

# Program Audit of The Alberta Insurance Council

Final Report



MEYERS NORRIS PENNY LLP

# TABLE OF CONTENTS

<b>1.0 Executive Summary</b>	
1.1 Background	4
1.2 Objectives	5
1.3 Overall Evaluation and Summary of Recommendations	5
<b>2.0 Governance Structure</b>	
2.1 Board Responsibilities	10
2.2 Public Policy Objectives	12
2.3 Communications	13
2.4 Board and Management Relations	15
2.5 Board Independence	16
2.6 The Position of the CEO	17
2.7 Renewal of the Board	18
2.8 Education of Directors	19
2.9 Compensation	19
2.10 Responsibility for Corporate Governance	20
2.11 Other Best Practices for Good Governance	20
<b>3.0 AIC Statutory Obligations</b>	
3.1 Council's Statutory Obligations	24
3.2 Complaints Management Process	26
3.3 Certificates Issuance Process	29
3.4 Administrative Function	31
3.5 Memorandum of Understanding	32
3.6 Survey of Trade Associations	33
<b>4.0 AIC Operational Objectives</b>	
4.1 Human Resources	36
4.2 Information Technology	37
4.3 Financial Services	39
<b>5.0 Business Processes to Deliver Administrative Services</b>	
5.1 Administrative Services	43
<b>Appendix A – Shelf Data Listing</b>	47
<b>Appendix B – Interviews Conducted</b>	50
<b>Appendix C – Code of Conduct Checklist</b>	53
<b>Appendix D – Whistleblower Checklist</b>	56
<b>Appendix E – References</b>	58
<b>Appendix F – Business Process Flowcharts</b>	60
<b>Appendix G – Risk and Control Matrices</b>	67

# EXECUTIVE SUMMARY

## 1.0 EXECUTIVE SUMMARY

### 1.1 Background

The Alberta Insurance Council (“Council or AIC”) is the umbrella council that supports the three industry-specific Councils: the General Insurance Council, the Life Insurance Council and the Insurance Adjusters Council (“the Councils”) which are the regulatory bodies responsible for licensing and discipline of insurance agents, brokers and adjusters in the Province of Alberta. The AIC also provides administrative services to the Continuing Education Accreditation Committee. The AIC derives its authority under a delegation from the Minister of Finance. In addition to its responsibilities surrounding all classes of agents, brokers and adjusters, the AIC investigates complaints into the actions of insurance companies in the Province of Alberta.

The Councils are established under the authority of the Insurance Act, Chapters 1-3, Revised Statutes of Alberta 2000, as amended and are crown controlled organizations as defined under the Financial Administration Act.

The three Councils are regulatory bodies, responsible for (1) licensing and discipline of insurance agents and adjusters in Alberta, and (2) enforcing the provisions of the *Insurance Act* and Regulations. The AIC is responsible to investigate complaints with respect to activities of insurance companies licensed to operate in the Province. It also provides administrative services (i.e. financial, human resources and information technology) to the three Councils. All of the Councils’ and the AIC authorities are established under delegations from the Minister of Finance duly executed in July of 2001.

In June of 2006, the Chairs of the Councils and the AIC entered into a Memorandum of Understanding (“MOU”) with the Minister of Finance. The MOU clarifies the roles, responsibilities, duties, functions, standards of care and policy direction, and outlines performance expectations to be achieved by the three Councils and the AIC.

The Superintendent of Insurance requested in December 2007 for a Program Audit to be undertaken of the AIC and the Councils, to review and evaluate the effectiveness of their governance structure and their achievement of obligations and objectives.

The main governance structures referred to in this Program Audit were the Treasury Board “Corporate Governance in Crown Corporations and Other Public Enterprises – Guidelines”, “The Report of the Board Governance Review Task Force” led by Neil McCrank and issued in October 2007, guidance issued by the Institute of Company Directors and various other best practice guidelines. For a full overview of references, please refer to Appendix E.

The Program Audit was completed by 28 April 2008 with a draft report being made available to the Steering Committee on 30 April 2008. This report highlights all findings, conclusions and recommendations as a result of the work performed.

## 1.2 Objectives

The specific scope and objectives of this Program Audit, as outlined in the Request for Proposal dated 11 December 2007, were to review, evaluate, report findings and provide recommendations for improvement with respect to:

1. The effectiveness of the governance structure of the Councils;
2. The Councils' achievement of their statutory obligations pursuant to the Insurance Act and Regulations;
3. The extent to which AIC management achieves its operational objectives; and,
4. The existence of, and AIC compliance with, business processes to deliver their administrative services in an effective and efficient manner.

## 1.3 Overall Evaluation and Summary of Recommendations

An assessment of the Council's performance with respect to the four specific objectives is outlined below. This assessment is based on observations made during our review, and in some areas these observations may have been limited due to the scope of our review.

The tables below are provided purely for information purposes and to facilitate management in their assessment of the controls and should not be read as providing any positive assurance on these controls.

### Governance Structure of the Councils

Based on interviews conducted, review of supporting documentation and review and comparison against best practice



### Council's Achievement of its Statutory Obligations

Based on interviews conducted, review of processes by which certificates are issued and complaints are investigated and limited testing of key controls



### Achievement of Operational Objectives

Based on interviews conducted, review of administrative and operational processes in place and limited testing of key controls supported by examination of relevant documentation



### Existence of and Compliance with Business Processes

Based on interviews conducted, review of and walk through of business processes and limited testing of key controls.



One of the key risks identified within the AIC is that of succession planning. Both the CEO and COO have been with the AIC for almost 20 years and both individuals are considered very strong leaders with a combined 40 years of institutional knowledge. It is therefore considered crucial that the Board, as a matter of priority, review and approve a specific succession plan to not only allow for appropriate succession when the times come, but to also ensure that the institutional knowledge is retained within the organization.

Another risk the organization faces is reputation risk. For the AIC to fulfill its statutory obligations and mandate in the most effective manner, it is important that the AIC is not only able to fulfill its delegations but that key stakeholders are aware of, and respect those delegations. Communications between the AIC and the Superintendent's Office is considered crucial and could be improved. In addition, there appears to be confusion within the industry as to which office is the regulatory authority dealing with investigations with respect to insurance companies. This issue needs to be resolved to ensure no duplication of effort and the industry is served efficiently and effectively.

The governance structure in place within the AIC and Councils' structure is widely considered as being effective, with the AIC Board and Councils being made up of a combination of industry and public members. To further increase the effectiveness of the AIC Board and Councils it is considered best practice that the AIC Board and Councils undertake an annual evaluation of their performance to assess its effectiveness.

Other best practice recommendations can be found in summary in the following table and in further detail in the main body of the report. The key recommendations are highlighted in red – these are recommendations we believe are the most significant and we request that a formal response is provided. By implementing these recommendations, management will improve the overall effectiveness, efficiency and compliance with set procedures and policies.

The recommendations which are highlighted in yellow are those which we believe are important and we request that a formal response is also provided. By implementing these recommendations, although perhaps not necessary for the AIC to be effective in discharging its responsibilities, will improve the governance within which the operations of the AIC are managed.

The recommendations highlighted in green do not require a formal response by management but are reflected here to highlight best or better practice which management could consider in achieving greater governance.

We would like to extend our thanks to management and staff of the AIC, Council members and representatives of the Department of Finance, for their contribution and cooperation throughout this Program Audit. A special thank you is extended to Mr. Dennis Gartner, the Project Sponsor, and the Audit Advisory Committee, consisting of Mrs. Joanne Abram, Mr. Mel Niebrugge, Mr. Arthur Hagan and Mr. Robert Phillion for their guidance, input and feedback.

No	Recommendations	Page Number	Priority
<b>Governance Structure</b>			
1	<i>We recommend the Board review and approve AIC's management succession plan specifically relating to the position of CEO and COO to provide for the orderly succession of management and to ensure corporate knowledge is retained to the maximum extent possible.</i>	<b>11</b>	High
2	<i>We recommend the AIC commission a survey to determine complainants, licensees and Trade Associations' satisfaction with the AIC as a regulatory agency; satisfaction with the licensing process; satisfaction with the complaints investigation process; and satisfaction with respect to the communication to and from the AIC. We recommend that the results of this survey are used as input for the 3-5 year communications plan, a key objective of AIC's business plan 2008-2010.</i>	<b>14</b>	Low
3	<i>We recommend that the overall communication between the AIC and the Office of the Superintendent be improved to ensure both parties are able to fulfil their responsibilities and mandate in the most effective and mutually supportive manner and provide key stakeholders with the best possible service within available resources, mandates and delegations.</i>	<b>15</b>	High
4	<i>We recommend that the Board meet without the presence of management on a periodic basis (depending on issues arising, on a quarterly or semi-annual basis). This could be achieved by declaring part of the regular Council meeting "in camera" to allow for any issues in relation to the performance of the organization or senior management to be discussed.</i>	<b>16</b>	Medium
5	<i>We recommend that the Board, on an annual basis, formally evaluate the CEO's performance against established duties and objectives as agreed between the Board and the CEO. These criteria should include the CEO's contribution to the development and achievement of the Council's strategy as outlined in the strategic and business plans.</i>	<b>18</b>	High
6	<i>We recommend the Board of Directors undertake an annual evaluation of their individual performance as well as that of the Board as a whole, to assess its effectiveness. In addition, the Board could, in consultation with the CEO, attempt to identify the profile of skills that would best enable the Board to fulfil its responsibilities.</i>	<b>18</b>	High
7	<i>We recommend the Board of Directors includes, on an annual basis, an agenda item to review the adequacy and form of compensation for directors and Council members, including compensation in relation to remuneration, fees and expenses.</i>	<b>19</b>	Low
8	<i>We recommend the AIC review its current Code of Conduct for opportunities for improvement. In addition, we recommend that the AIC, as part of its comprehensive review of the Code of Conduct, reiterates its application to all Board and Council members and that all Board and Council members and employees sign an annual statement declaring their understanding and compliance with the Code.</i>	<b>22</b>	Low

No	Recommendations	Page Number	Priority
<b>Statutory Obligations</b>			
9	<i>We recommend that the investigation of complaints with respect to insurance companies is reviewed in further detail to ensure these complaints are dealt with in accordance with current delegations, by the proper jurisdiction and in a consistent manner.</i>	<b>25</b>	<b>High</b>
10	<i>We recommend the AIC requests the Minister to review the process by which public members are appointed and/or re-appointed to ensure this is done in a timely manner to support the governance processes and structure within AIC and Councils.</i>	<b>32</b>	<b>Medium</b>
<b>Operational Objectives</b>			
11	<i>We recommend the AIC formalize its performance review process by creating a performance review template to be used for all staff. This will allow for the standardization of the performance evaluation process and ensure all employees are assessed in accordance with AIC's policies.</i>	<b>36</b>	<b>Low</b>
12	<i>We recommend the introduction of a formalized change management/ systems development process to ensure the process is documented and adhered to, key control points are in existence and system testing is adequately documented.</i>	<b>38</b>	<b>Medium</b>
13	<i>We recommend that on a periodic basis, the COO review the security of the various user groups to ensure that the security levels granted are reasonable. The COO should also review the list of members within each group to ensure that the users belong to the correct group and have the correct level of access. In addition, the development of a monthly change report to the Master Table would be useful in ensuring that any changes made to the Master Table are identified and reviewed to confirm the validity of the changes made.</i>	<b>38</b>	<b>Medium</b>
14	<i>We recommend that the CEO undertake an independent review of the revenue deferral calculations prepared by the CFO to ensure that the calculations are complete and accurate. With the introduction of the new system, we recommend the CFO reviews the automatic calculation on a monthly basis for reasonableness.</i>	<b>40</b>	<b>Low</b>
<b>Business Processes to Deliver Administrative Services</b>			
15	<i>We recommend that the AIC consider formalizing and/or updating its policies and procedures in relation to the system of internal controls over financial reporting; the processes for the issuance of certificates; conducting of complaints investigations and processes in relation to the implementation and updating of information systems.</i>	<b>45</b>	<b>Medium</b>

# GOVERNANCE STRUCTURE

## 2.0 GOVERNANCE STRUCTURE

### **Criterion #1**

*The governance structure of the Councils is effective*

Boards of directors have a duty to oversee management, with a view to the best interests of both the organization and the long-term interests of the stakeholders.

To fulfil their overall stewardship responsibility for the management of the affairs of organizations, boards of directors are expected to exercise judgement in the broad areas of:

- The establishment of the corporation's strategic direction
- The safeguarding of the corporation's resources
- The monitoring of corporate performance
- Reporting to the Crown.

The Treasury Board of Canada has issued comprehensive guidelines with respect to corporate governance. This approach recognizes that corporate governance is not an end in itself but rather a means to assist crown corporations to more effectively fulfil their legislative mandates and to contribute to the public interest. To determine to what extent the AIC has implemented these best practice guidelines, we will review each one of them in more detail below.

In addition, other best practice guidelines have been the subject of review and applied within this report, one of them being the recently released "The Report of the Board Governance Review Task Force" led by Mr. Neil McCrank and the government's response to that report, the "Public Agencies Governance Framework", issued in February 2008. A list of references can be found in Appendix E.

In the remainder of this report, the terms "Board of Directors or Board" are used to describe the Alberta Insurance Council as the "Board" in charge of governance. Where the term "Council members" is used, this refers to Council members in the role of directors (of a board). The term "AIC" specifically refers to the Alberta Insurance Council as the administrative organization and the term Councils refers to the three industry specific councils.

### 2.1 Board Responsibilities

***"The Board of directors of every Crown corporation should explicitly assume responsibility for the stewardship of the corporation"***

#### 2.1.1 Strategic Planning

Establishing the strategic direction for the AIC and Councils is the foundation in fulfilling the Board's governance responsibilities. The Board of Directors and AIC management work closely together to build the three year strategic plan for the AIC and Councils, to focus on priorities that deliver on the mission, vision and business objectives of the AIC.

The Board of Directors provided direction by attending a two day strategic planning session in June of 2007 with the result being the 2008-2010 business plan. The focus within this new business plan will be on reviewing its existent Code of Conduct, increasing (the use of on-line) services offered to stakeholders and an increase of consumer awareness about the role of the AIC.

### 2.1.2 Risk Management

The Board must understand the principal risks inherent in the AIC and Councils' activities and its external environment. In addition, the Board should ensure that systems are in place to monitor and manage the risks affecting the AIC fulfil its mandate in an effective manner.

The Audit Committee has been delegated to review and manage risks on behalf of the Board. The key areas of focus are: risks in relation to financial reporting; Freedom of Information; business interruption; confidentiality of information; review of insurance policies to ensure adequate coverage; and setting of policies in relation to capital assets and investments. Once a year in the January Audit Committee meeting, the topic of risk management is raised as a specific agenda item with risks being identified and appropriate actions reviewed and implemented where appropriate.

### 2.1.3 Succession Planning

The Board should review and approve AIC's management succession plan to ensure that skilled management will be available for the ongoing and longer-term fulfilment of the Council's mandate. Succession planning is a key risk to the AIC due to both the CEO and COO having been with the organization for almost 20 years. A significant amount of corporate knowledge therefore resides within those two positions and specific action plans need to be put in place to ensure this is not lost to the organization.

We noted several measures have been taken to address succession planning. For instance, the Director of Legal and Regulatory Affairs has been appointed. The creation of this position is crucial as it not only allows for the COO to transfer knowledge but to also create additional independencies in fulfilling responsibilities with respect to the regulatory process and quasi-judicial functions of the industry specific councils. The Director of Legal and Regulatory Affairs has taken responsibility in relation to the drafting of reports to the Councils and is also assisting both the CEO and COO in attending and speaking at various industry functions and national committees. This will allow for the transfer of part of the institutional knowledge as well as ensuring that potential successors are being identified and supported going forward.

Another conscious step taken by Council is the creation of the position of Director, Compliance and Investigations, previously that of the Supervisor of Compliance and Investigations. This role will assume increased responsibility in the supervision and monitoring of the investigation and compliance process.

However, the Board has not reviewed and approved management's succession planning. In addition, based on interviews held with the Board of Directors, it does not appear that the issue of succession planning has been a current topic on their agenda and as such we would urge the Board to address this issue as a matter of priority.

#### **Recommendation #1:**

*We recommend the Board review and approve AIC's management succession plan specifically relating to the position of CEO and COO to provide for the orderly succession of management and to ensure corporate knowledge is retained to the maximum extent possible.*

### 2.1.4 Importance of Information

The Board should receive information it deems necessary to perform its work. The information regularly sent to the Board should assist the Board in formulating its strategic direction and enabling them to review management's performance in achieving those. The information should report actual and forecasted results against established plans and performance targets.

The Board meets every month and to allow it to discharge its responsibility it receives the following information:

- Monthly Closed Complaints Summary
- Quarterly report which provides a detailed overview of actual to budgeted results with a detailed analysis explaining the variances.

Based on the above and based on interviews conducted with the Board of Directors, the Board is satisfied that it receives timely, accurate and reliable information to allow them to monitor the Council's progress against their stated objectives.

### 2.1.5 The Audit Regime

The financial statements of the AIC are audited every year as set out in the Financial Administration Act. The audit is performed by PricewaterhouseCoopers and a clean audit opinion has been received for all the years under review (financial year ended 31 December 2000 to date). In addition, no management letter has been issued since 2003, indicating the external auditors do not have any internal control weaknesses to report that have come to their attention whilst performing the audit.

At the time of our review the external auditors had just completed their audit for the year ended 31 December 2007. There were no issues to report, either in relation to the accuracy of the financial statements or the system of internal control.

The Audit Committee of the AIC is responsible for dealing with the external auditors and based on discussions with Audit Committee members, the relationship with the external auditors is considered positive and constructive with no issues to report.

## 2.2 Public Policy Objectives

***“The Board of Directors of every Crown corporation should examine its public policy objectives and periodically the legislated mandate to ensure their continuing relevance”***

### 2.2.1 Documenting Public Policy Objectives

The AIC and Councils' mandate are described in the Insurance Act, the Regulations, the Ministerial Directives and Orders as well as the Memorandum of Understanding signed in May of 2006.

Based on our review of the Strategic Plan, the Business Plan and our discussions with the Board of Directors, it appears the public policy objectives are clearly described and understood and are taken into account in its decision making process.

### 2.2.2 Appreciating the Contemporary Trade-Offs

Finding the appropriate balance of public policy objectives and any commercial objectives is part of any Board's fiduciary responsibility. For the AIC this could present itself through the setting of fees with respect to examinations and certificates.

Based on our review of documentation and discussion with both the Board of Directors and management, it does not appear that there is an expansion of the role of the AIC beyond its mandate and neither is there a risk to the financial health of the organization. A more detailed discussion of the financial health of the organization and its budgeting process can be found in section 4.3.4.

### 2.2.3 Assessing the Relevance of the Mandate

The Board of Directors' efforts in approving the AIC's strategic direction and in reconciling the AIC's public policy objectives with its commercial objectives, puts it in a unique position to comment on the continuing relevance of the Council's mandate.

A strategic planning session was held in June of 2007 and consisted of a two day session debating the future strategic direction of the AIC and its focus based on its mandate and delegations. The result of this session was the Strategic Plan from which the Business Plan 2008-2010 was established with four specific goals to be achieved in the next three years.

## 2.3 Communications

***“The Board of Directors of every Crown corporation should ensure that the corporation communicates effectively, with the Crown, other stakeholders and the public”***

### 2.3.1 Communication with Stakeholders

Communication with stakeholders is critical to the success of any organization. This is no different for the AIC. The key stakeholders of the AIC and Councils are the Department of Finance and more specifically the Office of the Superintendent of Insurance, the licensees and the general public.

One of the four strategies outlined in the business plan 2008-2010, is to engage the services of a communications consultant, to assist in the development of a 3-5 year communications plan. The objective of this plan is to increase consumer and stakeholder awareness of the AIC, its mandate and the services it provides.

The communications to the other group of key stakeholders, the licensees, is done in a variety of ways, one being the periodic newsletter, as well as the AIC's website with up to date information on the AIC and Councils' goals, objectives and achievements. In addition, all licensees receive renewal letters from the AIC on an annual basis.

In December of 1996 two surveys were conducted by an external provider on behalf of Council, to obtain feedback from its primary client group and to determine the satisfaction with Council as a regulatory agency among agents, brokers and adjusters. Other specific research objectives were to:

- Assess Licensee satisfaction with the licence renewal/new license application process
- Obtain overall performance measures of the Council's service provision
- Determine awareness levels of the role of the Council
- Examined how effective licensees perceive the Council to be performing its role
- Determine licensee satisfaction with the communication/information they receive from Council
- Obtain satisfaction measures for the Council publication, "Council News".

Research findings (in 1996) revealed that, overall, licensee satisfaction (both new applicants and those renewing) with the AIC was relatively strong. Almost two-thirds of respondents rated the AIC positively as a regulatory body for the insurance profession. More than two-thirds considered the AIC "effective" in performing its role and over three-quarters were "satisfied" with the level of communication that exists between themselves and the AIC. The documentation used in the new license and license renewal process was viewed by a large majority of respondents as "easy to complete", "clear" and "informative". The vast majority of respondents also felt that licenses were issued in a timely manner.

The survey results identified a few service issues which the AIC should address, including: additional content to be included in "Council News" and additional information with respect to AIC's roles, responsibilities and activities.

The AIC has implemented a variety of measures since the survey was conducted in 1996 to increase its services to this group of stakeholders. License renewal is now offered on-line, the bi-annual newsletter is distributed by email and the AIC is currently considering the offering of mediation services, a new uncharted course which could assist consumers in a void that currently exists.

As the survey, now twelve years ago, revealed important findings and recommendations, it may be worthwhile for the AIC to consider the commissioning of a new survey to not only identify how licensees view the performance of the AIC compared to twelve years ago, but to also identify additional opportunities for improvement in relation to their service delivery.

**Recommendation #2:**

*We recommend the AIC commission a survey to determine complainants, licensees and Trade Associations' satisfaction with the AIC as a regulatory agency; satisfaction with the licensing process; satisfaction with the complaints investigation process; and satisfaction with respect to the communication to and from the AIC. We recommend that the results of this survey are used as input for the 3-5 year communications plan, a key objective of AIC's business plan 2008-2010.*

The communication with the last group of stakeholders, the Department of Finance, is limited to the reporting responsibilities as outlined in the Memorandum of Understanding. The AIC provides the Superintendent with a quarterly Closed Complaints Summary, an analysis of results through an Actual – Budget variance analysis and a brief discussion of major activities of the AIC and Councils during the quarter and major activities planned for the next quarter.

A review of pertinent documentation as well as Council minutes of meetings highlights that communication between the AIC and representatives from the Office of the Superintendent appears sub-optimal. From the documentation reviewed and based on discussions with representatives of both parties, it appears that information is not shared to the maximum efficiency. This lack of constructive information sharing prevents the AIC from discharging its functions in an efficient and effective manner. The types of information that would ideally be shared on a regular basis would be that in relation to upcoming changes in policies, details of current investigations with respect to complaints against insurance companies and trends identified based on complaints received.

Specific reporting requirements prescribed in the Memorandum of Understanding are to allow stakeholders to make an assessment on the efficient and effective exercise of the powers provided to the AIC and Councils through the delegation orders. All reporting requirements as outlined in the MOU and as described below have been met by the AIC:

- Business Plan
- Annual Report
- Quarterly Reports
- Other Report (management letter issued by the external auditor – none have been issued for the past 4 years).

**Recommendation #3:**

*We recommend that the overall communication between the AIC and the Office of the Superintendent be improved to ensure both parties are able to fulfil their responsibilities and mandate in the most effective and mutually supportive manner and provide key stakeholders with the best possible service within available resources, mandates and delegations.*

### 2.3.2 Reporting Responsibilities

Reporting as outlined earlier, should be timely, relevant, accurate, and comprehensive and provide information that would affect the AIC's financial viability and ability to fulfil its mandate.

As mentioned above, the quarterly review of the actual to budgeted results is provided to the Department of Finance with a detailed variance analysis included. This information however, before it is provided to the Department of Finance, is scrutinized in detail by the AIC's Audit Committee. As a result of the short time frame allowed for reporting, these reports may be presented to the Department of Finance prior to the Audit Committee review.

In addition, the reports as outlined in the previous section are prepared and made available to stakeholders allowing them to make an assessment of AIC's performance and financial health. The AIC therefore appears effective in providing requested information on a timely basis.

### 2.3.3 Working with Management

An essential component to good corporate governance is the delineation between governance and management but at the same time ensuring that the Board works closely and effectively with management. The Board provides the strategic direction and delegates the day to day management of the achievement of those objectives to management.

Based on our discussions with both the Board of Directors and management, the working relationship is positive and constructive with a clear allocation and delineation of responsibilities and with management having the full confidence of the Board.

## 2.4 Board and Management Relations

***“Boards of Directors and management should develop an effective working relationship”***

### 2.4.1 Allocating Responsibilities

Based on our discussions with the Board of Directors and management, the working relationship is positive and constructive with a clear allocation of responsibilities and with management having the full confidence of the Board.

### 2.4.2 Building a Relationship

Based on our discussions with the Board of Directors and management, the working relationship is positive and constructive and is based on openness and trust. There is a clear allocation of responsibilities with management having the full confidence of the Board.

The Board of Directors, in conjunction with the CEO, should periodically review the allocation of responsibilities between the Board and management. This review should focus on defining and describing both the Board's principal responsibilities and the limits to management's authority.

Based on our discussions with both the Board of Directors and management, the working relationship is positive and constructive with a clear allocation and delineation of responsibilities and with management having the full confidence of the Board.

### 2.4.3 Establishing Accountability

The Board, in conjunction with management, has established a set of clear corporate objectives that the CEO is accountable for achieving as outlined in the Strategic and Business Plans of the AIC.

It is important that the Board does not involve itself in the day-to-day management of the organization and that it is active instead in fulfilling its role of monitoring management. Based on our discussions with the Board of Directors and management, the Board is satisfied that the views of management have been questioned, tested and fully supported.

## 2.5 Board Independence

***“The Board of Directors should ensure that the Board can function independently”***

### 2.5.1 The Roles of the Chair and the CEO

Good governance would suggest splitting the roles of Chair of the Board and that of the CEO, which is the governance structure in place within the AIC and the Board. The Chair manages the affairs of the Board and is not a member of management while the CEO manages the day-to-day operations of the AIC.

### 2.5.2 Meeting as a Board

Boards usually function best when a few key members of executive management are regularly invited to attend board meetings. Based on a review of the minutes of Board meetings for the year 2007, the CEO and COO are in attendance at most, if not all, Board meetings.

Periodically however it is considered appropriate that the Board should meet without the members of management present. In addition, the Board should meet without the CEO on a regular basis to discuss such issues as the evaluation of the CEO's performance. This could take the format of including an agenda item at every second or third AIC Board meeting rather than making it a standard item. It used to be common practice for the AIC to have “in camera” sessions as a standing item on the agenda however due to the lack of issues to be discussed as part of this agenda item, this requirement was removed.

#### **Recommendation #4:**

*We recommend that the Board meet without the presence of management on a periodic basis (depending on issues arising, on a quarterly or semi-annual basis). This could be achieved by declaring part of the regular Council meeting “in camera” to allow for any issues in relation to the performance of the organization or senior management to be discussed.*

### 2.5.3 The Use of Committees

The use of committees is normally regarded as good practice where committees examine issues and prepare recommendations for full Board action. This best practice is adopted by the AIC and the AIC have the following real and ad-hoc committees in place:

- Audit Committee (real standing committee)
- General Insurance Committee – to review current insurance policies and coverages (ad-hoc committee)
- Code of Conduct Committees – set up in line with Business Plan 2008-2010 to review current Codes of Conduct (ad-hoc committee)
- Self Regulatory Status Committee – to review the feasibility of self regulatory operational status.

Every Committee has a specific mandate and reports back to the Board for full Board action and decision making. The mandate for the Audit Committee clearly sets out its roles, objectives and responsibilities. The existence of the Audit Committee is one of the most important aspects of good governance. Best practice would recommend that the Audit Committee:

- Consists of a minimum of three members
- Members are financially literate
- Have a specific mandate that consists of the delegation to deal with financial reporting, external audit, system of internal controls, identification and management of risks and reporting to the Board.

Based on our review of the Audit Committee Mandate and Terms of Reference as well a review of the minutes of meetings for the year 2007, we can conclude that the AIC has addressed areas of best practice. In addition, based on interviews held with both the Board of Directors as well as senior management, the Audit Committee is considered to play a crucial role in the overall governance of the AIC and is considered effective in discharging its responsibilities.

#### 2.5.4 Conflict of Interest

Every Board of Directors should ensure that it has a conflict of interest code to guide the behaviour of its individual directors. The conflict of interest rules for the AIC and Councils are contained within the Code of Conduct, where section 4.2.1 specifies:

*“You must not have any known direct or indirect personal, business or financial activities or relationships that conflict or appear to conflict with your official duties and responsibilities”*

Section 4.2 defines the meaning of a conflict of interest, and that in the event of a breach of the code, a breach is to be reported to the CEO or the Chair of the Council as soon as possible. The CEO is to report to the Directors on annual basis of any significant issues that have arisen during that year with respect to the application and interpretation of the Code.

Based on interviews held, all AIC and Council members are aware of the importance of these conflict rules and would not hesitate to report a conflict should it arise. From our review of Council minutes of meetings, we have identified instances where AIC and Council members have brought forward their conflict of interest situation and adequate steps were taken to ensure the conflict situation was dealt with adequately (i.e. by the person conflicted stepping out of the meeting at the time the issue was on the agenda for discussion).

## 2.6 The Position of the CEO

***“In recognition of the importance of the position of CEO, the Board of Directors should periodically assess the CEO’s position and evaluate the CEO’s performance”***

On an annual basis the Board sets the remuneration for the CEO. However, there is no formal review of the position and performance of the CEO based on criteria established at the start of the year. The position of CEO and its related responsibilities are outlined in a job description; however, the specifics of which have not been the subject of review for a number of years.

Based on interviews held with the Board of Directors, the CEO has the full support of the Board and the relationship between the Board and the CEO has been described as one of trust and openness.

**Recommendation #5:**

*We recommend that the Board, on an annual basis, formally evaluate the CEO's performance against established duties and objectives as agreed between the Board and the CEO. These criteria should include the CEO's contribution to the development and achievement of the Council's strategy as outlined in the strategic and business plans.*

## **2.7 Renewal of the Board**

### ***"The Board of Directors should assess its effectiveness and initiate renewal of the Board"***

To achieve its objectives and carry out its mandate, the Board of Directors must reflect the industries which they represent. This is why, and as outlined in Alberta Regulation 126/2001, the Board of Directors is made up of two public members and one member from each of the industry specific Councils (the Life Insurance Council, the General Insurance Council and the Adjusters Insurance Council).

It is equally important that the Board of Directors contribute to its own renewal and to ensure the selection and recruitment of knowledgeable and skilled candidates. As such, Regulation 126/2001 specifies that the Chair of the Board is appointed by the Lieutenant Governor in Council, and the term is not to exceed 3 years. The Chairs of the industry specific Councils are appointed by its members and the term for the elected members is three years. Both individual and elected members may not serve more than two consecutive terms as a member of any of the Councils.

To assess its effectiveness and initiate the renewal process outlined above, the Board should conduct an annual review of its performance (of individual directors as well as the Board as a whole) and discuss what steps may be necessary or desirable to improve its effectiveness. In addition, the Board could, in consultation with the CEO, attempt to identify the profile of skills that would best enable the Board to fulfil its responsibilities.

Such assessments (of the Board as a whole) could focus on the written mandate of the Board, committee charters and the competencies and skills of each director. Areas for specific focus of director evaluations could consist of attendance records, preparedness and overall contribution. These assessments will assist the Board in identifying opportunities for improvement in their respective roles and identify skills that require improvement.

No formal performance evaluation of the Board is undertaken currently. The Audit Committee is in the process of developing a self-evaluation process after which the process will be presented to the Board. If this process is considered appropriate and applicable to the full Board, it may decide to adopt that same format.

**Recommendation #6:**

*We recommend the Board of Directors undertake an annual evaluation of their individual performance as well as that of the Board as a whole, to assess its effectiveness. In addition, the Board could, in consultation with the CEO, attempt to identify the profile of skills that would best enable the Board to fulfil its responsibilities.*

## 2.8 Education of Directors

***“Directors should receive orientation and education programs appropriate to their needs”***

The AIC organizes a one day orientation course for all new and current Directors and Council members which is facilitated by Mr. Andrew Sims Q.C of the Sims Group. Mr. Sims is an experienced administrative law lawyer as well as a labour arbitrator and mediator. The orientation workshop is extensive and deals with matters important to all AIC and Council members such as:

- Structure of the Legislation
- Introduction to Administrative Law
- Council Proceedings
- The Role of the Member
- Review of Council Decisions.

In addition, directors are kept informed of the operations of the AIC and Councils at meetings of the Board and its Committees, and through reports and analyses by, and discussions with, management. To ensure that directors maintain the skills and knowledge necessary for them to meet their obligations, all Board members are encouraged to take training courses that they deem necessary and relevant.

Upon appointment, the CEO and the Chair of the AIC Board will meet with the new member, introduce them to their new role and assist them in gaining an understanding of the importance of their fiduciary role, and understand the nature and operations of the AIC and Councils.

## 2.9 Compensation

***“The Board of Directors should review the adequacy and form of compensation for directors”***

The remuneration, fees and expenses of the Board and Council members are in accordance with a schedule set forth in the Council bylaws. Reimbursements for travel and meals paid in accordance with a Government Schedule. Up until 2007, no formal review of the remuneration and fees had been undertaken. In June 2007, the CEO submitted a request to the Superintendent to increase the fee structure based on a comprehensive review of boards and associations with similar mandates and responsibilities. The request was granted and the fees and remuneration of Board and Council members was increased taking effect from 8 June 2007.

It is important that Directors and Council members are remunerated adequately to ensure competent, committed and diverse people can continue to be attracted.

It is considered good practice that the Board review the adequacy and form of compensation of all Board and Council members on an annual basis which is currently not done.

**Recommendation #7:**

*We recommend the Board of Directors includes, on an annual basis, an agenda item to review the adequacy and form of compensation for directors and Council members, including compensation in relation to remuneration, fees and expenses.*

## 2.10 Responsibility for Corporate Governance

### ***“The Board of Directors should assume responsibility for developing the corporation’s approach to governance issues”***

The AIC has developed two documents in relation to their intended approach to governance issues being; “The Board of Directors Responsibilities” dated May 16, 2006 and the “Governance Policy” dated March 2006.

The Board of Directors Responsibilities document outlines the main responsibilities as they apply to both Directors of all Councils as well as those that apply to senior management.

Upon review of this document, we identified a few responsibility areas that are currently not fulfilled. The specific responsibilities are:

- As per section (2)(b), the AIC stipulates that it is sound business and financial practice for the AIC to have documentation of the AIC’s significant processes, policies, procedures and controls – this is currently not in place. Please refer to Chapters 4 and 5 for more detailed comments and recommendations
- Section (2)(f) highlights that the AIC’s technology is to be authorised, tested and documented before it is introduced – new technology is authorised and tested however this process is not formally documented. Please refer to section 4.2 for more detailed comments and recommendations.

The purpose of the Governance Policy is to outline the governance policy of the AIC. The objective of the policy is to provide a flexible and practical framework for effective management, of and decision making by, the AIC.

Upon review of this document, we identified one area where the AIC is currently not in compliance with their own established policy as follows:

- As per section IVA of the policy, the Members (Directors) are to perform a self-evaluation of the Council’s performance and achievements against the previous year’s objectives. This self-evaluation is to be undertaken prior to April 30 of each year. For more information and our recommendation, please refer to 2.7

## 2.11 Other Best Practices for Good Governance

### 2.11.1 Code of Conduct

A Code of Conduct is an important management tool which can positively shape the culture of an organization. A Code of Conduct sets out the standards of behaviour expected of staff in an organization and should help them to solve ethical dilemmas they face at work. A Code of Conduct is an important element in setting standards aimed at preventing corrupt and illegal practices within an organization and, as such, is a necessary ingredient in the corporate governance of an entity.

Each agency should have an appropriate Code of Conduct, including conflict of interest disclosure, for all directors and employees. The conflict of interest rules are dealt with separately in section 2.5.4.

An effective Code of Conduct can result in:

- More effective compliance with relevant laws
- More effective management
- Maintenance of the integrity and reputation of an organization.

The Code is considered to be setting out (minimum) expected behaviour by directors and staff alike and as such it is important for all employees to live not only by the letter of the Code but also by its spirit.

The AIC's Code of Conduct was last updated in March 2007. The main principles which form the foundation of the Code of Conduct are:

- Confidentiality
- Bias and Conflict of Interest.

These two principles are the core of the operation of AIC and are crucial to ensure the public perceives the activities of the AIC as fair and beyond criticism. In addition, each of the three industry-specific Councils has a Code of Conduct even though the adoption of it is voluntary.

In the AIC's business plan 2008-2010, one of the specific goals is to engage in a comprehensive review and rewrite of the Codes of Conduct for each of the three industry specific Councils. Even though not mentioned specifically, based on discussions with management, it is also the intention to include the AIC's Code within the scope of this review.

Comparing the current Code with best practice, certain topics could be considered by the AIC as being relevant to setting out minimum expected behaviour. If the AIC is going to undertake a comprehensive review of the current Code, the following best practice suggestions could be considered for inclusion:

- Outside employment
- Financial inducements
- The use and accounting of company resources
- Political contributions and activities
- Alcohol, drug and tobacco use, and gambling
- Non-discriminatory practices
- Equal employment opportunities
- Compliance with laws
- Treatment of colleagues
- Sponsorships
- Consequences of non-compliance.

The items referred to above are specifically covered as part of the Human Resources Manual of the AIC. To ensure staff and interested stakeholders are informed that the above matters are adequately managed, it may be worthwhile to include a reference within the current Code. Please refer to Appendix C for an example of an outline for a best practice Code of Conduct.

Best practice would also suggest that directors, employees and Members of Council sign an annual statement declaring their understanding and compliance with the Code and to retain these declarations on personnel files.

Based on our interviews with AIC Board and Council members, not all Board and Council members were fully aware that the Code of Conduct applies, not just to employees, but to all Board Council members as well.

**Recommendation #8:**

*We recommend the AIC review its current Code of Conduct for opportunities for improvement. In addition, we recommend that the AIC, as part of its comprehensive review of the Code of Conduct, reiterates its application to all Board and Council members and that all Board and Council members and employees sign an annual statement declaring their understanding and compliance with the Code.*

**2.11.2 Whistleblower Protection Program**

In addition to implementing a Code of Conduct, it is also considered best practice to introduce a Whistleblower Protection Policy or Program ("WBPP"). The objectives of such a protection program are to:

- Encourage the reporting of matters that may cause financial or non-financial loss to the entity or damage to the entity's reputation
- Enable the organization to effectively deal with reports from whistleblowers in a way that will protect the identity of the whistleblower and provide for the secure storage of the information provided
- Establish the policies for protecting whistleblowers against reprisal by any person internal or external to the organization
- Provide for the appropriate infrastructure including the appointment of a Whistleblower Protection Officer and a Whistleblower Investigations Officer and alternative means of reporting.

Once implemented an effective WBPP can result in:

- More effective compliance with relevant laws
- More efficient fiscal management of the entity through, for example, the reporting of waste and improper tendering procedures
- A healthier and safer work environment through the reporting of unsafe practices
- More effective management
- Improved morale within the entity
- An enhanced perception and the reality that the entity is taking its governance obligations seriously.

For a suggested checklist of matters to be addressed in a WBPP please refer to Appendix D.

Based on discussions with the Board of Directors and based on review of the Board minutes of meetings, we have identified that the AIC has considered the adoption of a WBPP; however that it was considered more appropriate to adopt a Statement of Principle rather than a formal WBPP.

The Board approved the Statement of Principle regarding maintaining integrity in their meeting of 21 February 2007. The Statement reads:

- *"All employees will be held accountable for their responsibility to always act with integrity*
- *All employees who in good faith report any inappropriate activity or behaviour will be protected from any job reprisal*
- *The AIC is committed to determine the appropriate course of action for each allegation of unethical or inappropriate workplace behaviour."*

# STATUTORY OBLIGATIONS

## 3.0 AIC STATUTORY OBLIGATIONS

### **Criterion #2**

*The Council is achieving its statutory obligations pursuant to the Insurance Act and Regulations.*

### 3.1 Council's Statutory Obligations

The Councils are established under the authority of the Insurance Act, Chapters 1-3, and revised statutes of Alberta 2000, as amended. In accordance with section 791 of the Insurance Act, the following powers, duties and functions are delegated to the AIC by Ministerial Directive Non 05/01 dated 31 July 2001, taking effect from 1 September 2001 – in summary:

- To issue certificates of authority and restricted certificates of authority
- To perform any administrative function necessary for the Councils to perform the powers, duties and functions delegated to them
- To investigate complaints from persons with respect to insurance companies and to come to a resolution or disposition of those complaints
- To investigate complaints on behalf of councils from any persons regarding alleged contraventions of the Insurance Act or the regulations by holders of certificates of authority and to come to a resolution or disposition of those complaints.

To enable the AIC to fulfil the above mentioned responsibilities, it employs a total of 22 staff under the overall direction of the Chief Executive Officer: five employees that deal with licensing under the direction of the Director of Licensing, seven investigators that report to the Chief Operating Officer, a Director of Legal and Regulatory Affairs, and six employees charged with fulfilling the administrative role of the AIC.

Based on interviews conducted with AIC Board, Council members, staff, and stakeholders from both the Department of Finance as well as Industry Associations, the AIC is effective in achieving its statutory obligations. Based on support provided in the following sections, the AIC is undertaking each of the responsibilities outlined above in an efficient manner within the resource limitations and within existing guidelines.

The main concern raised relates to the investigation of complaints with respect to insurance companies. Based on interviews conducted, these type of investigations are undertaken by the AIC but also appear to be within the scope of the activities of the Office of the Superintendent.

Upon review of Ministerial Directive 06/01, the delegation to the Superintendent of Insurance is specific with the exclusion of the powers, duties and functions delegated by the Minister to the Alberta Insurance Council and industry specific Councils.

In addition, on November 26, 1993, the former Superintendent of Insurance signed a delegation order providing the AIC with the following powers, duties and functions (coming into effect December 1, 1993):

*“To investigate complaints from persons with respect to insurance companies and to come to a resolution or disposition of those complaints.”*

In addition to the powers, duties and functions delegated in the order above, the AIC is requested to:

- Promptly notify Alberta Treasury of all known violations of the Insurance Act by insurers and send Alberta Treasury the complete investigation file
- Assist Alberta Treasury and Department of Justice in initiating prosecution of insurers who violate the Insurance Act
- When requested by consumers, provide general insurance information or refer them to the appropriate trade association
- Advise Alberta Treasury on an ongoing basis of marketplace trends that might affect the availability of insurance and of unfair, or inappropriate insurance practices.

Further to that delegation, confirmation of the delegation and further clarification was received by the AIC from the Deputy Superintendent of Insurance on November 30, 1993, outlining that:

- Consumer complaints and telephone inquiries will be handled by AIC effective December 1, 1993
- Consumers with insurance inquiries will be asked to phone the nearest AIC office
- Any written insurance complaints received by government will be referred to the COO in AIC's Calgary office
- The COO will handle all ministerial action requests referred from the Office of the Superintendent.

Based on the delegations and supporting communication and confirmation from the Office of the Superintendent, it would appear that investigations with respect to insurance companies fall within AIC's jurisdiction.

During the Program Audit however, it was identified that certain complaints relating to insurance companies are under investigation by both the team from the Office of the Superintendent as well as the investigators from the AIC. Specific instances of these were submitted to the review team by AIC management; however, based on discussions with both management of AIC and the Office of the Superintendent, no resolution was achieved. It is therefore apparent that there is no clear understanding and/or agreement as to the delegations, roles and responsibilities with respect to complaints received in relation to insurance companies.

This issue needs to be resolved to ensure that all stakeholders are aware of the party mandated to deal with complaints and investigations with respect to insurance companies and to ensure that delegations are enforced and complied with.

**Recommendation # 9:**

*We recommend that the investigation of complaints with respect to insurance companies is reviewed in further detail to ensure these complaints are dealt with in accordance with current delegations, by the proper jurisdiction and in a consistent manner.*

### 3.2 Complaints Management Process

The complaints handling process within the AIC is formalized and documented in a comprehensive complaint flow chart. Complaints can be received from a variety of sources being: a member of the general public; other agents or adjusters, insurance companies or industry associations or other authorities. Once a complaint is received, it is entered onto the Complaints Management Database and is assigned a number. At the same time, the complainant will be informed in writing that the complaint has been received and advising them of the particular investigator that has been assigned to the file.

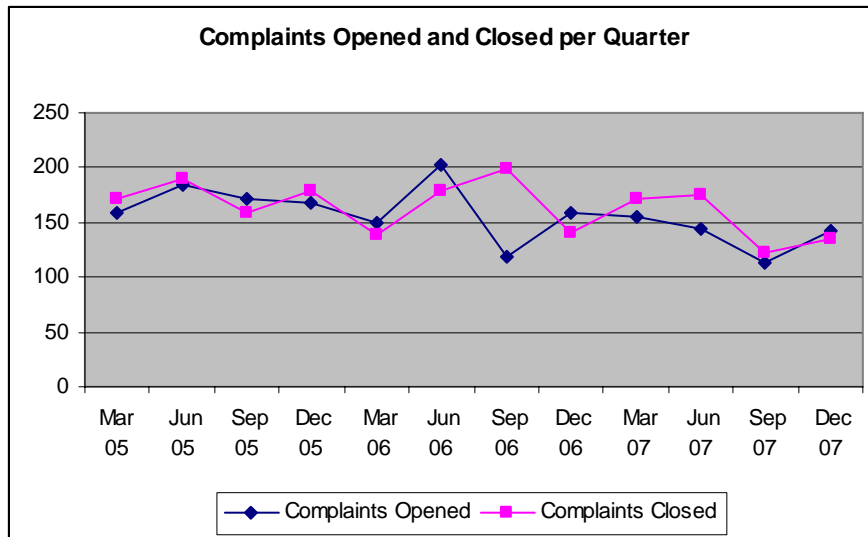
The investigator will commence with reviewing the documentation provided and where required will request for additional information. Once sufficient information has been received to make an assessment, the complaint will fall in one of the following four categories:

- ✓ **Non-serious complaint** – the investigation reveals no violation, the file will be reviewed by management and closed if management concurs, appropriate parties are notified with the results reported to the industry-specific Council in monthly report
- ✓ **Contentious complaint** – the file is provided to management for their review and then returned to the investigator with recommended course of action after which it will fall in one of the three other categories
- ✓ **Serious complaints** – a report is prepared including all findings and recommendations which is provided to the industry specific Council for their action; where required a hearing will be arranged after which the Council will render its decision; Council’s decision is carried out with appropriate parties being informed
- ✓ **Company complaints** – the complaints are dealt with by staff under the terms of the delegation who either resolve the complaint or alternatively, where required, a report is prepared for the Minister outlining the offences and accompanying recommendations. Complaints closed by staff are included in the monthly report reviewed by the AIC and then forwarded to the Superintendent.

The Director of Compliance and Investigations works closely with the investigators to ensure the evidence obtained is sufficient and appropriate to come to a correct conclusion. In addition all files are the subject of further review by either the COO or the Director of Legal and Regulatory Affairs.

In relation to the more serious complaints, all reports to Councils and Statements of Fact are reviewed by the Director of Compliance and Investigations and either the COO or Director of Legal and Regulatory Affairs prior to being submitted to the industry-specific Council for their resolution.

The number of complaints received and closed by quarter for the past three years is outlined in the following table.



As we can see from the table on the previous page, there is a close relationship between the amount of complaints opened and closed on a quarterly basis, indicating that the process is efficient and that complaints are dealt with in a timely manner.

On average a total of between 160 and 180 are opened and closed in any given quarter. To ensure complaints are dealt with timely and consistently, the Director of Compliance and Investigations reviews, on a weekly basis, the amount of complaints per investigator and the activity on open files.

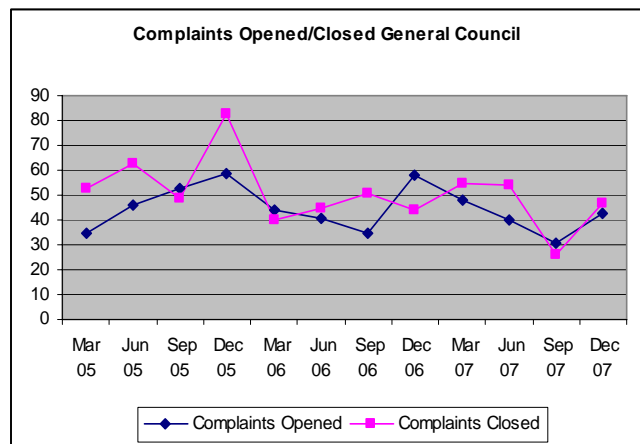
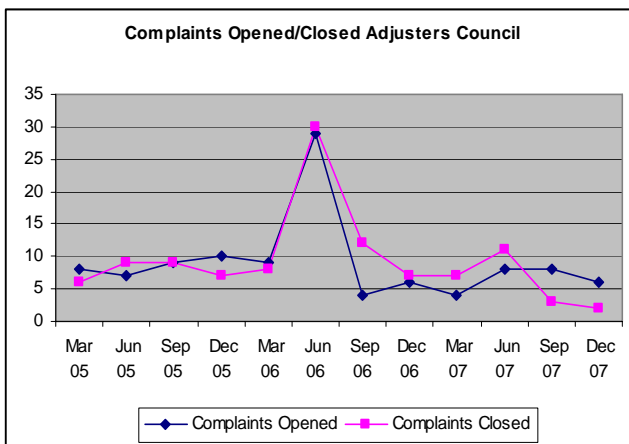
In addition, the Director of Compliance and Investigations reviews the “Aged Case Report” on a monthly basis which shows the files that have had no activity reported for more than 120 days. Based on this report, the Director of Compliance and Investigations will review each of these files in detail with the respective investigator to determine the reasons and reasonability of this. The “Aged Case Report” is also provided to and reviewed by the COO on a monthly basis.

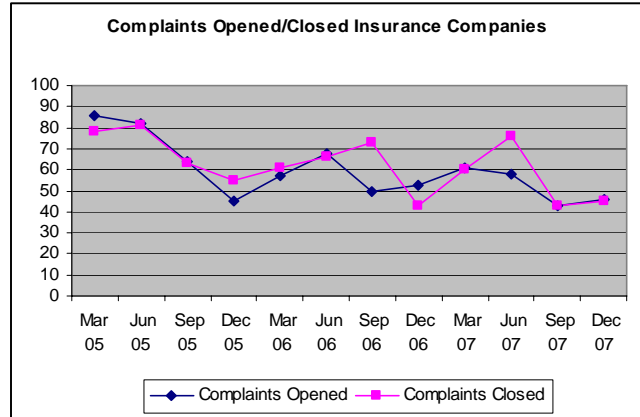
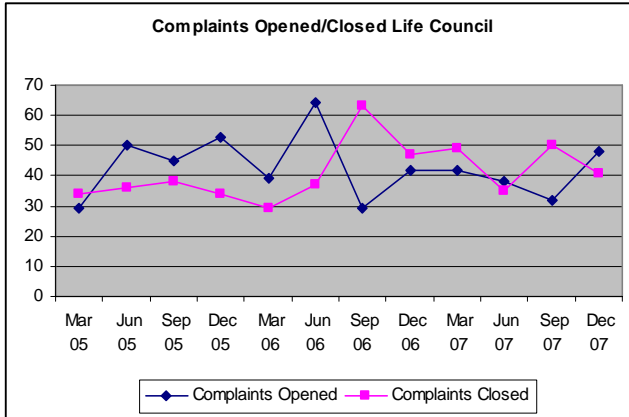
A final control in place within the complaints management process is a review by the Director of Compliance and Investigations of all files that are reaching their limitation period. This information is captured by the system and is reviewed on a weekly basis to ensure that all deadlines are adhered to.

### Key Controls Identified – Complaints Management

- 1 All complaints are reviewed by management.
- 2 All serious complaints are referred to Council for their review and decision.
- 3 All closed complaints are reported on a monthly basis to Council and the Office of the Superintendent.
- 4 The system is designed in such a way that the reporting and monitoring of progress of complaints are managed by the system.
- 5 An appeal process is available to complainants.

The graph depicted above can be further analyzed to highlight the amount of complaints opened and closed by industry. The following tables outline the result of that analysis:





The above graphs show that for the majority of industry specific complaints, the trend between opening and closing of complaints follow each other closely, with the exception of those in relation to Life Insurance complaints. The number of opened complaints per quarter for 2005 was significantly higher than those closed with a reversing trend starting from September 2006. The reason for this is the nature of complaints received in relation to Life Insurance. By nature, these complaints are more complex in nature, are of higher value and often result in more severe and stronger disciplinary action. The timing of resolution of these files tends to be longer which is supported by the graph presented above.

The average turnaround time to close a straight-forward complaint is approximately 30 days with more complex complaints taking an average of 60 or more days, depending on the severity of the claim and the availability of information to support the complaint. In 2004, a total of 911 files were closed and of those 612 (or 67%) were closed in 60 days or less. In 2005, a total of 692 files were closed and of those 393 (or 57%) were closed in 60 days or less. In 2006, 652 files were closed and of those 364 (or 56%) were closed in 60 days or less. In 2007, 566 files were closed and of those 340 (or 60%) were closed in 60 days or less.

The reason for this fluctuation is due to the nature of complaints received. In general, a few iterations are required to obtain information and assessment on the potential for a breach of the Insurance Act. To set specific goals with respect to turn-around times for complaint resolutions does not appear to be a constructive and worthwhile exercise. It is more important that complaints are dealt with appropriately, consistently and resulting in outcome that is in accordance with the Act and Regulations. Quality is the key rather than quantity.

Based on our review of the complaints management process, we identified that key controls are in place at critical control points. Based on our review of supporting documentation and limited testing conducted, we did not identify any weaknesses within the system of internal controls in relation to the complaints management process.

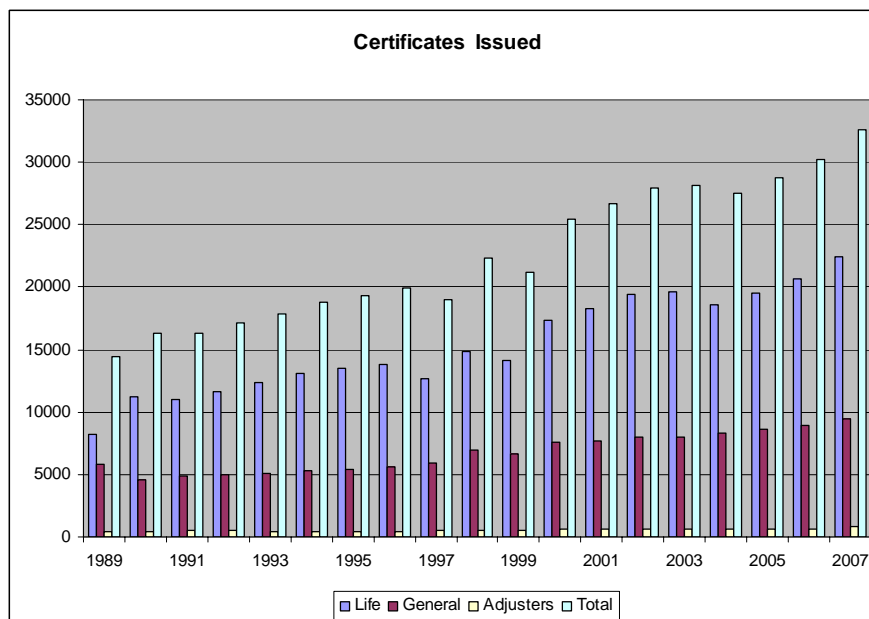
### 3.3 Certificates Issuance Process

The process for applying for an insurance certificate is to fill out an application form (either on-line or manually for renewals or a manual form for new applications) and to send this to the AIC together with a criminal records check and the fee payment. Upon receipt of the manual form by AIC staff, the details of the applicant are entered into the licensing database. The application form as well as the fee payment is date stamped by the Administration Officer, after which the application form is forwarded to the Licensing Officer. The system is set up in such a way that all requirements and rules, as outlined in the Act, are programmed into the system. If all required fields are input (e.g. the applicant has held a license in past 24 months or has passed the required examination, the applicant does not have another occupation and no criminal history) and no exceptions are identified, the Licensing Officer can issue the license by the press of a button.

The key to qualifying for a license is to either hold a license (in Alberta or another province) or to have passed the required examinations. There is a strong segregation of duties in place, in that staff running the examination process are completely separate from those issuing licenses. The examination requirements are soft-coded into the system (the Master Tables) and the system records the history of every applicant and of every attempt at passing the examination. If the examination details are not verified by the system, a license is not able to be issued.

If there is an exception upon entering all the information (this normally relates to the new applicant either having another occupation/employment or have a criminal conviction), the system will not allow for the license to be issued. The Licensing Officer will submit the application for review to the Director of Licensing, the COO or the Director of Legal and Regulatory Affairs for approval. If there remains a question on whether the license should be issued, a compliance file is opened within the Complaints Management Database and a report is prepared to the industry-specific Council for their review and decision. Information obtained, decisions made and letters issued, all form part of, and is kept within this database for future reference and audit trail.

As at December 31, 2007, a total of 33,000 licenses were active, more than double those of 20 years ago. In 2005, 68% of these certificates were issued within 3 days and for 2006 this percentage was 56%. With the on-line renewal of certificates becoming mandatory next year, it is expected that this percentage will increase significantly with the process of issuing certificates becoming even more efficient. Please refer to the table below for more details.



At the time of renewal, both the Director of Licensing as well as the COO monitor closely the timeliness with which the licenses are being issued. The target for issuing licenses that have no exceptions within the recorded information, is three days. However, as with the complaints management process, it is crucial that the focus is on ensuring only correct certificates are being issued.

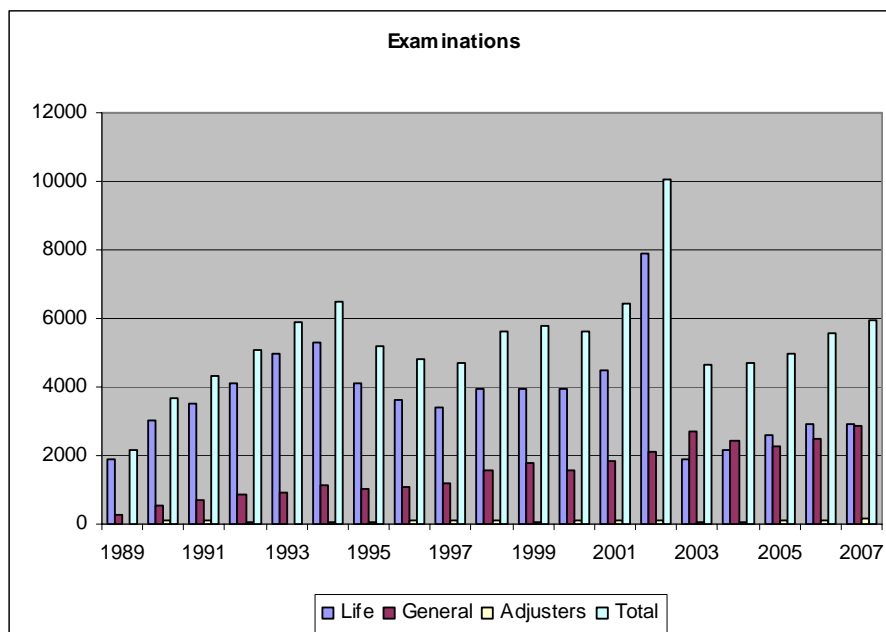
Approximately one week after the renewal period closes the AIC will send a report to insurance companies informing them which agents did not renew their license within the timeframe provided. If the agent decides to renew at a future point in time, the AIC will specifically ask whether the agent has been paid any commissions in the period in which they were not licensed. If the answer is affirmative, then corrective measures will be taken accordingly.

Based on our review of the licensing process, the licensing system and interviews with key personnel, there is adequate segregation of duties that could potentially cause conflicts. In addition, we identified that key controls are in place at key control points that, based on our sample testing appear to work as intended.

### Key Controls Identified – Licensing

- |          |  |
|----------|--|
| <b>1</b> | Adequate segregation of duties between the Administration Officer and the Licensing Officer.           |
| <b>2</b> | All requirements for the issuance of certificates are soft-coded into the system.                      |
| <b>3</b> | Once an exception has been identified it is automatically forwarded to management for review.          |
| <b>4</b> | The COO and the Director of Licensing monitor the issuance process closely during the renewal process. |

As outlined above, all new applicants are required to pass an examination. Examinations are conducted through both the AIC offices in Edmonton as well as Calgary on a weekly basis. Examinations are also conducted in several regional locations on a monthly basis. Due to the increase in the number of certificates that have been issued, one would expect a similar increase in the number of examinations held. Statistics support this fact and is outlined in the following table.



A huge increase can be seen in the latter part of 2002 with the introduction of new licensing and examination requirements for the holders of life insurance certificates, the deadline of which was December of 2002.

Registrants for examinations are entered into the system by the Administration Clerk or Administration Secretary, proctors for the examinations are recruited from outside the AIC and the grading of the examinations (through a computer scan) is performed by the Data Analyst. There is adequate segregation of duties with key controls in place at key control points.

#### **Key Controls Identified – Examination**

<b>1</b>	There is adequate segregation of duties between the Administration Officer registering the person to sit the exam, the proctor undertaking the exam and the Data Analyst grading the exam.
<b>2</b>	The grading of all exams is computer based with results automatically recorded and logged into the system.
<b>3</b>	There is adequate segregation of duties between the examination and licensing process.
<b>4</b>	The requirements to sit an examination are soft-coded into the system (LLQP requirements).

### **3.4 Administrative Function**

The administrative function of the AIC consists of providing administrative support to the three industry-specific Councils. Services provided are based on duties and functions delegated to the industry-specific Councils such as:

- To approve and refuse applications for certificates of authority
- To approve the reinstatement of certificates
- To impose terms and conditions on certificates of authority
- To suspend or revoke certificates of authority and to make investigations for the purposes of the Act
- To levy penalties, and to collect penalties levied, and
- To hold hearings to determine the eligibility of applicants for certificates of authority.

The licensing officers, under the Direction of the Director of Licensing, perform the administrative functions with respect to the issuance of the various industry-specific certificates based on the direction (approval or refusal) by the Councils.

In addition, AIC staff prepare various reports outlining the overall progress in relation to certificates issued, investigations conducted and any other information that the Councils may request to enable them to fulfil their mandate.

For a more detailed overview of the process of issuing certificates please refer to section 3.3.

Based on interviews with all members of the three industry-specific Councils, the provision of administrative services by the AIC was considered effective, sufficient and timely. The view of the Council members was that AIC management and staff are open to their needs and timely in their responsiveness of services requested.

### 3.5 Memorandum of Understanding

A memorandum of understanding (“MOU”) between the Minister of Finance and the Insurance Councils was signed in June 2006. The purpose of this MOU is for the Minister and the Insurance Councils to work together to:

- Clarify the government’s expectations about roles, responsibilities, duties, functions, standards of care, policy direction, and performance expectations of the Insurance Councils; and,
- Enhance communication through the exchange of information and clarification of public policy objectives.

In relation to the roles and responsibilities of the Minister, as outlined in section 6 of the MOU, the following observations have been made based on interviews conducted with senior management, AIC Board and Council members, and stakeholders:

- The Minister has the responsibility to appoint, re-appoint or remove public members of the Insurance Councils – in the past the process of appointing or re-appointing public members has not always occurred in a timely manner which is important to ensure the proper working of the overall governance structure of the AIC and Councils
- There has been no specific communication from the Minister to the AIC and Councils to inform them of the Government’s expectations which would indicate that the Minister is satisfied with the direction the Councils are taking (and as outlined in their strategic and business plan as well as their annual report)
- There is no formal process in place for the Minister to sign off on the annual report of the AIC.

**Recommendation #10:**

*We recommend the AIC requests the Minister to review the process by which public members are appointed and/or re-appointed to ensure this is done in a timely manner to support the governance processes and structure within AIC and Councils.*

The roles and responsibilities of the AIC and Councils are outlined in section 6, paragraph 3 of the MOU. When reviewing compliance with the responsibilities outlined, the following observations are made:

- The Councils are currently not evaluating, on an annual basis, their effectiveness in fulfilling their responsibilities – please also refer to section 2.7 and recommendation 6
- The Council does not undertake an annual performance evaluation of the CEO and COO to determine their effectiveness and prudence of management – please also refer to section 2.6 and recommendation 5.

Section 7 of the MOU deals with the accountability documents that the AIC is required to produce to allow stakeholders to make an assessment on the efficient and effective exercise of the powers provided to it. The documents required are:

- Business Plan – this is prepared on an annual basis – prepared by management and reviewed and approved by the Board
- Annual Report – this is prepared by 30 April of each year, is prepared by management and reviewed and approved by the Audit Committee and the full Board
- Quarterly Reports – these are prepared every quarter by management and are reviewed and approved by the Audit Committee and the full Board.

Based on the findings highlighted above, a review of supporting documentation and interviews conducted with senior management, AIC Board and Council members, and stakeholders, the requirements of each of the parties to the MOU are generally complied with. Three recommendations have been made in relation to the timely appointment of public members by the Minister and for the AIC Board to undertake performance evaluations on an annual basis of both their own performance and that of the CEO.

### **3.6 Survey of Trade Associations**

The scope of the Program Audit was extended to include a survey of nine Trade Associations. The specific objectives of this survey were to identify how the Trade Associations perceive the effectiveness of Council in fulfilling its delegated authorities and responsibilities, and whether they consider the communication from/with Council to be effective and sufficient. In addition the Trade Associations were provided with an opportunity to provide specific comments and recommendations for improvement.

The nine Trade Associations that were included within the scope of the survey were:

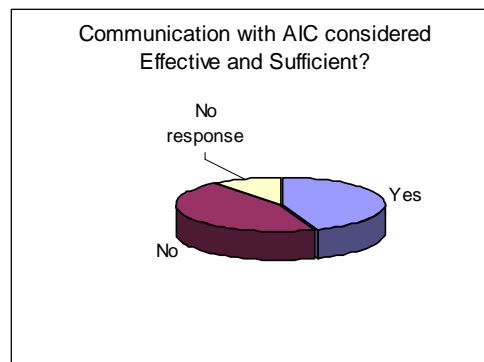
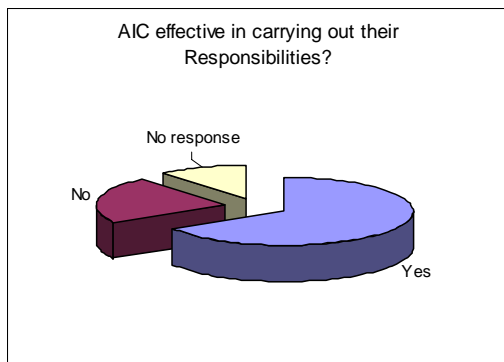
- The Canadian Association of Financial Institutions in Insurance
- The Canadian Life and Health Insurance Association
- The Canadian Association of Direct Response Insurers
- The Canadian Independent Adjusters Association
- The Insurance Bureau of Canada
- The Insurance Brokers Association of Alberta
- Edmonton Advocis
- Calgary Advocis
- The Independent Financial Brokers of Canada.

The feedback and comments received from the Trade Associations was diverse, which is a direct result of the varying degrees of interaction that each of these Associations has with the AIC and Councils. It should be noted that of the nine Trade Associations included within the scope, at least three of the Associations interviewed represented that they did not have much interaction with the AIC and were not aware of the specific roles and responsibilities of the AIC. The results presented below should therefore be read with that information in mind. In addition, one Trade Association did not provide a response to the request for feedback within the time allocated.

The two main questions that the Trade Associations were requested to provide feedback on were:

- I. In your view, as representative of the Trade Association, do you consider the AIC to be effective in carrying out their delegated authorities and responsibilities?
- II. In your view, as representative of the Trade Association, do you consider the communication with the AIC to be effective and sufficient?

The following diagrams show the results of the surveys conducted.



As we can see from the graphs above, in the majority of cases the Trade Associations consider the Council to be effective in discharging its responsibilities with 67% providing a positive answer and 22% (or 2 Trade Associations) providing a negative response.

The main reasons provided with respect to the negative responses were:

- The Trade Associations did not receive timely input, support or feedback when requested
- The AIC was considered to be too strict in enforcing the regulations with little flexibility to work with certificate holders and complainants to come to a workable solution.

In relation to the question as to the whether the Trade Associations consider the communication with the AIC to be effective and sufficient, the responses were not quite so favourable. 44% considered the communication to be effective and sufficient with 44% providing a negative response.

The main reasons presented with respect to the negative responses provided were:

- The role and responsibilities of the AIC were not clear to the Trade Associations
- Communication and support received from front office staff could be more timely
- A number of Trade Associations considered the frequency of communication received from Council not to be sufficient.

In addition, the question was asked as to how the Trade Associations would suggest that the AIC could improve its service delivery and effectiveness, within AIC's existing mandate:

- AIC to develop a closer working relationship with the Trade Associations
- AIC to improve its communication to the industry at large (both Trade Associations and its members, the certificate holders) in outlining its specific role and responsibilities
- AIC to have a better understanding of the needs of their certificate holders
- AIC to have more frequent communication to its members especially during time of change.

Based on the results from the survey, we conclude that communication is the key to increase the perception of the effectiveness of the AIC and Councils, as perceived by the Trade Associations. As such recommendation 2 on page 14 gains importance and we recommend the AIC undertakes a survey of certificate holders and complainants as a matter of priority. We recommend this survey is undertaken prior to the AIC engaging the services of a communication consultant and developing their 3-5 year communications plan. In addition, we recommend that a survey of the Trade Associations is included, to specifically address the concerns outlined above and to include the results in the proposed communications plan.

# OPERATIONAL OBJECTIVES

## 4.0 AIC OPERATIONAL OBJECTIVES

### **Criterion #3**

*AIC Management is achieving its operational objectives.*

### **4.1 Human Resources**

Hiring of new employees is restricted to senior management. The Director of Licensing for all new licensing officers, the COO for all compliance, investigation and IT personnel and the CEO for all other positions.

The process is such that advertising is done for any vacant positions. Applications are received and compared with the job descriptions to ensure the potential candidate has the right qualifications and level of experience. Interviews are held and reference checks are performed prior to employing a new person. The COO in his hiring also uses a scoring matrix (with ratings from 1 to 5 for each skill), to determine whether potential candidates would qualify for the position.

Once a new person is employed, the induction/training courses are dependent on their new positions. New licensing officers are trained on the job by working in conjunction with an experienced Licensing Officer for the first couple of weeks. In addition, weekly training is provided by the Director of Licensing to provide all Licensing Officers with an overview of their responsibilities and an outline of any changes in legislation.

New investigators have to attend a one week training course in Calgary. Ongoing training for investigators consists of quarterly meetings to go through topical items and the Complaints Management System. Computer courses for investigators are offered and they will attend where required. Investigators may also attend courses provided from external sources when relevant courses are available.

On an annual basis performance reviews are required between staff and their immediate supervisor. This performance review highlights the achievement of the specific objectives as outlined in the job description as well as the identification of any areas for improvement. It was noted however that no formal and standardized performance evaluation form is in use throughout the AIC.

### **Recommendation #11:**

*We recommend the AIC formalize its performance review process by creating a performance review template to be used for all staff. This will allow for the standardization of the performance evaluation process and ensure all employees are assessed in accordance with AIC's policies.*

Salary levels are determined based on the position levels within the organization. Every three years a market survey is undertaken of like organizations to identify the salary rates offered in the market. Salary scales are then updated to reflect current market rates. These new salary scales are submitted to the Board for their review and approval after which it forms the input for the payroll budget for the year.

The payroll processing is outsourced to a service provider, ADP. The CFO is responsible for providing the details of the Payroll Masterfile to ADP (which forms the basis for all salary payments) and for any changes to it. On a semi-monthly, the CFO provides ADP with the (standard) number of hours per employee (as most employees are paid a salary) for that period after which ADP calculates the payroll and related withholdings. A payroll register is generated and sent to the CFO for review. The CEO reviews the payroll register along with supporting documentation to ensure coding is correct and payroll calculations are reasonable. On a quarterly basis, the CFO prepares a budget to actual report with a detailed variance analysis. This report is provided to the Audit Committee and Board for their review and approval.

The overview of the Human Resources policies, procedures and the description of the system of internal control outlined in this section is a summary. For a more detailed analysis as well as an outline of the payroll business process documentation, please refer to 4.3.3 and Appendix F.

## **4.2 Information Technology**

The operations of the AIC are highly automated, which assists in the processing of the large volume of certificate applications and complaints it receives. Over the past few years, a large investment has been made in developing the information systems to allow for increased customer service and to reduce the amount of manual input. In the past two years the AIC has focussed on streamlining and upgrading the systems to allow for the on-line renewal of certificates and for all (potential) licensees to be able to pay by credit card.

Ongoing changes to the information technology systems are planned, to allow for the automatic tracking of CE credits for licensees as well as applying for new licenses on-line.

It should be noted that over the past 20 years, there has been an increase in the numbers of licenses active from approximately 14,000 in 1989 to a total of nearly 33,000 in 2007. This has been achieved without a corresponding increase of AIC staff. The efficiency and increased workload has been fully absorbed by the increased technological abilities that the AIC has implemented during that time.

The main system in use by the AIC is the IMS (Information Management System) consisting of the Document Management System ("DMS"), the License Management System ("LMS") and the Complaints Management System ("CMS"). With respect to financial reporting, the AIC is currently using QuickBooks but due to its limited use in the production of standardized reports, AIC is looking at implementing a new system with added functionality. This new system is due to be implemented by June 2008.

In relation to the IMS, the system has been designed and implemented by the COO with the assistance of an IT contractor. As all design and implementation is done in-house, no formal bidding or tendering process is in place.

All new system requirements, special upgrade projects and maintenance are budgeted for by the COO at the start of each year, with the budget submitted to the Board for their review and approval. Special projects are individually budgeted for and submitted to the Board for their review and approval. If there are any changes to regulations during the year that require immediate adjustments to the systems, a separate budget is prepared and once again submitted for review and approval to the Board.

Generally, maintenance projects take approximately 1-2 weeks for the COO and IT consultant to develop, test and implement. As such, there is no formal project management in place to monitor activities from the design stage through to production and implementation. If there is a new application added to the system, the COO and IT consultant would run a suite of tests to ensure the new application does not interfere with other parts of the system and that the new application functions properly.

**Recommendation #12:**

*We recommend the introduction of a formalized change management/ systems development process to ensure the process is documented and adhered to, key control points are in existence and system testing is adequately documented.*

Upon review of the general computer controls in effect over the information systems, we identified that access to the system and programs is limited by the use of passwords, with access being granted by either the COO or the System Administrator. Access is based on position levels and job descriptions. LMS and CMS own certain aspects of DMS. Depending on privileges, only certain people can execute DMS. Different passwords are required to log into LMS and CMS. Staff members are not prompted to change this password periodically, however they are required to change their network password every 30 days.

In addition, certain fields, such as examination and license renewal prices, are controlled through the use of a Master Table. Access to change information within the Master Table is restricted to the Director of Licensing, the CFO, COO and Systems Administrator. Specific security settings range from 0 to 2 with "0" meaning "no access", "1" meaning "read only" and "2" is "full access". Again, security is based on the position level and the job descriptions. Changes to the security settings cannot be made on an individual basis as security is set for an entire group. It is possible to change the individual's group which would result in changes to the individual's security access. While there is no change report identifying changes made to the Master Table, the system will log the name of the person who last made a change to a particular field.

**Recommendation #13:**

*We recommend that on a periodic basis, the COO review the security of the various user groups to ensure that the security levels granted are reasonable. The COO should also review the list of members within each group to ensure that the users belong to the correct group and have the correct level of access. In addition, the development of a monthly change report to the Master Table would be useful in ensuring that any changes made to the Master Table are identified and reviewed to confirm the validity of the changes made.*

The Master Table contains specific criteria that have to be in place every time a transaction is being processed (when a new license is being issued). Examples of these criteria include the account code, renewal dates, categorization of fees, methods of payment, amount of fees etc. Once the transaction is complete by either pressing the "Issue" or "Submit" button, the information input is tested against the above criteria to ensure all requirements have been met. A transaction will not be able to be completed if not all criteria have been fully complied with.

Full backups of the entire system are performed at the end of every day, both in Calgary and in Edmonton. An autoloader runs on a cycle of 15 days.

### Key Controls Identified – Information Technology

1	Access to systems and programs are limited through the use of passwords.
2	Master Tables containing all critical data are restricted in access to the COO, CEO, Director of Licensing and the Systems Administrator.
3	All new and system changes are budgeted for and approved by the Board.
4	Full back-ups are performed at the end of every day.

## 4.3 Financial Services

### 4.3.1 Revenue and Accounts Receivable

Revenue consists mainly of license fees and examination fees. Other sources of revenue include course approval, assessment fees and interest revenue. Generally, no services are performed until payment has been received. The AIC accepts various methods of payment including cash, cheques, debit and credit card payments. Payments can be accepted in person, via telephone, or through the online Licensing Management System.

All cash receipts are recorded into LMS on a daily basis and are processed in batches. A batch is created by the Administrative Clerk in each of the Edmonton and Calgary offices. A third batch is automatically generated by the LMS system for payments received via LMS. Access to enter cash receipts into LMS is restricted to the Administrative Clerks in Edmonton and Calgary, and the Systems Administrator on an occasional basis, to ensure appropriate segregation of duties. The CFO, who is responsible for depositing the daily cash receipts into the bank, has no access to enter the receipts into LMS. Administrative Clerks must balance their till on a daily basis. The CFO or Financial Administrator verifies the batches entered into LMS to ensure amounts received and deposited into the bank agree to amounts recorded within LMS.

On a monthly basis, the COO or the Systems Administrator generates a deposit file from LMS and imports it into QuickBooks. Access to transfer the deposit file is also restricted as the files are saved into a secure folder that is password protected. Once the file has been imported into QuickBooks, a confirmation file is generated within QuickBooks. LMS confirms the file generated in QuickBooks to the receipts recorded in LMS to ensure that the number of records and total amount received agree. At month end, either the CFO or the Financial Administrator prepares bank reconciliations to ensure all amounts received per the bank statement agree to amounts recorded in QuickBooks. Bank reconciliations are reviewed and approved by the CEO.

Since examination fees are recognized as revenue when the exam is held and course approval fees are recognized as revenue upon submission, no deferral of revenue is necessary. License fees and assessment fees are recognized over the term of the license and assessment. As such, the CFO receives a list of licenses issued for the year, calculates the revenue deferral, and records the deferral into QuickBooks. On a quarterly basis, the Board reviews the deferral balance for reasonability.

Currently there is no independent review by Management of the manual calculation of deferred revenue. The external auditors however, as part of their year-end audit, re-perform the calculation to verify its accuracy. We understand that with the introduction of the new system for financial reporting in June 2008, the new deferred revenue amount will be calculated automatically.

**Recommendation #14:**

*We recommend that the CEO undertake an independent review of the revenue deferral calculations prepared by the CFO to ensure that the calculations are complete and accurate. With the introduction of the new system, we recommend the CFO reviews the automatic calculation on a monthly basis for reasonableness.*

As cash is received prior to the provision of services, the accounts receivable balance is relatively small. The largest balance in accounts receivable consists of interest receivable from CCITF. The Department of Finance notifies the CFO of the interest payment. The interest is recorded into QuickBooks by either the CFO or the Financial Administrator. The bank reconciliation and the review of it would ensure that the amount of interest is received and is recorded correctly. For more details on key controls in existence within the revenue and accounts receivable business process, please refer to Chapter 5. Please also refer to the process flow documentation in Appendix F and the Risk and Control Matrix in Appendix G.

#### 4.3.2 Expenditure and Accounts Payable

The AIC makes relatively few purchases throughout the year, there is no purchase order system in place. Purchases usually consist of office and miscellaneous supplies, IT related equipment and supplies, and purchases related to renovations. Staff members authorized to initiate expenditures must ensure that purchases made throughout the year are within the budgeted amounts for that particular category of expense.

After items are ordered, the receptionist is responsible for receiving the item and signing the receiving slips. Once invoices are received by the receptionist, they are forwarded to the staff responsible for that category of expense to be reviewed. Review consists of ensuring that the product or service was ordered, delivered, the amount on the invoice corresponds to the agreed amount when ordered and that the invoice is within the approved budget for that category of expense. The Finance Administrator matches the receiving slip to the invoice to ensure it agrees and recalculates the invoice to ensure its accuracy before it is entered into the accounts payable module in QuickBooks. Once entered, the CFO reviews the invoice package for completeness.

All cheques are reviewed and approved by two of the approved signing authorities before they are mailed out to the vendor. The authorization levels are contained within the Banking Resolution outlining that expenditures less than \$25,000 require the signatures any two signing authorities. Amounts greater than \$25,000, require the signature of one Board member in conjunction with one of the following people: CEO, COO or CFO. The Banking Resolution contains samples of each of the signatures of the people outlined above that have signing authority.

Upon review of the Banking Resolution it was identified that the AIC was in the process of having the Banking Resolution updated to reflect the changes to the Board that have occurred recently.

At month end, the Financial Administrator prepares bank reconciliations to ensure all payments have gone through the bank or have been identified as outstanding, and that there are no unauthorized or unrecorded payments. Bank reconciliations are reviewed and approved by the CEO.

On a quarterly basis the CFO prepares a budget to actual report with a detailed variance analysis. This report is provided to the Audit Committee and Board for their review and approval.

For more details on expenditure and accounts payable, please refer to Chapter 5. Please also refer to the process flow documentation in Appendix F and the Risk and Control Matrix in Appendix G.

### 4.3.3 Payroll

As described in section 4.1, the payroll processing is outsourced to ADP, of which the CFO is the Systems Administrator. Any changes to the payroll masterfile (new hires, terminations and salary changes) are made by the CFO into ADP. After changes are submitted, the CFO agrees the changes on the ADP masterfile to the information she received to ensure changes have been processed accurately. ADP submits a change report along with the payroll register for each pay period. The change report details all changes made to permanent information on the payroll masterfile including employee name, address, bank account information, salary rate and benefits, etc. The change report is reviewed and approved by the CEO to ensure all changes made to the masterfile are valid and authorized.

Most employees are employed on a salary basis and are not required to submit timesheets unless they have worked overtime that is approved. All hourly employees must submit a timesheet for approval every pay period. Overtime must be approved by the appropriate Supervisor or Manager prior to the hours being worked and approved by the Supervisor or Manager for payment.

Timesheets are entered into ADP by the CFO. The CFO manually adds up the hours from the timesheets and agrees it to the hours entered into ADP to ensure accuracy. ADP calculates the payroll and related withholdings and makes the disbursements to employees and Canada Revenue Agency on behalf of AIC. A payroll register is generated and sent to the CFO for review. The CFO reviews the payroll register in detail to ensure that calculations are correct and payroll payment per the payroll register summary matches the actual amount withdrawn from the bank. The CFO reconciles amounts on the payroll register to ensure that the salaried payroll plus hourly payroll plus changes for the pay period agree to the total payment. The CEO also reviews the payroll register along with supporting documentation (memos for approval of overtime worked) to ensure coding is correct and payroll calculations are reasonable.

The CFO matches the monthly CRA Statement of Remittances to the payroll register to ensure that the year to date payroll remittance balance on the statement agrees to the payroll register, the payroll submission numbers on the statement and payroll register are the same, and that ADP is filing the remittances on a timely basis.

Quarterly, the CFO prepares a detailed budget to actual report with a detailed variance analysis and explanations attached for review and approval by the Audit Committee. For more details on payroll, see section Chapter 5. Please also refer to the process flow documentation in Appendix F and the Risk and Control Matrix in Appendix G.

### 4.3.4 Budgeting process

Based on the Memorandum of Understanding, AIC's annual budget must be reviewed and approved by the government. AIC's budgeting philosophy is to take the conservative approach and to ensure sufficient funds are maintained to support operations.

AIC considers many factors when budgeting for revenue such as the retention in licensees over the year. Another trend considered is the increase in the number of non-resident licensees. The upward trends are due to the economic uprising in Alberta over the last few years.

In the past the actual results have been more favourable than the numbers predicted within the budget. The positive variance has been due to an unexpected increase in the number of certificates issued as well as a larger than expected reduction in expenses. Lower than expected expenses were the result of lower AIC Board and Council members' expenses as overall attendance at meetings was lower than planned. In addition, payroll expenses were at a lower actual amount due to the vacancies that exist within the AIC and the difficulty to fill these positions due to the strong labour market in Alberta.

The AIC budget is prepared by the CFO, COO and CEO, prior to submission to the AIC for their review and approval. Once approved, the proposed budget is forwarded to the Department of Finance for their review and approval. The budgeting process is a strong entity level control that it is operating effectively with variances adequately explained and supported.

**BUSINESS PROCESSES  
TO DELIVER  
ADMINISTRATIVE SERVICES**

## 5.0 BUSINESS PROCESSES TO DELIVER ADMINISTRATIVE SERVICES

### **Criterion #4**

*The existence of and AIC compliance with business processes to deliver administrative services in an efficient and effective manner.*

### 5.1 Administrative Services

In Chapter 4, details are provided in relation to the processes in place for each of the administrative areas of Council being, human resources, information technology and financial services.

The following significant business processes were identified:

- Revenue and Accounts Receivable
- Expenditure and Accounts Payable
- Payroll.

For each of the three business processes a process flow diagram (using Visio), was prepared and a walkthrough was performed to identify significant risks and controls within the system of internal controls.

These flow diagrams of the business processes have been attached for your information. In addition a Risk and Control Matrix was prepared for each of the above-mentioned processes to identify the key risks in existence within the business process as well as the key controls in place to mitigate those risks. An analysis was made to determine whether the significant risks identified were mitigated sufficiently as not to have any resulting deficiencies.

In the following sections we will highlight, for each of the business processes identified, the key controls in place within the overall system of internal controls.

#### 5.1.1 Revenue and Accounts Receivable

##### **Key Controls Identified – Revenue**

- |   |   |
|---|---|
| 1 | Access to enter cash receipts is restricted to the Administrative Clerks in both Calgary and Edmonton.  |
| 2 | Tills are balanced and reconciled on a daily basis by the Administrative Officers.  |
| 3 | The Revenue is entered into LMS in batches. Batches are verified by either the CFO or Financial Administrator to ensure that amounts entered into the system match amounts received and deposited into the bank.                          |
| 4 | Access to export and upload deposit files from LMS to QuickBooks Pro is restricted. Only the COO and Systems Administrator can export files from LMS. Files are saved into a secure folder and a password is required to open the folder. |

### **Key Controls Identified – Revenue continued**

- |   |   |
|---|---|
| 5 | Bank reconciliations are prepared by either the CFO or the Financial Administrator on a monthly basis and are reviewed by the CEO.        |
| 6 | A budget to actual analysis is prepared on a quarterly basis and provided to the Audit Committee and Board for their review and approval. |

#### 5.1.2 Expenditure and Accounts Payable

### **Key Controls Identified – Expenditure**

- |   |  |
|---|--|
| 1 | All invoices received are subject to an independent review to ensure the goods were ordered, were received and that the invoice is within the approved budget. |
| 2 | The CFO reviews the reviewed invoice package for completeness prior to signing it and forwarding it for a second signature.                                    |
| 3 | All cheques require two signatures prior to being processed with expenses greater than \$25,000 requiring the signature of a Board member.                     |
| 4 | Bank reconciliations are prepared by the Financial Administrator on a monthly basis and are reviewed by the CEO.   |
| 5 | A budget to actual analysis is prepared on a quarterly basis and provided to the Audit Committee and Board for their review and approval.                      |

#### 5.1.3 Payroll

### **Key Controls Identified – Payroll**

- |   |   |
|---|---|
| 1 | The payroll processing is outsourced to ADP.  |
| 2 | Access to the payroll processing is only available on the computer located in the office of the CFO and is password protected.            |
| 3 | Any changes made to the payroll masterfile are recorded by the CFO and reviewed by the CEO.   |
| 4 | All timesheets and overtime is approved by the supervisor or manager prior to being submitted.  |
| 5 | The CFO reviews the payroll register in detail when received from ADP.  |
| 6 | The CFO matches the CRA Statement of Remittances to the payroll register on a monthly basis.  |
| 7 | The CEO reviews all payroll related expenditure on a monthly basis.   |
| 8 | A budget to actual analysis is prepared on a quarterly basis and provided to the Audit Committee and Board for their review and approval. |

#### 5.1.4 Observations in relation to the System of Internal Control

A few observations in relation to the system of internal controls have been identified, including:

	<b>Business Process</b>	<b>Internal Control Observation</b>	<b>Recommendation</b>
1	Revenue	There is no independent review of the revenue deferral calculations prepared by the CFO to ensure amounts were calculated correctly. However, the Board reviews the balance for reasonability quarterly. The external auditors also review the spreadsheet in detail.	The CEO should review the revenue deferral calculations prepared by the CFO to ensure amounts are calculated accurately. <b>See recommendation #14.</b>
2	All Business Processes	Currently, the AIC does not have detailed formalized policies and procedures outlining the various policies, procedures and processes in place over financial reporting, information system implementation and updating and the process of issuing certificates. In addition, the handbook/manual in place to support the conduct of investigations is considered outdated and requires updating. It is considered sound business and financial practice to document significant processes, procedures and controls. In addition, this is highlighted as an internal requirement in the Board of Directors Responsibilities document dated May 16, 2006.	We recommend that the AIC consider formalizing and/or updating its policies and procedures in relation to financial reporting, information technology, issuing of certificates and conducting of investigations. This is not only considered sound business and financial practice, but functions as an important tool in supporting the training of new staff, in the retention of corporate knowledge and succession planning. <b>See recommendation #15.</b>

As we can see from the table above, the identified control weaknesses are few and based on testing performed, no exceptions have been identified. In addition, the external auditors of the AIC had just completed their audit of the financial statements, and based on discussions with them, no unadjusted errors and internal control weaknesses were identified, that require reporting.

The importance of formalized policies and procedures over all aspects of the organization however, can not be underestimated. It is critical that an organization not only reviews its processes and policies on a regular basis, to ensure that these are relevant and up to date, but it can also greatly assist the organization in the training of staff (during absences and staff turn-over), the retention of corporate knowledge and in planning for succession. As succession planning was considered to be one of the major risks facing the AIC (see page 11 and recommendation #1), we believe the formalization of policies, procedures and processes to be a significant control that could assist the AIC in mitigating part of this risk.

**Recommendation #15:**

*We recommend that the AIC consider formalizing and/or updating its policies and procedures in relation to the system of internal controls over financial reporting; the processes for the issuance of certificates; conducting of complaints investigations and processes in relation to the implementation and updating of information systems.*

# APPENDIX A

## SHELF DATA LISTING

	Name of Document	Received	Source
1	Quarterly reports of AIC for 2006 and 2007	Yes	AC handbook
2	Management letters issued by external auditors for 2005, 2006 and 2007	Not applicable, none issued for past few years	
3	Annual Report 2006	Yes	Internet
4	Memorandum of Understanding	Yes	Alberta Finance
5	AIC Business Plan 2008-2010	Yes	Alberta Finance
6	AIC Business Plan 2005-2007	N/a	
7	Councils By-Laws	Yes	Alberta Finance
8	Audit Committee Charter	Yes	AC handbook
9	Audit Committee Minutes of Meetings	Yes	AC handbook
10	Board Minutes of Meetings	Yes	Provided AIC
11	Councils' Charters	Yes	AIC handbook
12	Code of Conduct for each of the Councils	Yes	AIC
13	Conflict of Interest Rules	Yes	Within COC
14	Insurance Act and Regulations	Yes	Internet
15	Annual internal evaluation of Councils' effectiveness of their responsibilities (as per MOU, section 6.3.1)	No	Not available
16	Orientation program for New Insurance Council Members	Yes	Handbook
17	Details of internal evaluation of AIC on their effectiveness and prudence of management (as per MOU, section 6.3.2)	No	Not available
18	Listing supporting legislative requirements and compliance	N/a	
19	Description of accounting systems and internal control processes	Yes	Handbook
20	Documented and where applicable approved policies and procedures (in relation to AIC business processes)	No	To review week 10 March
21	Details of training programs for AIC staff	No	To review week 10 March

	<b>Name of Document</b>	<b>Received</b>	<b>Source</b>
22	Sims Group – Council Procedures – 2007 Handbook	Yes	CEO
23	Statistics in relation to complaints investigations, certificates issuance and examinations conducted	Yes	COO
24	Complaint Flow Chart	Yes	COO
25	Human Resource Policies	Yes	CEO
26	The Advisory Group – Satisfaction Study Survey Results	Yes	CEO
27	McCrank Report – The Report on Board Governance Review Task Force	Yes	CEO
28	Alberta Treasury, Finance Planning and Analysis – AIC Accountability Framework dated August 22, 1995	Yes	CEO
29	Correspondence between then Superintendent of Insurance and General Manager AIC dated November 1993	Yes	CEO
30	Public Agencies Governance Framework – government's response to McCrank report, February 2008	Yes	Superintendent

# APPENDIX B

## INTERVIEWS CONDUCTED

	Name of Interviewee	Position Title
1	Stewart Douglas	GIC member, Audit Committee Chair
2	Joanne Abram	CEO, AIC
3	Sylvia Boyetchko	Director of Licensing, AIC
4	Carolyn Janz	CFO, AIC
5	Jim Harris	GIC member, AIC member
6	Darrell Wilson	Former LIC member, former AIC member
7	Mel Niebrugge	Chair of AIC
8	Real Michaud	LIC member
9	Lorrie King	Chair GIC, Audit Committee member
10	Jack Ross	IAC member
11	Art LeMaistre	Chair IAC, AIC member
12	Art Bonertz	LIC member, Audit Committee member
13	Tom Hampton	COO, AIC
14	Warren Martinson	Director of Legal and Regulatory Affairs, AIC
15	Stan Pappenfus	Former LIC Chair
16	Dennis Gartner	Superintendent of Insurance
17	Bob Phillion	Senior Manager, Finance
18	Arthur Hagan	Deputy Superintendent
19	Al Brekke	Previous Chair of AIC
20	Richard Shelast	Senior Manager Finance
21	Drew McNichol	Chair LIC, member AIC
22	Thom Young	Former GIC member, former AIC member

	<b>Name of Interviewee</b>	<b>Position Title</b>
23	Rick Lancaster	CAFII
24	Peter Goldthorpe	CLHIA
25	Richard Evans	CADRI
26	Greg Merrithew	CIAA
27	Jim Rivait	IBC
28	Harold Baker	IBAA
29	Joe Ruddell	Edmonton Advocis
30	Jim Virtue	Calgary Advocis
31	John Walley	IFBC

# APPENDIX C

## CODE OF CONDUCT CHECKLIST

	Suggested outline for Code of Conduct
	<b>Introduction</b>
1	Statement of Support from CEO
2	Underlying values
3	Objectives
4	Scope and application
5	Definitions
6	Policy date
	<b>Code Rules</b>
7	Supporting statement from the Board
8	Aspirational values
9	Conflict of interest
10	Responsibilities for dealing with stakeholders
11	Improper use of company information
12	Insider trading
13	Outside employment
14	Gifts and entertainment
15	Financial inducements
16	The use and accounting of company resources
17	Political contributions and activities
18	Alcohol, drug and tobacco use, and gambling
19	Non-discriminatory practices
20	Equal employment opportunities
21	Confidentiality
22	Compliance with laws
23	Treatment of colleagues
24	Sponsorships
25	Environmental
26	Conducting business overseas
27	Consequences of non-compliance

	<b>Suggested outline for Code of Conduct</b>
	<b>Administrative</b>
<b>28</b>	Role of Ethics Committee
<b>29</b>	Mandatory attendance at Code of Conduct training
<b>30</b>	Reporting of non-compliance
<b>31</b>	Consequences of non-compliance
	<b>Frequently asked questions</b>

# APPENDIX D

## WHISTLEBLOWER CHECKLIST

	Suggested outline for Whistleblower Policy
1	A statement of the entity's commitment to a culture of corporate compliance and ethical behaviour generally.
2	A statement of the entity's opinion of reporting wrongdoing through appropriate channels.
3	A statement of the benefits and importance to the entity of having a whistle blowing mechanism.
4	A statement of to whom and how whistle blowing concerns can be directed.
5	A description of the types of concerns where it is appropriate to use the whistle blowing mechanism.
6	Who may invoke the whistle blowing mechanism (i.e. employees, contractors, the general public, etc.)?
7	Guidelines on how sure the whistleblower should be of the truth of their concerns before invoking the whistle blowing mechanism (i.e. the degree to which the whistleblower will be required to prove their concerns).
8	A statement that reporting will be kept confidential and secure within the law.
9	A guarantee that whistleblowers will receive feedback.
10	A statement of the entity's commitment to protect and respect whistleblowers, including a commitment to protect the whistleblower's identity to the extent permitted by law, a prohibition on reprisals, discrimination, harassment or victimization against any suspected whistleblower, their colleagues or relatives.
11	A description of the rights of the whistleblower to request positive action by the entity to protect them e.g. relocation or leave of absence during the investigation where it will not be possible to maintain the anonymity of the whistleblower.
12	A commitment to appoint and maintain an appropriately qualified Whistleblower Protection Officer is accessible to all staff.
13	Whether reports may be made anonymously.
14	A description of the investigation process which the entity is committed to follow on receipt of a whistle blowing report, including the principles of fairness which will apply to the investigation and a commitment to rectify any wrongdoing verified by the investigation to the extend practicable in all the circumstances.
15	A commitment to review the whistle blowing program regularly for effectiveness.

# APPENDIX E

## REFERENCES

- Corporate Governance in Crown Corporations and other Public Enterprises – Guidelines by Treasury Board, 20 December 2002
- The Report of the Board Governance Review Task Force – McCrank, October 1, 2007
- Public Agencies Governance Framework – Agency Governance Secretariat, February 2008 (Government’s response to McCrank report)
- Corporate Governance Guidelines for Building High Performance Boards – Canadian Coalition for Good Governance, November 2005
- Governance, Risk, and Compliance Handbook – Anthony Tarantino, 2008
- Good Governance Principles – Standards Australia, 23 June 2003
- Applications of Corporate Governance – Standards Australia, February 2004
- Organizational Codes of Conduct – Standards Australia, 23 June 2003
- Code of Conduct and Ethics for the Public Service of Alberta
- Whistleblower Protection Program for Entities – Standards Australia, 23 June 2003

# APPENDIX F

# Alberta Insurance Council

Business Process Documentation  
 Period Ending: December 31, 2008

## Payroll (PR) 1. Employee Masterfile Maintenance

Version: Draft – March 27, 2007  
 Documenter: Bonnie Yan  
 Reviewed by: Maggie Kiel  
 W/P Ref.: PR.1

Narrative	Chart	Controls
<p><b>Personnel:</b>                      Chief Executive Officer – Joanne Abram                      Chief Financial Officer – Carolyn Janz</p> <p><b>Notes:</b>                      Payroll is outsourced to ADP. Most employees are on salary. Only part time and temporary staff are paid hourly.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p style="text-align: center;"><b>Legend</b></p> <div style="display: flex; justify-content: space-between;"> <div style="text-align: center;">  Computer Produced Document                             </div> <div style="text-align: center;">  Processing Activity                             </div> <div style="text-align: center;">  Control                             </div> </div> <div style="display: flex; justify-content: space-between; margin-top: 5px;"> <div style="text-align: center;">  Decision                             </div> <div style="text-align: center;">  Computer File                             </div> <div style="text-align: center;">  Start Point                             </div> </div> <div style="display: flex; justify-content: space-between; margin-top: 5px;"> <div style="text-align: center;">  T-Account                             </div> <div style="text-align: center;">  Link                             </div> </div> </div>	<p>The chart consists of two parallel vertical flowcharts. The left flowchart starts with a 'Start Point' arrow pointing to a box 'Hiring'. It proceeds through 'Manager initiates hiring of employee.', 'Each position has a job description which lists out all the duties, responsibilities and the skills and education required.', 'Manager assesses potential candidate to ensure they have the appropriate qualifications.', 'Once approved for new hire, notification is given to CFO and she adds the new employee information to the ADP system.' (marked with PR 1.2), 'After new information is submitted to ADP, the CFO agrees the additions on the ADP masterfile to the information she received to ensure changes have been processed accurately.' (marked with PR 1.3), and 'Every pay period, the CEO reviews the Payroll Change Report (along with payroll register) to ensure changes made to payroll masterfile are valid.' (marked with PR 1.4). The right flowchart starts with a 'Start Point' arrow pointing to a box 'Changes to Masterfile'. It proceeds through 'Salaries are updated for cost of living on a yearly basis. Every 3 years, a market survey is done to determine market rates.', 'Salary information is input into a model and a salary grid is created.', 'Salary grid is reviewed and approved by the AIC Board. Salaries are budgeted for accordingly.' (marked with PR 1.1), 'The AIC Board determines the CEO's salary increase. The appropriate Supervisor/Manager determines all other salary increases as long as they are within the ranges of the salary grid.', 'Once approved, salary increase information is given to CFO to update the information to the ADP system.' (marked with PR 1.2), 'After changes are submitted to ADP, the CFO agrees the changes on the ADP masterfile to the information she received to ensure changes have been processed accurately.' (marked with PR 1.3), and 'Every pay period, the CEO reviews the Payroll Change Report (along with payroll register) to ensure changes made to payroll masterfile are valid.' (marked with PR 1.4). Both flowcharts end with a rounded rectangle box containing the text 'Link to: PR.2 – Payroll Calculations and Payment'.</p>	<p><b>PR 1.1 (Existence/Occurrence)</b>                      The salary grid is reviewed and approved by the Board of Directors. Review consists of ensuring that salary amounts are reasonable and in line with market rates and the cost of living.</p> <p><b>PR 1.2 (Existence/Occurrence)</b>                      The Company utilizes the services of a third party payroll service provider (ADP) for calculating payroll and related withholdings and maintaining the payroll masterfile. Additions, deletions and changes to employee information can only be made by the Payroll Administrator (the CFO).</p> <p><b>PR 1.3 (Completeness, Accuracy)</b>                      The CFO reviews the payroll masterfile maintained by ADP and agrees the new employee information and changes in salary to the information received from the Supervisors/Managers to ensure that changes to the masterfile are complete and accurate.</p> <p><b>PR 1.4 (Existence/Occurrence)</b>                      The CEO reviews the Payroll Change Report from ADP every pay period (sent to AIC along with payroll register) to ensure that all changes made to the payroll masterfile are valid, accurate and have been approved.</p>

Narrative	Chart	Controls
<p><b>Personnel:</b> Chief Executive Officer – Joanne Abram Chief Financial Officer – Carolyn Janz</p> <p><b>Notes:</b> Payroll is outsourced to ADP.</p> <p>Most employees are on salary. Only part time and temporary staff are paid hourly. Employees who do not receive benefits are processed using a different submission # to CRA.</p> <p>All overtime must be approved by the appropriate Supervisor or Manager. The Supervisor/Manager must approve the overtime before it is worked and approve the payment of the overtime.</p> <p><b>Legend</b></p> <p>Computer Produced Document: [Icon]                  Processing Activity: [Icon]                  Decision: [Icon]                  Computer File: [Icon]                  T-Account: [Icon]                  Link: [Icon]                  Control: [Icon]                  Start Point: [Icon]</p>		<p><b>PR 2.1 (Existence/Occurrence)</b> The Supervisor or Manager reviews the timesheets to ensure that appropriate hours are being charged and only authorized overtime is claimed. Timesheets must be signed by the Supervisor or Manager before the CFO enters them into ADP.</p> <p><b>PR 2.2 (Completeness)</b> The CFO agrees the Control Total (total number of hours per time sheets manually added up) to the number of hours entered into the ADP system to ensure that the correct number of hours has been input into the system.</p> <p><b>PR 2.3 (Existence/Occurrence) – Same as PR 1.2</b> The Company utilizes the services of a third party payroll service provider (ADP) for calculating payroll and related withholdings and maintaining the payroll masterfile. Additions, deletions and changes to employee information can only be made by the Payroll Administrator (the CFO).</p> <p><b>PR 2.4 (Accuracy)</b> The CFO reviews the payroll register in detail. Review consists of ensuring that the payroll register that was initially printed off from the ADP system after submission agrees to the payroll register received from ADP and that the total payroll payment per the payroll register summary matches the actual amount withdrawn. The CFO will also perform a reconciliation on the payroll register to ensure that salaried payroll + hourly payroll + changes = semi-monthly payment. Periodically and in payroll periods where changes have taken place, the CFO will randomly select a few employees and re-perform the calculations to ensure ADP is calculating amounts such as EI and reduced rate EI correctly. When there are changes to the RRSPs, the CFO agrees her spreadsheet to the payroll register prepared by ADP to ensure amounts match.</p> <p><b>PR 2.5</b> The CEO reviews and approves the payroll register and supporting documentation every pay period. The CEO's review consists of reviewing the Preprocessor Transaction Log to ensure that the codes are correct, reviewing memos to ensure that overtime or other deductions have been properly authorized, and that the overall payroll calculations are reasonable. The CEO signs the payroll register as evidence of review and approval. Evidence: Per review of November 15 and November 30 payroll register, registers have been reviewed and initialed by the CEO.</p> <p><b>PR 2.6</b> The CFO matches the monthly CRA Statement of Remittances to the payroll register to ensure that the year to date payroll remittance balance on the statement agrees to the payroll register, the payroll submission numbers on the statement and payroll register are the same, and that ADP is filing the remittances on a timely basis.</p> <p><b>PR 2.7 (Existence/Occurrence)</b> Quarterly, a detailed variance analysis is performed and reviewed by management and the Audit Committee. Review consists of ensuring that actual balances are in line with budgeted amounts and prior year balances. Review also consists of ensuring that reasons for significant variances are valid.</p> <p>Note: There is no independent review of the calculations (such as employer portion of RRSP) prepared by the CFO. However, the RRSP spreadsheet is only used as a check against ADP's calculations and is not directly used for financial reporting purposes.</p>

**Alberta Insurance Council**

Business Process Documentation  
 Period Ending: December 31, 2008

Purchases and Payables (PP)  
 1. Authorization for Expenditure

Version: Draft – March 27, 2008  
 Documenter: Bonnie Yan  
 Reviewed by: Maggie Kiel  
 W/P Ref.: PP.1

Narrative	Chart	Controls
<p><b>Personnel:</b>                      Chief Executive Officer – Joanne Abram                      Chief Financial Officer – Carolyn Janz                      Chief Operating Officer – Tom Hampton                      Administrator – Larry Lutz                      System Administrator – Kathryn Thomas                      Financial Administrator – Margaret Holmes</p> <p><b>Legend</b></p> <p>Computer Produced Document: [Icon]                      Processing Activity: [Icon]                      Decision: [Icon]                      Computer File: [Icon]                      T-Account: [Icon]                      Link: [Icon]</p> <p>Control: [Icon]                      Start Point: [Icon]</p>		<p><b>PP 1.1 (Existence/Occurrence)</b>                      Costing information for renovations prepared by the Administrator must be reviewed and approved by the CEO, COO and the Board. Review consists of ensuring that costs are reasonable. The CEO, COO and the Board come up with a budgeted amount for renovations which the Administrator must follow.</p>

# Alberta Insurance Council

Business Process Documentation  
Period Ending: December 31, 2008

Purchases and Payables (PP)  
2. Invoices and Payment

Version: Draft – March 27, 2008  
 Documenter: Bonnie Yan  
 Reviewed by: Maggie Kiel  
 W/P Ref.: PP.2

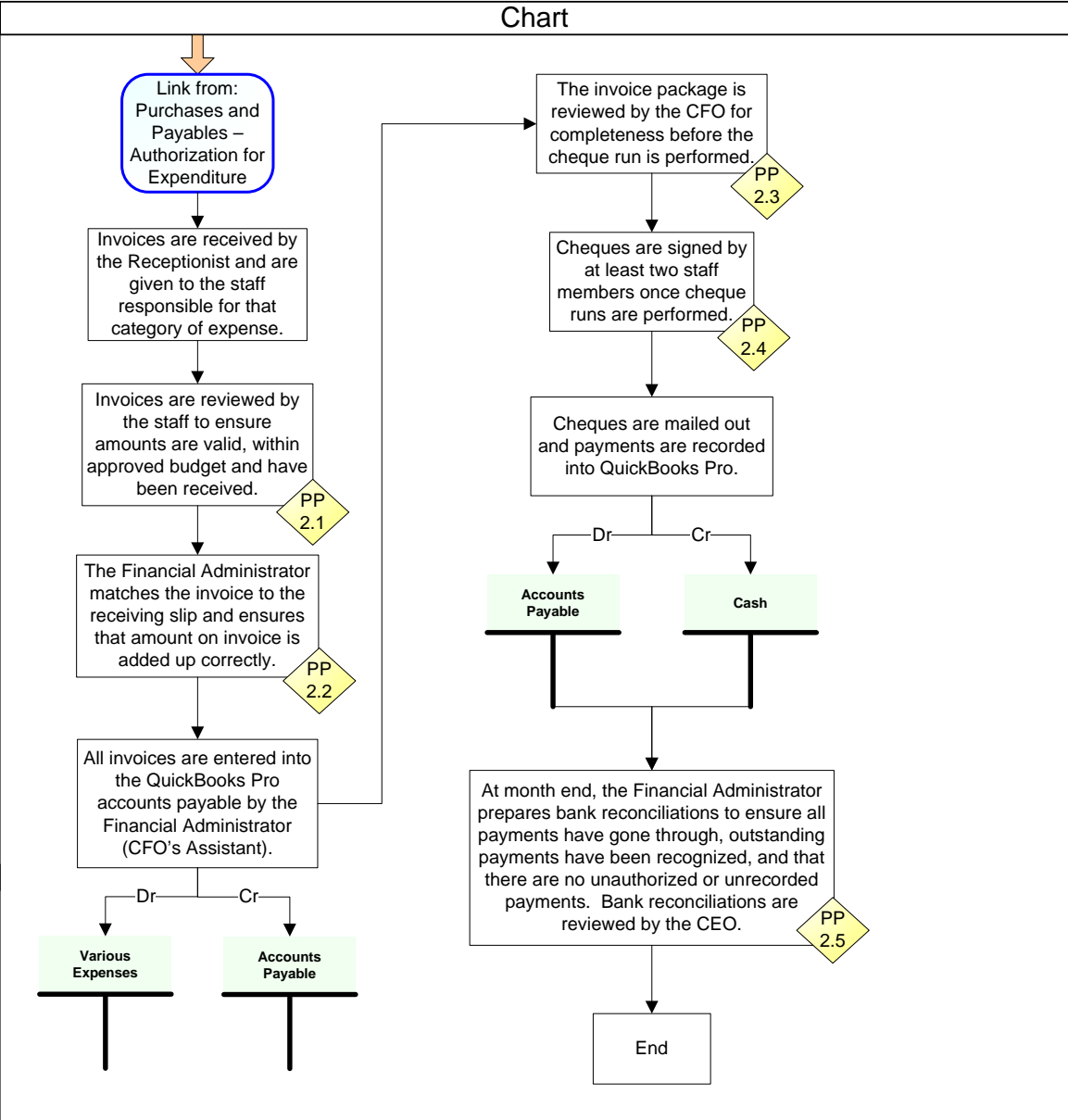
**Narrative**

**Personnel:**  
 Chief Executive Officer – Joanne Abram  
 Chief Financial Officer – Carolyn Janz  
 Chief Operating Officer – Tom Hampton  
 Administrator – Larry Lutz  
 System Administrator – Kathryn Thomas  
 Financial Administrator – Margaret Holmes

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**Legend**

Computer Produced Document    Processing Activity    Control  
 Decision    Computer File    Start Point  
 T-Account    Link



**Controls**

**PP 2.1 (Existence/Occurrence)**  
 The staff member responsible for the category of expense related to the invoice reviews and approves the invoice before the Financial Administrator enters the invoice into accounts payable. Review consists of ensuring that the product or service was ordered, that the product or service had been delivered and that the amount on the invoice corresponds to the agreed amount at the time it was ordered. Review also consists of ensuring the invoice is within the approved budget for that category of expense.

**PP 2.2 (Existence/Occurrence, Accuracy)**  
 The Financial Administrator matches the receiving slip to the invoice to ensure that the product or service was received and re-adds the invoice to ensure that the invoice is added up correctly.

**PP 2.3 (Existence/Occurrence, Completeness)**  
 The CFO reviews the invoice package to ensure that all documentation is complete, that the invoice has been reviewed by the appropriate staff and that the Financial Administrator has footed the invoice to ensure accuracy of calculations.

**PP 2.4 (Existence/Occurrence, Accuracy)**  
 All cheques must be reviewed and approved by two of the approved signing authorities before they are mailed out to the vendor. Only the CEO, COO, CFO and AIC Board Members have authority to sign. Amounts greater than \$25,000 must be signed by at least one AIC Board Member. Review consists of matching all cheques to invoices to ensure the proper payee and accurate amounts are on the cheques. This is evidenced by the dual signatures on the cheques.

**PP 2.5 (Existence/Occurrence, Completeness)**  
 Monthly, the CEO reviews and approves the bank reconciliations prepared by the Financial Administrator. Review consists of agreeing the bank balance per the reconciliation to the bank statement, and agreeing the G/L balance on the reconciliation to the G/L. The CEO also reviews the outstanding items to ensure there are no unauthorized payments or unrecorded amounts. A detailed review of outstanding deposits or cheques would be performed if there was something unusual or significant outstanding.

# Alberta Insurance Council

Business Process Documentation  
Period Ending: December 31, 2008

Revenue, Receivables & Receipt (RR)  
1 - Revenue

Version: Draft – March 27, 2008  
Documenter: Bonnie Yan  
Reviewed by: Maggie Kiel  
W/P Ref.: RR.1

Narrative	Chart	Controls
<p><b>Personnel:</b> Chief Executive Officer – Joanne Abram Chief Financial Officer – Carolyn Janz Financial Administrator - Margaret Holmes Administrative Clerk (Edmonton) – Debbie Petersen Administrative Clerk (Calgary) – Belinda Thomas Chief Operating Officer – Tom Hampton System Administrator – Kathryn Thomas</p> <p><b>Notes:</b> Cash receipts are recorded into LMS as batches. The Administrative Clerks in Edmonton and Calgary enter receipts into LMS under their own individual batches. Cash receipts could be cash, cheques, debit card payments and credit card payments. Payment could also be made via telephone.</p> <p>A third batch is generated by LMS automatically on a daily basis. This batch records all cash receipts that were processed and paid via the Internet.</p> <p><b>Legend</b></p> <div style="display: flex; flex-wrap: wrap; gap: 5px;"> <div style="border: 1px solid black; padding: 2px; font-size: 8px;">Computer Produced Document</div> <div style="border: 1px solid black; padding: 2px; font-size: 8px;">Processing Activity</div> <div style="border: 1px solid black; padding: 2px; font-size: 8px;">Control</div> <div style="border: 1px solid black; padding: 2px; font-size: 8px;">Decision</div> <div style="border: 1px solid black; padding: 2px; font-size: 8px;">Computer File</div> <div style="border: 1px solid black; padding: 2px; font-size: 8px;">Start Point</div> <div style="border: 1px solid black; padding: 2px; font-size: 8px; background-color: #e0ffe0;">T-Account</div> <div style="border: 1px solid black; padding: 2px; font-size: 8px; border-radius: 50%;">Link</div> </div>		<p><b>RR 1.1 (Existence/Occurrence – Segregation of Duties)</b> Access to enter cash receipts into the License Management Systems (LMS) is restricted to ensure there are appropriate segregation of duties. The Administrative Clerks in Edmonton and Calgary records the cash receipts into LMS while the CFO makes the deposits. The CFO has no access to enter batches into LMS.</p> <p><b>RR 1.2 (Completeness)</b> Revenue is entered into LMS in batches. Batches are verified by the Financial Administrator or CFO to ensure that amounts entered into the system matches amounts received and deposited into the bank.</p> <p><b>RR 1.3 (Existence/Occurrence)</b> Access to export and upload deposit files from LMS to QuickBooks Pro is restricted. Only the COO and Systems Administrator can export files from LMS. Files are saved into a secure folder and a password is required to open the folder.</p> <p><b>RR 1.4 (Completeness, Accuracy)</b> The LMS system confirms the file generated in QuickBooks Pro to the deposit files within LMS to ensure that the number of records and the amount transferred from LMS to QuickBooks Pro match.</p> <p><b>RR 1.5 (Existence/Occurrence, Completeness) – Same as PP 2.3</b> Monthly, the CEO reviews and approves the bank reconciliations prepared by the Financial Administrator. Review consists of agreeing the bank balance per the reconciliation to the bank statement, and agreeing the G/L balance on the reconciliation to the G/L. Review also consists of ensuring amounts deposited per bank statement agree with amounts received per Licensing department. A detailed review of outstanding deposits or cheques would be performed if there was something unusual or significant outstanding.</p>

**Alberta Insurance Council**

Business Process Documentation  
 Period Ending: December 31, 2008

Revenue, Receivables & Receipt (RR)  
 1 – Revenue Deferral

Version: Draft – March 27, 2008  
 Documenter: Bonnie Yan  
 Reviewed by: Maggie Kiel  
 W/P Ref.: RR.2

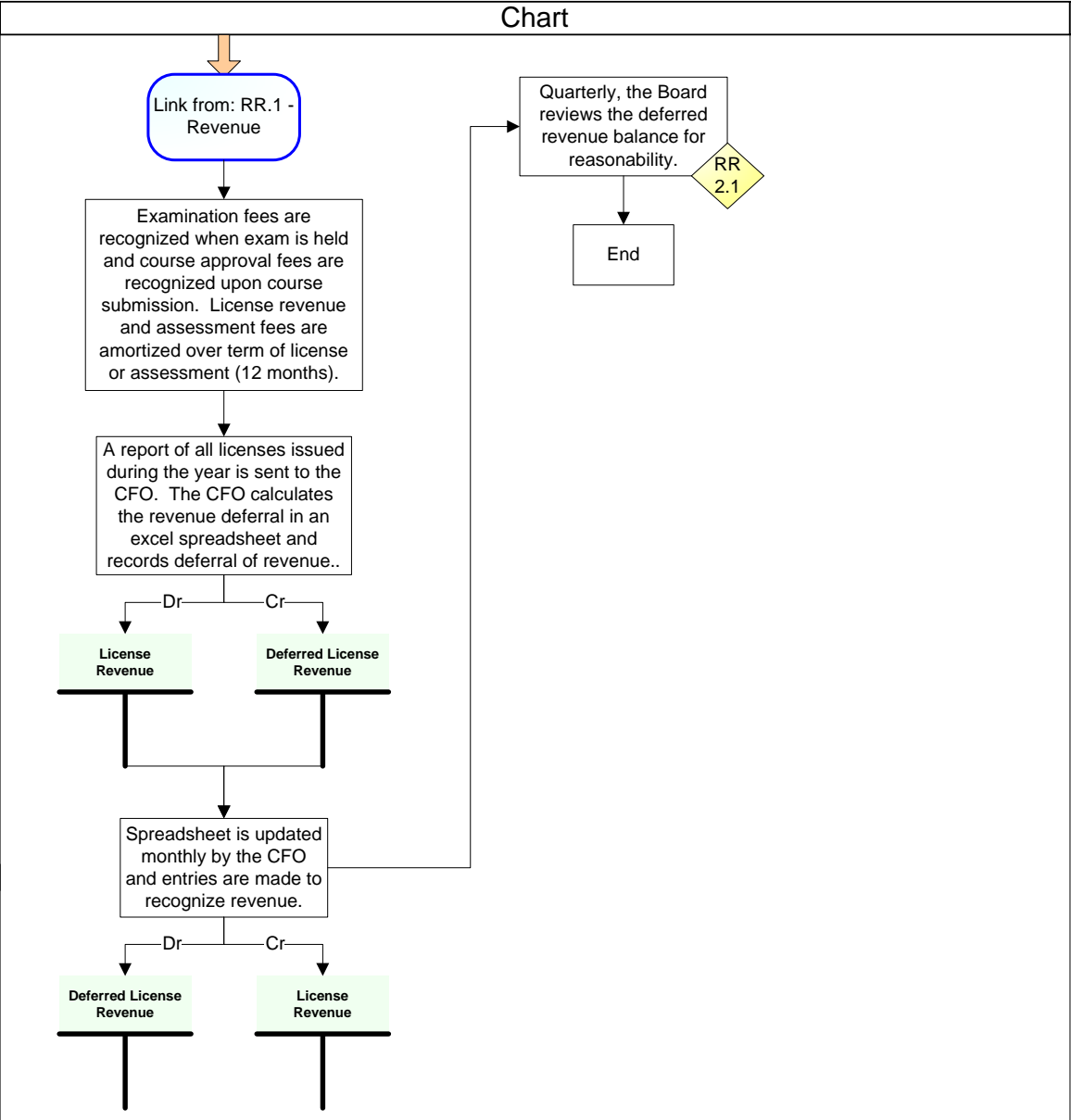
**Narrative**

Personnel:  
 Chief Executive Officer – Joanne Abram  
 Chief Financial Officer – Carolyn Janz

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**Legend**

Computer Produced Document (wavy line)  
 Processing Activity (rectangle)  
 Decision (diamond)  
 Computer File (cloud shape)  
 T-Account (T-shape)  
 Link (rounded rectangle)  
 Control (diamond with X)  
 Start Point (orange arrow)  
 End (rectangle)



**Controls**

RR 2.1 (Existence/Occurrence, Completeness)  
 The Board looks at the revenue deferral balance for reasonability every quarter. There is approximately \$2 million of Life licenses revenue, \$60,000 in Adjusters licenses revenue and \$1 million in General licenses revenue. Each category of license expires in a different month. Based on the revenue and month of expiry/renewal, Board members have a general idea of what deferred revenue should be.

**Weakness:** There is no independent review of the revenue deferral calculations prepared by the CFO to ensure amounts were calculated correctly. However, the Board reviews the balance for reasonability quarterly. The external auditors also review the spreadsheet in detail.

**Recommendation:** The CEO should review the revenue deferral calculations prepared by the CFO to ensure amounts are calculated accurately.

# APPENDIX G

Alberta Insurance Council  
Risk Control Matrices

Significant Process		Financial Statements Assertion and Process Risks									
Revenue & Receivables		<b>Occurrence and Completeness</b> - Revenue is incorrectly calculated or recorded.	<b>Existence/Occurrence</b> - Invalid revenue sources are included in revenue. This could result in fraudulent recognition.	<b>Completeness</b> - Revenue is not captured from some points in the revenue process.	<b>Completeness &amp; Existence</b> - Cash receipts are not entered for processing accurately and in the correct period.	<b>Completeness and Valuation</b> - Unauthorized write-off of receivables.	<b>Valuation</b> - Write-offs are not appropriate or are for invalid amounts.	<b>Valuation</b> - Doubtful accounts are not appropriately identified.	<b>Accuracy</b> - Fees are mispriced in error or fraudulently.	<b>Segregation of Duties</b> - The following incompatible duties in the revenue cycle have not been separated: performing, reviewing reconciliations and having access to assets (cash receipts), custody of inventories and maintaining inventory records; invoicing the customer, maintaining accounts receivable records and/or authorizing adjustments to accounts receivable.	
<b>Risk Assessment:</b>											
Impact (1, 5 or 10)		10	5	5	10	5	5	5	5	10	
Likelihood (1, 5 or 10)		5	1	10	5	1	1	1	5	10	
Risk Score (IM X LK)		50	5	50	50	5	5	5	25	100	
<b>Significant Risk ( Y / N )</b>		<b>Y</b>	<b>N</b>	<b>Y</b>	<b>Y</b>	<b>N</b>	<b>N</b>	<b>N</b>	<b>N</b>	<b>Y</b>	

Control Number	Doc Ref	Control Activities Managing Significant Risks	P/D	M/A	Freq								Key Control (Y/N)	TOD Result
RR.1.1	RR.1	Access to enter cash receipts into the License Management Systems (LMS) is restricted to ensure there are appropriate segregation of duties. The Administrative Clerks in Edmonton and Calgary records the cash receipts into LMS while the CFO makes the deposits. The CFO has no access to enter batches into LMS.	P	A	R								Y	
RR.1.2	RR.1	Revenue is entered into LMS in batches. Batches are verified by the Administrative Clerks to ensure that amounts entered into the system matches amounts received and deposited into the bank.	P	A	R	M		H					N	
RR.1.3	RR.1	Access to export and upload deposit files from LMS to QuickBooks Pro is restricted. Only the COO and Systems Administrator can export files from LMS. Files are saved into a secure folder and a password is required to open the folder.	P	M	M								N	
RR.1.4	RR.1	The LMS system confirms the file generated in QuickBooks Pro to the deposit files within LMS to ensure that the number of records and the amount transferred from LMS to QuickBooks Pro match.	P	A	M	H		H	M				Y	
RR.1.5	RR.1	Monthly, the CEO reviews and approves the bank reconciliations prepared by the Financial Administrator. Review consists of agreeing the bank balance per the reconciliation to the bank statement, and agreeing the G/L balance on the reconciliation to the GL. Review also consists of ensuring amounts deposited per bank statement agree with amounts received per Licensing department. A detailed review of outstanding deposits or cheques would be performed if there was something unusual or significant outstanding.	D	M	M			M	H				Y	
RR.2.1	RR.2	The Board looks at the revenue deferral balance for reasonability every quarter. There is approximately \$2 million of Life licenses revenue, \$60,000 in Adjusters licenses revenue and \$1 million in General licenses revenue. Each category of license expires in a different month. Based on the revenue and month of expiry/renewal, Board members have a general idea of what deferred revenue should be.	D	M	Q			M					N	
<b>Conclusion - A or W (See deficiency Summary if W)</b>						A	NA	A	A	NA	NA	NA	NA	A

<b>Remediation</b>		P/D	M/A	Freq									Key Control (Y/N)	TOD Result
<b>Post Remediation Conclusion - A, W or N/A</b>								N/A						







## Risk Control Matrices

### Legend

#### Inherent Risk Rating

<b><u>IM</u></b>	<b>Impact</b>
10	Will potentially impact credibility/reputation of business (including material impact on net income)
5	Will be of concern to management
1	Will be seen only as "local" issue

<b><u>LK</u></b>	<b>Likelihood</b>
10	At least once a month
5	Less than once a month up to once a year
1	Less than once a year

**Total**      **LK\*IM**

#### Expected Effectiveness of Control to Mitigate each Significant risk

<b>H</b>	High
<b>M</b>	Medium
<b>L</b>	Low

#### Significant Risk

<b>Y</b>	Yes - there <b><u>would be</u></b> a significant opportunity for material misstatement - Risk rating equal to and greater than 50 or impact rated a 10
<b>N</b>	No - there <b><u>would not</u></b> be a significant opportunity for material misstatement

#### Manual/Automated

<b>M</b>	Manual - non system dependent control
<b>A</b>	Automated - system dependent control

#### Prevent/Detect

<b>P</b>	Preventive control to minimize chance of a defect occurring
<b>D</b>	Detective control - to identify that a defect has occurred

#### Frequency of Control

<b>R</b>	Recurring
<b>D</b>	Daily
<b>W</b>	Weekly
<b>BW</b>	Bi-weekly
<b>M</b>	Monthly
<b>Q</b>	Quarterly
<b>A</b>	Annually

#### Testing Sample Size

30
15
5
4
3
2
1

AH Ad-hoc

1

**Pass/Fail**     **Pass** All samples selected passed evidence of control test  
**Fail**     Exceptions noted in testing of samples

**Magnitude of Deficiency**

**I**     Inconsequential - there is a remote likelihood that a misstatement that is more than inconsequential will not be prevented or detected  
**S**     Significant Deficiency - there is more than a remote likelihood that a misstatement that is more than inconsequential will not be prevented or detected  
**W**     Material Weakness - more than a remote likelihood that a material misstatement will not be prevented or detected

**Conclusion**

**A**     Adequate  
**w**     Weak

**Testing**

**TOD**     Test of Design  
**TOE**     Test of Effectiveness