

# 2<sup>nd</sup> Follow-up to the Financial Management Audit - NCR

**July 2004**

### **Report Clearance Steps**

Follow-up process initiated	September 2003
Report completed	January 2004
Follow-up report approved by Departmental Audit and Evaluation Committee	July 22, 2004

### **Acronyms used in the report**

AEB	Audit and Evaluation Branch
DAEC	Departmental Audit and Evaluation Committee
DG	Director General
EC	Environment Canada
FAA	Financial Administration Act
FIS	Financial Information System
GC	Grants and Contributions
GFMS	Guide on Financial Management Accountability
IC	Internal Control
NCR	National Capital Region

## New Follow-up Process

As of the May 23, 2003 meeting of the Departmental Audit and Evaluation Committee (DAEC) a new approach to follow-ups is being taken. While the practice in the past had been for the Audit and Evaluation Branch (AEB) to conduct them, it is now the responsibility of the relevant program managers to conduct follow-ups to recommendations resulting from audits or evaluations of their own programs. This information is provided in table format in Appendix 1 of this report. The information provided by program managers has been reviewed by the AEB.

## Context

This is the second follow-up that is being conducted on the Audit of the Financial Management – NCR which was completed in 1997. The follow-up is being done to determine the adequacy, effectiveness and timeliness of management action taken to implement the recommendations made in the initial Review. 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.

## Current Status (Sample)

The first follow-up conducted in June of 2001 revealed that some of the major recommendations made in the original audit had yet to be addressed. Outstanding recommendations included the establishment of a formal framework for financial policy, a long term training plan, a formal process to monitor the adequacy of internal controls and a need for consistency in operational planning and improving financial management reporting.

This follow-up revealed that all outstanding recommendations are being addressed. The table in Appendix 1 outlines the actions for each of the recommendations in details.

## Risks (as required)

Based on the recommendations made in the initial audit and the management response in Appendix 1, we have not identified any unacceptable risks.

## Future Actions

All recommendations are currently being addressed. Audit and Evaluation will continue to monitor the progress made against the implementation of a formal process for monitoring as part of its continual auditing process more specifically in the field of accounts payable and pays and benefits. No future follow-up is recommended.



## APPENDIX 1

### PROGRAM RESPONSE:

#### 2<sup>nd</sup> Follow-up to the Audit of the Financial Management - NCR

Recommendation 1			
INITIAL RECOMMENDATION (1997/98)	1 <sup>ST</sup> FOLLOW-UP – ACTION TAKEN June 2001	1 <sup>ST</sup> FOLLOW-UP PROPOSED ACTION PLAN June 2001	2 <sup>nd</sup> Follow up - ACTION TAKEN/PROPOSED PLAN October 2003
<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"> <li>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&amp;C Manager's Guide), and Central Agency policies should be in place. This plan should address the preparation,</li> </ul>	<p>No formal framework for financial policy has been developed except current efforts related to FIS accounting policies.</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 the 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</p>	<ul style="list-style-type: none"> <li>December 2001 – Revise the Guide on Financial Management Accountability.</li> <li>September 2001 to 2002 – Revise or develop 42 financial policies as identified in the analysis.</li> <li>September 2001 – Prepare a training plan to ensure continuous learning on FIS, financial policies, procedures and system.</li> </ul>	<p><u>Action Taken</u></p> <p>Since December 2001, EC has made great strides in this area. Work to revise the Guide on Financial Management Accountability has started as part of the Accountability and Internal Control Roles and Responsibilities document. A significant number of the 42 new financial policies have been drafted and other policies such as payment sampling process, costing and acquisition cards are implemented.</p> <p>Major improvements have also been made in the delivery of training to the financial community. National Financial Management Workshops have been carried out annually, various training sessions on policies and new systems initiatives have been carried out across all regions and a National Finance Website, populated with some financial information and policies, has been created and is available to all departmental employees.</p> <p>Centers of Excellence have been established in all regions to complement the Corporate policy initiatives in such areas as transfer payments, acquisition card</p>

<p>communication, tools, resources, timelines and maintenance of the various elements and the linkages within the policy framework.</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>	<p>associated tool and systems.</p>		<p>and statistical sampling. The Quebec region is currently championing a corporately funded learning framework initiative targeted to responsibility center managers and national in nature.</p> <p>Although a lot of work has been accomplished with limited resources. a Long Term Financial Strategy is being developed and it recognizes the need to reinforce training and policy development functions.</p> <p><u>Proposed Plan: Develop a Departmental Financial Policy Framework and Training Plan:</u></p> <p>Although the completion and implementation of a comprehensive framework will be hampered by capacity constraints, plans are already in place for integrating training on high priority policies with the Merlin 11i Upgrade training in June 2004.</p>
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<b>Recommendation 2</b>			
<b>INITIAL RECOMMENDATION</b>	<b>1<sup>st</sup> FOLLOW-UP ACTION TAKEN</b>	<b>1<sup>st</sup> FOLLOW-UP PROPOSED ACTION PLAN</b>	<b>2<sup>nd</sup> Follow up - ACTION TAKEN/PROPOSED PLAN</b>
<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 the Guide on Financial Management Accountability (GFMA).</p> <p>This monitoring should as a minimum include:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• The adequacy and performance of other internal controls related to assets and revenues;</li> <li>• The effectiveness of cash management activities, such as timeliness of payments and interest</li> </ul>	<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 process.</p>	<ul style="list-style-type: none"> <li>• July 2001 – Prepare a functional review plan to ensure all regions are audited the first year of FIS and every two years after.</li> </ul>	<p><u>Action Taken</u></p> <p>Since July 2001 mini functional reviews have been carried out in all regions and corporate staff have received training on auditing techniques to obtain the skills sets required to carry out full functional reviews. In addition, a draft Functional Review Framework has been developed as part of the Accountabilities and Internal Control Framework. An IC Self-Assessment Checklist has also been developed.</p> <p>A Monitoring Plan is being developed for Grants &amp; Contributions whereby designated Financial Officers will monitor program G&amp;C files to ensure that all required information/documents are present and terms and conditions are met.</p> <p>The above should support our capacity to provide an improved Management Accountability and Governance Framework at EC.</p> <p>A Long Term Financial Strategy is being developed and a major part of it recognizes the need to reinforce quality assurance functions.</p> <p><u>Proposed Plan: Develop and Implement a formal process for monitoring the adequacy of internal controls and to report on compliance.</u></p> <p>Next steps include the finalization of a formal process and arrangements with all Regions and Services for finalization. This includes establishing templates for the 3 components identified in the 1997/98</p>

charges...			<p>recommendation, developing reporting requirements, guidelines for non compliance, carrying out a pilot and implementation throughout all regions.</p> <p>These efforts will be hampered by capacity restraints.</p>
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Recommendation 3			
INITIAL RECOMMENDATION	1 <sup>st</sup> FOLLOW-UP ACTION TAKEN	1 <sup>st</sup> FOLLOW-UP PROPOSED ACTION PLAN	ACTION TAKEN/PROPOSED PLAN
<p>Under the functional direction of the DG Finance:</p> <ul style="list-style-type: none"> <li>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.</li> <li>The financial classification structure 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,</li> </ul>	<p>The department Management Framework has been revised. It now clarifies accountabilities and aligns performance with resource planning. Harmonization of the program activity codes with the program definitions is currently underway with the Management Information Blueprint project.</p> <p>Financial directives 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>	<ul style="list-style-type: none"> <li>Winter 2001 – With the Blueprint 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.</li> </ul>	<p><u>Action Taken</u></p> <p>As at April 1, 2003, EC implemented a new financial architecture intended to better link financial and non-financial information. This is referred to as the 'Blueprint'. Each Departmental Business Line developed coding related to their activities along with an activity dictionary, with a view to linking with results and performance information.</p> <p><u>Proposed Plan</u></p> <p>Next steps are monitoring the appropriate use of the 'Blueprint' and producing reports that demonstrate the linkage of financial/non-financial. These efforts will be hampered by capacity restraints.</p> <p>A first attempt will be made in the Departmental Financial Situation Report on key initiatives/activities for the 2003-04 fiscal year.</p> <p>The Atlantic Region have introduced a planning/reporting database, the Results Management Tool, which will track spending by core functions/key activities as well as tie in results and achievements. This year, Atlantic Region launched the Results Management Tool, region-wide. This tool is a web-based planning/reporting database which creates a common source to input and review planned and actual achievements (by management framework and by organization), and planned spending by</p>

<p>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"> <li>• Financial directives should be developed and communicated in order to ensure a more consistent allocation of program and activity costs across the Department.</li> <li>• 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.</li> <li>• The Department should implement and improve financial management reporting in accordance with the principles and expectations defined in its Guide on Financial Management Accountability.</li> </ul>			<p>functions and activities (using Blueprint dictionaries). Noting the potential for knowledge sharing on programs and activities, linking activities with results, and linking financial and non-financial information, Corporate Planning and Reporting together with a multi-disciplinary team from across organizations and regions, submitted a proposal to the Learning Fund (03-04), and were successful in receiving support to explore broader application of this tool.</p>
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