



Economic Development and Trade

October 2017

Summary

Department

The Department of Economic Development and Trade has implemented our recommendations to improve its financial reporting process—see below.

The department has also implemented our recommendation to evaluate the performance of its international offices—see page 42.

There are no new recommendations to the department in this report.

Alberta Innovates

Alberta Innovates should improve its financial reporting processes—see page 43.

Alberta Innovates has implemented our recommendation to the former —Alberta Innovates—Energy and Environment Solutions to improve its revenue recognition processes for financial reporting—see page 45.

Alberta Enterprise Corporation

Alberta Enterprise Corporation has implemented our recommendation to improve its policies and processes to assess and account for impairment losses—see page 45.

There are no new recommendations to the corporation in this report.

Findings and Recommendations

Department

Matters from prior audits

Financial reporting processes—**recommendation implemented**

Context

In 2016¹ we recommended that the Department of Economic Development and Trade improve its internal controls and quality review processes to ensure prompt preparation of accurate financial reporting.

Our audit findings

The department implemented our recommendation to strengthen its year-end processes and controls by:

- documenting processes and controls to avoid processing errors
- increasing staff capacity required to effectively apply the processes and enhancing staff training on policies, processes and controls
- improving monitoring and review processes by senior management on financial reporting accuracy

¹ Report of the Auditor General of Alberta—October 2016, no. 14, page 85.

We examined:

- management’s documentation of processes and control procedures and found them to be adequate—We performed a walk-through of key controls that management used for its consolidation processes and found no exceptions.
- the training material for program areas on expense recording and found them to be adequate—We tested a sample of expenses recorded throughout the year and management’s accrual of expenses at year-end and found no exceptions.
- the evidence of management’s review of supporting documents to ensure completeness and accuracy of its financial reporting—We tested a sample of journal entries and year-end reconciliations for proper support and management review. We found no exceptions.

We conclude that management’s processes and controls for financial reporting are operating effectively. The process improvements resulted in better analysis and conclusions to support financial statement balances. We identified no material differences when examining the application of accounting standards on ministry and department transactions during the 2016–2017 audit.

Evaluating international offices’ performance—**recommendation implemented**

Context

In 2008² we recommended that the Department of Economic Development and Trade improve the processes management uses to evaluate the performance of each international office. We repeated our recommendation in 2015³ as we found that the department still had not established a policy to regularly perform in-depth reviews of the relevance and cost effectiveness of each international office, nor did it adequately report the variance analysis on results and performance measures for each international office.

Our audit findings

The department implemented our recommendation to improve the processes management uses to evaluate the performance of each international office.

Regular in-depth reviews of each international office

The department developed policy and procedure documents for reviews of international offices effective April 2017. The documents provide procedural direction and timelines for management’s periodic in-depth reviews.

The policy requires an in-depth review of each individual office every four to six years. This review window allows the department flexibility to adequately assess an international office’s performance relative to the operational and economic decisions the department periodically makes for each office. The department evaluates each international office and the entire network of offices, both qualitatively and quantitatively, on their relevance and cost effectiveness. Specific performance measures considered in the in-depth review include the number of trade events attended, trade leads generated and trade wins facilitated. The department will annually report the results of these performance measures for each office in the department’s annual report regardless of whether an in-depth review is completed in that year.

² *Report of the Auditor General of Alberta—October 2008*, page 324.

³ *Report of the Auditor General of Alberta—March 2015*, page 121.

The department last reported an internal review of international offices in February 2015. This report concluded on some cost savings opportunities, specific office closures and process recommendations for the department to consider in future office reviews. Taking this 2015 department review as a benchmark, department staff plan to perform the first in-depth review in fiscal 2019, using the department's new procedures.

We conclude that the department has developed adequate processes to perform in-depth reviews of each international office. We cannot conclude on the operating effectiveness of the in-depth review process until the first reviews are completed. We will examine the effectiveness of the in-depth reviews as part of our financial statement audit in fiscal 2019.

The department replaced its spreadsheet-based processes to monitor the annual results from international offices with a client relations management system, effective April 1, 2016. The client relations management system collects and tracks information on the economic benefit each international office generates annually. Management monitors the results from the system monthly. The economic benefit from trade wins facilitated by an individual office may be confidential. Therefore, the department will report to Albertans only the annual aggregate economic benefit derived from the international offices.

We examined the training documents staff received to use the client relations management system, and tested key controls in the system, and found them to be adequate.

Annual reporting on performance of international offices

The department reports on the performance of each individual international office in an appendix to the department's annual report. Information provided in the report includes staffing levels, operating budgets, actual results and a basic variance analysis of each office. The department also includes information and analysis on the comparison of targets to actual results for five performance measures and the value of the aggregate economic benefit generated by the international offices in the fiscal year.

We examined the reporting of performance measures and variance analyses of international offices in the ministry's 2016–2017 annual report and found it to be adequate. We also agreed, without exception, on the reported amounts relative to individual office performance measures in the annual report, and the annual aggregate economic benefit generated by the offices relative to year-to-date reports from the department's client relations management system.

Alberta Innovates

Matters from current audit

Financial reporting processes

Context

Management of Alberta Innovates is responsible for ensuring that it has effective internal controls and quality review processes to promptly prepare accurate and complete annual financial reporting, which include:

- processes to properly authorize and approve transactions
- analysis and conclusions on the recording and presentation of transactions in accordance with Canadian public sector accounting standards

- analytical processes to review amounts recorded as compared to the prior year’s actual and budgeted amounts for unexpected variances
- overall review of accuracy and completeness of information presented in annual financial reporting

Criteria: the standards of performance and control

Alberta Innovates should have efficient and effective financial reporting processes in place to ensure management can promptly prepare accurate and complete financial reporting.

Our audit findings

Key Finding

Management did not identify, analyze and record unique transactions, resulting in material differences in the draft consolidated financial statements.

Management generally has adequate internal controls, analysis and quality review processes in place to promptly prepare the corporation’s annual financial reporting.

We identified that management had not recorded and presented accurate and complete information in the draft consolidated financial statements on:

- transactions related to a building construction agreement by a subsidiary of the corporation
- salary and benefit disclosures of key executives of the corporation

Although management adjusted these material differences in the consolidated financial statements the root cause of these differences was weaknesses in financial reporting controls.

Management should have analyzed the building construction agreement in accordance with Canadian public sector accounting standards and performed a thorough review of the salary and benefit disclosures of key executives for accuracy and completeness.

To ensure management can promptly prepare accurate annual financial reporting, management must improve its processes to:

- document all significant transactions, analyse and conclude on accounting treatment based on Canadian public sector accounting standards and government reporting directives
- communicate with program areas to obtain timely information that supports financial reporting
- perform quality review and monitor financial reporting processes
- communicate and consult with the Department of Economic Development and Trade on issues that impact the ministry consolidated financial statements

RECOMMENDATION: Improve financial reporting processes

We recommend that Alberta Innovates improve its financial reporting processes by implementing effective internal controls and quality review processes to ensure accurate and complete financial reporting.

Consequences of not taking action

Ineffective internal controls and processes for financial reporting result in errors or omissions that may be material to the financial statements. Senior management risks making operational decisions based on inaccurate or incomplete financial information.

Matters from prior audit

Revenue recognition processes for financial reporting —recommendation implemented

Context

In 2014,⁴ we recommended that Alberta Innovates—Energy and Environment Solutions⁵ improve its processes to ensure management incurred eligible expenses before recording restricted funding contributions as revenue in the financial statements.

Our audit findings

Management implemented our recommendation by:

- completing an evaluation of contracts to identify restrictions that funders placed on the use of funds
- identifying eligible expenses incurred as stipulated in each contract
- documenting the matching of eligible costs with revenue recognition of restricted funds for financial reporting purposes

We tested the revenue recognition of restricted grants and found no exceptions. We conclude that management's processes are adequate and operating effectively.

Alberta Enterprise Corporation

Matters from prior audit

Improve policies and processes to account for investment impairments —recommendation implemented

Context

In 2016,⁶ we recommended that Alberta Enterprise Corporation develop and implement policies and procedures to assess and account for investment impairment losses. Management is required under accounting standards to record an investment impairment loss when management expects an investment's fair value to remain below its original cost.

Our audit findings

The corporation has implemented our recommendation to improve its policies and processes to account for investment impairments. We examined:

- the corporation's investment impairment policies and processes
- management's assessment of potential impairments
- evidence of reviews and approvals of the impairment assessment

We found the corporation's policy and procedures to be adequate and identified no exceptions to their application in the preparation of the corporation's fiscal 2017 financial reporting.

4 *Report of the Auditor General of Alberta—October 2014*, no. 19, page 159.

5 The government dissolved Alberta Innovates - Energy and Environment Solutions on Oct 31, 2016 and combined its operation with three other former innovates corporations into one single corporation—Alberta Innovates. Our follow-up audit included examining funding received related to the former Energy and Environment Solutions within the new corporation.

6 *Report of the Auditor General of Alberta—October 2016*, no. 15, page 86.

Outstanding Recommendation

Alberta Innovates

The following recommendation is outstanding and not yet ready for a follow-up audits

Improve financial reporting processes—October 2017, Financial Statement Auditing, p. 44

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.