

Capital Assets Valuation Audit

December 2000

Audit and Evaluation Branch



Environment
Canada

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Canada

Report Clearance Steps

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Acronyms used in the report

CIP	Construction in Progress
EC	Environment Canada
FA	Fixed Assets
FIS	Financial Information Strategy
HQ	Headquarters
MSC	Meteorological Service of Canada
NWRC	National Wildlife Research Center
OAG	Office of the Auditor General of Canada
PWGSC	Public Works and Government Services Canada
TB	Treasury Board of Canada
TBAS	Treasury Board Accounting Standard
TC	Transport Canada
SID	Systems and Informatics Directorate
SIS	Stores Information System

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- The lead of the Capital Assets Task Force, the Lead sub-group Real Property, the lead sub-group Materiel and the lead sub-group Intangibles who provided valuable input and comments during the audit;
- The FIS Office staff who provided advice, guidance and documentation related to the implementation of the financial Information strategy in the department; and,
- The capital assets managers in the Regions, and other employees in Finance and Administration involved in the capital assets process, who shared with us their experience and gave of their time to provide insight, comments, and documentation crucial to the audit.

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Executive Summary and Recommendations

Audit of the Validity of the Valuation Methodology

This audit assessed the procedures put in place within the Department to obtain a complete listing of all capital assets on hand and to determine the historic costs (including betterments) of the assets, and the estimated useful lives. This information is required because, under the Financial Information Strategy (FIS) and accrual accounting, an opening balance for the financial statements of Environment Canada is required.

Key Findings

The overall methodology put in place to implement the capital assets valuation process was found to be sound.

A number of useful documents, such as the policy issued in March 2000 titled "Environment Canada's Policy, Procedures and Guidelines for Capital Assets under Accrual Accounting" have been produced and communicated to help staff in the Services and Regions with the implementation of capitalization of assets. More remains to be done however; specifically detailed procedures for capital assets and opening balances need to be developed. At the end of October their development have not yet been started. We noted that this policy on opening balances has recently been shifted from medium to high priority.

According to the FIS Plan and Status Report sent to Treasury Board Secretariat on September 15, the identification and valuation of capital assets in EC is well underway in most regions and work is forecast to be completed by December 2000. However, this does not include the MSC assets (which represent a significant part of the departmental assets) since the "bundling" issue has not been resolved yet¹. Clear direction and guidance in line with the TB policy are now urgently needed to allow EC readiness in terms of its capital assets opening balances. Formal project tracking has now become more crucial as we are getting closer to the date of implementation.

Although not directly in the scope of this audit, but still related to the overall success in implementing capital assets accrual accounting and ensuring accuracy of the opening balances, is the capacity issue on the human resource side for the Accounting Office. It is an area where the department is most vulnerable and options need to be formalized for managing this risk. The problem with the lack of resources need to be addressed for the policies and procedures to be properly implemented.

The identification of interdependencies between the various deliverables in the work plans of the task forces directly impacts the timeliness of implementation of accrual accounting. This needs to be formalized to ensure that appropriate actions are being taken (procedures, coding, systems, reporting etc), for example, the timing of finalization of procedures is important for training readiness. Another example is the resolution of the Work In Progress issue before the bundled information can be entered into MERLIN; this issue also affects the

¹ A decision on the bundling issue was made at the December meeting of the FIS Steering Committee, after the presentation of the findings of this audit report.

rationalization of coding. Also, Statistics Canada reporting requirements need to be clarified: until this issue is resolved data cannot be entered into the system.

It is only realistic to expect that it will take time for departments to be comfortable in the area of accrual accounting. Meanwhile, EC is taking the right steps to ensure its readiness for opening balances at April 1, 2001 and the Director, National Operations, (and Lead of the Capital Assets Task Force) is confident that capital assets - FIS light approach - accounting will be implemented at EC by 1 April 2001. The second phase of this audit (to be conducted on a representative sample of assets when the data entry in the Fixed Assets module is completed) will provide further assurance that the capital asset opening balances of April 1, 2001 (required by June 30, 2001) are accurate and complete.

Recommendations

All the recommendations are addressed to the FIS Steering Committee, as it is the body that monitors the overall progress of the FIS project.

1. The “bundling” of MSC assets needs resolution in order to move ahead and be ready for the capital assets opening balances. Clear direction and guidance in line with the TB policy are needed.²
2. Although overall monitoring of the capital assets exercise is being done, formal project tracking needs to be strengthened and issues addressed as they arise, particularly as we approach to the date of effective implementation.
3. The Capital Assets task force should expand the “Examples document” to include more concrete examples of situations specific to EC, based on the questions and issues from regions and services.
4. Where appropriate, specific issues identified in regional survey (highlighted in the Appendix) should be followed up by the Capital Assets task force.

² A decision on the bundling issue was made at the December meeting of the FIS Steering Committee, after the presentation of the findings of this audit report.

Management Response

Finance and Administration Directorates have reviewed the January 2, 2001 draft audit report on Capital Assets Valuation and concur with the observations and recommendations contained in the report. Since the publication of the draft audit report, considerable effort has been undertaken to address the weaknesses and risks identified in the report. Specifically, the following measures have been implemented to address the recommendations:

1. Guidance documents and procedures have been developed and disseminated to functional communities across the country to assist with the inventory and valuation of MSC asset building. There will be an upload of information from data contained in the MSC Stores Information System (SIS) at the end of March. This information will be used for the April 1 opening balance with refinement between April 1 and June 15, 2001.
2. Project tracking has increased to a weekly basis. As of March 1, 2001, all Regions and Services are on target for the April 1 deadline with the exception of MSC Headquarters. Ontario Region has indicated that the inventory for MSC Headquarter locations will not be completed before the 15th of June, so that adjustments can be made to the opening balance without having to do notes to the Financial Statements. Ontario Region will be bringing resources from our Burlington office to assist with the continuing verification, especially at the Downsview location. Additional resources will also be focused on the Merlin postings and deletions related to bundling and correcting financial coding, to complete as much of that as possible before opening balance, in an effort to avoid the necessity for JV's at a later date.
3. The capital assets examples document has been modified to include additional EC examples. The document has been reviewed and tested by the Regional functional communities.
4. Follow-up is ongoing with the regions and Services on issues identified in the audit questionnaire.

AUDIT OF CAPITAL ASSETS VALUATION IN THE CONTEXT OF FIS IMPLEMENTATION

Introduction

One of the principal changes that the FIS implementation – the move to full accrual accounting – will bring to the Department's financial management practices is the capitalization of our assets. With its weather forecasting equipment and research facilities, Environment Canada has significant capital assets. In order to be FIS compliant by April 1, 2001 the Department is investing considerable efforts to prepare for recording its assets.

The Review Branch is conducting an audit, made up of two parts, in order to provide Departmental Management with some assurance that Treasury Board requirements regarding capital assets valuation are being met and that the Department will have a valid base for starting to account for its capital assets.

This summary report addresses Phase I of the audit.

PHASE I: Audit of the Validity of the Valuation Methodology

This audit assessed the procedures put in place within the Department to obtain a complete listing of all capital assets on hand and to determine the historic costs (including betterments) of the assets, and the estimated useful lives. The audit also assessed the methodology used to calculate the accumulated amortization.

PHASE II: Audit of the Completeness and Accuracy of the Opening Balances

Following the audit of the valuation methodology, a second phase of this audit will be conducted to evaluate whether the capital asset opening balances of April 1, 2001 (required by June 30, 2001) are accurate and complete.

This audit, to be conducted on a representative sample of assets, will verify the relevant supporting documentation of the selected assets to determine whether the amortization and estimated useful lives for each asset is correct and in accordance with the government's accounting policy. The audit will also assess the completeness of the listing of capital assets on hand (e.g. examine the asset management systems; review capital expenditures over the past few years to see if significant acquisitions have been included in the listing; other).

Time Frame

Phase I of the audit was conducted in September and November 2000. The time frame for phase II will depend upon the completion of data entry in the system.

Audit Objectives and Findings

OBJECTIVE 1: Revision of Policies, Processes and Procedures

To determine if departmental policies, processes and procedures are reviewed and revised in accordance with central agency requirements and the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants, with regard to full accrual accounting and Generally Accepted Accounting Principles. (detailed criteria attached).

Findings:

A draft policy has been developed by EC (issued March 2000) titled "Environment Canada's Policy, procedures and Guidelines for Capital Assets under Accrual Accounting". Since this policy has been approved by the FIS Steering Committee, it cannot be considered a draft, rather it is acknowledged that it is an evolving document which needs to be updated to reflect evolving directions from TBS. Also additional pieces have been added as appendices to this policy, such as a Roles and Responsibilities draft document (Draft April 25, 2000) and an Explanations and Examples draft document (Draft, January 2000). In addition, each Sub-group has provided additional guidance, for example procedures to perform an inventory verification of assets. From a general accounting perspective the policy is found to be complete and it addresses the requirements of the TB Accounting Standard 3.1.

Some areas for improvement have been identified:

- More detailed procedures and methodology are needed to ensure consistency and accuracy in recording opening balances (please see Objective 2 below).
- Additional guidance is needed. Specifically, there is insufficient information pertaining to bundling MSC assets, as some issues around bundling MSC assets have not yet been resolved. (MSC has a significant part of the assets in the department).³
- In addition, procedures are needed "to ensure that adequate provisions for future asset removal and site restoration costs are accrued in a rational and systematic manner when the likelihood of their incurrence is established" (TB Accounting Standard 3.1). In that respect EC, just like other federal departments, is awaiting TB directions.
- It would be useful to expand the Examples documents by providing more detailed concrete examples of the different situations that may arise, and how to address them.

³ A decision on the bundling issue was made at the December meeting of the FIS Steering Committee, after the presentation of the findings of this audit report.

OBJECTIVE 2: Development of guidelines and methodology for determining and recording capital assets opening balances

To determine if appropriate guidelines and methodology have been developed to ensure that EC's opening balances for capital assets are identified, valued and recorded in the capital assets module accurately and consistently as at April 1, 2001.

Findings:

A specific guideline document has not been developed. The objective of such a document would be to provide detailed procedures, and accounting details on how EC will:

- a) identify and properly value capital assets currently not recorded in the departmental financial system (Fixed Assets module);
- b) review for completeness and accuracy, the departmental capital assets inventory as recorded in the Fixed Assets module;
- c) record in the Fixed Asset module assets identified in (a), and if necessary, adjust previously recorded assets; and
- d) ensure that proper documentation is available for audit trail purposes.

Once all the identification and valuation activities are completed, this document would also describe procedures for accuracy of data input.

This encompasses:

- a) recording capital assets in MERLIN through Manual Additions;
- b) recording cost adjustments, disposals, write downs and write offs in MERLIN;
- c) validating the accuracy of data input;
- d) posting of manual adjusting journal entries to clear the Assets Clearing Account in the General Ledger; and
- e) reconciling the Asset accounts as necessary.

After discussion with the FIS office, the intent is to incorporate in the original EC policy on capital assets more detailed procedures, and accounting details in order to address the need for more specific information. Once completed, this should ensure consistency and comprehension of the on-going process of capturing and valuating capital assets.

The Task Force on Policies and Procedures plans to develop a policy and procedures on opening balances, as well as accounting procedures for capital assets. At the end of October their development has not yet been started. We noted that the policy on opening balances has recently been shifted from medium to high priority. These policies and procedures will be crucial in ensuring that there is a common understanding as to how to proceed and having these policies and procedures in place will provide additional assurance that the opening balances are accurate.

With regard to the data input into MERLIN, the FIS office informed us that a separate document will be produced by the system readiness Task Force.

As noted above, there is an issue around the completion time of detailed procedures due to human resource pressure and the difficulty to find people for the accounting office.

If separate documents are to be produced, it will be important to ensure that they are complete and consistent and that the necessary linkages are made. They also should be identified as related documents (i.e., part of the package on capital assets) to avoid confusion due to multiple documents.

While reviewing documentation available from other government departments, we found that Transport Canada has issued a document entitled "Capital Assets Opening Balances - Guidelines and Methodology". In this single document, TC provides information such as detailed definitions of the different categories of assets, a list of exclusions as well as instructions for data input, with field number, name etc. All the relevant information is contained in one single document. This could be a good reference for EC when developing its procedures for opening balances.

OBJECTIVE 3: Communication of Policies, Processes and Procedures

To determine if departmental policies, processes and procedures, and guidance are communicated to services and regions.

Findings:

The draft policy (assessed under Objective 1) titled "Environment Canada's Policy, Procedures and Guidelines for Capital Assets under Accrual Accounting" has been communicated to Regions and Services and is found to be useful from a general accounting perspective, as mentioned above.

Also, a number of other useful documents have been distributed such as Fixed Assets - Guidelines and Procedures documents, Real Property, Tangible Capital Assets Classes, Service Life and Facility Types.

In addition, workshops with regions were held on the Real Property side as well as on the Materiel side.

From our survey in the regions, it was expressed that communication of final documents are needed on: Sign-off procedures for FA 10K reconciliation; Roles and responsibilities; Examples document; Coding; Construction In Progress; and Bundling.

OBJECTIVE 4: Monitoring of the valuation exercise

To determine if the valuation of all capital assets is being adequately monitored by the Capital Assets Task Force and the Sub-groups: Real Property, Materiel and Intangibles to ensure consistency and timeliness of results.

Findings: (the assessment includes all the different levels of monitoring that have been put in place for FIS)

- 1) The FIS Steering Committee meets on a monthly basis and monitors overall progress of the FIS Project and take any strategic-level decisions. Senior representation is adequate in terms of coverage of all key areas of FIS and regions. Any major decision gets recorded in the minutes of the FIS steering Committee Meetings.
- 2) The FIS Core team meets bi-weekly and includes the DG Finance, representatives from the FIS Project Office, representatives from systems readiness, representatives of each of the task forces, and a representative from SID. This is an operations committee focused on ensuring information sharing, and maintaining the momentum for progress on the project deliverables.
- 3) Bi-weekly meetings also take place between the Systems and Informatics Directorate and Financial Systems to discuss any system-specific issues and include the participation of Administration. Other FIS team members are invited to attend if there is a specific topic to be addressed.
- 4) Capital Asset Task Force meets on an as needed basis to discuss implementation issues. Also, from the interview with the lead of the Capital assets task Force, regular conference calls with the regions are in place to monitor the progress.
- 5) Each Sub-group (Real Property, Materiel and Intangibles) monitors implementation in its particular area of responsibility. The Sub-group Intangibles will be disbanded because of minimal TB requirements in this area.
- 6) FIS barometer report for TBS includes among others, a section on Capital Assets and their historical cost; a section on Accounting Policies, and a section on Training.

The system of governance put in place for FIS and Capital Assets appears to be adequate; however, appropriate actions in response to emerging issues, such as the capacity issue, did not appear to have been taken in a timely fashion. Although, this comment does not relate specifically to the Capital Assets Task Force, it is important to note related FIS issues given the interdependencies among the deliverables of the various Task Forces. For example at the meeting of August 24, a concern was raised over the delivery dates on the Master Plan regarding the development of policies and procedures. Given that only one person was handling Policies & Procedures, it was felt that there was a risk to not meet the deadlines. A month later, on October 2nd this item was flagged again at the FIS Core Team Meeting. It was then decided to search for potential candidates at the FI-02 level to help with the policies and procedures. By the end of October the FI-02 was still not found to help with the work. However, specifically for the Capital Assets Accounting procedures, a consultant has been hired.

Another indication of a well monitored project is keeping up to date the FIS master plan, the corresponding task forces plans and sub-groups work plans. It appears that neither the FIS master plan nor the capital assets task force plan reflect the changes in some of the planned activities. The Sub-group materiel detailed work plan has not been modified either.

Also, there was a gap in the reporting from the Capital Assets Task Force for Deliverable Reporting at the FIS Core Team Meetings. At both meetings held in September (on the 7th and on the 25th), there was no Capital Assets Project Task Force Deliverable Reporting. Although announced as being deferred to the next meeting on October 2nd, there was no reporting at that meeting either, nor at the following meeting on October 13th or at the meeting of October 31st. Changes in the dates of these meetings seem to have caused this to happen.

Finally, as noted in the minutes of the FIS Core Team Meeting (July 14th), it is necessary to identify interdependencies between the various deliverables in the work plans. This has not been formally done yet, although there are discussions regarding interdependencies at the FIS Core Team Meetings. This would increase the effectiveness of monitoring.

OBJECTIVE 5: Resolution of concerns/questions

To determine if there is a mechanism to resolve specific questions/concerns related to the valuation of capital assets, and communication thereof to all concerned.

Findings:

The development and maintenance of an issues/decision log was initially considered by the FIS Office as a means for addressing FIS related issues (including capital assets) and communicating them to all concerned. A format for the issues/decision log has been produced. It had to be revised to include an issue number, priority level and a record of who has been consulted. The draft document was to be circulated for comment and input. However, given the necessary resources to administer the issues/decision log process, it was decided not to go ahead with its development and administration, but rather to pursue the implementation work. At this point, the FIS office remains the focal point for common issues resolution. Also, the Capital Asset Task Force meets on an as needed basis to discuss implementation issues and each Sub-group (Real Property, Materiel, Intangibles) provides additional information in its respective area of responsibility.

An example of issues to be resolved is that some assets can be considered as part of real property or as a materiel asset, causing room for overlap or gaps and betterments overlooked. Expanding the "Examples" document could be a potential venue to address the cases where there is room for interpretation.

Conclusion

In conclusion, the overall methodology put in place to implement the capital assets valuation process was found to be sound.

A number of useful documents, such as the policy issued in March 2000 titled "Environment Canada's Policy, Procedures and Guidelines for Capital Assets under Accrual Accounting" have been produced and communicated to help staff in the Services and Regions with the implementation of capitalization of assets. More remains to be done; specifically detailed procedures for capital assets and opening balances need to be developed. At the end of October their development has not yet been started. We noted that the policy on opening balances has just recently been shifted from medium to high priority. The problem with the lack of resources in the Accounting Office need to be addressed for the policies and procedures to be properly implemented. It is an area where we are most vulnerable and options need to be formalized for managing this risk.

We also noted that some issues remain to be resolved, such as the treatment of Site restoration costs where direction from Treasury Board is needed.

According to the FIS Plan and Status Report sent to TBS on September 15, the identification and valuation of capital assets in EC is well underway in most regions and work is forecast to be completed by December 2000. However, this does not include the MSC assets (which represent a significant part of the departmental assets) since the "bundling" issue has not been resolved yet.⁴ Clear direction and guidance in line with the TB policy are now urgently needed to allow EC readiness in terms of its capital assets opening balances. Formal project tracking has now become more crucial as we are getting closer to the date of implementation, as well as the identification of interdependencies between various deliverables in work plans of the Task Forces.

It is only realistic to expect that it will take time for departments to be comfortable in the area of accrual accounting. Meanwhile, EC is taking the right steps to ensure its readiness for opening balances at April 1, 2001. Where there is room for interpretation, it will be important to document properly the assumptions on which calculations are based and to be consistent.

⁴ A decision on the bundling issue was made at the December meeting of the FIS Steering Committee, after the presentation of the findings of this audit report.

Recommendations

All the recommendations are addressed to the FIS Steering Committee, as it is the body that monitors the overall progress of the FIS project.

1. The “bundling” of MSC assets needs resolution in order to move ahead and be ready for the capital assets opening balances. Clear direction and guidance in line with the TB policy are needed.⁵
2. Although overall monitoring of the capital assets exercise is being done, formal project tracking needs to be strengthened and issues addressed as they arise, particularly as we approach to the date of effective implementation.
3. The Capital Assets task force should expand the “Examples document” to include more concrete examples of situations specific to EC, based on the questions and issues from regions and services.
4. Where appropriate, specific issues identified in regional survey (highlighted in the Appendix) should be followed up by the Capital Assets task force.

⁵ Same as above.

Appendix 1 - Issues from questionnaires

Issues from questionnaires:

To the question "Does the region anticipate having any problems meeting the requirements of the Treasury Board Accounting Standard on Capital Assets (TBAS 3.1) by 1 April 2001 for recording opening balances?" 2 regions responded by the affirmative. The concern is that some verifications may not be completed on time and that in some cases it might be difficult to track all costs required to make a capital asset operational.

Policies and procedures:

To the questions "Have EC established written policies and procedures for the capitalization of capital assets been communicated to the region? Do the EC established written policies and procedures for the capitalization of capital assets provide clear and sufficient guidance as to how to proceed?" 4 regions expressed the following concerns.

From a general accounting perspective policy and guidance have been provided, but more detailed procedures and methodology are needed.

Need for final documents on Sign-off procedures for FA 10K reconciliation; Roles and responsibilities; Examples document; Coding; CIP; Bundling.

There is insufficient information pertaining to bundling MSC assets and to intangible assets.

Real Property - Information on Real Property to date is well done but some issues remain unresolved.

Insufficient detail vis-à-vis asset categories/line objects, for entry of assets to Merlin. Specific methodology for records management of bundled items, in Merlin, is incomplete.

Systems

The Fixed Assets (FA) Module is being customised right now. So far the FA module was used as an inventory tool only. It is being expanded to include real property and to provide financial functionality (amortisation). Fields have been identified. Input of data started on the materiel side. Amortisation functionality has not yet been tested.

There is a separate real property database: there is some indication that the interface with the capital assets module will be possible.

The issue of "work in progress" (or Construction in progress - CIP) still needs to be resolved: can the system provide the functionality for "work in progress"? MSC is particularly concerned with the issue of CIP which relates to "bundled assets" at MSC. The issue is being examined at EC and will be resolved either by using a functionality in the system, or by using a project coding for CIP. It appears that a project coding will be used.

To the question "Does the fixed asset module meet the region's needs?" the following comments were made by regions.

- Lacks flexibility for effective assignment of custodial responsibility.
- Currently lacking in reporting capability.
- Modifications to MERLIN FA are still needed to address FIS, e.g., bundling, “Expense/Inventory Category” as found in the filed ‘Destination Type’; provision of reports and search mechanisms; bar coding capability; CIP.
- The module is useful in terms of recording capital assets. The mass additions functionality works very well. At present time, there is no sufficient information to comment on it’s ability to depreciate capital assets.
- Complex, labour intensive. Data entry errors not easily detected. System used to record assets \$1,000 to \$9,999 is too much work. Assets purchased on Mastercard a problem in tracking.
- Reports are poor. Mass additions a powerful tool but problems - line objects need to be cleaned-up. As well clients need to understand importance of financial coding.
- Clients concerned with changes to coding structure and whether financial coding of assets will need to be updated if coding changes.
- No report available of what is in Mass Additions.

Identification and Valuation of capital Assets on Hand

Inventory is out of date. A lot of assets will be written off; also new assets >10K may not have been recorded. The inventory exercise is in progress, then the valuation exercise is taking place.

To the question “Are there any administrative control (ownership) issues between the region and another entity or central agency?” regions responded: HQ is still finalizing ownership of some MSC assets, and bundling of assets.

MSC equipment that is funded/purchased by Downsview.

Clients concerned about assets that are cost shared between ourselves & other parties, such as Prov. Govt. and how to reflect this on the books.

To the question “Has the region performed any physical counts?” it appears that there is an issue with the assets of MSC (Ontario Region) where physical counts have been carried out only for 10% of their assets.

To the question “If regional records include historical cost, does this include all costs required to make a capital asset operational?” There is some uncertainty. Some files have been maintained more thoroughly than others; however, information related to the commissioning of an asset has not always been maintained. The issue seems to be for those capital assets with significant installation costs such as the MSC weather monitoring equipment. Managers will have to identify if these costs are to be included in the value of the asset.

Betterments and accounting for betterments versus repairs and maintenance:

One region reported that Asset records did not include betterment costs, and another that this information was not always reported to the asset staff. Guidance received is good, however, accounting details not yet available. Subjective. No specific asset form has been established to record betterments.

Capital Leases:

(Betterment Part of the Biosphere lease, the supercomputer, and after April 1, 2001 NWRC) Estimated value not yet available.

Intangible Capital Assets:

From recent directions given by Treasury Board (October 25, 2000) the only Intangibles to be capitalized for 2001-2002 include leasehold improvements. Leasehold costs incurred prior to April 1, 2001 will not be capitalized. Therefore this category of expenditures has no effect on our opening balances in terms of capital assets.

Real Property:

From the interview with the lead of the sub-group on Real Property, where historical costs cannot be documented for real property, the Book Value Calculator is being used in EC to determine the deemed historical costs for real property. PWGSC will then certify the deemed calculated historical costs. The OAG intends to rely on the work of the Chief Appraiser as an independent source of audit evidence to support the departmental valuations and the government-wide statement. (Thus if departments use both the BVC and the services of the Chief Appraiser in determining deemed historical costs for opening balances, then the OAG would audit files of the Chief Appraiser and would not normally need to audit departmental records).

Other unresolved issues:**Assets -**

- 1) Ontario Region is greatly affected by the Departmental/MSD initiatives in bundling. Many items will have to be deleted from the assets module when bundles are entered, to avoid duplications in opening balances. Much of what needs to be done to identify specific items for removal from the module must await progress on those bundling initiatives.
- 2) The method by which MSD Stores is to be accounted for is as yet unresolved.

Real Property - Concern over being able to draw together all project planning and start-up costs into the total cost to make a capital asset operational.

Bundling, Construction in Progress (CIP), bar coding, availability of reports, coding, Examples document.

Real Property vs. material assets

Material - Bundling - MSD assets has not been resolved. MSD has a significant part of the assets in the Department.

Components of bundles in asset database and cannot action until we have clear policy and procedures.

MSC equipment bought in bulk by Downsview.

Capital Asset Policy developed but Materiel Management Policies may need to be updated to ensure consistency.

Inventory Officers have not been given any training on asset procedures as they relate to the Capital Asset Policy or an explanation of how the accrual accounting system works in the Fixed Asset Module. More training on the FA Module would be beneficial. There are no Inventory Officer desk procedures.

APPENDIX 2 - Audit Methodology and Audit Objectives

AUDIT METHODOLOGY (Phase I)

1. Examine procedures put in place within the department:
 - EC's Policy, Procedures and Guidelines for Capital Assets under Accrual Accounting (The audit will verify whether the valuation procedures are in-line with the Treasury Board accounting standard on capital asset - TBAS 3.1, revised September 21, 1999).
 - Capital Assets Task Force and Sub-groups plans
 - FIS monthly status report for TBS : Capital Assets component
 - Any other documentation of the process used to determine the capital assets opening balances
2. Interviews with:
 - Karen Anderson - Lead Capital assets Task Force
 - Linda Griffin - Lead Sub-group Real Property
 - Michele Cardin - Lead Sub-group Materiel
 - Donnie Chisholm - Lead Sub-group Intangibles
 - Louise Schwartz - FIS Office
 - Benoit Ho - FIS Office
3. Survey of state of implementation in the Regions : sent to Directors of Finance and Administration of all regions.
4. Use of the OAG Questionnaire regarding state of readiness at EC for the implementation of capital asset accounting.

To determine if appropriate guidelines and methodology have been developed to ensure that EC's opening balances for capital assets are identified, valued and recorded in the capital assets module accurately and consistently as at April 1, 2001.

AUDIT OBJECTIVES

OBJECTIVE 1: Revision of Policies, Processes and Procedures

To determine if departmental policies, processes and procedures are reviewed and revised in accordance with central agency requirements and the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants, with regard to full accrual accounting and Generally Accepted Accounting Principles. (detailed criteria attached)

OBJECTIVE 2: Development of guidelines and methodology for determining and recording capital assets opening balances

To determine if appropriate guidelines and methodology have been developed to ensure that EC's opening balances for capital assets are identified, valued and recorded in the capital assets module accurately and consistently as at April 1, 2001.

OBJECTIVE 3: Communication of Policies, Processes and Procedures

To determine if departmental policies, processes and procedures, and guidance are communicated to services and regions.

OBJECTIVE 4: Monitoring of the valuation exercise

To determine if the valuation of all capital assets is being adequately monitored by the Capital Assets Task Force and the Sub-groups: Real Property, Materiel and Intangibles to ensure consistency and timeliness of results.

OBJECTIVE 5: Resolution of concerns/questions

To determine if there is a mechanism to resolve specific questions/concerns related to the valuation of capital assets, and communication thereof to all concerned.