



Alberta Economic Development and Trade

November 2018

Summary

- ① Total Recommendations
- ① New Recommendation
- ① Outstanding Recommendations
- ① Outstanding Recommendations Older than 3 Years
- ① **READY** for Follow-up Audit
- ① **NOT READY** for Follow-up Audit

We issued unqualified independent auditor's reports on the 2017–2018 financial statements for the Ministry of Economic Development and Trade, the Department of Economic Development and Trade, Alberta Innovates, and the Alberta Enterprise Corporation. Included in the ministry consolidated financial statements are the department, Alberta Innovates, and Alberta Enterprise Corporation.

There are no new or outstanding recommendations to the department or the Alberta Enterprise Corporation in this report.

We made one new recommendation to Alberta Innovates to improve user access controls and segregate incompatible duties within the financial reporting system. This is the only recommendation yet to be implemented by Alberta Innovates.

Alberta Innovates implemented our recommendation to improve financial reporting processes during the year.

Findings

Alberta Innovates

Matters from current audit

Strengthen access controls and segregate incompatible duties

Context

Management designs, implements and maintains an entity's internal controls and processes. Strong financial reporting processes include a combination of preventive and detective internal controls. Preventive controls protect business information and assets by denying an individual access to make unauthorized changes. Detective controls are designed to identify when an individual with access has changed business information in error or fraudulently, which needs to be corrected.

A common internal control in strong financial reporting processes is to prevent the same individual from initiating, approving and recording a financial transaction. Segregating these duties eliminates the opportunity for an individual to approve unauthorized transactions or transactions with errors they have initiated.

Criteria: the standards of performance and control

Alberta Innovates should have effective processes to:

- limit the access and duration of superuser privileges
- segregate incompatible duties

Our audit findings

Key Finding

Some finance personnel have ongoing, unlimited access to the financial reporting system, while others have the ability to initiate, approve and record financial transactions.

Unlimited user access

Alberta Innovates uses a role-based accounting system to prepare its financial reporting. Management controls user access to the financial reporting system by assigning specific access privileges and rights based on an individual's roles and responsibilities. We examined the list of users and their roles and noted that some finance personnel have ongoing superuser access to the financial reporting system. A superuser is an individual who has unlimited access to perform functions or modify data in the system.

Management grants some individuals superuser access so that they can perform troubleshooting functions when management makes system changes periodically during the year. Management mitigates the risk of inappropriate activities these superusers perform by reviewing transactions these superusers have recorded and by periodically re-assessing their access. Management could impose stronger preventive controls by removing superuser access to these individuals during periods when there are no systems changes, rather than relying on detecting any unauthorized changes throughout the entire year.

We examined the reviews that management performed on superuser transactions. We noted that management reviewed high-level summarized documents that did not include sufficient information for a reviewer to detect if the transaction was appropriate or was in error. We also did not find documented evidence of management approval of the superusers' transaction activities.

Incompatible duties

Alberta Innovates' Financial Delegation of Authority policy defines the appropriate levels of approval authority within the corporation. We examined the roles of individuals within the finance department and identified that some members of senior management have the ability to prepare expenditure payments, approve operational transactions, and record financial accounting transactions.

As a result of this finding, we examined a sample of transactions involving these individuals during the year. We did not identify any instances where the same individual who authorized the initiation of the transaction also recorded the transactions and made payments. However, management should reduce the risk of fraud and error by eliminating the ability for the same individual to initiate, approve, and record transactions.

RECOMMENDATION:
Improve financial reporting system controls

We recommend that Alberta Innovates improve user access controls and segregate incompatible duties within its financial reporting system.

Consequences of not taking action

Without appropriate internal controls over user access and segregation of incompatible duties, Alberta Innovates risks unauthorized system changes and undetected fraud and error.

Matters from prior audit

Financial reporting processes—recommendation implemented

Context

In 2017¹ we recommended that Alberta Innovates improve its financial reporting processes by implementing effective internal controls and quality review processes to ensure accurate and complete financial reporting.

Our audit findings

Alberta Innovates implemented our recommendation by:

- increasing staff capacity within the financial reporting processes
- improving senior management financial reporting accuracy monitoring and review processes
- improving collaboration between the finance department and program areas to understand business transactions that impact financial reporting
- consulting with the Department of Economic Development and Trade on issues impacting the ministry consolidated financial statements and on government directives prescribing the financial reporting presentation for government entities

We conclude that improved financial reporting processes are operating effectively, having examined management's:

- communication process with program areas for identifying, assessing and recording key transactions
- consultation process with the department and the controller's office in interpreting government directives for financial reporting
- review of documents supporting the completeness and accuracy of the corporation's financial reporting. We tested a sample of transactions and year-end reconciliations for adequate supporting documentation and evidence of management review. We identified no deficiencies.

¹ *Report of the Auditor General of Alberta—October 2017*, Financial Statement Auditing, page 44.

Recommendations

WHAT	WHEN	STATUS
<p>ALBERTA INNOVATES STRENGTHEN ACCESS CONTROLS AND SEGREGATE INCOMPATIBLE DUTIES: Improve financial reporting system controls</p> <p>We recommend that Alberta Innovates improve user access controls and segregate incompatible duties within the financial reporting system.</p>	<p>November 2018, Financial Statement Auditing, p. 45</p>	<p>NEW</p>