assurance auditing. In addition, expectations of governing boards and board practices continue to grow.

- **Delivering quality audits within budget**—recognizing the financial situation the province faces, we will complete the work set out in our mandate while staying within our budget and meeting the challenge of ongoing changes/increases to accounting standards. For example, we have worked with the Treasury Board department in conducting performance measures audits differently, more efficiently/ effectively and with a focus on more key measures. We will also continuously examine and reprioritize our systems audit work if necessary and control our discretionary spending.

Strategic priorities 2010–13

Our strategic priorities address the significant opportunities and challenges we identify by focusing on the key risks to achievement of our goals. These strategic priorities are the drivers of the actions set under our two core businesses and corporate services:

<p>1. Ensuring that we efficiently deliver relevant high quality results</p>	<p>To maximize the value of our resources, we need to ensure that the:</p> <ul style="list-style-type: none"> • assurance reports and recommendations we deliver are the most relevant and useful to our clients and public sector management. • right mix of technical knowledge and expertise is applied to audits. • audit contracts we have with agents and suppliers of audit staff are the best value available. <p>Also, within the context of budget provided, we need to focus our resources on making recommendations that assist the government in improving:</p> <ul style="list-style-type: none"> • the effectiveness and efficiencies of government departments, boards, and agencies. • governance and ethical behavior. • safety and welfare of Albertans. • security and use of the province’s resources.
<p>2. Being efficient in our processes</p>	<p>To employ audit processes that result in the most cost effective auditing and to better align our supervisory, student and agent resources to audit risks. Also to adapt to the changing standards that apply to auditors of financial statements and government systems, we need to:</p> <ul style="list-style-type: none"> • confirm that our processes are consistent with the standards, and are both efficiently designed and followed by all staff. • place a priority on encouraging improved governance practices with management, boards and audit committees. • focus on improving management’s ability to report on the design and effectiveness of the government’s internal control systems.
<p>3. Developing our capacity to deliver quality audits.</p>	<p>To sustain the Office’s ability to conduct audits, and adapt to high staff turnover, we need to:</p> <ul style="list-style-type: none"> • manage succession to ensure continued high quality leadership in the Office. • give emphasis to retaining, attracting and training high quality employees. • provide staff with challenging work and a clear career path.

Core businesses, goals, strategies and measures

Core business one: Assurance auditing

Reports from assurance audits provide credibility to performance reports of government organizations. We provide these assurance audit reports on the consolidated financial statements of the Province and the financial statements of the ministries, departments, funds and Provincial agencies and state our opinion that the financial statements are presented fairly in accordance with applicable standards. We also examine transactions for compliance with legislation. In addition, we review and report on the non-financial performance measures that government organizations include in their reports. For the year ending March 31, 2011, our assurance budget is \$17.7 million.

GOAL 1 Conduct independent audits that confirm the reliability and relevance of financial and non-financial performance reporting to the Legislative Assembly

Strategies:

Improve efficiency	<p>We will:</p> <ul style="list-style-type: none"> • employ audit processes that result in the most cost-effective auditing and also align our supervisory, student and agent resources to audit risk. • take advantage of prior year improvements in internal control documentation to realize further efficiencies in assurance audits.
Assess assurance provided	<p>We will:</p> <ul style="list-style-type: none"> • implement decisions on extent and form of assurance to be provided on performance reports, including ministry performance measures and financial statements.
Improve quality control	<p>We will:</p> <ul style="list-style-type: none"> • carry out quality control reviews, both at the Office-wide level and for individual audit engagements. • ensure our continued compliance with professional assurance standards recommended by the Canadian Institute of Chartered Accountants.
Promote good governance	<p>We will:</p> <ul style="list-style-type: none"> • provide advice to Members of the Legislative Assembly, boards and oversight committees to assist them in their review and use of performance reports in overseeing management.
Facilitate compliance with professional standards	<p>We will:</p> <ul style="list-style-type: none"> • monitor changes in auditing and accounting standards, update our Office audit methodology accordingly and ensure that our staff understand the changes. • assist management of the organizations we audit to achieve compliance with the professional accounting standards, such as reporting entity and financial instruments recommendations, and to be prepared for future changes to international standards.

Core business one: Assurance auditing (continued)

Performance measures		Last Actual 2008–09	Target/ Actual 2009–10	Target 2010–11	Target 2011–12
1.a	Issue our auditor’s report on the consolidated financial statements of the Province by June 30 th each year.	June 19, 2008	June 25, 2009	by June 30, 2010	by June 30, 2011
1.b	Issue our auditor’s report on the key performance measures included in Government of Alberta’s Measuring Up by June 30 th each year. ¹	June 19, 2008	June 25, 2009	by June 30, 2010	by June 30, 2011
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.	100%	99%	100%	100%
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.	59%	80%	80%	80%
1.e	The percentage of specified auditing procedures reports on ministry performance information that we issue by September 15 th each year.	95%	100%	100%	100%
1.f	The percentage of assurance auditing projects over 200 hours completed within 10% of budgeted costs.	66%	90%	90%	90%
1.g	The percentage of costs dedicated to assurance auditing	79%	% - High 70s	% - High 70s	% - High 70s
1.h	Institute of Chartered Accountants of Alberta conclusion that Office’s assurance audit practice meets auditing standards. ²	N/A	Standards met	N/A	N/A

¹This is a new audit effective 2009-10. It was previously conducted as “Specified auditing procedures”.

²This is a new measure introduced in last year’s Business Plan. The professional practice review is required every three calendar years and will be next conducted in calendar year 2010.

Core business two: Systems auditing

Systems audits result in relevant, timely recommendations that help the Legislative Assembly to hold government accountable for its management of public resources. Our systems audits identify opportunities and propose solutions through these recommendations for improved use of public resources and improvements to the governments financial and non-financial performance reports. For the year ending March 31, 2011, our systems audit budget is \$5.3 million.

GOAL 2 Provide solutions to improve government systems, including organizations' systems for identifying and managing their business risks

Strategies:

Improve relevance	We will continue to produce relevant recommendations and promote acceptance of them by: <ul style="list-style-type: none">• listening to the suggestions and challenges of legislators, in particular the Public Accounts Committee, and management of the entities we audit in defining our audit projects.• using MLA surveys to provide input on what areas we should be focusing our resources.• working with legislative auditors in other jurisdictions on audits where there is a common interest.• ensuring that management understands the focus and importance of recommendations and related findings.
Improve efficiency	We will: <ul style="list-style-type: none">• examine our audit processes to identify changes that will result in more efficient audits without negatively impacting effectiveness.• improve the method of estimating project hours and costs.• improve our scheduling practice by involving agents and government departments in the process
Improve quality	We will: <ul style="list-style-type: none">• complete training of senior staff on updated systems audit methodology and ensure that new staff receive timely training.• work with other legislative audit offices to enhance quality assurance processes.

Core business two: Systems auditing (continued)

Performance measures	Last Actual 2008–09	Target/ Actual 2009–10	Target 2010–11	Target 2011–12
2.a The percentage of the Auditor General's primary recommendations accepted. ³	77%	95%	95%	95%
2.b The number of the Auditor General's primary recommendations not implemented within 3 years of acceptance.	27	27	None	None
2.c Release the Auditor General's public Reports in April and October of each year.	April 16 & October 2, 2008	April 20 & October 2, 2009	April & October 2010	April & October 2011
2.d The percentage of costs dedicated to systems auditing.	21%	% - Low 20s	% - Low 20s	% - Low 20s
2.e Canadian Council of Legislative Auditors conclusion that the Office's systems audit practice meets auditing standards. ⁴	N/A	Standards met	N/A	N/A

³ Acceptance does not include recommendations accepted in principle or under review.

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 services

Our organization must be equipped with the right people, processes and tools to support achieving our goals efficiently. Corporate services, including Human Resources, Information Technology, Communications, Finance, Legal, and Administration, play a critical role in enabling our auditors to focus on achieving our two goals. Human Resources and Finance are key advisers to the Office Management Committee.

Human Resources, working with audit leaders, is responsible for key systems in the Office. These key systems include staff recruitment, retention, deployment, evaluation and compensation.

Information Technology is responsible for ensuring that staff have the necessary information technology resources to conduct audits and manage the Office. It is also responsible for ensuring that information technology resources are efficient and secure.

Communications works with Office management to prepare the Office public reports. As well, it assists auditors in the preparation of management letters and other reports. It also receives and answers questions and comments from the public.

Finance is responsible for financial management, including the Office budget, performance measures, financial systems and records, payment processing and financial statements of the Office.

Legal provides review of contracts and legal advice on issues affecting the Office.

Administration manages space, and provides other services to the Office staff.

Performance measures		Last Actual 2008–2009	Target/ Actual 2009–10	Target 2010–11	Target 2011–12
3.a	The percentage of Members of the Legislative Assembly who believe our work is valuable. ⁵	94%	N/A	TBD	N/A
3.b	The percentage of employees expressing satisfaction working for the Office. ⁶	N/A	85%	85%	85%
3.c	The percentage of staff meeting Office targets for available time spent on core business functions.	93%	100%	100%	100%
3.d	Corporate operating costs as a percentage of total Office costs.	15%	Less than 20%	Less than 20%	Less than 20%
3.e	Staff turnover rate.	16%	Less than 20%	Less than 20%	Less than 20%
3.f	Pass rates of students in professional accounting programs compared to National average rate.	Below National average – 63% (12/19)	Exceed national average	Exceed national average	Exceed national average

⁵This survey was last conducted in May 2008 and will be next conducted in 2010-11.

⁶This survey was last conducted in March 2008 and will be next conducted in March 2010.

BUDGET INFORMATION

Office of the Auditor General of Alberta BUDGET BY OBJECT (thousands of dollars)

	Comparable 2008-2009		Comparable 2009-2010		2010-2011	2011-2012	2012-2013
	Budget	Actual	Budget	Forecast	Estimate	Target	Target
EXPENSE							
Personnel							
Salaries and wages	\$ 10,960	\$ 11,039	\$ 12,080	\$ 12,080	12,080	12,080	12,080
Agent and other audit services fees	5,185	5,172	4,900	4,555	4,755	4,755	4,755
Employer contributions	2,095	2,087	2,315	2,310	2,315	2,315	2,315
Temporary audit services	1,500	1,395	1,200	1,250	1,295	1,295	1,295
Advisory services	210	141	220	195	220	220	220
Miscellaneous	10	11	10	125	10	10	10
	<u>19,960</u>	<u>19,845</u>	<u>20,725</u>	<u>20,515</u>	<u>20,675</u>	<u>20,675</u>	<u>20,675</u>
Supplies and services							
Professional fees, training, and development	885	786	795	780	775	775	775
Travel	570	624	580	630	570	570	570
Technology services	430	393	300	350	300	300	300
Amortization of capital assets	250	284	310	305	310	310	310
Materials and supplies *	180	178	180	190	190	190	190
Rental of office equipment *	65	91	65	70	70	70	70
Telephone and communications	70	73	70	75	75	75	75
Repairs and maintenance	15	17	15	15	20	20	20
Miscellaneous	25	31	30	30	30	30	30
	<u>2,490</u>	<u>2,477</u>	<u>2,345</u>	<u>2,445</u>	<u>2,340</u>	<u>2,340</u>	<u>2,340</u>
Total operating expense	22,450	22,322	23,070	22,960	23,015	23,015	23,015
<i>Less: audit fee revenue (non-voted)</i>	2,490	3,112	2,450	2,290	2,310	2,310	2,310
<i>Net cost of operations</i>	<u>\$ 19,960</u>	<u>\$ 19,210</u>	<u>\$ 20,620</u>	<u>\$ 20,670</u>	<u>\$ 20,705</u>	<u>\$ 20,705</u>	<u>\$ 20,705</u>
EXPENSE BY CORE BUSINESS							
Assurance auditing	\$ 15,529	\$ 17,545	\$ 17,035	\$ 17,595	\$ 17,705	\$ 17,705	\$ 17,705
Systems auditing	6,921	4,777	6,035	5,365	5,310	5,310	5,310
	<u>\$ 22,450</u>	<u>\$ 22,322</u>	<u>\$ 23,070</u>	<u>\$ 22,960</u>	<u>\$ 23,015</u>	<u>\$ 23,015</u>	<u>\$ 23,015</u>
CAPITAL INVESTMENT							
	\$ 95	\$ 207	\$ 151	\$ 261	\$ 150	\$ 150	\$ 150
TOTAL VOTED EXPENSE AND CAPITAL	<u>\$ 22,545</u>	<u>\$ 22,529</u>	<u>\$ 23,221</u>	<u>\$ 23,221</u>	<u>\$ 23,165</u>	<u>\$ 23,165</u>	<u>\$ 23,165</u>

* Certain 2009 and 2010 figures have been reclassified to conform to the 2011 presentation.

SCHEDULE 1

**Alberta Legislature
Office of the Auditor General
Schedule of Output Costs by Ministry
For the Year Ending March 31, 2011**

	2009 Actuals			2010 Forecast			2011 Estimates		
	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	\$ 64,000	\$ 8,000	\$ 72,000	\$ 92,000	\$ -	\$ 92,000
Advanced Education and Technology	4,195,000	565,000	4,760,000	3,883,000	797,000	4,680,000	3,948,000	648,000	4,596,000
Agriculture and Rural Development	548,000	187,000	735,000	635,000	224,000	859,000	792,000	69,000	861,000
Children and Youth Services	756,000	6,000	762,000	697,000	175,000	872,000	770,000	229,000	999,000
Cross-Government Issues	571,000	871,000	1,442,000	451,000	609,000	1,060,000	315,000	955,000	1,270,000
Culture and Community Spirit	132,000	6,000	138,000	149,000	1,000	150,000	192,000	-	192,000
Education	481,000	41,000	522,000	469,000	183,000	652,000	413,000	62,000	475,000
Employment and Immigration	458,000	196,000	654,000	471,000	218,000	689,000	543,000	-	543,000
Energy	765,000	64,000	829,000	714,000	109,000	823,000	709,000	688,000	1,397,000
Environment	203,000	591,000	794,000	332,000	629,000	961,000	299,000	-	299,000
Executive Council	32,000	13,000	45,000	42,000	113,000	155,000	50,000	-	50,000
Finance and Enterprise	2,561,000	412,000	2,973,000	2,811,000	341,000	3,152,000	2,899,000	675,000	3,574,000
Health and Wellness	2,728,000	1,009,000	3,737,000	2,763,000	1,084,000	3,847,000	2,450,000	732,000	3,182,000
Housing and Urban Affairs	135,000	24,000	159,000	186,000	-	186,000	294,000	202,000	496,000
Infrastructure	432,000	25,000	457,000	234,000	36,000	270,000	214,000	295,000	509,000
International and Intergovernmental Relations	58,000	62,000	120,000	91,000	-	91,000	83,000	-	83,000
Justice and Attorney General	329,000	-	329,000	386,000	-	386,000	313,000	-	313,000
Legislative Assembly	144,000	13,000	157,000	105,000	20,000	125,000	110,000	-	110,000
Municipal Affairs	284,000	19,000	303,000	280,000	-	280,000	267,000	-	267,000
Seniors and Community Supports	526,000	11,000	537,000	517,000	33,000	550,000	556,000	65,000	621,000
Service Alberta	644,000	334,000	978,000	640,000	294,000	934,000	612,000	368,000	980,000
Solicitor General and Public Security	397,000	22,000	419,000	375,000	140,000	515,000	454,000	66,000	520,000
Sustainable Resource Development	322,000	198,000	520,000	265,000	126,000	391,000	265,000	64,000	329,000
Tourism, Parks and Recreation	103,000	21,000	124,000	137,000	-	137,000	212,000	-	212,000
Transportation	127,000	32,000	159,000	249,000	121,000	370,000	212,000	120,000	332,000
Treasury Board	579,000	53,000	632,000	649,000	104,000	753,000	641,000	72,000	713,000
	\$17,545,000	\$ 4,777,000	\$22,322,000	\$17,595,000	\$ 5,365,000	\$22,960,000	\$17,705,000	\$ 5,310,000	\$23,015,000