

Chapter

1

Financial Information Strategy
Infrastructure Readiness

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies, and practices of the Office of the Auditor General of Canada. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants.

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Financial Information Strategy

Infrastructure Readiness

Main Points

1.1 The government has made a lot of progress in the last year toward getting its long-awaited Financial Information Strategy (FIS) up and running. However, it still has a lot to do before FIS can be considered complete.

1.2 Departments and agencies have installed new financial systems that can handle the accrual accounting requirements of FIS. They have created the needed interfaces to transmit summary financial information to the FIS central systems. Now, though, departments need to stabilize these new systems, ensure that appropriate controls are in place, and provide complete, accurate financial information that managers will use.

1.3 The Treasury Board Secretariat has developed and communicated the accounting policies that will move the government to a full accrual basis of accounting, in accordance with generally accepted accounting principles for the public sector. Departments are at different stages of applying these policies and determining their opening balances for such items as tangible capital assets. The government and departments are to produce their first set of accrual-based financial statements for the year ending 31 March 2002. The current reporting model for departments does not require them, however, to record and disclose in their financial statements some significant liabilities and costs.

1.4 The government recognizes the significant change it will have to manage. Departments have change management plans at various stages of implementation. The plans include developing management reporting and training managers to use the new financial tools available to them. These plans are essential to realizing the full benefits of FIS.

1.5 The government has not progressed much toward deciding its approach to accrual-based budgeting and appropriations. Responding to a request by the Standing Committee on Public Accounts, the Secretariat said this complex issue requires extensive study before a decision is made. The government called the Committee's suggested April 2003 target date for the introduction of accrual budgeting and appropriations highly unlikely. But departments have said clearly that the change in culture demanded by accrual accounting will not happen without accrual budgeting and appropriations. We agree. Departments are worried about the added complexity during the interval when they will have to prepare the information in their Estimates on a different basis from the information in their financial statements.

1.6 In response to another request by the Standing Committee on Public Accounts, the government surveyed departments to obtain an estimate of FIS costs across government. The survey results indicated that the total cost would ultimately be around \$635 million. We cannot conclude whether this estimate is reasonable because the government did not establish a framework for reporting FIS costs and ensuring that the figures were complete and accurate.

1.7 As FIS funding dries up and FIS project offices are wound down, there is a real concern that the momentum to finish the job may be lost. The government should not lose sight of its key objectives for FIS and the results it expects, such as better financial information for managers. It also needs to ensure that both it and departments produce their accrual financial statements. Then it can reassess the status of the strategy's other aspects and decide how best to ensure that they are completed.

Background and other observations

1.8 The government officially launched its Financial Information Strategy (FIS) in 1989 and, after several false starts, revitalized the project in 1995. It set April 2001 as the target for having the strategy in place across departments.

1.9 FIS is a prerequisite to the success of two other federal initiatives: Modern Comptrollership and Results for Canadians: A Management Framework for the Government of Canada. It supports three of the four key elements of modern comptrollership, and the information it provides is fundamental in linking costs to results. Our Office is currently auditing departmental plans and strategies for Modern Comptrollership and will report the results in April 2002.

1.10 In 1995, the government set several objectives for FIS: implement modern financial systems in departments and agencies, develop new central systems, introduce accrual accounting policies, and provide managers with better financial information for day-to-day decision making. Our Office supports these objectives fully.

1.11 The Standing Committee on Public Accounts continues to demonstrate strong support for FIS. The Committee recently issued two reports urging the Treasury Board Secretariat to act, particularly on the issue of accrual-based budgeting and appropriations.

The Treasury Board Secretariat has responded. The Secretariat has agreed with our recommendations and its responses to them in the chapter describe current or planned action to address them.

Introduction

The government's expectations for FIS

1.12 The federal government officially launched its Financial Information Strategy (FIS) in 1989 and, after several false starts, revitalized the project in 1995. It set April 2001 as the target for having the strategy up and running in departments and agencies.

1.13 FIS is a prerequisite to the success of two other federal initiatives—Modern Comptrollership, and Results for Canadians: A Management Framework for the Government of Canada. It supports three of the four key elements of modern comptrollership, and the information it provides is fundamental in linking costs to results. Our Office is auditing departmental plans and strategies for Modern Comptrollership and will report the findings in April 2002.

1.14 The strategy is designed in part to modernize government accounting and bring it into line with best practices in the private sector and other public sector jurisdictions. The underlying accounting policies are consistent with emerging national and international accounting standards for the public sector.

1.15 In its publication *FIS: A Summary* (January 1997), the Treasury Board Secretariat notes the objectives it set for FIS when the project was revitalized in 1995:

- Departments and agencies would select and implement new financial systems from a list of seven that were recommended—systems that would support the full **accrual** method of recording and reporting financial transactions.
- The government would develop new accounting policies, consistent with generally accepted accounting principles for the public sector. Departments and agencies would apply those policies and take primary responsibility for the quality and completeness of detailed information on their financial transactions. They would produce annual financial statements that could be audited.
- Government managers would have access to better financial information and would use it in their day-to-day decision making.

The Office of the Auditor General fully supports these objectives.

1.16 In *Managing for Results 2000*, the President of the Treasury Board states that the government is introducing full accrual accounting for the *Public Accounts of Canada* in 2001–02, and the final major step in improving financial information will incorporate accrual-based **budgeting** and accrual-based financial statements. We have found departments in near-unanimous agreement that budgeting and **appropriations** need to be on the same accounting basis as reporting.

Accrual—A method of accounting that recognizes the effect of transactions and events in the period when they occur, regardless of whether cash or equivalent was paid or received.

Budgeting—The process by which financial resources are allocated to government priorities and operations. New policies and projects are prioritized and then await new funding.

Appropriation—Parliament's authorization to pay money out of the Consolidated Revenue Fund.

FIS infrastructure and its relationship to the overall strategy

1.17 The infrastructure that supports FIS includes modern financial systems that can accommodate accrual accounting and transfer summary financial data monthly to the government's Central Financial Management and Reporting System (CFMRS). Departments will continue to use central treasury systems to request payments and to record deposits of cash. Procedures to ensure that financial data are complete and accurate (such as data reconciliation) and basic financial and management reporting are also necessary for FIS to succeed.

1.18 The strategy relies on getting the FIS infrastructure in place. However, that alone will not guarantee success. The strategy's success and the full realization of its benefits hinge on senior and operational managers across government using the new tools and the improved financial information as they make decisions. The strategy introduces managers to a different frame of reference, one that focusses on **expenses**—how resources that support program delivery are used. In essence, FIS promotes better management by allowing managers to see not just the cash costs of delivering a program but all of the costs. In time, these costs could be compared with program results.

Expense—Cost of resources spent on operations during the accounting period.

Focus of the audit

1.19 This is our fourth report on the Financial Information Strategy. In 1997, our chapter on the government's accounting function discussed issues that touched the Strategy. In 1998 we reported on the broad strategic issues more fully, noting that the government had not yet obtained strong support for FIS and commitment to it from senior management in departments. In 1999 we noted that the government had not yet taken the necessary steps to get that support from deputy ministers and senior management. With less than two years until the target date, we urged the government to "turn up the heat" and spur departments to accelerate their FIS activity. The Appendix to this chapter presents a summary of recommendations from our 1998 and 1999 reports.

1.20 In this audit, we looked at whether the government has met the expectations it had for FIS when it revitalized the initiative in 1995. Has it implemented the financial systems infrastructure? Has it made reasonable progress in developing accrual accounting policies and applying them in departments? Has it developed reasonable plans to realize the benefits of FIS?

1.21 We also wanted to know what the government has decided to do about accrual budgeting and appropriations, and whether it has prepared and reported reasonable estimates of the strategy's costs.

1.22 The audit included the Treasury Board Secretariat, Public Works and Government Services Canada, 10 departments, and 3 major cluster groups (support groups for departments using the same financial system). In addition, we drew on the results of our earlier audit work on systems controls and our annual questionnaire on the status of FIS implementation in departments. More information is available in About the Audit at the end of this chapter.

Observations and Recommendations

New financial systems

The government has implemented new financial systems

1.23 Using best practices in the development of complex systems, the Receiver General for Canada put a new suite of central systems into place in 1999 for government-wide reporting. The new systems are capable of providing financial information on an accrual basis in the *Public Accounts of Canada*, and they provide central banking and payment systems for departments.

1.24 Departments and agencies now have their new financial systems, selected from the seven acceptable choices listed by the Secretariat in its shared systems initiative (Exhibit 1.1). Fourteen departments began transmitting summary accounting information to the FIS central systems in 1999, another 21 connected in 2000, and the remaining 60 did so on 1 April 2001. The Receiver General's *CFMRS Scorecard* shows that there have been no significant technical problems in transferring this summary information to the centre.

Exhibit 1.1 The seven financial systems in the Secretariat's shared systems initiative

Financial System	Departments and agencies
1. FreeBalance	32
2. Integrated Financial/Materiel System	25
3. Common Departmental Financial System	19
4. Oracle Financials	9
5. General Management Accounting and Control System	7
6. Government Financial System	1
7. Corporate Management System	1
Non-endorsed systems	1
Total	95

Source: Public Works and Government Services Canada

1.25 However, departments are still stabilizing and debugging their financial systems and business processes. They are having difficulty, for example, managing the process for settling interdepartmental accounts. The government is aware of the difficulty and is attempting to simplify the process.

1.26 Some departments are not fully exploiting the capabilities of their new financial systems. For example, a department may use its new financial system simply as a general ledger interface between its existing systems and the FIS central systems. This means the department has to maintain multiple systems and develop interfaces between them, adding to the complexity and costs of

operating them. Further, the transfer of data from one system to another requires additional controls to ensure that data in both systems are complete and accurate.

1.27 Departments may be aware of the potentially significant investments they will have to make in the next 5 to 10 years for further upgrades, maintenance, and added functionality over the life of the financial system. In general, though, they have not calculated the potential cost or determined how they will fund it. Industry experience indicates that the cost of each major upgrade can range from 20 to 40 percent of the original cost of the system.

1.28 Ensuring data integrity is an important government-wide responsibility. It is needed for creating complete, accurate, and credible financial information, including both departmental and government-wide financial statements. Creating that information includes determining the opening balances required for the new accounting policies and ensuring continually that accounting data are reliable. We expected to see that departments had plans for providing assurance that data were complete and accurate. However, in our audit visits we noted that none had written plans for quality assurance. We are concerned that departments may not have fully assumed the primary responsibility for the integrity of their accounting data.

1.29 We examined the roles that parties other than departments could play in ensuring ongoing data integrity. They include, for example, the Treasury Board Secretariat, providing overall guidance on controls; the cluster groups, developing and communicating common control practices; a department's internal audit function, providing assurance on financial systems and information; and the Receiver General, performing secondary quality review. At the end of our audit, only the Receiver General had taken significant action, establishing a central quality assurance unit.

1.30 Data integrity is also a responsibility of each department. The revised Treasury Board [Policy on Internal Audit](#) repositions the role of internal audit as a provider of assurance, including assurance that information for decision making and reporting is complete and accurate. Departments need to consider using internal audit to provide this assurance. This would contribute to the integrity of financial information within departments and would help ensure the integrity of systems and information shared across government. The Treasury Board Secretariat needs to give departments consistent support and guidance, particularly on how to engage the internal audit community in applying the new policy on internal audit. This would include providing assurance and assessing the reliability of the new financial systems. Some common guidance and tools would help make internal audit work on FIS and financial information across the government more consistent.

1.31 Between January and April 2001, we audited both the controls that three departments had in place for their new financial systems and their related management and monitoring controls. We found that the controls were not adequate. However, the departments can resolve our concerns within a year if they are willing. Our concerns included weaknesses in their

Policy on internal audit—

Departments must have an effective, independent, and objective internal audit function, properly resourced to provide appropriate, timely assurance on all important aspects of risk management strategy and practices, management control frameworks and practices, and information for decision making and reporting.

general controls over access to the systems and in their management and monitoring controls. Exhibit 1.2 provides an overview of our controls audits.

1.32 Departments were receptive to our findings and are taking them into account to use their systems more fully and to adopt the necessary financial controls.

1.33 Recommendation. The Treasury Board Secretariat should ensure that departments have adequate plans, with clear objectives, tasks, and target dates, to finish implementing their systems and maintain them to meet all FIS requirements. Departments' plans should include the following:

- developing appropriate policies, procedures, and controls to ensure that their financial data are complete and accurate; and
- complying with the Treasury Board Policy on Internal Audit.

Treasury Board Secretariat's response. The Treasury Board Secretariat agrees and will monitor the completion of FIS and the implementation of the new Policy on Internal Audit.

1.34 Recommendation. The Treasury Board Secretariat should provide departments with appropriate guidance to ensure data integrity across government. This guidance should include audit tools and methodology for internal audit. In addition, with the assistance of Public Works and Government Services Canada, the Secretariat should monitor the government's data integrity overall by meeting regularly with key departments and requesting their quality assurance plans.

Exhibit 1.2 Overview of our controls audits

Objective

The quality of financial information—its completeness and accuracy—is managed by applying proper controls. We wanted to determine the extent to which the controls of three selected departments could be relied upon.

Scope

We selected the Department of Canadian Heritage, Agriculture and Agri-Food Canada, and the Canada Customs and Revenue Agency (expenditure systems) to assess their internal control systems. Each recently implemented modern enterprise resource planning (ERP) systems to manage its financial affairs.

Methodology

We reviewed four basic types of controls: manual, processing, management, and monitoring.

Conclusion

We found that controls were not adequate at this time. We believe, however, that departments can resolve our concerns within a year if they are willing. Our main concerns include the following:

- Departments are not fully exploiting controls built into their systems.
 - General computer controls over the financial systems are weak.
 - Business process controls are also weak.
 - Management and monitoring controls (primarily budget control) exist only at a basic level.
 - Some managers are still using “black books” (off-line records).
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Treasury Board Secretariat's response. The Treasury Board Secretariat agrees with the need to provide guidance to departments to help ensure data integrity across government and will develop audit tools and methodology for use by internal auditors.

1.35 To foster the sharing of scarce resources, the Treasury Board Secretariat partially funded the creation of cluster groups to support each of the seven approved financial systems. Pooling expertise in particular systems and making it available was particularly useful for departments and agencies, especially smaller ones, that did not have their own resources to implement the new systems FIS would require. The Secretariat announced in September 2001 that it has established a working group to determine how the government can reduce the number of financial system clusters from the seven currently approved.

1.36 Departments have told us they see a continuing role for the cluster groups, not only in FIS but also in modernizing comptrollership, getting government on-line, and other initiatives. Consistent with the shared system concept, cluster groups could also help departments tackle a number of longer-term issues more cost-effectively. Some of these issues are maintaining and upgrading systems, assessing the practicality of using service bureaus, assuring the quality of systems and data, and developing strong control environments that include common control frameworks. The cluster groups are developing long-range plans to deal with these and other issues.

1.37 Departments and the cluster groups see the need for a three- to five-year memorandum of understanding that describes their responsibilities and provides for enough funding to continue their work for that period. Departments and the Secretariat need to work together to establish long-term governance and funding arrangements beyond the current year.

1.38 Recommendation. The Treasury Board Secretariat, in conjunction with departments, should determine the future role of cluster groups.

Treasury Board Secretariat's response. The Treasury Board Secretariat agrees and has launched projects to examine various aspects of the evolution of financial systems across government, including the governance and management structures required to ensure their cost-effective implementation.

Full accrual accounting

Departments are at various stages of implementing the government's new accounting policies

1.39 Under the Financial Information Strategy, departments and agencies become accounting entities in their own right, taking greater responsibility for their accounting information and producing their own financial statements using accrual accounting. They can no longer rely on central agencies to oversee the reporting of accurate and complete financial results. Some departments are more advanced than others in accepting this new responsibility.

1.40 The Auditor General's observations on the summary financial statements, published in the 2000–01 *Public Accounts of Canada*, indicate that the government has made significant progress in its move to full accrual accounting. However, it still has much work remaining to be ready for the preparation of next year's financial statements and our audit of them.

Modified accrual—The government's previous method of accounting in its financial statements; provided for accrual of certain expenses and valuation adjustments to assets and liabilities but recorded spending on tangible capital assets in the period when acquired and recognized tax revenue when cash was received.

Cash—A method of accounting that recognizes the effect of transactions only when cash is received or spent.

1.41 Historically, the government prepared its financial statements on a **modified accrual** basis of accounting: essentially, transactions were recorded on a **cash** basis during the year, and certain accrual information was prepared at year-end. In 2001–02, the government adopted full accrual accounting in accordance with the recommendations of the Canadian Institute of Chartered Accountants' Public Sector Accounting Board. It issued a lot of policy guidance to departments over the past year, but this was relatively late in the life of the FIS project. The Secretariat also produced Treasury Board Accounting Standards and an accounting manual showing the kinds of accounting entries that are required.

1.42 The major new accrual accounting policies cover tangible capital assets, environmental liabilities, accrual of tax revenue, and Aboriginal claims. Auditable financial statements are another significant change for departments. We have the following observations related to the implementation of these accounting policies:

- Departments expected to finish determining their opening capital asset balances in the fall of 2001; the completeness and accuracy of their calculations have yet to be validated. Internal audit could play a key role in that validation, but many departments have not yet used their internal audit services. The Treasury Board issued a new policy effective 1 April 2001 that calls for greater involvement of internal audit in providing assurance on risk management, controls, and information used for decision making and reporting. In view of the thrust of this policy and given the importance of capital asset information for current and future decision making, we would expect departments to use their internal audit resources to validate their opening capital asset balances. Departments were told in late summer that they would receive additional funding to hire the staff they need for their new responsibilities. However, the policy and funding were issued a little too late for internal audit to gear up and participate in this validation process.
- For several years now, departments have reported some of their environmental liabilities to the Secretariat. They are making progress in assessing liabilities for the contaminated sites they have identified. The government believes that it will be able to make a reasonable estimate of its total liability based on the assessed contaminated sites but that it will not be possible to develop this estimate until March 2002. We emphasize the importance of assessing enough sites to allow for a suitable estimate in time for the 2001–02 *Public Accounts of Canada*.
- The move from a cash basis of accounting for tax revenue to one based on assessments is a significant change for the government. The Canada Customs and Revenue Agency has created a small team to carry out this change. It has made considerable progress but still has a lot of work to complete. The process it uses currently to apply the accrual

methodology is a largely manual one, which has made it difficult for the team to meet objectives and target dates.

- We have noted in the past our concern about the ability of Indian and Northern Affairs Canada to estimate the liability for Aboriginal claims by the 2001–02 deadline. It has made progress this past year but has to do a lot more work to meet the deadline.

1.43 For the year ending March 2002, our annual audit will include examining the government-wide application of accrual accounting. However, we set a higher level of materiality in our annual audit work to support our audit opinion on the summary financial statements than we would set in auditing a department's financial statements, and much higher than management should use for its own purposes. Accordingly, departments need to develop quality assurance plans that will give them confidence in the integrity of the accounting information their managers are using to make decisions.

1.44 Departments will be asked to produce financial statements starting with 2001–02. The government's present model, however, will not require them to record some significant liabilities and costs. These include environmental liabilities; allowances for loans, investments, and advances; employee termination benefits; and contingent liabilities. In addition, the financial statements will not include services provided by other departments without charge. In our view, without these items the financial statements will not provide reliable information on departments' program costs and financial positions. The Secretariat told departments that it plans to address these items once the initial phase of FIS is stable and an appropriate management control framework is in place.

1.45 The Secretariat decided that it would not require departments to include their financial statements in their 2001–02 performance reports. Given our concerns about the reliability of the statements under the present model, we concur with the decision to defer their publication.

1.46 Recommendation. The Treasury Board Secretariat should monitor departmental progress in implementing accrual accounting and, if necessary, take appropriate corrective action.

Treasury Board Secretariat's response. The Treasury Board Secretariat has issued a series of information bulletins requiring departmental responses on such issues as adherence to the requirements of a detailed Transition Protocol and the recording of opening balances. The Secretariat is also evaluating the financial information being provided by departments in compliance with accrual accounting standards.

1.47 Recommendation. The Treasury Board Secretariat should establish and communicate a target date for the publication of reliable and useful departmental financial statements.

Treasury Board Secretariat's response. A plan is being developed to guide the development of departmental financial statements and will include a framework for the devolution of certain accounting provisions that are

currently recorded centrally. Training and guidelines have already been provided in support of this initiative including many workshops on the preparation of financial statements. Departments will not be required to include their financial statements in their 2001–02 performance reports. However, where an adequate control framework exists, the Treasury Board Secretariat has approved some inclusions.

Using the new financial information

Continuous encouragement and support is needed to get managers to use the new information for decision making

1.48 FIS entails more than producing financial statements. Having departmental managers use this financial information in their day-to-day managing is the ultimate goal. This means that managers must have access to the information they need and confidence in its accuracy and utility—a significant change-management challenge for departments. Their plans for managing this change are at various stages of implementation. These plans include developing management reporting and training managers to use the new financial tools available to them.

1.49 Departments and agencies have trained their financial staff in the use of the new financial systems and accounting policies. With few exceptions, however, it is only financial staff who are using the new systems, primarily to prepare financial reports and record their departmental transactions.

1.50 Reporting to management has not yet reached its potential in departments. Many are still developing reports for managers, and others have yet to provide reports to managers beyond the finance group. Generally, departments have had difficulty producing management reports because the new financial software is designed primarily for use on-line and, in general, managers are not yet working on-line with the new systems.

1.51 As a result, many departmental managers are still keeping “black books” (off-line records). The books have persisted in part because managers do not know how to use the new financial systems or may not trust that the information the systems generate is accurate or timely.

1.52 Departments have said they do not think their managers will focus on using accrual-based financial information until the government also introduces accrual-based budgeting and appropriations. The Secretariat started to study this issue again in August 2001, but until a decision is made the realization of the full benefits of FIS remains uncertain.

1.53 Departments are starting to train operational managers so they can reap the benefits of FIS. Some are trying out data warehousing tools to supply management with useful reports. Early results show promise for the integration of financial and non-financial performance information, a key aspect of modern comptrollership.

1.54 The Treasury Board Secretariat created the FIS Forum as a way for departments and agencies to share ideas and establish working groups on common issues. Membership was voluntary; those who participated found it a useful and cost-effective exercise. For example, departments could use some

material created in other departments, such as policies and plans, instead of recreating it themselves. However, the FIS Forum is winding down and many working groups no longer meet. Others will continue to operate under the oversight of the Secretariat's Financial Management and Accounting Policy Directorate. In the future, the cluster groups could also be used as a vehicle for sharing lessons learned.

1.55 Departments and agencies have begun to wind down their FIS projects and integrate FIS systems, policies, and information in their operations. They will need to manage this transition carefully, with good follow-through, if the government is to realize the full benefits of FIS. To ensure that FIS is relevant to their business-line managers and regional managers, departments will have to involve and consult them fully. At least one department has used the FIS Forum working groups as a model to fully involve business-line managers and regional managers and to "operationalize" FIS. The Secretariat could help departments by providing guidance on how to integrate FIS in their operations.

1.56 Recommendation. The Treasury Board Secretariat should ensure that departments have adequate plans to promote the use of the new financial information in management's day-to-day decision making. The plans should include clear objectives, tasks, and target dates. At a minimum, they should cover management reporting and manager training.

Treasury Board Secretariat's response. The FIS Project Office of the Treasury Board Secretariat, in collaboration with the Working Groups of the FIS Forum, produced several important tools for use by departments and agencies. These include a generic communications plan, a plan for change management for FIS, a learning framework, several fact sheets for managers, and some case studies. Primary responsibility for the required communications, change management, and learning regimes now rests with departments. That said, the ADM FIS Steering Committee will continue to meet and monitor progress until March 2002 with support from the FIS Project Office. The comptrollership modernization initiative will include work on manager learning, cultural change, and the monitoring of departmental plans and progress.

How much has FIS cost?

1.57 The Standing Committee on Public Accounts has shown strong support for FIS. It tabled reports in 1999 and 2000 that asked the Treasury Board Secretariat for cost estimates and status reports.

1.58 The Secretariat responded by surveying departments (most recently in November 2000) and asking them to estimate their project costs from 1995, when FIS was revitalized, until the end of 2001–02. The surveys indicate that FIS will cost an estimated \$635 million. That estimate includes the costs of project teams, planning, communications and change management, development of accounting policies, valuation of capital assets, financial systems, connection with the FIS central systems, and training of finance officers and program managers. It excludes costs incurred before 1995 and the potentially significant costs of maintaining and upgrading the financial systems over their useful lives.

1.59 We cannot conclude whether this cost estimate is reasonable because in the planning stages the government did not establish a clear framework to capture costs. Departments may not have prepared their cost estimates in a consistent way or identified all of the costs associated with FIS. Moreover, the Secretariat did not carry out any quality assurance to determine whether departments were consistent in responding to the cost survey.

FIS and Parliament

The budgeting and appropriations issue needs to be resolved

1.60 In early 2001, the Standing Committee on Public Accounts issued two more reports supporting our recommendations and urging the Treasury Board Secretariat to act, particularly on the issue of accrual-based budgeting and appropriations. The government responded that this complex issue requires extensive study before a decision can be made, and that meeting the Committee's suggested April 2003 target date to introduce accrual budgeting and appropriations was unlikely. Other than an initial consultation process with departments in February 2000, the Secretariat made little progress on the issue until August 2001, when it hired a manager to complete the study and make a recommendation by the spring of 2002.

1.61 Every department we visited told us it would like the government to make a decision. Almost all of them said that unless the government moves to accrual-based budgeting and appropriations, managers will not focus on accrual-based financial reporting. Departments are close to unanimous in asking that financial information for all purposes be produced on an accrual basis. They are worried about the interval when they will have to prepare the information in their **Estimates** on a different basis from the information in their financial statements. The Secretariat emphasizes that in its view, departments will simply be producing two views of the same underlying data. Resolving this issue will demand a major effort, no matter what course of action is selected.

1.62 Depending on their specific budgeting and reporting needs, some jurisdictions around the world have adopted accrual-based budgeting and appropriations, while others have decided to maintain a dual cash and accrual system. The Canadian government needs to determine and respond to its own needs.

1.63 Accrual-based budgeting and appropriations need to be looked at in light of the way Parliament, the government, and managers currently make decisions. Essentially, Parliament debates and approves government policies and their estimated costs. In the fall of each year, the government carries out pre-**Budget** consultations and departments begin to prepare their budget information. Then, normally in late winter or the spring, the government produces its annual Budget. Government officials have told us that they intend to prepare the Budget on a full accrual basis beginning possibly in 2002.

Estimates—The detailed plans supporting the government's request to Parliament for authority to spend public funds.

Budget—The statement by the Minister of Finance setting out the government's projected revenues and expenditures. It contains an overview of the government's economic and fiscal projections and sets out fiscal policy for the period ahead.

Expenditure—Cost of goods and services acquired in the accounting period, whether or not payments have been made or invoices received; includes transfer payments due for which no value is received directly in return.

1.64 Around the same time, departments' detailed cash-based spending estimates are presented to Parliament in the Estimates and approved through appropriation acts and other acts. Starting in 2001–02, the government will prepare full accrual-based financial statements with the *Public Accounts of Canada*.

1.65 The effects of full accrual accounting will have the greatest impact on the departments' operating and capital costs of delivering their programs, which in 2000–01 amounted to about \$36 billion. The move to full accrual accounting does not significantly affect the larger government expenditures such as public debt charges and transfer payments to persons and to other levels of government. In 2000–01 such costs totalled roughly \$139 billion of the \$175 billion the government spent.

1.66 The current approach to presenting departmental budgets in the Estimates focusses on the annual cash a department needs to carry out its operations, including its investment in tangible capital assets for the current year. Parliament approves these departmental budgets through the use of annual votes (appropriation acts) or as a result of authority granted in program-enabling legislation (known as statutory items). Appropriation acts set upper limits on departmental spending.

1.67 In Chapter 18 of our September 1998 Report, we said that the key accountability documents were moving to a full accrual basis except for the Estimates and the associated appropriations (votes)—the missing link in the government's plan. As a result, Parliament is not presented with the full, accrual-based cost of government programs when its approval of the votes is sought.

1.68 We recognize that a department's annual cash requirements will continue to be important information for Parliament. In our view, however, Parliament would be better served if it also received full program cost information based on accrual accounting as part of the Estimates and appropriations process. This would ensure that Parliament received information comparable with the accrual-based information to be included in the *Public Accounts of Canada*, departmental planning and reporting documents, and the government-wide Budget.

1.69 The government needs to answer a number of questions as it works toward a decision on the budgeting and appropriations issue (Exhibit 1.3). For instance, how does Parliament want to hold departments to account for the financial costs of delivering their programs? Should Parliament approve both a department's accrual-based budget and its underlying cash requirements, thus holding departments accountable for both their full program costs on an accrual basis and their use of cash? Finding a solution that includes parliamentary review and approval of accrual-based information could provide the needed incentive for program managers to use the accrual-based information that their new financial systems provide. It could also help alleviate concerns about departments' ability to make the cultural change that accrual accounting will require.

1.70 Some other jurisdictions have adopted accrual-based budgeting and appropriations. The Secretariat needs to review their practices, consult with Parliament and other stakeholders, and decide on an approach that meets the needs of the government.

1.71 Recommendation. The Treasury Board Secretariat should prepare an adequate plan, with clear objectives, tasks, and target dates, for identifying a suitable approach to accrual-based budgeting and appropriations. The plan should include the following elements:

- carrying out the necessary research;
- developing options for potential approaches to accrual-based budgeting and appropriations;
- consulting departments and Parliament; and
- deciding what approach it will take.

Treasury Board Secretariat's response. The Treasury Board Secretariat agrees with this recommendation and has developed a plan to review alternative approaches to accrual budgeting, including all the elements recommended.

Exhibit 1.3 Accrual budgeting and appropriations—Questions to answer

As the government works toward a decision on the accrual budgeting and appropriations issue, there are a number of questions that it needs to answer, such as the following:

- How does Parliament want to hold ministers, departments, and their managers to account for the financial costs of delivering their programs?
 - Should Parliament approve both a department's full accrual-based budget and its underlying cash requirement forecasts?
 - What will be the future role of information on cash requirements?
 - What are other jurisdictions doing with accrual budgeting and appropriations and could it apply to the Canadian situation?
 - How do accrual-based departmental financial statements fit into the picture?
 - What could be done now to start moving toward the ultimate goal?
 - What legislative changes are needed, if any?
 - How would the appropriation acts need to be modified to support full accrual-based information?
 - What accountability structure is needed to encourage managers to use accrual-based financial information?
-

Completing FIS

A lot of work remains before FIS can be considered finished

1.72 The government met an important milestone on 1 April 2001, when the final group of departmental financial systems went on-line. In our opinion, however, FIS cannot be considered complete. The first accrual-based financial statements will not be finalized until the fall of 2002. And there are still several tasks that the government needs to finish. It has to stabilize financial systems, ensure that appropriate controls are in place, finish implementing its accrual accounting policies, ensure data integrity, train managers in using the new financial information, and decide its approach to

accrual-based budgeting and appropriations. In our view, these tasks must be completed before FIS can be considered finished.

1.73 The Secretariat is considering winding down its FIS project office at the end of March 2002, even though the government will not have produced its first tangible results from FIS. We are concerned that as the funding dries up and FIS project offices are wound down, the momentum to finish the job may be lost. The government must not lose sight of the key objectives and expected benefits of FIS. It needs to continue focussing on FIS objectives at least until the first full accrual-based financial statements are produced in the fall of 2002. Then it can reassess the status of the remaining tasks.

1.74 FIS has been under way since 1989 and has consumed a lot of resources. Parliament and taxpayers would like to see tangible benefits from this investment. We are concerned that early termination of the FIS project could jeopardize the full gains of this important initiative.

1.75 The government is considering transferring some of the uncompleted aspects of FIS to the Modern Comptrollership initiative. Others will be continued through the Financial Management and Accounting Policy Directorate. It is important that the tasks we have noted be completed, whether under FIS or Modern Comptrollership. FIS has been managed as a project with specific timeframes and deliverables and is near completion. The Modern Comptrollership initiative only recently completed its pilot stage and is just starting the implementation phase. This means that most departments are just beginning to create project teams and develop detailed plans. Accordingly, the government must carefully consider how it will ensure that the tasks remaining to complete FIS are carried out.

Conclusion

1.76 Over the last three years, departments and agencies have installed new financial systems capable of handling the accrual accounting requirements of FIS. Assisted by Public Works and Government Services Canada, they have developed the interfaces that permit their new systems to transmit summary financial information to the FIS central systems. Departments now need to stabilize their new systems, ensure that appropriate controls are in place, and provide complete and accurate financial information that managers will use.

1.77 The Treasury Board Secretariat has developed and communicated the accounting policies that move the government to full accrual accounting based on generally accepted accounting principles for the public sector. Departments are at various stages of implementing these policies and determining their opening balances for such items as tangible capital assets. The government and departments are to produce their first set of accrual financial statements for the year ending 31 March 2002. The current reporting model for departments will not require them, however, to record and disclose in their financial statements some significant liabilities and costs.

1.78 The government recognizes the significant challenge it faces to change the way managers view and use financial information day to day. Departments are at different stages of implementing their change management plans, which include developing management reporting and training managers to use their new financial tools. These plans are essential to realizing the full benefits of FIS.

1.79 The government has made slow progress toward deciding on an approach to accrual-based budgeting and appropriations. In *Managing for Results 2000*, it recognizes the importance of this decision as the final major step in improving its financial information and management.

1.80 The Secretariat carried out a survey of departments to obtain an estimate of FIS costs across government. The results of that survey showed a total estimated cost of about \$635 million. We cannot conclude whether this estimate is reasonable, given our concerns about the completeness and accuracy of the information in the absence of a cost reporting framework.

1.81 In summary, the government has accomplished a lot but still has much work to finish. It should not be too quick to declare FIS a victory.

About the Audit

Objectives and criteria

In this audit, we looked at whether the government has met the expectations it had for FIS when it revitalized the initiative in 1995. Has it implemented the financial systems infrastructure? Has it made reasonable progress in developing accrual accounting policies and applying them in departments? Has it developed reasonable plans to realize the benefits of FIS?

On the systems side, we expected the Receiver General for Canada to have implemented FIS central systems that capture summary accounting information from departments and that can produce the information needed for the preparation of the government's summary financial statements. We also expected departments to have put in place financial systems that meet FIS requirements and that can provide the FIS central systems with the necessary summary accounting information. We expected that cluster groups would provide support to their member departments in meeting FIS requirements.

With respect to accounting policies, we expected the Secretariat to have developed accrual accounting policies that conform with generally accepted accounting principles for the public sector. We also expected departments to have made reasonable progress in applying these accounting policies, determining their opening accounting balances and preparing for the production of accrual-based financial statements for the 2001–02 fiscal year.

We expected that the government and departments would have reasonable plans or strategies to encourage managers to use the accrual-based information and tools now available to them as a result of FIS.

We also wanted to know what the government has decided to do about accrual budgeting and appropriations, and whether it has prepared and reported reasonable estimates of the strategy's costs.

We expected the government to have a reasonable plan for reaching a decision on the accrual budgeting and appropriations issue. We also expected the government to monitor and report on the overall progress and the costs of FIS.

Scope and approach

Our audit findings are based on interviews with government officials in central agencies, in the cluster groups, and in departments; a review of relevant documentation; a review of government-wide and departmental Web sites and information provided by departments in response to our FIS questionnaire; and our audits of controls in three departments.

We carried out our audit of the central aspects of FIS implementation at the Treasury Board Secretariat and Public Works and Government Services Canada (the Receiver General for Canada). We carried out work on departmental aspects of FIS at Human Resources Development Canada, the Canada Customs and Revenue Agency, National Defence, Fisheries and Oceans, the Canadian International Development Agency, the Department of Foreign Affairs and International Trade, the Royal Canadian Mounted Police, Transport Canada, Correctional Service Canada, the Treasury Board Secretariat (including the Department of Finance), and Public Works and Government Services Canada. The scope of the audit also included the SAP, Oracle, and FreeBalance cluster groups.

We carried out audits of controls in the expenditure systems at the Canada Customs and Revenue Agency, Agriculture and Agri-Food Canada, and the Department of Canadian Heritage.

Audit team

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Appendix Summary of previous recommendations

The Financial Information Strategy: A Key Ingredient in Getting Government Right (Chapter 18, 1998 Report)








In the chapter, we discussed a number of broader strategic challenges that were important to the success of the Financial Information Strategy. While not formal recommendations, we list them here to provide some background context to the recommendations.





- Integration of FIS into departmental management.
- Moving to accrual-based appropriations.
- Obtaining departmental buy-in.

1998 recommendations	Our assessment	Comments
The Treasury Board Secretariat should implement its plans to expand its continuous risk assessment process and to monitor and facilitate the implementation of FIS government-wide to help ensure that the full benefits of FIS are achieved (paragraph 18.51).		Public Works and Government Services Canada took the lead in carrying out continuous risk assessment. The Secretariat participated in this process.
The Treasury Board Secretariat and Receiver General should implement their plans to provide guidance, such as control frameworks, covering all types of transactions required for the full implementation of FIS (18.59).		An overall framework and a Receiver General specific control framework were prepared.
The Treasury Board Secretariat should implement its plans to: <ul style="list-style-type: none"> • describe the accounting and control environment for the transition period; • provide guidance to departments on the integration of FIS into departmental decision making; and • facilitate the development of departmental plans that cover both the post-implementation FIS environment and the transition period (18.60). 		The transition period has now passed. Additional planning is needed for the post-implementation FIS environment, such as guidance on integrating FIS into decision-making.
Departments should develop detailed plans that set out the accounting and control requirements for both the post-implementation FIS environment and the transition period (18.61).		Some departments have begun to discuss post-implementation control requirements.
The Treasury Board Secretariat should provide additional guidance to departments on the development of their departmental FIS implementation plans. To ensure that these plans are complete, departments should ensure that they include the following provisions: <ul style="list-style-type: none"> • management reporting requirements under the FIS environment; • a change management plan showing how management and staff will be reoriented, reorganized and retrained to meet all of the requirements of the new FIS environment, not just the systems renewal component; • periodic determination and reporting of the full life-cycle cost of their FIS implementation; • a plan for security and management controls that would be subject to an external review prior to putting the new systems into production; • a plan to manage the risks associated with the current lack of experienced, expert resources for systems implementation and enhancement; and • the role for, and training of, departmental internal audit groups in reviewing progress, reviewing risk assessments, conducting reviews of security and management controls, and establishing requirements for auditability and data integrity (18.79). 		Departments developed FIS plans, focussing primarily on systems and accounting policy issues. Change management plans were developed but with various degrees of complexity. Departments need to deal with controls and security issues, including review by independent audit.

 Fully addressed
  Satisfactory progress
  Some progress
  Unsatisfactory progress

Financial Information Strategy: Departmental Readiness (Chapter 21, 1999 Report)

1999 recommendations	Our assessment	Comments
Departments and their deputy ministers should make FIS implementation a priority and make a public commitment to that effect in their departmental <i>Report on Plans and Priorities</i> documents in the spring of 2000 (paragraph 21.57).		Departments signed memoranda of understanding with the Secretariat committing to implement FIS. Limited public commitment in the <i>Report on Plans and Priorities</i> documents.
Departments should designate a senior-level sponsor of the FIS initiative, someone who is in a position to promote FIS beyond the finance area (21.58).		Almost all FIS projects were led or sponsored by the senior financial officer.
Departments should immediately establish dedicated FIS implementation teams that integrate systems, accounting and change management skills as well as program management representatives (21.59).		FIS teams were established, though some are now being disbanded.
Departments should implement a FIS awareness communications campaign for line and senior managers, highlighting how FIS will help them manage in the future government environment (21.60).		Departments made use of presentations and intranet. FIS Forum working groups provided communications tools.
<p>Departments should immediately develop plans that cover all aspects of FIS implementation. These plans should include the following:</p> <ul style="list-style-type: none"> • a description of the department's future financial management environment; and • a comprehensive timetable and plan/strategy to do the following: <ul style="list-style-type: none"> • connect the departmental financial system to the FIS central systems; • determine and implement appropriate accrual accounting policies and procedures needed to produce auditable departmental financial statements; and • move the department to the future financial management environment. This should include the following: <ul style="list-style-type: none"> • a gap analysis of the current versus future decision making environment and business processes; • a communications plan to increase FIS awareness and to establish two-way consultation; • a training analysis and plan; and • an analysis of the human resource competency and capability (21.61). 		Departments developed FIS plans that covered most of the items in the list. These varied by department. Work is still needed in a number of areas, such as producing financial statements, training, and acquiring human resource capacity.
The Treasury Board Secretariat should immediately put in place, communicate throughout government and maintain an updated, fully integrated master implementation plan for the FIS. The plan should indicate what can be realistically accomplished by the target date of April 2001 as well as target dates for the completion of remaining aspects of FIS implementation (21.87).		A high-level plan was prepared.
The Treasury Board Secretariat should immediately obtain documented commitment from departments to implement all aspects of FIS (21.88).		Memoranda of understanding signed by departments, the Secretariat, and Public Works and Government Services Canada. These focussed on systems implementation.

 Fully addressed Satisfactory progress Some progress Unsatisfactory progress

1999 recommendations	Our assessment	Comments
The Treasury Board Secretariat should obtain and review departmental FIS implementation plans (21.89).	⊖	Departments were asked to provide plans, primarily at a general level.
The Treasury Board Secretariat should establish a reporting framework to permit the FIS Project Office to monitor departmental FIS implementation progress and costs, and to intervene if difficulties arise (21.90).	●	Done at a high level only. Status reporting was discontinued after March 2001.
The Treasury Board Secretariat should consider providing additional funding and other resources to departments where the need for such an intervention can be clearly established (21.91).	●	Additional funding for FIS was made available to departments.
The Treasury Board Secretariat should develop and implement a comprehensive communications plan to market FIS to senior government managers and provide guidance and consultation regarding change management and lessons learned (for example, case studies) (21.92).	●	The Secretariat created the FIS Forum, whose working groups provided communications and change-management tools. Senior government managers were regularly briefed on FIS.

- **Fully addressed.** The original audit finding has been fully addressed and there is no need to take additional action.
- ⊖ **Satisfactory progress.** Substantial progress has been made in addressing the original audit finding, but some additional action is still required.
- ⊕ **Some progress.** Some progress has been made in addressing the original audit finding, but considerable additional action is still required to achieve the desired results.
- **Unsatisfactory progress.** Progress has not been made in addressing the original audit finding, and action remains outstanding.