

# Office of the Auditor General of Alberta

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Business Plan

for the Fiscal Year Ending March 31, 2016

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# OFFICE OF THE AUDITOR GENERAL BUSINESS PLAN FOR THE YEAR ENDING MARCH 31, 2016

## The office

The Office of the Auditor General serves the Legislative Assembly of Alberta and Albertans. Our mandate is to examine and report publicly on government's management of, and accountability practices for, the public resources entrusted to it. Under the *Auditor General Act*, the auditor general is the auditor of all government ministries, departments, funds and provincial agencies.

We focus our priorities and resources to improve:

- oversight and ethical behavior—these underpin the success of any organization
- safety and welfare of all Albertans—especially the most vulnerable in our society
- security and use of the province's resources—they belong to all Albertans and must be protected

To succeed we must be, and be seen to be, independent and accountable.

## Independence

Our independence from those we audit ensures our work is objective—based on facts, not preconceived opinions. The independence requirement is symbolized through the appointment of the auditor general by the Legislative Assembly and our liaison with the assembly through the Standing Committee on Legislative Offices. A primary element of the relationship is the assembly's prerogative to authorize financing of the office's operations.

Our business practices are designed to ensure that our staff remains free of any association that could potentially impair their objectivity.

## Accountability for results

Those who use public resources, as we do, should demonstrate their accountability through clear and concise plans and reports on results.

The first part of accountability is preparing and then acting on a plan; hence this business plan. It guides us in meeting our mandate through relevant audits, reliable findings and reasonable costs.

The second part of accountability is reporting on results and costs in relation to the plan and on how performance can improve. Our last results analysis report was made public on October 7, 2014.<sup>1</sup>

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<sup>1</sup> *Report of the Auditor General of Alberta—October 2014*, pages 217–263.  
<http://www.oag.ab.ca/webfiles/reports/October%202014%20Report.pdf>

We carry out our work using our vision, mission, and values.

## Vision

Adding value through expert auditing.

## Mission

To serve Albertans by conducting comprehensive risk-based audits that provide independent assessments to help the Legislative Assembly hold government accountable.

## Values

- **Trust**—We earn it with everything we say and do. We are accountable for our actions.
- **Respect**—Everyone has the right to be heard and deserves to be treated with dignity and courtesy.
- **Teamwork**—With integrity, we work together to generate better solutions.
- **Growth**—We view individual success as professional growth together with a fulfilling personal life. We value both.

## Core business

Our core business is legislative auditing. We have six lines of interrelated but different types of audit work. We are the auditor of every ministry, department, regulated fund and most provincial agencies. This responsibility includes universities, colleges and Alberta Health Services. In all, we are the auditor of about 150 entities.

### The six lines of auditing

#### 1. Financial statements

Every year we audit the financial statements of those entities for which we have been appointed auditor, including the consolidated financial statements of the Government of Alberta. Our auditor's report on each of these entities provides our opinion on whether the financial statements are presented fairly in accordance with appropriate standards. These recurring annual audits provide assurance on the quality of financial reporting to the assembly.

#### 2. Compliance with laws

A variety of rules in statutes, regulations, central agency directives and policies, and departmental procedures govern the proper conduct of government. In all our audits, we test transactions and activities to identify and report publicly if there has been non-compliance with the law.

### 3. Performance measures

For departments and some agencies, we review selected non-financial performance measures in the entity's annual report. We audit selected measures in the annual progress report on the government's business plan, *Measuring Up*. We report on the reliability, understandability, comparability and completeness of the selected performance measures. Our work is not designed to provide assurance on the relevance of the measures to users.

### 4. Results analysis

Each ministry annual report contains a results analysis. Effective results analysis reporting integrates the financial and non-financial performance information into a clear and concise interpretation of actual performance in relation to plans. We performed an audit in 2014<sup>2</sup> on the quality of the government's results analysis and we will work with the Department of Treasury Board and Finance, together with the Deputy Ministers' Council, on implementation of our recommendation across government. We continue to consider how we can add credibility to management's results analysis.

### 5. Systems

Sections 19(2) (d) and (e) of the *Auditor General Act* require us to report when "accounting systems and management control systems, including those systems designed to ensure economy and efficiency, ... were not in existence, were inadequate or had not been complied with" or "when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with". We meet this expectation in two ways:

- **Stand-alone audits**—We audit major programs or initiatives that an organization undertakes to achieve its goals. In a stand-alone systems audit, we answer the question, "Does the organization have the policies, processes and controls to accomplish its goals and mitigate its risks economically and efficiently?" Such systems include procedures to measure and report on the effectiveness of programs.
- **By-products of other audits**—If we find that an organization could improve its systems in areas such as governance and accountability, internal control over financial management, information technology or performance reporting, we make recommendations to management.

### 6. Research and advice

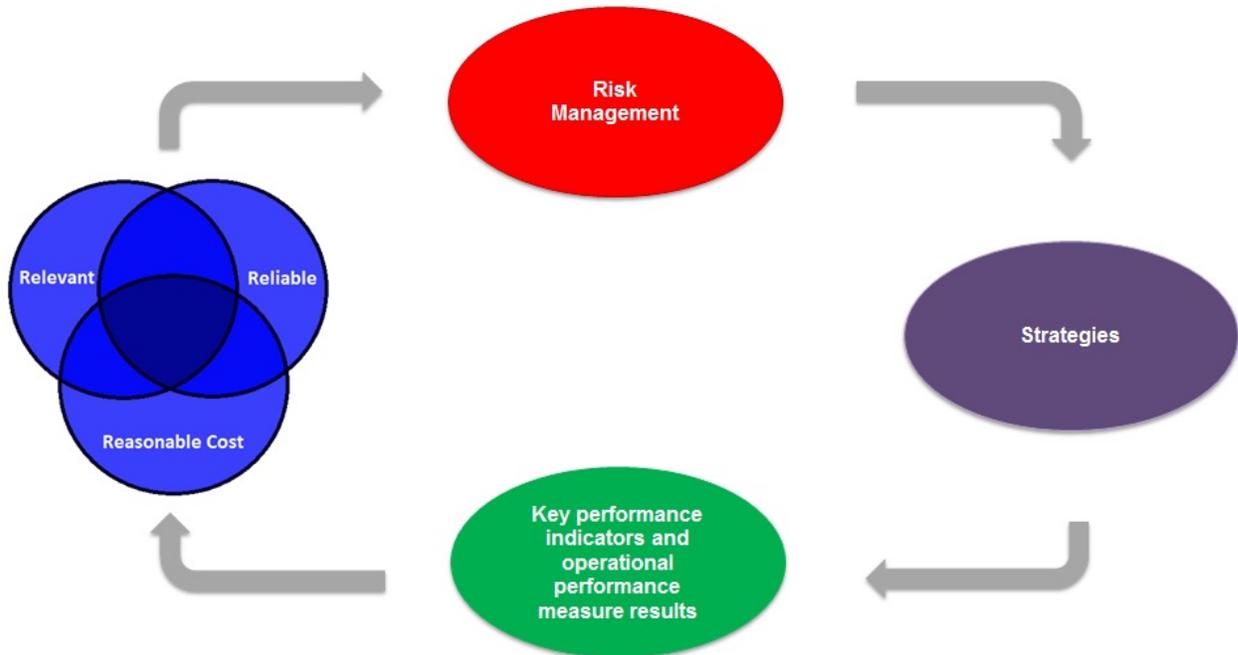
We decide what work to perform based on input from Members of the Legislative Assembly, Albertans who contact us, management and staff. Annually, we also receive advice from the Provincial Audit Committee. Often this input requires research to understand the issue or to identify best practices. Alternatively, at the request of an organization that we audit, or a committee of the Legislative Assembly, we may give advice on a proposed course of action or a matter being studied.

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<sup>2</sup> *Report of the Auditor General of Alberta—July 2014*, pages 15–33.

## Business cycle

We use the results of our risk identification and assessment to drive our business planning. The integrated business cycle has these elements:



### Elements of the business cycle

#### 1. Goal

Our vision is to add value through expert auditing, so our goal is to maximize relevance and reliability within the constraints of reasonable cost.

An important consideration is that we identify the root causes of weak systems, recognizing that management owns the systems.

#### 2. Risk management

Our audits must be:

- **Relevant**—Our work must be relevant to the Legislative Assembly and Albertans.
- **Reliable**—The Legislative Assembly and Albertans must be able to count on our work.
- **Reasonable cost**—We must manage costs in producing relevant and reliable reports.

Operationally, we must manage:

- **Input risk**—Do the skills of our staff, agents and contracted experts match the audit risk in our six lines of auditing?
- **Process risk**—Is our audit project management effective?
- **Output risk**—Have we maintained independence and objectivity and communicated results effectively?

### 3. **Strategy: Perform more added-value systems audit work**

Our strategy to perform more added-value systems audit work directly leverages our core strengths. As legislative auditors, we have a profound understanding of the environment we are auditing including performance audit standards, management control systems, performance reporting and accountability for results. Furthermore, the ability to communicate the complex technical matters we encounter in our audits in an understandable manner allows us to be effective in delivering our message and conclusions. With these strengths, we can continue to improve upon our ability to deliver relevant and reliable systems audit reports that are completed at a reasonable cost.

Anchored by the *Auditor General Act*, we believe performing more added-value systems audit work aligns with Albertans' need to know whether government is using their resources wisely. Each year we will strive to fine-tune the relative percentage of our resource allocation to achieve a mix of 30% systems auditing to 70% financial statements auditing by the end of three years. We have identified a number of key tools to assist us in successfully implementing this strategy:

- **Use of agents**—We use agents to assist in carrying out a number of our financial statement audits. By strategically using agent services and expertise, we can continue to identify opportunities to redeploy some of our legislative audit specialists to bolster our systems audit capacity.
- **Evaluating engagement continuance where redundant audit assurance may be present**—To be sure Albertans obtain maximum value from each financial statement audit, we will continue to evaluate whether an audit is necessary and whether it should be conducted by the Office of the Auditor General. Every audit we do should add value. Any resources freed up will be redeployed to complete systems audits.
- **Having the right people, in the right role, doing the right work**—We will continue to monitor and analyze skills and utilization of staff at various levels. With our strategy at the forefront, we will strive to have the right people, with the right skills, in the right place, at the right time, doing the right things. Not only will this provide our staff with diverse, interesting and challenging work, it will maximize the value of our work to Albertans.
- **Diversify the Office Leadership Team**—We will strengthen our Office Leadership Team with two new business leaders; one focused on the business of financial statements auditing and one focused on the business of systems auditing. The Office Leadership Team brings together capable people to lead relevant auditing, reliably, at a reasonable cost. Every role on the team is different; hence its strength. Working collaboratively for the best interests of the office and all Albertans, our focus as a leadership team will be: strategy, people, results and learning.

## Priority initiatives

### 1. Effective and sustainable people development

The right complement of staff skills and ongoing people development are critical for high quality and cost effective auditing. Maintaining a workplace that facilitates recruiting, growing and retaining skilled legislative auditors is vital to our success. In 2015–2016 our focus in meeting these ongoing human resources challenges will be flexible and adapt to market, education and societal changes.

In our professional services business within the competitive Alberta economy, we recognize the need for strategies directed at staff development and retention, particularly in the student through manager ranks. Our training program is designed to improve the overall effectiveness, efficiency and personal excellence of all staff within a positive and supportive work environment. In-house training, mentoring and support for our students will deal with changes in the professional accounting education programs taking place in 2015.

### 2. Implement recommendations from independent peer review

We commissioned an independent peer review to provide conclusions on whether we do relevant, reliable work at a reasonable cost. The peer review was completed in two stages. The first stage, which focused on the design of the office's systems, took place in August 2013. The second stage, focusing on the operating effectiveness of these systems, occurred in August 2014. The findings from this external peer review will be used to improve our audit and operational processes, and will be made public. We have found the independent peer review to be useful and will establish an appropriate interval between reviews based on study of best practices.

### 3. Outstanding recommendations

As we outlined in the *Report of the Auditor General of Alberta—October 2014* (page 19), there are 196 outstanding recommendations. It is our intention to focus on the implementation of recommendations more than three years old and to schedule timely follow-up audits of departments or agencies that have notified us they are ready.

### 4. Corporate Accounting Policies

We view the Controller's success in articulating and enforcing Corporate Accounting Policies as important because it directly impacts the consistency of the financial statements, as well as the efficiency of financial statement preparation and the audit; therefore we intend to assist as requested.

### 5. Perform a number of smaller systems audits

We plan to conduct smaller systems audit engagements (approximately 500 hours or less) in addition to our larger and broader systems audits. This will create greater flexibility in our deployment of resources to system audits, help develop the systems audit skills of our broader audit workforce and will increase the breadth of our systems audit portfolio without impacting our ability to carry out larger systems audits. We believe this initiative will have a positive and direct impact on our office doing more added-value systems audit work.

## Results management framework

We will hold ourselves accountable to our business plan by publishing our Results Analysis Report.

The office's results management framework relies on integrating three central processes:

1. **Governance**—the structure and processes we use to bring together capable people and relevant information to achieve cost-effective results.
2. **Oversight**—the glue that holds our results management framework together. Without good oversight, we can only guess at whether we are managing our resources cost-effectively in producing our audit results.
3. **Accountability for results**—management's obligation to show continually improving results in a context of fair and agreed on expectations. To ensure that Albertans receive the value for money they deserve from our office, we must follow a clear process of accountability for results.



## Planned systems audits 2015–2016\*

New	Agriculture and Rural Development	<ul style="list-style-type: none"> <li>• Agriculture Financial Services Corporation               <ul style="list-style-type: none"> <li>- Board Oversight</li> <li>- Lending and Insurance Activities</li> </ul> </li> </ul>
	Energy	<ul style="list-style-type: none"> <li>• Alberta Petroleum Marketing Commission— Systems to Identify, Analyze and Decide on Strategic Arrangements</li> <li>• Energy Program Effectiveness</li> <li>• Industrial Control Systems in the Energy Sector</li> </ul>
	Environment and Sustainable Resource Development	<ul style="list-style-type: none"> <li>• Grazing Leases</li> </ul>
	Health	<ul style="list-style-type: none"> <li>• Achievement of Results – Systems to Support Health Plan</li> <li>• Physician Services</li> <li>• IT Governance in Health and Clinical IT Integration</li> </ul>
	Human Services	<ul style="list-style-type: none"> <li>• Integration of Service Delivery</li> <li>• Monitoring of Results of Child and Family Service Programs On and Off First Nations Land</li> </ul>
	Infrastructure	<ul style="list-style-type: none"> <li>• Construction Management</li> <li>• Capital Planning</li> </ul>
	Infrastructure/Education	<ul style="list-style-type: none"> <li>• Monitoring and Prioritization of Maintenance in Schools</li> </ul>
	Innovation and Advanced Education	<ul style="list-style-type: none"> <li>• Own-source Revenue at Post-secondary Institutions</li> <li>• Online Instruction at Post-secondary Institutions</li> <li>• Systems to Develop Campus Alberta Unified Services</li> </ul>
	Jobs, Skills, Training and Labour	<ul style="list-style-type: none"> <li>• Systems to Update Alberta’s Work Force Strategy</li> </ul>
	Justice and Solicitor General	<ul style="list-style-type: none"> <li>• Management of Victims of Crime Fund Programs</li> <li>• Systems to Inform and Analyze Legal Aid Funding</li> </ul>
	Municipal Affairs	<ul style="list-style-type: none"> <li>• Public Safety Division</li> </ul>
	Service Alberta	<ul style="list-style-type: none"> <li>• Identification, Tracking and Cost of IT Assets</li> <li>• Sharing IT Security Information</li> </ul>
	Treasury Board and Finance	<ul style="list-style-type: none"> <li>• Treasury Management</li> </ul>

\* Audits expected to be publicly reported in July 2015, October 2015 and February 2016.

<b>Follow-up</b>	Aboriginal Relations	<ul style="list-style-type: none"> <li>• Systems to Assess First Nations Development Fund Grants</li> </ul>
	Environment and Sustainable Resource Development	<ul style="list-style-type: none"> <li>• Climate Change</li> <li>• Drinking Water Program</li> <li>• Managing Alberta's Water Supply</li> </ul>
	Executive Council	<ul style="list-style-type: none"> <li>• Protecting Information Assets</li> </ul>
	Health	<ul style="list-style-type: none"> <li>• Medical Waste Management</li> <li>• Primary Care Networks</li> </ul>
	Human Services	<ul style="list-style-type: none"> <li>• Systems at the Office of the Public Trustee</li> </ul>
	Innovation and Advanced Education	<ul style="list-style-type: none"> <li>• Athabasca University – IT Governance, Strategic Planning and Project Management</li> <li>• Collaborative Initiatives Among Alberta's Post-secondary Institutions</li> </ul>
	Jobs, Skills, Training and Labour	<ul style="list-style-type: none"> <li>• Occupational Health and Safety</li> </ul>
	Transportation	<ul style="list-style-type: none"> <li>• Bridge Safety</li> </ul>

## External performance measures

	Target 2015–2016	Target 2014–2015	Actual 2013–2014
<b>Relevant auditing</b>			
Percentage of the auditor general’s recommendations accepted for implementation <sup>1</sup> ( <i>also Reliable</i> )	95%	95%	89%
Number of auditor general’s recommendations not implemented within three years of acceptance	Zero	Zero	47
Issue auditor’s report on Alberta’s consolidated financial statements by June 30 (for the preceding March 31 fiscal year-end)	June 30, 2015	June 19, 2014 (Actual)	June 20, 2013
Percentage of costs dedicated to systems/financial statements auditing <sup>2</sup> ( <i>also Reasonable cost</i> )	27:73%	25:75%	23:77%
<b>Reliable auditing</b>			
Institute of Chartered Accountants of Alberta’s conclusion that the office’s financial statements audits meet practice review standards <sup>3</sup> ( <i>also Relevant and Reasonable Cost</i> )	Met	Next review expected in 2016	Next review expected in 2016
<b>Reasonable cost auditing</b>			
Staff turnover and vacancy rate ( <i>also Reliable</i> )	Under 20%	Under 20%	18%
Percentage of financial statements audits completed within budget	75%	90%	59%

<sup>1</sup> Acceptance for implementation does not include audit recommendations accepted in principle or under review.

<sup>2</sup> Goal is to reach 30:70% by March 31, 2018.

<sup>3</sup> The practice review is done triennially.

# OFFICE OF THE AUDITOR GENERAL BUDGET 2015–2016

(thousands of dollars)

	Comparable 2013–2014		Comparable 2014–2015	2015–2016 Estimate
	Budget	Actual	Budget	
Expenses				
Personnel				
Salaries and wages	\$ 14,580	\$ 13,844	\$ 14,945	\$ 15,485
Agent and other audit services fees	4,380	4,757	4,480	4,060
Employer contributions	3,285	3,439	3,655	3,880
Temporary staff services	1,350	1,124	1,400	1,270
Advisory services	275	280	270	265
	<u>23,870</u>	<u>23,444</u>	<u>24,750</u>	<u>24,960</u>
Supplies and services				
Training and professional fees	825	837	880	850
Travel	570	556	580	530
Technology services	430	436	450	440
Materials and supplies	200	239	205	205
Telephone and communications	85	79	85	85
Rental of office equipment	50	51	50	50
Repairs and maintenance	25	24	25	25
Miscellaneous	20	19	20	20
	<u>2,205</u>	<u>2,241</u>	<u>2,295</u>	<u>2,205</u>
Budget reduction (per SCLO—February 17, 2015)	-	-	-	<u>(546)</u>
<b>VOTED OPERATING EXPENSES</b>	<u>26,075</u>	<u>25,685</u>	<u>27,045</u>	<u>26,619</u>
Add: amortization of capital assets (non-voted)	<u>295</u>	<u>142</u>	<u>370</u>	<u>250</u>
Total operating expenses	<u>26,370</u>	<u>25,827</u>	<u>27,415</u>	<u>26,869</u>
Less: audit fee revenue (non-voted)	<u>(2,450)</u>	<u>(953)</u>	<u>-</u>	<u>-</u>
Cost of operations	<u>\$ 23,920</u>	<u>\$ 24,874</u>	<u>\$ 27,415</u>	<u>\$ 26,869</u>
<b>VOTED CAPITAL SPENDING</b>	<u>\$ 560</u>	<u>\$ 465</u>	<u>\$ 255</u>	<u>\$ 135</u>
<b>TOTAL VOTED EXPENSES AND CAPITAL</b>	<u>\$ 26,635</u>	<u>\$ 26,150</u>	<u>\$ 27,300</u>	<u>\$ 26,754</u>
<b>Operating expenses by core business</b>				
(Includes amortization of capital assets)				
Financial statements auditing <sup>1</sup>	\$ 20,470	\$ 19,963	\$ 20,485	\$ 20,165
Budget reduction				<u>(546)</u>
				<u>19,619</u>
Systems auditing <sup>2</sup>	<u>5,900</u>	<u>5,864</u>	<u>6,930</u>	<u>7,250</u>
	<u>\$ 26,370</u>	<u>\$ 25,827</u>	<u>\$ 27,415</u>	<u>26,869</u>

<sup>1</sup> Financial statements audits include reporting on financial statements, compliance with authorities, performance measures, results analysis, and research and advice.

<sup>2</sup> Systems audits examine major programs or initiatives an organization undertakes to achieve its goals.

## Schedule 1

Legislative Assembly of Alberta  
Office of the Auditor General  
Lines of Business Costs by Sector<sup>1</sup> and Ministry  
For the Year Ending March 31, 2016

	2014 Actual <sup>2</sup>			2015 Budget <sup>2</sup>			2016 Estimates		
	Auditing			Auditing			Auditing		
	Financial statements <sup>3</sup>	Systems <sup>4</sup>	Total	Financial statements <sup>3</sup>	Systems <sup>4</sup>	Total	Financial statements <sup>3</sup>	Systems <sup>4</sup>	Total
<b>Alberta's Economic Future</b>									
Aboriginal Relations	\$ 78,000	\$ 378,000	\$ 456,000	\$ 107,000	\$ -	\$ 107,000	\$ 109,000	\$ 146,000	\$ 255,000
Agriculture and Rural Development	702,000	44,000	746,000	793,000	123,000	916,000	792,000	213,000	1,005,000
Infrastructure	231,000	45,000	276,000	210,000	297,000	507,000	197,000	925,000	1,122,000
Innovation and Advanced Education	5,198,000	671,000	5,869,000	4,909,000	493,000	5,402,000	4,250,000	690,000	4,940,000
International and Intergovernmental Relations	63,000	30,000	93,000	83,000	-	83,000	95,000	-	95,000
Culture and Tourism	420,000	-	420,000	396,000	-	396,000	394,000	-	394,000
	<u>6,692,000</u>	<u>1,168,000</u>	<u>7,860,000</u>	<u>6,498,000</u>	<u>913,000</u>	<u>7,411,000</u>	<u>5,837,000</u>	<u>1,974,000</u>	<u>7,811,000</u>
<b>Families and Communities</b>									
Education	572,000	280,000	852,000	677,000	437,000	1,114,000	648,000	12,000	660,000
Health	2,511,000	1,449,000	3,960,000	2,344,000	1,813,000	4,157,000	2,504,000	1,182,000	3,686,000
Human Services	1,559,000	274,000	1,833,000	1,322,000	763,000	2,085,000	751,000	952,000	1,703,000
Jobs, Skills, Training and Labour	501,000	2,000	503,000	529,000	-	529,000	410,000	131,000	541,000
Justice and Solicitor General	457,000	148,000	605,000	542,000	137,000	679,000	657,000	101,000	758,000
Seniors	274,000	268,000	542,000	178,000	68,000	246,000	325,000	-	325,000
Service Alberta	553,000	167,000	720,000	518,000	241,000	759,000	642,000	382,000	1,024,000
	<u>6,427,000</u>	<u>2,588,000</u>	<u>9,015,000</u>	<u>6,110,000</u>	<u>3,459,000</u>	<u>9,569,000</u>	<u>5,937,000</u>	<u>2,760,000</u>	<u>8,697,000</u>
<b>Resource Stewardship</b>									
Energy	796,000	298,000	1,094,000	979,000	506,000	1,485,000	1,081,000	473,000	1,554,000
Environment and Sustainable Resource Development	608,000	647,000	1,255,000	793,000	1,149,000	1,942,000	889,000	442,000	1,331,000
Municipal Affairs	469,000	90,000	559,000	442,000	-	442,000	521,000	516,000	1,037,000
Transportation	265,000	18,000	283,000	190,000	23,000	213,000	293,000	137,000	430,000
Treasury Board and Finance	4,362,000	1,020,000	5,382,000	5,090,000	637,000	5,727,000	5,155,000	848,000	6,003,000
	<u>6,500,000</u>	<u>2,073,000</u>	<u>8,573,000</u>	<u>7,494,000</u>	<u>2,315,000</u>	<u>9,809,000</u>	<u>7,939,000</u>	<u>2,416,000</u>	<u>10,355,000</u>
<b>Executive Council</b>	64,000	35,000	99,000	80,000	245,000	325,000	105,000	100,000	205,000
<b>Legislative Assembly</b>	280,000	-	280,000	301,000	-	301,000	347,000	-	347,000
	<u>344,000</u>	<u>35,000</u>	<u>379,000</u>	<u>381,000</u>	<u>245,000</u>	<u>626,000</u>	<u>452,000</u>	<u>100,000</u>	<u>552,000</u>
	<u>\$ 19,963,000</u>	<u>\$ 5,864,000</u>	<u>\$ 25,827,000</u>	<u>\$ 20,483,000</u>	<u>\$ 6,932,000</u>	<u>\$ 27,415,000</u>	<u>\$ 20,165,000</u>	<u>\$ 7,250,000</u>	<u>\$ 27,415,000</u>
Budget reduction (per SCLO—February 17, 2015)							(546,000)	-	(546,000)
							<u>\$ 19,619,000</u>	<u>\$ 7,250,000</u>	<u>\$ 26,869,000</u>
Percentage of costs dedicated to financial statements/systems auditing	77%	23%		75%	25%		73%	27%	

<sup>1</sup> Ministry auditing work is aligned with the government's 2014 priority areas.

<sup>2</sup> Certain figures have been reclassified to conform to the current Ministry organization.

<sup>3</sup> Financial statement audits include reporting on financial statements, compliance with authorities, performance measures, results analysis, and research and advice.

<sup>4</sup> Systems audits examine major programs or initiatives an organization undertakes to achieve its goals.





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