

2011



Status Report of the Auditor General of Canada to the House of Commons

Chapter 1 Financial Management and Control and Risk Management



Office of the Auditor General of Canada

The 2011 Status Report of the Auditor General of Canada comprises Matters of Special Importance, Main Points—Chapters 1 to 6, an appendix, and seven chapters. The main table of contents for the Report is found at the end of this publication.

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Chapter

1

Financial Management and Control
and Risk Management

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Financial Management and Control and Risk Management

Main Points

What we examined

Financial control and risk management are central to managing any organization effectively. To the extent that they are done well, they can contribute to an organization's ability to safeguard its assets, use its resources economically and efficiently, and produce accurate and reliable financial information. Reliable information is key to developing a complete and accurate picture of financial performance.

In our April 2003 Report we observed that federal departments we had selected for audit were in the early stages of implementing integrated risk management and that much remained to be done. For example, departments needed to complete their analysis of risk, including assessing their tolerance for risk. We also noted that departments needed more guidance from the Treasury Board of Canada Secretariat on the steps involved in integrated risk management.

Our May 2006 Report noted that departments selected for that audit had made some progress in resolving financial control weaknesses and improving their financial management competencies. However, we noted that unless they also improved their financial controls, the quality of information used for many key decisions would be at risk. We also noted that most financial information used for budgeting and decision making was based on the cash method of accounting, which provided a less accurate and complete picture of a department's financial situation than the accrual method.

In this follow-up audit we examined government's progress in acting on commitments made in response to our previous concerns. Our audit included the Treasury Board of Canada Secretariat (the Secretariat) which includes the Office of the Comptroller General, and seven large federal departments, namely: Agriculture and Agri-Food Canada, Department of Finance Canada, Foreign Affairs and International Trade Canada, Human Resources and Skills Development Canada, Indian and Northern Affairs Canada, Transport Canada, and Veterans Affairs Canada.

Audit work for this chapter was substantially completed on 30 September 2010.

Why it's important

Canadians expect the government to be well managed and to be accountable for the safeguarding of public assets and the stewardship—efficient, effective, and economical use—of public funds. Effective financial controls and risk management are vital to reduce the risk that the government may not achieve these objectives.

What we found

- Overall, the Treasury Board of Canada Secretariat and departments have made satisfactory progress in acting on their previous commitments, in particular, with respect to developing policies, frameworks, and relevant guidance on internal controls, and implementing risk management measures. Departments have still not fully assessed their internal control systems to identify and address weaknesses; and, according to their action plans, this work will take years to complete. In addition, the Office of the Comptroller General (OCG) has yet to establish processes for monitoring the completion of these assessments or for assessing actions taken by departments to address significant internal control issues. There is also a long-standing issue that has not been sufficiently addressed—namely, accrual-based budgeting and appropriations.
- The Treasury Board of Canada Secretariat, through the Office of the Comptroller General, has demonstrated leadership by developing a new and strengthened financial management policy suite, clarifying roles and responsibilities, and supporting deputy heads in their role as accounting officers as set out in the *Financial Administration Act*. Most of the selected departments told us they found the Secretariat's initiatives and approach to be helpful. However, there is more work to be done to improve the Secretariat's monitoring of the implementation of these policies so that it can appropriately assess departments' performance in achieving the policy goals.
- Each of the selected departments has developed a corporate risk profile that summarizes an assessment of the department's key risks, with processes in place to update these profiles regularly. The integration of risk into planning, reporting, and decision making has improved.
- Financial human resource capacity has improved since our last report. The Office of the Comptroller General has put in place several measures to enhance capacity, including guidelines on the qualifications of chief financial officers, mandatory training courses for financial staff, promotion of professional accounting designations for mid-level financial officers and financial managers, staffing initiatives, and forums and exchanges on best practices.

Departments are working to maintain and strengthen their workforce by recruiting, training, and developing the appropriate number of financial officers and managers with the required skills, competencies, and experience. Departments are at various stages in the process of putting in place strategies to address the anticipated turnover of senior financial executives.

- The government has not completed its evaluation of accrual-based budgeting and accrual-based appropriations and has not yet decided if it intends to fully adopt either or both of these approaches. It has taken what it considers the needed action related to accrual-based budgeting. However, it is our view that these actions are not sufficient or appropriate to attain accrual-based budgeting at the departmental level. At this point no decision on whether to adopt accrual-based appropriations has been made.

The departments and the Secretariat have responded. The departments and the Secretariat agree with all of the recommendations. Their detailed responses follow the recommendations throughout the chapter.

Introduction

1.1 Each year, the government manages billions of dollars in taxpayers' money to deliver services and programs to Canadians. The Public Accounts of Canada reported that during the 2009–10 fiscal year, the Government of Canada had \$219 billion in revenue and \$274 billion in expenses. In addition, the government's financial position at that time included assets of \$364 billion and liabilities of \$883 billion.

1.2 Canadians expect the government to be well managed and to handle taxpayers' money prudently and economically. To do this, the government must exercise sound financial management and control and risk management within the requirements of the *Financial Administration Act* and regulations. It must also follow relevant Treasury Board policies, directives, and standards, and be guided by principles of value for money, accountability, transparency, and risk management. This means that systems, practices, and resources need to be in place to ensure that

- public funds are managed prudently and honestly;
- assets are safeguarded;
- resources are used effectively, efficiently, and economically to achieve government objectives;
- accountabilities for financial management are clearly established;
- financial risks are being mitigated by effective internal controls; and
- the Canadian public and parliamentarians are provided with pertinent and reliable information on the use of public funds.

Significant deficiencies in these areas of financial management and control and in risk management can have detrimental effects on the level of service that Canadians receive and the government's credibility.

1.3 To be well managed an organization must identify, assess, and respond to risks that could affect the fulfillment of its objectives. Integrated risk management involves managing risk across an organization in a coordinated and systematic manner. This assists an organization in better understanding the risks it faces—for example, financial, environmental, strategic, and operational risks. It also assists an organization in making informed decisions about how to mitigate threats that could have an impact on its ability to meet its objectives, and how to take advantage of the opportunities that uncertainty presents.

Accrual-based financial information—Information compiled using a method of accounting that records an entity’s transactions and other economic events when they occur, rather than when the entity receives or pays cash or its equivalent (cash-based accounting).

Appropriations—An authority from Parliament to incur a maximum dollar amount for a specified activity during a fiscal year, with legislated consequences for exceeding the maximum established by the appropriation.

1.4 Good financial management requires the provision of pertinent and reliable information for planning and allocating funds. It is our view that the use of **accrual-based financial information** for budgeting and **appropriation** of funds would allow departments to better manage and control operating and capital spending and improve transparency and accountability. It would also help legislators hold the government accountable for its stewardship (effective, efficient, and economical use) of public assets, the full costs of programs, and its ability to meet short-term and long-term financial obligations.

1.5 The capacity of financial human resources also plays a key role in determining how well the government can deliver results that meet the expectations of Canadians. In a climate of fiscal pressure, it is important for departments to continue to maintain and build a strong workforce for the future. This can be accomplished by recruiting, training, and developing the appropriate number of financial officers and managers with the required qualifications, skills, competencies, and experience.

1.6 Exhibit 1.1 summarizes key roles and responsibilities for implementing financial management and control and risk management.

Exhibit 1.1 Summary of key roles and responsibilities for implementing financial management and control and risk management

Position	Responsibilities
Deputy head	As the “accounting officer,” has overall responsibility for financial management and control and risk management within a department. This includes accountability for <ul style="list-style-type: none"> • allocating resources to deliver departmental programs in compliance with government policies and procedures; • appointing a qualified Chief Financial Officer; • maintaining effective systems of internal controls and signing accounts in a manner that accurately reflects the financial position of the department; and • exercising any other duties prescribed by law or regulations relating to the administration of their department (in practice, accounting officers are also accountable for parliamentary appropriations received).
The Chief Financial Officer	Provides support to the deputy head as the senior departmental executive, strategic adviser, and key steward for departmental financial management.
Senior departmental managers	Are responsible for financial and risk management for all the activities falling within his or her areas of responsibility.
The Treasury Board of Canada Secretariat	<ul style="list-style-type: none"> • Serves as a centre of expertise to support integrated risk management and sharing of good practices. • Provides guidance and advice on risk management for departments and agencies. • Annually examines and evaluates the effectiveness of integrated risk management as well as financial management and control within government departments and agencies and reports on progress.

Exhibit 1.1 Summary of key roles and responsibilities for implementing financial management and control and risk management (continued)

Position	Responsibilities
The Office of the Comptroller General of Canada within the Secretariat	<p>Provides government-wide functional direction and guidance to departments and agencies on financial management and control, and on stewardship of public resources and financial management information systems. This includes</p> <ul style="list-style-type: none"> • interpreting financial management policies, directives, and standards for the Government of Canada; • assessing departmental financial management performance periodically; • supporting the development of sustainable financial management capacity across the government; and • monitoring compliance with policy, reporting on deficiencies, and ensuring that departments take timely corrective action.

Sources: Treasury Board Policy on Financial Management Governance, Treasury Board Policy on Internal Control, Framework for the Management of Risk, and Treasury Board Guidelines on the Expected Qualifications for Chief Financial Officers.

What we found in our 2003 and 2006 audits

1.7 This chapter follows up on selected recommendations and relevant observations, and on the government's related commitments, from our 2003 April Report of the Auditor General of Canada, Chapter 1, Integrated Risk Management, and our 2006 May Status Report of the Auditor General of Canada, Chapter 1, Managing Government: Financial Information.

1.8 In 2003, we reported that the Treasury Board of Canada Secretariat and the departments that we had selected for audit were at an early stage of implementing integrated risk management. We noted that the Secretariat needed to provide more guidance on how to integrate risk management and that departments needed to

- complete risk profiles,
- better define risk tolerances,
- periodically review profiles to ensure that risks remained relevant, and
- integrate risk information into strategic decision making.

1.9 In 2006, we followed up on long-standing issues related to financial management and controls and reported that the Office of the Comptroller General had not done enough to enhance financial management and control government-wide and to promote accrual-based budgeting and appropriations. We also reported that less than 50 percent of the selected federal organizations had made satisfactory progress in addressing previously reported weaknesses in financial controls.

Events since 2006

1.10 In December 2006, Parliament passed the *Federal Accountability Act*. Shortly thereafter, the government presented the Federal Accountability Action Plan to increase government-wide accountability, transparency, and oversight in departments and agencies. In this plan, the government committed to reviewing and streamlining financial management policies; replacing transaction-level requirements and rules with basic principles of accountability and transparency, where possible; and revoking policies and regulations that did not promote accountability and good management. To meet these objectives, the Secretariat continued its policy renewal initiative.

1.11 Amendments to the *Financial Administration Act* made by the *Federal Accountability Act*, named the deputy head of a department or an agency as the “accounting officer.” These amendments clearly established the deputy head’s accountability before parliamentary committees for measures taken to ensure the department’s compliance with government policies and procedures. They also set out the deputy head’s responsibilities for maintaining effective internal controls.

1.12 In support of the Federal Accountability Action Plan, the Secretariat reviewed the Treasury Board’s management policies to clarify management’s roles and responsibilities and to ensure a risk-based approach to streamlining rules and processes. This was also intended to clarify the objectives of Treasury Board policies and the results to be achieved by them and to clarify the Secretariat’s oversight role in holding departments accountable for management performance, including maintaining effective internal controls. Exhibit 1.2 summarizes key financial management policies.

Focus of the audit

1.13 In this chapter, we reviewed the progress that the Secretariat and seven selected departments, listed in **About the Audit**, had made toward commitments related to selected recommendations and relevant observations from our 2003 and 2006 audits. We looked at whether they had taken satisfactory action to enhance controls for financial reporting and to improve integrated risk management. We also looked at steps that the Secretariat had taken toward implementing accrual-based budgeting and appropriations. Although our previous audits did not make specific recommendations on the capacity of financial management human resources, we considered this important aspect of financial management and control in this follow-up report. We did not assess internal controls within the selected departments or the risks identified in their Corporate

Risk Profile. Rather, we focused on whether the departments were assessing their internal controls and practices, and on their approach to risk management.

1.14 More details about the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Exhibit 1.2 Summary of key financial management policies

Policy	Effective date, objective, and requirements
<p>Policy on Financial Management Governance</p>	<p>Effective date: 1 April 2009</p> <p>Objective: To strengthen public sector financial management and its leadership thereby contributing to appropriate stewardship of public resources, effective decision-making, and efficient policy and program delivery.</p> <p>Requirements: The policy specifies core financial management responsibilities pertaining to deputy heads, chief financial officers, senior departmental managers, departmental audit committees and the Comptroller General. This includes that the deputy head must appoint a Chief Financial Officer.</p>
<p>Policy on Internal Control</p>	<p>Effective date: 1 April 2009</p> <p>Implementation was to be phased in over three years, based on risks and departmental readiness as follows:</p> <ul style="list-style-type: none"> • 1 April 2009—effective for the 22 large departments that completed a readiness assessment to support control-based audits of financial statements • 1 April 2010—effective for departments and agencies that currently have audits of their financial statements • 1 April 2011—effective for all other departments and agencies <p>Objective: To adequately manage risks relating to the stewardship of public resources through effective internal controls, including internal controls for financial reporting.</p> <p>Requirements: Deputy heads are responsible for</p> <ul style="list-style-type: none"> • establishing, maintaining, monitoring and reviewing an effective system of internal controls to mitigate risk with respect to the effectiveness and efficiency of programs, operation and resource management, the reliability of financial reporting and compliance with legislation, regulations, policies and delegated authorities; • conducting an annual risk-based assessment of the system of internal control over financial reporting; • establishing an action plan to address significant issues found in the assessment and ensuring appropriate and timely action is taken to address issues; and • publishing a summary of the assessment results and actions taken in response. <p>The Office of the Comptroller General within the Treasury Board of Canada Secretariat is responsible for</p> <ul style="list-style-type: none"> • overseeing the effectiveness of the system of internal control; and • monitoring that appropriate and timely action is taken to address significant issues over financial management and over financial reporting.

Exhibit 1.2 Summary of key financial management policies (continued)

Policy	Effective date, objective, and requirements
<p>Policy on Financial Resource Management, Information and Reporting</p>	<p>Effective date: 1 June 2010, except for the requirement for quarterly reporting, which becomes effective 1 April 2011</p> <p>Objective: To ensure that the management of public funds is supported by effective planning, budgeting, and reporting, which are based on reliable information and the sound analysis of that information.</p> <p>Requirements: Deputy heads are responsible for ensuring</p> <ul style="list-style-type: none"> • approval, timely allocation, and effective oversight of the departments' financial plans, budgets, and related allocation of resources with appropriate involvement of the Chief Financial Officer; • preparation of a complete set of departmental financial statements in accordance with Treasury Board standards; • preparation of quarterly reports to be made public within 60 days of the reporting period; and • implementation of measures for the department to sustain a control-based audit of its annual financial statements in whole or in part. <p>The Treasury Board of Canada Secretariat is responsible for requesting audits of departments' financial statements in part or in whole and monitoring compliance with Policy.</p>
<p>Policy on Stewardship of Financial Management Systems</p>	<p>Effective date: 1 January 2010 (replaces the policy on Financial Systems and Controls dated 1996)</p> <p>Objective: To ensure that financial management systems deliver more accurate, reliable, accessible, and timely financial information.</p> <p>Requirements: Deputy heads are responsible for ensuring that</p> <ul style="list-style-type: none"> • financial management systems (FMS) meet operational requirements and are aligned with government-wide strategic direction for FMS; • configurations are standardized; and, • common government-wide financial management business processes are used and common data requirements are in place. <p>The Treasury Board of Canada Secretariat is responsible for</p> <ul style="list-style-type: none"> • ensuring that sound financial management governance structures are in place for each cluster group; • supporting Treasury Board in issuing appropriate policy instruments • monitoring compliance with Policy

Sources: Treasury Board Policy on Financial Management Governance, Treasury Board Policy on Internal Control, Treasury Board Policy on Financial Resource Management, Information and Reporting, and Treasury Board Policy on Stewardship of Financial Management Systems

Observations and Recommendations

Financial controls

1.15 In response to the recommendations on internal controls for financial reporting made in our 2006 May Status Report, Chapter 1, the Treasury Board of Canada Secretariat committed to improving and strengthening the policy environment related to financial controls. In 2005, as a part of the audited financial statement initiative, the Secretariat had requested that large departments undergo a readiness assessment, which included the review of the control environment in which each department operated. At that time, the government's objective was to improve the integrity of financial information both for decision making and accountability. The purpose of the readiness assessment was to determine whether departments were ready to support a controls-based audit of such departmental financial statements. The Office of the Comptroller General within the Secretariat was to monitor results of the assessment and work with departments to ensure they took corrective action where necessary.

1.16 At the time of our 2006 audit, some departments were in the process of having this assessment done. In 2008, when all the readiness assessments were completed, none of the selected departments could demonstrate that they had sufficient controls in place to support a controls-based audit of financial statements. Most of these departments began work to improve their systems of internal control at that time. Subsequently, the departments' focus shifted from audited financial statements to the mandatory annual public disclosure of their risk-based assessment of controls over financial reporting and of their planned improvements. These requirements are set out in the 2009 Treasury Board Policy on Internal Control.

1.17 We examined the steps taken by the Secretariat to improve the policy environment for financial controls, including whether it had issued its policy instruments and whether the Office of the Comptroller General was supporting departments in implementing the policy requirements and monitoring departments' compliance with these requirements. We also examined whether the selected departments had assessed their internal controls for financial reporting and addressed gaps and weaknesses identified in order to work toward implementing the new policies.

The Secretariat has developed policies, directives, and standards for financial controls and is supporting departments in applying them

1.18 Development of policies, directives, and standards. We found that the Secretariat has developed new and stronger policy instruments to improve the financial and risk management capacities of departments at all levels. The Policy on Internal Control, which came into effect on 1 April 2009 for the 22 largest departments (including the 7 departments selected for this audit), is a critical element of the government's approach. This policy defines responsibilities for establishing, maintaining, communicating, and monitoring internal controls for managing public resources. It is designed to manage risk and support deputy heads, in fulfilling their responsibilities for providing reasonable assurance that their financial reporting controls are well maintained and that resources are well managed. The policy emphasizes having effective financial reporting controls to mitigate significant financial risks. It requires departments to perform an annual risk-based assessment of internal financial reporting controls and disclose the results of such assessments to the public, as well as their plans to address any changes needed. The intent of this policy is to increase public confidence and trust through strengthened accountability and transparency.

1.19 Support and monitoring. We found that the Office of the Comptroller General (OCG) is providing ongoing support to departments as they implement the policies and related directives and standards and has some mechanisms in place to monitor government-wide progress. The OCG's related actions include

- continued use of "policy centres" to provide guidance and support to departments and agencies, as they implement Treasury Board policies on financial management, and to facilitate the sharing of information and best practices across departments;
- development of guidelines and tools, in consultation with departments, for implementing policy requirements (for example, the new Guideline on Chief Financial Officer Qualifications and Guideline on Internal Control Over Financial Reporting);
- some improvements to the monitoring of financial management across the government, through ongoing modifications to its Management Accountability Framework (an assessment tool used to evaluate departmental performance against the Secretariat's

expectations for good management, including financial management); and

- audits of various government departments to assess performance on implementation of policies.

1.20 Officials from the selected departments informed us that they are pleased with the support that the OCG has provided on this initiative and are particularly satisfied with the consultative approach taken.

1.21 The OCG reviews departments’ annual disclosure of the results of work done to date to assess internal controls for financial reporting. However, at the time of the audit, the OCG had not yet established processes for monitoring the completion of these assessments or for assessing actions taken by departments to address significant issues identified as required by the Policy on Internal Control. Moreover, there was no plan in place to determine when departments ought to identify or remedy any major weaknesses in their financial reporting controls. In addition, there were no plans to assess and monitor the progress in addressing those weaknesses (Exhibit 1.3). In our view, the OCG needs to increase its efforts in monitoring policy requirements.

Exhibit 1.3 Progress in addressing our recommendation on providing guidance to departments on internal financial controls

Recommendation	Progress
<p>The Office of the Comptroller General should</p> <ul style="list-style-type: none"> • work closely with internal auditors and senior financial officials in departments and agencies to develop a strategy for strengthening internal financial controls, • develop an implementation plan that includes deadlines by which departments and agencies must identify and remedy any weaknesses in their internal financial control systems and that provides for assessing and monitoring the progress in addressing those weaknesses, and • regularly monitor the actions of departments and agencies to assess their progress against this plan. <p>(Recommendation 1.37 of the 2006 May Status Report of the Auditor General of Canada, Chapter 1, Managing Government: Financial Information)</p>	<p>Unsatisfactory</p>

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

The selected departments are implementing the Policy on Internal Control but have not fully assessed their internal controls for financial reporting

1.22 We found that the seven selected departments have made some progress toward completing their annual risk-based assessments of financial reporting controls, as required by the Policy on Internal Control (Exhibit 1.4). These assessments and the related actions taken to address identified weaknesses are essential to having internal controls that are properly designed and implemented to address financial risks of the entity. Departments that are more advanced in carrying out these assessments have identified weaknesses in the design of their key financial controls, such as gaps in supporting documentation or weaknesses in controls over IT management processes (for example, access and change management processes). These departments are implementing action plans to address the weaknesses in design of controls. We have not audited the internal controls and therefore do not conclude whether internal controls are effective. However, we do note that the selected departments have not yet done all the work required under the Policy on Internal Control to assess their financial reporting controls.

1.23 In November 2010, we noted that the selected departments had included their progress and the expected date for completing the

Exhibit 1.4 Status of departments' assessments of financial reporting controls as of 30 September 2010

Departments	Documenting key business processes and controls	Testing design of internal controls	Testing effectiveness of internal controls	Planned date (fiscal year) to complete first full assessment of internal controls
Agriculture and Agri-Food Canada	●	◐	◐	2012-13
Department of Finance Canada	●	◐	○	2010-11
Foreign Affairs and International Trade Canada	●	○	Not Started	2012-13
Human Resources and Skills Development Canada	●	◐	Not Started	2013-14
Indian and Northern Affairs Canada	●	◐	Not Started	2014-15
Transport Canada	●	◐	○	2011-12
Veterans Affairs Canada	●	●	○	2010-11

- **Substantially complete**—Most required actions are completed
- ◐ **Moderately complete**—Additional action is still required
- **Partially complete**—Considerable action is still required

assessment of their financial reporting controls in an appendix to their departmental financial statements, which are available to the public on the departments' websites.

1.24 In summary, although the selected departments are making progress, much work remains to be done. It is expected that it will take years for most of the departments to complete the first full assessment of the design and effectiveness of their financial reporting controls. Considering the importance of ensuring that internal controls are in place and operating effectively, the timelines presented in Exhibit 1.4 may be lengthy. Furthermore, the departments have not fully implemented a program for the continuous monitoring of the effectiveness of their internal controls.

1.25 Recommendation. The seven audited departments (Agriculture and Agri-Food Canada, Department of Finance Canada, Foreign Affairs and International Trade Canada, Human Resources and Skills Development Canada, Indian and Northern Affairs Canada, Transport Canada, and Veterans Affairs Canada), in consultation with the Office of the Comptroller General, should review the timelines set for completing their full risk-based assessment of the effectiveness of their financial reporting controls and for addressing identified gaps and weaknesses, to ensure that they are timely. The departments should also implement programs for continuous monitoring of these controls to confirm their ongoing effectiveness.

The departments' response. Agreed. The selected departments are in the process of carrying out risk-based action plans for completing assessments of financial reporting controls within the current timelines. The departments generally agree to review these timelines in consultation with the Office of the Comptroller General, as well as any timelines they have or will set for addressing identified gaps and weaknesses in controls. Furthermore, the departments will continue to implement programs for ongoing monitoring of their financial controls.

1.26 Recommendation. The Treasury Board of Canada Secretariat should continue to review the departments' implementation of the Treasury Board Policy on Internal Controls to support the effectiveness of internal controls for financial reporting across government. This should include monitoring the departments' established timelines for completing their risk-based assessments of these controls. The Secretariat should also monitor the departments' actions to address significant issues identified as a result of their assessments, including monitoring that the actions are appropriate and timely.

The Secretariat's response. Agreed. The Secretariat continues to acknowledge the importance of monitoring and strengthening internal financial controls across government. The foundational Policy on Internal Control, in place since 1 April 2009, is a risk-based policy that advocates effective internal control over financial reporting in departments. A three-year, phased-in approach has been taken to the implementation of the policy and includes a requirement for departments to publish the results and action plans arising from assessments of the effectiveness of internal controls over financial reporting.

In implementing the Treasury Board's Policy on Internal Control, the Office of the Comptroller General (OCG) supports departments and the government's financial management community, by reaffirming the policy expectations and requirements and by providing tools and guidance. The OCG also monitors departmental progress in implementing the policy in a variety of ways, including, but not limited to, reviews of the annual departmental disclosure on internal controls over financial reporting, required under the Policy on Internal Control; assessments under the Management Accountability Framework; results of audits and evaluations; and special audits or horizontal audits that may be commissioned by the Comptroller General of Canada.

Integrated risk management

1.27 In response to our previous recommendations on integrated risk management, the Treasury Board of Canada Secretariat made a commitment to provide departments with ongoing support, guidance, and tools to raise awareness, build understanding, and support implementation of integrated risk management in government departments. It also made a commitment to encourage departments to implement the recommendations included in our previous report.

1.28 We examined the Secretariat's progress related to these commitments. Although individual departments made no commitments in response to our 2003 recommendations, we considered whether the selected departments had an integrated risk management function and an approach to integrating risk management into operations. We also assessed whether the selected departments had implemented key elements of corporate risk profiles and integrated risk management. We did not assess the completeness or appropriateness of the risks identified by the departments in the corporate risk profile.

The Secretariat's guidance and support to departments has improved

1.29 We found that the Secretariat has recently taken steps to improve guidance and support to departments for developing and implementing risk management within the departments. These steps included

- re-establishing the Centre of Excellence on Risk Management in 2008 to provide ongoing guidance to departments;
- issuing a new principle-based Framework for the Management of Risk in August 2010, which identifies the deputy head's responsibility for risk management and the Secretariat's responsibility to provide guidance, tools, and expertise to support departments;
- finalizing guides and tools in support of the new framework, including the Guide to Corporate Risk Profiles, Guide to Integrated Risk Management, Guide to Risk Taxonomies, and Risk Management Capability Model, as well as drafting the Risk Management Guide for Deputy Heads; and
- organizing forums and interdepartmental working groups for sharing best practices.

It is too early to assess whether the recent guidance will be effective in assisting departments in their ongoing efforts to improve integrated risk management.

The selected departments have corporate risk profiles and are integrating risk management into their operations

1.30 We found that all of the selected departments have an integrated risk management function in place. They have secured the resources needed to carry out this function, which is geared to identifying, assessing, and mitigating corporate risks. We noted that the departments are working to continually improve their corporate risk profiles and to further enhance the integration of risk management within their organizations.

1.31 Corporate risk profiles. We found that each of the selected departments has a corporate risk profile that outlines management's assessment of the department's environment and the key risks facing the department. Exhibit 1.5 is a summary of the departments' progress on implementing the main elements of their corporate risk profiles. This exhibit illustrates that progress has been satisfactory for all of the selected departments. Nevertheless, department officials recognize

that integrated risk management is an ongoing challenge and will continue to enhance their risk management processes, including those related to the application of risk tolerances, as well as the training of staff and the communication of risk to department staff.

1.32 Integration of risk management into operations. We found that most of the selected departments have integrated risk information into business planning, priority setting, decision making, and reporting (Exhibit 1.6). In addition, we found that all selected departments have made satisfactory progress in implementing our recommendations on integrated risk management (Exhibit 1.7).

Human resource capacity in financial management

1.33 Under the Treasury Board Policy on Financial Management Governance, the Office of the Comptroller General (OCG) is to provide leadership and direction to strengthen human resource capacity in the area of financial management across government departments. Given the current economic climate and the importance of financial management, departments understandably are working hard to maintain and strengthen their workforce for the future by recruiting, training, and developing the appropriate number of financial officers and managers with the required skills, competencies, and experiences.

Exhibit 1.5 Progress in implementing key elements of a corporate risk profile

Entities	Elements of corporate risk profiles	
	The corporate risk profile includes the identification and assessment of corporate risk and is regularly updated	Mitigation strategies are identified and accountability for their implementation is assigned
Agriculture and Agri-Food Canada	Satisfactory	Satisfactory
Department of Finance Canada	Satisfactory	Satisfactory
Foreign Affairs and International Trade Canada	Satisfactory	Satisfactory
Human Resources and Skills Development Canada	Satisfactory	Satisfactory
Indian and Northern Affairs Canada	Satisfactory	Satisfactory
Transport Canada	Satisfactory	Satisfactory
Veterans Affairs Canada	Satisfactory	Satisfactory

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Source: see Recommendation 1.65 of the 2003 April Report of the Auditor General of Canada, Chapter 1, Integrated Risk Management

Exhibit 1.6 Progress in implementing key elements of risk integration

Entities	Elements of risk integration		
	Risk information is integrated into planning and priority setting	Key risk information is reported	Risk information is communicated throughout the department and risk management training is available
Agriculture and Agri-Food Canada	Satisfactory	Satisfactory	Satisfactory
Department of Finance Canada	Satisfactory	Satisfactory	Satisfactory
Foreign Affairs and International Trade Canada	Satisfactory	Satisfactory	Satisfactory
Human Resources and Skills Development Canada	Satisfactory	Satisfactory	Satisfactory
Indian and Northern Affairs Canada	Satisfactory	Satisfactory	Satisfactory
Transport Canada	Satisfactory	Unsatisfactory	Satisfactory
Veterans Affairs Canada	Satisfactory	Satisfactory	Satisfactory

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Source: see Recommendation 1.48 of the 2003 April Report of the Auditor General of Canada, Chapter 1, Integrated Risk Management

Exhibit 1.7 Overall progress in addressing our recommendations on integrated risk management

Recommendation	Progress
The Treasury Board Secretariat should provide departments and agencies with comprehensive guidance and specific tools to assist them in developing the key capabilities needed to integrate risk management successfully. (Recommendation 1.93 of the 2003 April Report of the Auditor General of Canada, Chapter 1, Integrated Risk Management)	Satisfactory
Senior management in departments and agencies should ensure that a departmental risk profile is developed that identifies and assesses the key risks and challenges of the department and the level of risk it is willing to accept. The departmental risk profile should communicate the risks and the tolerance levels to managers and staff so they understand the boundaries or limits within which they are expected to manage risk. (Recommendation 1.65 of the 2003 April Report of the Auditor General of Canada, Chapter 1)	Satisfactory
Senior management in each department and agency of the government should visibly and actively demonstrate clear, sustained commitment and leadership to ensure the successful implementation of integrated risk management. This should include such things as assigning adequate resources, monitoring the progress of implementation against an approved plan, and demanding risk-based information to support strategic decision making. (Recommendation 1.48 of the 2003 April Report of the Auditor General of Canada, Chapter 1)	Satisfactory

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

1.34 We looked at the measures that the OCG and selected departments had taken to identify and address the government's need for knowledgeable and skilled financial professionals. In the seven departments, we examined whether the chief financial officers (CFOs) have the necessary qualifications, as recommended by the OCG's Guideline on Chief Financial Officer Qualifications. We also assessed whether the CFOs' roles, responsibilities, and accountabilities complied with the Policy on Financial Management Governance. This included determining whether these individuals had any program delivery responsibilities that could conflict with their roles and responsibilities as CFOs.

1.35 We found that the OCG is providing effective leadership in enhancing human resource capacity for the financial community government-wide. We also found good leadership within departments, as the departments have training and development plans in place to meet many of their current capacity requirements. However, the OCG and departments need to collaborate and develop a strategic approach to ensure that succession planning is addressed for the anticipated turnover of senior financial executives.

The chief financial officers and their deputies are professionally qualified

1.36 The deputy head is responsible under the Policy on Financial Management Governance to consider the Guideline on Chief Financial Officer Qualifications when appointing chief financial officers. We found that all the CFOs in the selected departments met the requirements for their position and that the roles, responsibilities, authorities, and accountabilities assigned to them complied with the Policy on Financial Management Governance.

1.37 As well, the CFOs in the selected departments provide advice to deputy ministers on strategic financial choices. During the audit, we noted many examples where the CFOs sit on senior management committees to provide strategic advice. For example, the Chief Financial Officer at Transport Canada sits on the Department's senior policy, programs, regulatory, and integrated management committees to provide input on strategic and operational issues, as well as on the financial implications of issues and decisions. Details on the CFO's participation in these committees are set out in Transport Canada's new Budget Management Framework that supports the Department's strategic plans and program activity architecture. The framework represents a shift from the former practice of allocating and reallocating budgets based simply on organizational structures. This demonstrates changes influenced by the CFO's advice.

1.38 We also examined whether the CFOs and their deputies in the selected departments, as well as in the 15 other large government departments (not subject to this audit), met the professional accounting designation requirements of the Policy on Financial Management Governance.

1.39 In 2002, when we first reported on this issue, only 33 percent of senior financial officers had recognized professional accounting designations. In 2010, we found that 82 percent of chief financial officers and 82 percent of the deputy chief financial officers in the 22 largest departments had these designations. While the Guideline on Chief Financial Officer Qualifications requires that at least one of these officers hold one such designation, in many departments, both officers held designations. This is a significant improvement across the government since we first reported on this issue eight years ago. This high level of professional qualification provides the large departments with the skills and competencies to continue the work to fully meet the requirements of the financial management and control policies.

1.40 The Office of the Comptroller General has put in place a number of measures to address issues related to human resource capacity, including

- promoting professional accounting designations for all mid-level financial officers and financial managers across government;
- continuing the Financial Officer Development Program and introducing the Chartered Accountant Student Training Program for entry level positions in government;
- developing mandatory training courses for all financial officers;
- conducting special staffing initiatives, to establish pre-qualified pools from which government departments may hire financial officers; and
- organizing forums for financial managers to discuss issues and share best practices.

These initiatives are all positive developments that are expected to serve the financial community well into the future. We encourage the government to continue these initiatives and build upon them as warranted.

Human resource capacity in financial management has been enhanced across departments

1.41 We found that all of the selected departments were regularly monitoring their human resource capacity in the area of financial management and had human resource plans that were in line with their corporate plans for financial management. The departments had identified, on a timely and thorough basis, their shortages of financial officers, gaps in knowledge and competency, and the need to review and maintain financial human resource capacity at all levels. All seven of the departments had plans for training staff and providing developmental experience within the department and, in September 2010, staff were to start following the mandatory course curriculum within their department.

1.42 Although most of the selected departments found they could attract financial officers, keeping them within a particular department was often a challenge. For example, it is not uncommon for an accounting professional to change departments to obtain a promotion more rapidly. A 2009 Treasury Board of Canada Secretariat survey identified the rapid promotion of financial officers as a key cause of the knowledge and competency gaps. To address this issue, the departments are trying to retain their financial officers by offering varied experience and development opportunities within a department and establishing career paths. As well, the Office of the Comptroller General has drafted a new competency model to help departments assess promotion readiness.

Departments need to work with the Office of the Comptroller General to ensure that succession strategies are in place

1.43 Given that a number of senior financial executives within government departments will be eligible to retire in the near future, it is important that departments have succession strategies in place to prepare for those retirements. We found that departments are at various stages in the process of putting succession strategies in place. In our view, departments should collaborate with the Office of the Comptroller General to ensure they have succession strategies to meet future needs.

1.44 Recommendation. Selected departments, in collaboration with the Office of the Comptroller General, should ensure that succession strategies are in place to address upcoming vacancies in key senior financial positions.

The departments' response. Agreed. The Office of the Comptroller General (OCG) has recently initiated a competitive process for the establishment of a pool of candidates at the EX-02 and EX-03 levels. The departments will participate in this process and will continue to collaborate with the OCG to support efforts to develop a succession planning strategy to address upcoming and ongoing vacancies in key senior financial positions.

Accrual-based budgeting and appropriations

1.45 Accrual-based financial information reflects a more complete picture of government resources, obligations, financing, costs, and the impact of activities than cash-based accounting. Applied to budgeting and appropriation of funds, it is intended to provide management with complete cost information and allow for more informed decision making, such as when evaluating the cost-effectiveness of in-house delivery versus contracting for services. Having this financial information provides improved transparency and accountability and better information for planning and controlling operating and capital spending. This, in turn, can give legislators more information to consider in holding government accountable for

- the stewardship of public assets,
- the full costs of programs, and
- its short-term and long-term financial obligations.

1.46 Our previous chapters, dating as far back as 1998, have highlighted the lack of progress made in implementing full accrual-based budgeting and appropriations. The House of Commons Standing Committee on Public Accounts has recommended the adoption of accrual-based budgeting and appropriations and has repeatedly urged the Treasury Board of Canada Secretariat to implement these measures.

1.47 In our 2006 May Status Report, Chapter 1, Managing Government: Financial Information, we recommended that the Secretariat promptly complete its study and develop a plan for a common approach to accrual-based budgeting and appropriations for use by departments. In response, the Secretariat committed to having an independent contractor complete a study and to develop an implementation plan. Our current audit examined the steps that the Secretariat had taken since 2006.

The Secretariat needs to decide whether the government will fully adopt accrual-based budgeting and appropriations

1.48 Accrual financial information is used to prepare departments' annual financial results for reporting to Parliament and Canadians. However, the Secretariat has not made a clear commitment to fully implement the additional approaches of accrual-based budgeting and appropriations across the government. In fall 2006, the Secretariat presented to parliamentarians the results of a study, by an independent contractor, of accrual-based budgeting and appropriation practices of other governments.

1.49 In 2008, the Secretariat outlined its implementation plan for introducing accrual-based budgeting in departments. Departments are required to supplement their annual plans, based on cash accounting, with future-oriented financial statements that are summarized in a separate section in each of their reports on plans and priorities and that are attached as a link to the departments' websites. These future-oriented statements are based on a one-year forecast. They are derived from departments' approved operational expenditures and adjusted for accrual information and managements' expectations of the financial impact of federal budget announcements and other anticipated future events. Beginning with a pilot of 10 departments in the 2009–10 fiscal year, these statements will become mandatory for all departments in the 2011–12 fiscal year.

1.50 The Secretariat is of the view that the preparation of future-oriented financial statements on an accrual basis and the comparison of those amounts against actual results in the historical financial statements meets the definition of accrual budgeting. However, the Secretariat has not provided guidance or set requirements for using the accrual information included in the future-oriented financial statements in departmental planning and decision making. Most of the selected departments still do not use accrual budgeting information to manage on a day-to-day basis, as managers are held accountable for managing the funding they receive through appropriations, which is on a near-cash basis.

1.51 The Secretariat plans to evaluate the results of the accrual-based budgeting project and continue studying the benefits of extending the use of accrual accounting to appropriations in the 2012–13 fiscal year. The Secretariat has indicated to us that it has not made a decision on whether to implement accrual-based appropriations pending completion of the evaluation. It is not clear to us how this future-oriented financial

statement project will ensure the implementation of accrual-based budgeting throughout government, or how it will address whether and how to implement accrual-based appropriations. As well, the Secretariat indicated that it wants to further examine international implementation experiences and issues on these subjects and professional literature and studies of these concepts.

1.52 We found that, after 10 years of discussing this issue, the Secretariat has not decided whether to fully implement the use of accrual financial information for budgeting and appropriations in departments (Exhibit 1.8). In the meantime, in practice budgets and appropriations, with a few exceptions, are based on the cash method of accounting. In our view, this does not present the full range of financial implications. We continue to believe that accrual-based budgeting and accrual-based appropriations would be of benefit to the government. In our view, it will promote more informed decision making and transparency by providing the full cost of programs and activities of the government and improve accountability for operating and capital spending. We encourage the Secretariat to undertake and complete its study as planned and decide if it will implement accrual-based appropriations.

Exhibit 1.8 Progress in addressing our recommendation on completing the study of budgeting and appropriations and presenting an implementation plan

Recommendation	Progress
<p>The Treasury Board Secretariat should promptly complete the study of accrual-based budgeting and appropriations at the departmental level. It should then present the proposed approach for a common basis of planning, budgeting, and reporting, along with an implementation plan, to the House of Commons Standing Committee on Public Accounts.</p> <p>(Recommendation 1.18 of the 2006 May Status Report of the Auditor General of Canada, Chapter 1, Managing Government: Financial Information)</p>	<p>Unsatisfactory</p>

Satisfactory—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Unsatisfactory—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Conclusion

1.53 Overall, the Treasury Board of Canada Secretariat, including the Office of the Comptroller General (OCG), and the selected departments have made satisfactory progress against commitments in many of the areas we audited. However, much work remains to be done to implement the Policy on Internal Control, and this work is expected to take years to complete. As well, the issue of implementing accrual-based budgeting and accrual-based appropriations has not been satisfactorily addressed.

1.54 The OCG has made progress against its previous commitments to improve the policy environment, frameworks, and guidance pertaining to financial controls across the government. It has done this by establishing a policy foundation and providing departments with the guidance and tools necessary to successfully implement policy requirements.

1.55 The selected departments have made good progress in developing their corporate risk profiles. They are working on continually improving the integration of risk management into their planning, decision making, and reporting, including enhancing communication of risk tolerance within their organizations.

1.56 The OCG and the selected departments have strengthened their human resource capacity in the area of financial management through various initiatives, including recruiting and training financial staff. Succession strategies for addressing upcoming vacancies in senior financial positions need to be better addressed.

1.57 The Secretariat has not made satisfactory progress in implementing accrual-based budgeting and appropriations and has not made a clear commitment to do so.

About the Audit

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Objectives

The objective of the audit was to determine whether the Treasury Board of Canada Secretariat, the Office of the Comptroller General of Canada (OCG) within the Secretariat, and each of the seven selected departments have made satisfactory progress in implementing selected recommendations and addressing relevant observations reported in our 2006 May Status Report, Chapter 1, Managing Government: Financial Information and our 2003 April Report, Chapter 1, Integrated Risk Management.

Scope and approach

The audit covered the Secretariat, which includes the Office of the Comptroller General, as well as the following seven large departments, which represent about 60 percent of government expenditures:

- Agriculture and Agri-Food Canada
- Department of Finance Canada
- Foreign Affairs and International Trade Canada
- Human Resources and Skills Development Canada
- Indian and Northern Affairs Canada
- Transport Canada
- Veterans Affairs Canada

To determine whether senior financial managers had accounting designations, we looked at 15 of the largest departments, in addition to the 7 selected for audit.

We conducted interviews with senior management and staff in the Secretariat, the OCG, and each of the seven departments. We also reviewed and analyzed the supporting documentation that the departments and central agencies provided us with. In addition, we confirmed whether chief financial officers and their deputies who indicated that they had professional accounting designations were members in good standing with their professional accounting bodies. We did not assess specific internal controls in the selected departments, nor did we audit the appropriateness and the completeness of the risks identified by departments in their corporate risk profiles.

Criteria

To determine whether the Treasury Board of Canada Secretariat and selected departments had made progress on enhancing financial controls, we used the following criteria:	
Criteria	Sources
<p>The Treasury Board of Canada Secretariat and the Office of the Comptroller General (OCG), in cooperation with departments and agencies, develop and implement strategies for improving financial controls government-wide, including the following:</p> <ul style="list-style-type: none"> • The Secretariat develops policies, directives, and standards for establishing and maintaining financial controls. • The OCG provides guidance, tools, and support to departments for the interpretation and implementation of Treasury Board policies and related directives and standards. • The OCG monitors departmental compliance with financial management and control policies, directives, and standards, and the overall state of financial control government-wide. 	<ul style="list-style-type: none"> • The Programs and Activities of the Secretariat, Management Policy Development and Oversight, Treasury Board of Canada Secretariat (website: tbs-sct.gc.ca) • Policy on Financial Management Governance, sections 5.3 and 6.2—OCG responsibilities, Treasury Board, 2009 • Framework for the Management of Compliance, section 8.2, Treasury Board, 2008 • 2006 May Status Report of Auditor General of Canada, Chapter 1, Managing Government: Financial Information, Recommendation 1.37 and related response of the Secretariat
<p>The selected departments assess the effectiveness of their system of internal controls for financial reporting and ensure that it is maintained, monitored, and reviewed, with timely corrective measures taken when issues are identified.</p>	<ul style="list-style-type: none"> • Policy on Internal Control, sections 5.2.1, 5.2.2, and 6.1.2, Treasury Board, 2009 • Policy on Financial Management Governance, section 5.4, Treasury Board, 2009
To determine whether the Treasury Board of Canada Secretariat and selected departments had improved integrated risk management, we used the following criteria:	
Criteria	Sources
<p>The Treasury Board of Canada Secretariat provides guidance, tools, and support to departments for implementing integrated risk management and monitors departmental and agency performance in this area.</p>	<ul style="list-style-type: none"> • The Programs and Activities of the Secretariat, Management Policy Development and Oversight, Treasury Board of Canada Secretariat (website: tbs-sct.gc.ca) • Integrated Risk Management Framework, Shared Leadership—Suggested Roles and Responsibilities, Treasury Board of Canada Secretariat, 2001 • 2003 April Report of the Auditor General of Canada, Chapter 1, Integrated Risk Management, recommendations 1.93 and 1.98 and related government responses
<p>The selected departments have up-to-date corporate risk profiles that identify their key risks and risk tolerances, and these are communicated to management and staff throughout the entity.</p>	<ul style="list-style-type: none"> • Integrated Risk Management Framework, Element 1—Developing the Corporate Risk Profile, Treasury Board of Canada Secretariat • Integrated Risk Management Implementation Guide, Section 1—Developing the Corporate Risk Profile, Treasury Board of Canada Secretariat • Enterprise Risk Management: Integrated Framework, Components of Enterprise Risk Management, Committee of Sponsoring Organizations of the Treadway Commission • 2003 April Report of the Auditor General of Canada, Chapter 1, Integrated Risk Management, Recommendation 1.65 and related government response

<p>The selected departments have action plans in place to integrate risk information into strategic planning, decision making, and day-to-day operations within reasonable time frames, and departments regularly assess their progress against these plans.</p>	<ul style="list-style-type: none"> • Integrated Risk Management Framework, Element 3—Practicing Integrated Risk Management, Treasury Board of Canada Secretariat • Enterprise Risk Management: Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission • ISO 31000: Risk Management—Principles and guidelines 2009, section 4.3.4, ISO • 2003 April Report of the Auditor General of Canada, Chapter 1, Integrated Risk Management, recommendations 1.48, 1.56, and 1.81 and related government responses
<p>To determine whether the Treasury Board of Canada Secretariat and selected departments had sufficient capacity of financial management human resources, we used the following criteria:</p>	
<p>Criteria</p>	<p>Sources</p>
<p>The Office of the Comptroller General provides leadership and direction geared to strengthening financial human resource capacity government-wide.</p>	<ul style="list-style-type: none"> • Policy on Financial Management Governance, section 5.3—Comptroller General's responsibilities: items 5.3.6, 5.3.7 and 5.3.8, and section 6.2—item 6.2.4, Treasury Board, 2009 • The Programs and Activities of the Secretariat, Management Policy Development and Oversight, Treasury Board of Canada Secretariat (website: tbs-sct.gc.ca)
<p>The selected departments have implemented the Chief Financial Officer model and have systems, processes, and practices in place that are designed to ensure that they have the financial and risk management human resource capacity to meet their current and future requirements.</p>	<ul style="list-style-type: none"> • Policy on Financial Management Governance, section 5.4, Treasury Board, 2009 • Management Accountability Framework, Graphic 3—Measures—People, Treasury Board of Canada Secretariat
<p>To determine whether the Treasury Board of Canada Secretariat and selected departments had made progress on implementing accrual-based budgeting and appropriations, we used the following criteria:</p>	
<p>Criteria</p>	<p>Sources</p>
<p>The Treasury Board of Canada Secretariat has completed its study of accrual-based budgeting and appropriations and is developing and implementing an approach for a common basis of planning, budgeting, and reporting.</p>	<ul style="list-style-type: none"> • Sixth Report of the Standing Committee on Public Accounts: Public Accounts of Canada 2008, 2nd session of the 40th Parliament—Government response (Presented to the House on 19 August 2009) • Tenth Report of the Standing Committee on Public Accounts: Public Accounts of Canada 2009, 3rd session of the 40th Parliament—Government response (Presented to the House on 18 August 2010) • 2006 May Status Report of the Auditor General of Canada, Chapter 1, Managing Government: Financial Information, Recommendation 1.18 and the related Secretariat's response • Treasury Board of Canada Secretariat, Report on Plans and Priorities 2009–10—Analysis of Program Activity

Management reviewed and accepted the suitability of the criteria used in the audit.

Period covered by the audit

The audit covered the period from 1 April 2009 to 30 September 2010. Audit work for this chapter was substantially completed on 30 September 2010.

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Appendix List of recommendations

The following is a list of recommendations found in Chapter 1. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Financial controls	
<p>1.25 The seven audited departments (Agriculture and Agri-Food Canada, Department of Finance Canada, Foreign Affairs and International Trade Canada, Human Resources and Skills Development Canada, Indian and Northern Affairs Canada, Transport Canada, and Veterans Affairs Canada), in consultation with the Office of the Comptroller General, should review the timelines set for completing their full risk-based assessment of the effectiveness of their financial reporting controls and for addressing identified gaps and weaknesses, to ensure that they are timely. The departments should also implement programs for continuous monitoring of these controls to confirm their ongoing effectiveness. (1.15–1.24)</p>	<p>The departments’ response. Agreed. The selected departments are in the process of carrying out risk-based action plans for completing assessments of financial reporting controls within the current timelines. The departments generally agree to review these timelines in consultation with the Office of the Comptroller General, as well as any timelines they have or will set for addressing identified gaps and weaknesses in controls. Furthermore, the departments will continue to implement programs for ongoing monitoring of their financial controls.</p>

Recommendation	Response
<p>1.26 The Treasury Board of Canada Secretariat should continue to review the departments' implementation of the Treasury Board Policy on Internal Controls to support the effectiveness of internal controls for financial reporting across government. This should include monitoring the departments' established timelines for completing their risk-based assessments of these controls. The Secretariat should also monitor the departments' actions to address significant issues identified as a result of their assessments, including monitoring that the actions are appropriate and timely. (1.15–1.24)</p>	<p>The Secretariat's response. Agreed. The Secretariat continues to acknowledge the importance of monitoring and strengthening internal financial controls across government. The foundational Policy on Internal Control, in place since 1 April 2009, is a risk-based policy that advocates effective internal control over financial reporting in departments. A three-year, phased-in approach has been taken to the implementation of the policy and includes a requirement for departments to publish the results and action plans arising from assessments of the effectiveness of internal controls over financial reporting.</p> <p>In implementing the Treasury Board's Policy on Internal Control, the Office of the Comptroller General (OCG) supports departments and the government's financial management community, by reaffirming the policy expectations and requirements and by providing tools and guidance. The OCG also monitors departmental progress in implementing the policy in a variety of ways, including, but not limited to, reviews of the annual departmental disclosure on internal controls over financial reporting, required under the Policy on Internal Control; assessments under the Management Accountability Framework; results of audits and evaluations; and special audits or horizontal audits that may be commissioned by the Comptroller General of Canada.</p>
<p>Human resource capacity in financial management</p>	
<p>1.44 Selected departments, in collaboration with the Office of the Comptroller General, should ensure that succession strategies are in place to address upcoming vacancies in key senior financial positions. (1.43)</p>	<p>The departments' response. Agreed. The Office of the Comptroller General (OCG) has recently initiated a competitive process for the establishment of a pool of candidates at the EX-02 and EX-03 levels. The departments will participate in this process and will continue to collaborate with the OCG to support efforts to develop a succession planning strategy to address upcoming and ongoing vacancies in key senior financial positions.</p>

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