

Follow-up of the Financial Management Audit NCR

June 2001

Audit and Evaluation Branch



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Report Clearance Steps

Follow-up process implemented	September 19, 2000
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Report approved by Departmental Audit and Evaluation Committee (DAEC)	September 27, 2001

Acronyms used in the report

DG	Director General
EC	Environment Canada
FAA	Financial Administration Act
FIS	Financial Information Strategy
G&C	Grants and Contributions
GFMA	Guide on Financial Management Accountability
NCR	National Capital Region

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Follow-up of the Financial Management Audit NCR

Context and Current Status

This follow-up was conducted 2 years after the Financial Management Audit of the National Capital Region (NCR) was completed. The follow-up was done in order to determine the level of implementation of the recommendations made in the original report. Follow-ups are important, as they give senior management a crucial indicator as to the implementation rate of recommendations and adjustments made in relation to the management responses.

The financial management audit of NCR was conducted in 1997 to assess the adequacy of the financial management and control practices in the National Capital Region. The scope of the audit included a review of the functional role of Corporate Finance, key internal controls, selected financial management issues (i.e. planning, budgeting, budgetary management and control, reporting and financial systems), and the implementation of the Guide on Financial Management Accountability.

Analysis of the response to the follow up request has found that the program has implemented some of the recommendations contained in the audit report.

The need for a strong framework of Departmental policies and financial directives was noted at the time of the 1997 audit and progress has been made in this area. Progress has also been made in revising the Departmental Management Framework. The Framework now clarifies senior management accountabilities for business lines and the achievement of results and aligns performance planning with resource planning at a high level. The replacement of financial systems, including Merlin (Oracle Financial), its associated data warehouse and reporting tools and the Salary Management System, appears to have somewhat addressed the recommendation geared toward the application of detailed transactional information. The program-activity structure is also planned to be clarified in the Management Information Blueprint project.

Areas Requiring Attention

Although the audit emphasized the importance of a monitoring system for key internal controls, there is little indication to date of a monitoring process for NCR Finance based on an assessment of risks. Instead, NCR Finance relies on the Review Branch to audit internal controls and processes, and while this provides periodic assurance, it cannot replace the ongoing monitoring function. The Office of the Auditor General's Financial Management Capability Audit reported that there are still weaknesses at EC with regards to internal controls (monitoring) and speaks to the need for an internal control framework for the department.

No formal framework for financial policy has been developed by NCR Finance except the current efforts related to FIS. NCR Finance is responsible for functional direction for the department and although policies have been developed to address these issues, they must be internalized by the department. Without the development and application of a formal

framework for financial policy, there is the potential for inconsistencies and inappropriate use of the financial mechanisms.

There has been no evidence of the development of a comprehensive training plan to address the recommendation made in the audit and all resources specifically related to these functions in Finance were eliminated in Program Review. Training is important, not only to convey functional direction, develop skills and common understandings, but it is also an effective internal control to prevent mismanagement and non-compliance. The lack of a comprehensive training plan therefore poses some risk to the financial management capabilities of the NCR.

Risks

The actions taken by NCR Finance have yet to address some of the major recommendations made in the original audit. A formal framework for financial policy is yet to be crafted as is a formal training plan. NCR Finance has not implemented a formal process to monitor the adequacy of internal controls or to report on the level of compliance. And finally providing consistency in operational planning and improving financial management reporting are issues that also remain to be addressed by NCR Finance. Because these issues pose significant risk to the financial capability of the department, we recommend that another follow up be conducted in 1 year.

Recommendation 1 - **Improvements required**

Recommendation	Actions Taken	Action Plan
<p>The DG Finance review the resources allocated to the Departmental financial policies and training and ensure that:</p> <ul style="list-style-type: none"> • A long term plan for developing a comprehensive Departmental financial policy framework that integrates with the Guide on Financial Management Accountability, key Departmental initiatives (e.g. Commercialization Policy, G&C Managers' Guide), and Central Agency policies should be in place. This plan should address the preparation, communication, tools, resources, time lines and maintenance of the various elements and the linkages within the policy framework. • A long term training plan that identifies financial training needs with the tools and resources needed to communicate the required financial knowledge to those involved with financial management and operations should be prepared. Training should be used as an important source for communicating the Departmental policy framework 	<p>No formal framework for financial policy has been developed except current efforts related to FIS.</p> <p>An inventory of Central Agencies and Departmental Policies has been created and the Managers Guide to Grants and Contributions and the Commercialization Policy have been reviewed. However none of these documents have been incorporated into a formal framework for financial policy.</p> <p>No long term training plan has been developed. Instead, limited levels of resources have meant that priority was given to FIS training and to systems development and related training requirements for Merlin and associated tools and systems.</p>	<ul style="list-style-type: none"> • December 2001 - Revise the Guide on Financial Management Accountability • Sept. 2001 to 2002 - Revise or develop 42 financial policies as identified in the analysis • September 2001 - Prepare a training plan to ensure continuous learning on FIS, financial policies, procedures and systems

Recommendation 2 - **Improvements required**

Recommendation	Actions Taken	Action Plan
<p>The DG Finance ensure the implementation of a formal process for monitoring the adequacy of internal control and reporting on the level of compliance, as required by GFMA.</p> <p>This monitoring should as a minimum include:</p> <ul style="list-style-type: none"> the level of compliance with Departmental financial management policies and procedures resulting from FAA Section 33 expenditure verification process for all expenditure items, including credit cards; the adequacy and performance of other internal controls related to assets and revenues; the effectiveness of cash management activities, such as timeliness of payments and interest charges. 	<p>There is no formal process for monitoring the adequacy of internal controls or for reporting on the level of compliance.</p> <p>Any efforts to report on the level of compliance with policies and procedures are directed to FIS policies and system development.</p> <p>Instead of developing a plan for an internal control framework, priority has been given to the recreation of a National Accounting Branch.</p> <p>NCR Finance relies upon the Review Branch to audit internal controls and processes.</p>	<ul style="list-style-type: none"> July 2001 - Prepare a functional review plan to ensure all regions are audited the first year of FIS and every two years after.

Recommendation 3 - **Improvements required**

Recommendation	Actions Taken	Action Plan
<p>Under the functional direction of the DG, Finance:</p> <ul style="list-style-type: none"> The Department should continue its efforts to develop and implement the mechanisms needed to effectively integrate business line planning and responsibility centre management. For example, greater clarity on the responsibilities and resources of services and regions should be incorporated within the existing Component Action Plans, in order to better coordinate financial planning and management along both business and organizational lines. The financial classification structure 	<p>The departments Management Framework has been revised. It now clarifies accountabilities and aligns performance with resource planning.</p> <p>Harmonization of the program activity codes with the program definitions is currently underway with the Management Information Blueprint project.</p> <p>Financial directives</p>	<ul style="list-style-type: none"> Winter 2001 - With the Blue Print project, develop, test and finalize a common reporting financial classification structure, to better coordinate financial planning and management along both business and organizational lines. Financial directives will be developed and communicated thereafter.

<p>should be reviewed with the objective of harmonizing the program activity codes with the program definitions reflected in the business plan and component actions plans, as well as rationalizing the application of the different fields of the chart of accounts in light of the concerns identified.</p> <ul style="list-style-type: none"> • Financial directives should be developed and communicated in order to ensure a more consistent allocation of program and activity costs across the Department. • Mechanisms should be implemented to ensure managers assigned financial responsibility develop and maintain effective operational plans, so as to provide the formal basis for sound financial management and accountability. • The Department should implement and improve financial management reporting in accordance with the principles and expectations defined in its Guide on Financial Management Accountability. 	<p>have not been developed to ensure more consistent program and activity costs across the department.</p> <p>Improving consistency in operational planning remains an outstanding concern. Planning and reporting does occur but it is not consistent across business lines. Blueprint is intended to improve the consistency of planning and reporting.</p>	
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Recommendation 4 - **Met**

Recommendation	Actions Taken
<p>The DG, Finance ensure that the new financial system will adequately address the production of financial information by programs and activities and the availability of detailed transactional information with respect to salary expenses.</p>	<p>Financial systems either have been or currently are being replaced to comply with new business and reporting requirements.</p>