

Enterprise and Advanced Education— Ministry and Department

Summary

The Department of Enterprise and Advanced Education provides financial services and prepares financial statements for six entities:

- Ministry of Enterprise and Advanced Education
- the Department itself
- Access to the Future Fund
- Alberta Innovates – Bio Solutions
- Alberta Innovates – Energy and Environment Solutions
- Alberta Enterprise Corporation

While the Department has financial processes and controls, we recommend that they improve them. We received multiple drafts of financial statements for these six entities and identified many errors and inconsistencies that the Department's finance staff did not identify. We recognize that the Department experienced staff turnover close to year-end. However, the issues we identified were due to insufficient training on transactions unique to these entities, ineffective monitoring and quality controls over financial statements preparation, and manual processes that resulted in delays and errors. We issued unqualified audit opinions on all these financial statements after the Department corrected the errors we identified.

We also recommend that the Department work with the Office of the Controller, universities, colleges and technical institutes to efficiently resolve accounting issues across the sector. The Department has not resolved issues related to:

- identifying, assessing and appropriately accounting for government partnerships, joint ventures and other legal relationships to allow institutions to assess and manage their business, legal and financial risks related to these arrangements
- disclosures required by the *Charitable Fund-raising Regulation*¹

The Department plans to work with Service Alberta, which is responsible for the *Charitable Fund-raising Regulation*. The Department should also work with post-secondary institutions to develop a plan with objectives, deliverables and timelines as institutions implement public sector accounting standards in 2013. A clear plan will help institutions implement the new standards and make the necessary changes to their systems, policies and processes.

For outstanding previous recommendations to the organizations that form the Ministry, please see our outstanding recommendations list on page 159.

Findings and recommendations

Matters from the current audit

Financial reporting processes and controls

Background

The Department is responsible for preparing financial statements and accompanying notes and schedules, for itself as well as for the Ministry of Enterprise and Advanced Education, the Access to the Future Fund, two Alberta Innovates corporations and Alberta Enterprise Corporation. For all six entities, management must prepare financial statements in accordance with Canadian public sector accounting standards. The Department also prepares working papers that support these financial statements.

The Government of Alberta's Office of the Controller sets year-end timelines to coordinate completion of financial statements by all government ministries. The ministries' financial statements in turn form the basis of the province's consolidated financial statements. The Department must operate within these timelines. In fulfilling this responsibility, management should follow effective systems and processes for financial reporting.

³⁶ Section 6 (2) of the *Charitable Fund-raising Regulation*

The Department has developed pro forma financial statements for the Alberta Innovates corporations and Alberta Enterprise Corporation. It has also developed standard reporting templates and processes for post-secondary institutions to report their financial information to the Department for consolidation in the Ministry's financial statements.

Recommendation: Improve financial reporting processes

16 RECOMMENDATION

We recommend that the Department of Enterprise and Advanced Education improve its financial reporting processes by:

- training staff on the policies, processes and controls related to preparing the financial statements
- improving its monitoring and review processes to ensure accuracy of the financial information
- reducing its reliance on manual processes, to increase the efficiency and accuracy of financial reporting

Criteria: the standards we used for our audit

The Department should have effective systems to produce timely and accurate year-end financial information, financial statements and supporting working papers. This requires:

- clearly documented policies, processes and controls
- clearly documented roles and responsibilities
- staff properly trained on the policies, processes and controls relating to their roles and responsibilities
- effective monitoring and review processes
- reconciliations on key accounts

Our audit findings

Key findings

We found many errors and inconsistencies in financial statements, due to:

- insufficient training on transactions unique to the entities
- ineffective monitoring and quality control processes
- manual processes that resulted in delays

The Department reallocated staff and hired temporary staff to help in the year-end process because key finance staff left close to year-end. However, while we recognize the staffing challenges, we also identified several weaknesses in the Department's financial reporting processes. We issued unqualified audit opinions on the financial statements for all entities for which the Department prepared statements after they corrected the errors we found.

For example, we identified that the Department had:

- incorrectly restated the 2011 comparative information in the Ministry's financial statements for changes in estimates—The consolidation is an estimate on March 31. Therefore, any changes to this estimate should be reflected in the current year's financial statements; it should not cause the Department to restate the 2011 information. We have discussed this with management in past years. The Office of the Controller also instructed the Department to not restate its financial statements for these changes in estimates. Management did not identify this error during their review of the financial statements.
- incorrectly accounted for restricted grants as unrestricted grants—The Department adjusted financial statements for Energy and Environment Solutions by \$1.8 million and for Bio Solutions by \$1.9 million to correct the errors.

- not provided financial statements and audit working papers at the start of each audit—We received multiple versions of financial statements for all entities, with recurring discrepancies or errors that we identified. Additionally, the supporting working papers were not updated along with the financial statements and, therefore, did not agree to the updated statements.
- provided Ministry statements a week after the timelines set by the Office of the Controller
- not adequately reviewed working papers that supported contractual obligations—For example, we identified that the listings for the Department and Energy and Environment Solutions were incomplete. Management subsequently corrected these errors in the financial statements.

The Department is under significant time pressure to meet year-end financial reporting deadlines for six entities. The Department prepares the financial statements and supporting working papers using Word and Excel, which require manual processes that are prone to error. In addition, the Ministry consolidation includes manual processes that requires a significant amount of time to complete. However, the Department has not explored options to use other automated reporting tools to prepare the financial statements and supporting working papers for these entities.

Based on our work and discussions with staff, we concluded that the issues above were due to insufficient training on the transactions unique to these entities, ineffective monitoring and quality control over financial statements preparation, and manual processes that resulted in delays and errors.

To prepare timely and accurate periodic and year-end financial information, the Department can benefit from the considerations and good practices we outlined in our *April 2010 Report* (page 163).

Implications and risks if recommendation not implemented

Without effective controls over its financial reporting processes, the Department cannot be sure, or demonstrate, that its operations are efficient and effective, and cannot promptly and accurately report the financial results that management and boards need for decision making.

Resolution of sector accounting issues

Background

Financial statements for public post-secondary institutions are consolidated in the financial statements of the Ministry of Enterprise and Advanced Education and the Government of Alberta. Therefore, accounting issues for entities within the sector may impact both the Ministry and the Government of Alberta financial statements.

In addition, institutions need to implement the new public sector accounting standards for their 2013 year-ends, with the 2012 financial results restated to reflect the same standards. This may require greater coordination and more consistent accounting policies and reporting practices within the sector.

Recommendation: Resolve outstanding sector accounting issues

17 RECOMMENDATION

We recommend that the Department of Enterprise and Advanced Education work with the Office of the Controller and institutions to develop a process for efficient resolution of accounting issues in the post-secondary sector.

Criteria: the standards we used for our audit

The Department of Enterprise and Advanced Education and the Office of the Controller should have an efficient process to resolve accounting issues and, where needed, to ensure consistent financial reporting within the sector.

Our audit findings

Key findings

- List of partnerships, joint ventures and other business arrangements in sector is incomplete.
- Post-secondary institutions have not fully assessed business, legal and financial impacts of partnerships, joint ventures and other business arrangements.
- Department and post-secondary institutions lack clear plan to transition to new public accounting standards.
- Pro forma financial statements do not include required legislative disclosures.

Government partnerships, joint ventures and other business arrangements

Last year, the Department and institutions developed:

- a preliminary list of the partnerships, joint ventures and entities they control
- a questionnaire to help institutions identify potential related parties
- a document they can use to assess their relationship with identified entities

The preliminary list of entities included:

- Alberta Association in Higher Education for Information Technology
- Apply Alberta
- eCampus Alberta
- Alberta Rural Development Network
- Alberta Association of Colleges and Technical Institutes
- uDigit Systems

Alberta's post-secondary institutions created these entities to obtain certain services and to provide opportunities for students to enroll in programs in remote areas or through online learning. Institutions are the members of these entities and appoint boards of directors from among their senior executives. As part of our financial statements audit of the Ministry, we concluded that Alberta's post-secondary institutions collectively control these entities.

As part of the transition to public sector accounting standards, the Department, institutions and Treasury Board and Finance concluded in March 2012 that the Department and institutions must:

- determine which entities the institutions control, individually or collectively
- consolidate those entities in the Ministry's financial statements, depending on whether their impact is material to the financial statements
- work together to obtain retroactive approval from the Lieutenant Governor in Council for entities identified that require, but do not have the approval required under section 77 of the *Post-secondary Learning Act* and section 80 of the *Financial Administration Act*

However, the Department and institutions have not:

- compiled a complete list of their partnerships, joint ventures and other business arrangements—Having a complete inventory would allow institutions and the Department to manage the business, legal and financial risks related to these entities.
- completed their assessments of government and institutions partnerships, joint ventures and other legal arrangements
- ensured that entities they control comply with all legislation applicable to these entities—The Department and institutions also have not assessed whether the Lieutenant Governor in Council approval was required to incorporate entities that are considered controlled, individually or collectively, by institutions.

- appropriately included the controlled entities in the Ministry and government financial statements—For example, the Ministry's financial statements include the Canada School for Energy and Environment, a joint venture between three universities, but do not include Apply Alberta. Ministry financial statements should either consolidate controlled entities, based on materiality, or disclose these entities and the Ministry's transactions with them.

Furthermore, the Department has not reviewed the guidance and procedures it provides to institutions to ensure they comply with legislation when they incorporate new entities. The Department told us that it recognizes the issues we highlight but is waiting for direction from the Department of Treasury Board and Finance before proceeding to resolve them.

Transition to new public sector accounting standards

The Department, post-secondary institutions and the Office of the Controller formed a steering committee to assess those areas that will have the most significant impact for institutions as they implement public sector accounting standards in 2013. In March 2012, they approved several documents that conclude how institutions should implement certain accounting standards. They also identified that the Office of the Controller, working with institutions, still needs to make certain accounting policy choices for the sector. While we agreed in principle with the conclusions reached, we provided several comments that need to be resolved to allow institutions to implement the new standards.

However, the Department and institutions do not yet have a clear plan to update the documents, make the required policy choices, analyze the remaining differences in accounting standards, and develop pro forma financial statements using the new public sector accounting standards. Such a plan should identify objectives, deliverables and timelines. Institutions need this information to prepare to implement the new standards and make any necessary changes to their own systems, policies and processes.

The Department also has not developed a plan to assess the impacts and changes required to the Ministry's consolidation processes. Since institutions are consolidated into the Ministry's financial statements, greater coordination and planning is required to ensure the Department can prepare the 2013 financial statements within the Office of the Controller's timelines.

Charitable fund-raising disclosures in pro forma financial statements

The Department's pro forma financial statements did not include the disclosures required by the *Charitable Fund-raising Regulation*. The Department told us that it plans to work with the Department of Service Alberta, which is responsible for this regulation, to review its relevance and applicability to post-secondary institutions. As a result, most institutions did not include these required disclosures in their financial statements. While we concluded that this omission did not affect the opinion in our auditor's reports, it meant that most institutions did not comply with this regulation.

Implications and risks if recommendation not implemented

Ineffective processes to resolve accounting and reporting issues across the sector could result in incorrect financial results and inefficiencies from duplicated efforts for reassessments.

