

# Capital Asset Valuation Phase III

**July 2005**

***Audit and Evaluation Directorate***



Environment  
Canada

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Canada

**Canada**

## **Report Clearance Steps**

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

|      |                               |
|------|-------------------------------|
| CAVA | Capital Asset Valuation Audit |
| EC   | Environment Canada            |
| FA   | Fixed Asset                   |
| FMA  | Financial Management Advisor  |
| GL   | General Ledger                |
| HQ   | Headquarters                  |

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## **1. EXECUTIVE SUMMARY**

Environment Canada introduced accrual accounting in April of 2001 and implemented a process to report and account on capital assets. Within Headquarters, the Financial Services and Administrative Services and Environmental Management Directorates have identified two part-time resources as being responsible for capital assets reporting and accounting. The two part-time resources have implemented the policies, procedures and provided guidance and support to regions. The Financial Services Division has decided that this position will become a full-time position as of April 1 of this year for a period of two years.

Following initial training in 2001, each region was organized with a Fixed asset (FA) Manager and an Accounting Chief able to carry the functions of reporting and accounting on capital assets. Today, this community expressed that they are more autonomous and more knowledgeable about capital assets than they were in 2002 when the CAVA III audit was initiated. They have the benefit of a fairly stable community and with the various training sessions and the support and guidance received from the Financial Services and Administrative Services and Environmental Management Directorates, they are able to play their role more efficiently. This capacity should be sustainable in the future.

The department introduced a capital asset reconciliation process in 2003-04 and was able to reconcile its General Ledger and Fixed Assets modules for the first time at the end of the last fiscal year. This reconciliation process is slowly being included as part of the regional month-end closing procedures.

The auditor concludes that the department has made good progress toward the establishment and the communication of processes to manage and value capital assets. All regions have indicated that the department has constantly enhanced its capacity to report and account on capital assets. Nonetheless, some improvements are still needed for the department to be able to withstand the scrutiny of an audit of the valuation of its capital assets. For instance, the policies and procedures must be up-dated to reflect, amongst other things, the current practices of several regions which have adopted a centralized approach to capital assets reporting and accounting. The managers need to be more involved in the capital assets reporting mechanisms. The managers are responsible to account for, report upon and safeguard capital assets under their stewardship. The auditor has recommended that greater awareness and training on capital assets reporting and accounting should be given to managers. The Financial Management Advisors (FMAs) should be more involved in certain aspects of work-in-progress, and all of the capital assets accounting processes and monitoring in general.

The auditor has recommended that the Financial Services and Administrative Services and Environmental Management Directorates institute visits to regions to monitor the application of the policies, procedures and guidelines on capital assets reporting and accounting. The auditor has also recommended that the procedures concerning the maintenance of a unique asset file in all regions be formalized. These procedures should also specify that the retention period of that file should match the life of the asset.

Regional FA Managers and Accounting Chiefs have indicated that the ability of the two individuals guiding the implementation of the capital assets reporting and accounting within HQ has provided the foundation for the cooperation between the two groups at the regional level.

Several regions have expressed some concerns about the changes that are happening with the organizational structure of the department and the impact that this may have on tracking the assets to the right custodians.

## **2. INTRODUCTION**

Since 2000, the Audit and Evaluation Branch has conducted audits to assess the validity of the capital assets valuation methodology adopted at Environment Canada (EC), in light of the Treasury Board Secretariat requirements (CAVA I), and secondly to assess the implementation of this methodology (CAVA II).

In 2002, the Audit and Evaluation Branch launched an audit to provide a degree of assurance on the current and the opening balances of the value of Environment Canada's (EC's) capital assets. CAVA III was approved at the Departmental Audit and Evaluation Committee on March 6, 2002. A few months into the audit, it became evident to the auditors that the available supporting documentation was not sufficient to properly assess the value of the assets and that it would not be possible to provide assurance on the opening balance, or on the current balance. At that point, it was decided that the auditors would provide a report with an audit opinion, but that more work would be undertaken internally to assess the management framework around the valuation of assets.

In this regard, work was undertaken and evidence was gathered internally, but a series of difficulties ensued and the work was not completed. In the winter of 2005 the project was re-instated and Pauline Blais Associates was hired to conduct the audit.

## **3. AUDIT OBJECTIVE AND SCOPE**

The objective of this audit is to assess existing processes to manage and value capital assets and make recommendations, if required, to improve the management processes and ensure appropriate controls are in place. The processes were assessed against audit criteria and good practices in managing and valuing capital assets. The ultimate goal is for the department to be in a position to value the assets properly and provide sufficient documentation to be able, in the future, to successfully sustain the scrutiny of an audit providing assurance on the value of the department's capital assets.

In order to assess existing processes the auditor examined the management framework in place to manage and value capital assets. She examined:

- the organization of the function for capital asset reporting and accountability both in Headquarters (HQ) and in regions;
- the quality, availability and completeness of the policies, procedures and guidelines;
- the training of those responsible for fixed assets reporting and accounting (FA Managers; Accountants; Managers);
- the availability and the provision of advice and guidance;
- the controls surrounding the reporting and valuation of capital assets;
- the monitoring and verification of capital assets recorded information; and
- the documentation and records supporting capital assets.

The audit served to assess whether the management framework for reporting and accounting for capital assets was designed appropriately. It did not test whether the controls were working as intended.

#### **4. APPROACH AND METHODOLOGY**

The auditor used the following approach and methodology in carrying out the audit:

- *Review of all relevant documentation on capital assets reporting and accounting within Environment Canada.* The auditor reviewed relevant documentation in order to gain a sound understanding of EC's policies, procedures and reporting mechanisms as they related to capital assets reporting and accounting. The review of documentation included the analysis of the report produced by Horwath Orenstein LLP who conducted the audit on the valuation of assets in 2002.
- *Interviewed the Audit Manager that was responsible for the completion of the CAVA III audit.* The auditor interviewed the audit manager to understand the main weaknesses identified in the management framework for reporting and accounting for capital assets.
- *Interviewed key individuals to map the current management processes and controls.* The auditor gained a sound and in-depth understanding of the current processes used in reporting and accounting for capital assets. This was achieved by interviewing staff within the Financial Accounting and Materiel Management Divisions at HQ. The auditor also conducted conference calls with Financial Accounting and Materiel Management staff responsible for reporting and accounting for capital assets in each region of the department.
- *Establish audit criteria (see Appendix A) to undertake the audit.* Specific audit criteria were developed to assess the appropriateness of the management framework (control mechanisms and processes) and whether the key elements of a sound management framework are in place in HQ and in all regions.
- *Validate information received from regions.* The auditor met with representatives from the Financial Services Directorate and the Administrative Services and Environmental Management Directorate to present information received from regional conference calls, validate information and seek their plans to address concerns and/or issues coming out of interviews with regions.

## **5. APPRECIATION**

The auditor would like to thank the various individuals and organizations that have participated in this audit for their co-operation and assistance.

## **6. DETAILED FINDINGS AND RECOMMENDATIONS**

### **6.1. Organizational Structure within HQ**

The reporting and accounting for capital assets is a lean function shared between two directorates within Headquarters: the Financial Services Directorate and the Administrative Services and Environmental Management Directorate. Each directorate has identified one resource that is responsible for the reporting and accounting for capital assets. These two individuals currently share other responsibilities within their respective directorate. They have indicated that they spend approximately half of their time on capital asset reporting and accounting.

The document entitled EC'S Roles, Responsibilities and Procedures for Capital Assets identifies the responsibilities of both directorates as follows:

The Financial Services Directorate, as the functional authority for finance within the department is responsible for:

- Developing, issuing, reviewing and revising financial policies and procedures for the reporting and accounting of capital assets;
- Ensuring that proper financial controls are in place so that managers and others with responsibility for capital assets understand and comply with EC's accrual accounting requirements;
- Developing, on a departmental basis, the appropriate training programs for the implementation and ongoing requirements of accrual accounting;
- On an ongoing basis, providing advice as to the proper interpretation and implementation of departmental policies and procedures; and
- Providing and maintaining a financial system capable of meeting the requirements of managing and accounting for capital assets.

The Administrative Services and Environmental Management Directorate, as the functional authority for administration within the department is responsible for:

- Developing and issuing policies and procedures to ensure that managers and others with capital asset stewardship responsibility manage these assets in accordance with the Life Cycle Approach;
- Developing, on a departmental basis, the appropriate training programs for the implementation and ongoing requirements for the Life Cycle Approach to asset management;
- On an ongoing basis, providing advice as to the proper interpretation and implementation of departmental policies and procedures; and



- Provide and maintain material management and real property systems capable of meeting the requirements of managing and accounting for these assets.

The list of responsibilities does not include a monitoring function which is unusual considering both directorates have functional authority roles. However, the monitoring responsibility is identified in the Policy Document on Capital Assets in section 4. That section states that Corporate Finance and Corporate Administration shall monitor the provisions of this policy.

The Financial Services Directorate has indicated its intention to create a full-time position for assets accounting for the next two years, starting April 1, 2005. The current incumbent of the part-time asset accounting position will be asked to step into that position. The Financial Services Directorate is also thinking of creating a Capital Assets Committee whose main responsibility would be to address common issues in the accounting of capital assets.

The Financial System of the department, MERLIN, captures all relevant information pertaining to capital assets through the Fixed Assets (FA) Module. It is the Materiel Management Division within the Administrative Services and Environmental Management Directorate that is responsible for administering the Merlin Fixed Assets module. The Systems Operation, Support and Development Unit provides technical assistance when required.

## **Recommendation**

**Both directorates must be recognized as having a functional authority role with respect to assets reporting and accounting. Such functional authority role will be fulfilled when all responsibilities are fully exercised and when monitoring is carried out. We recommend that the document on roles and responsibilities establish clearly that the two directorates have a monitoring role. The policy document should also describe how this monitoring role will be achieved.**

## **Management Response**

*The document entitled EC'S Roles, Responsibilities and Procedures for Capital Assets will be reviewed to reflect the monitoring role of Financial Services Directorate and Administrative Services and Environmental Management Directorate as well as how this role will be achieved.*

*In addition, the proposed Capital Assets Committee would be co-lead by both Finance and Administration to ensure consistency in the development of business processes to address issues relating to both reporting and accounting of capital assets.*

## **6.2. Organizational Structure within Regions**

Capital assets reporting and accounting is again a shared responsibility within HQ and the five regions of the department. This responsibility is shared between the Regional Accounting Offices and Regional Asset Management (sometimes referred to as the administration or material management functions).

Certain regions have opted for a centralized approach (Prairie and Northern; Atlantic; Québec) to capital assets reporting and accounting where the Asset Management Division is responsible with the manager to identify the acquisition of a capital asset, to tag assets upon receiving them and to oversee the process for reporting the assets into the FA module. When a centralized approach is adopted, it is the Asset Management Division that is responsible for maintaining, in a central control office, accounts distribution records.

Other regions have opted for a decentralized approach (Pacific and Yukon; Ontario) with the Ontario Region practising partial decentralization to capital assets reporting and accounting. When a decentralized approach is adopted, the managers are responsible for identifying the acquisition of capital asset, tagging assets upon receiving them and overseeing the process for reporting the assets into the FA module. The Pacific and Yukon Region has delegated to the managers the responsibility for maintaining supporting document (audit trail) to capital assets. This function remains centralized in the Ontario Region.

The document establishing roles, responsibilities and procedures for Capital Assets identifies the responsibilities of Regional Directors of Finance and Administration as follows:

- Implement within their region the policies and procedures as developed by the departmental functional authorities;
- In consultation with the corporate functional authorities where necessary, provide functional advice and direction with respect to capital assets reporting and accounting to managers and others with capital asset responsibilities; and
- Ensure proper financial controls are in place and functioning with respect to accrual accounting.

The document identifies a series of additional responsibilities for Materiel Management which includes the maintenance, in a central control office, of the records of distribution accounts, the administration of the Merlin FA module and ensuring that physical inventory verification is undertaken every five years.

Two key observations have been exposed through the series of conference calls that were carried out by the auditor. First, managers do not play an active role in accounting for and reporting on capital assets although the assets are under their stewardship. This is a common belief amongst those exercising regional functional authority. It was more so a common theme amongst those regions who have favoured a centralized approach, although this issue was also brought up by the Pacific and Yukon Region. Often, when managers are involved, they will delegate this function to lower level staff.

This situation is not attributable to a lack of clarity of the policy document since the document could not be clearer as to the responsibilities of a manager with respect to accounting and reporting on capital assets. It is rather a lack of training and possibly too much hand-holding by Regional FA Managers which is preventing the program managers from playing an active role in managing capital assets.

Some Regional FA Managers have stated that managers do not fully understand their responsibility with respect to capital assets reporting and accounting. Key areas of weaknesses with managers are the identification of costs required to put the asset into service (all associated costs such as installation, engineering, testing etc); the identification of costs related to assets under construction; the estimated useful life; distinguishing between betterments and repairs; determining whether the asset has become obsolete or has been mothballed; determining whether the book value of an asset needs to be written-down or whether it needs to be written-off; and the accounting for the disposition of the asset. In fact, all Regional FA Managers have indicated that the useful life is usually determined based on the system default value, while managers could well be making another useful life determination. Some indicated that they are just now realizing that they could make another useful life determination. They have indicated that they will start challenging the default value with managers. In fact the Financial Services Directorate indicated having recently re-instated the value of radars and other assets linked to the Meteorological Services of Canada after being informed by MSC FMA's office that the life expectancy of these assets were longer than initially established. The adjustment increased the net book value (NBV) of the departmental assets by \$38 million.

Secondly, Financial Management Advisors (FMAs) are not involved in the reporting and accounting of capital assets. Other than one FMA within the Ontario Region who plays an active role with respect to capital assets in the Meteorological Service of Canada, FMAs have no specific role with respect to capital assets. Responsibilities regarding the reporting and accounting of capital assets has been organized around the Regional Accounting Offices and the Regional Fixed Assets Managers. Given FMAs and managers work closely together in corporate planning, budget exercise, budget review exercises and in providing various financial management interpretations to managers, FMAs need to be more closely involved in capital asset reporting and accounting and more particularly with respect to certain types of assets (i.e. bundling of assets).

### **Recommendations:**

**The Financial Services and the Administrative Services and Environmental Management Directorates in HQ together with their counterparts in regions must play a more active role in involving managers in the management, reporting and accounting of capital assets.**

**In its role to advise managers on all financial management matters, FMAs should play a more active role in certain aspects of work-in-progress, and all of the capital assets accounting processes and monitoring in general.**

### **Management Response**

*Training will be offered to managers to help them better understand their responsibilities in the reporting and accounting of capital assets.*

*Furthermore, the department is developing an assets management approach, based on the principles of life-cycle management, which will include managers/asset custodians, finance and administrative officers alike.*

### **6.3. Policies, Procedures and Guidelines**

Policies, procedures and guidelines are required as part of maintaining a good capital asset management framework. The auditor examined the key policies available with respect to reporting and accounting on capital assets.

Several policies and procedures documents have been published since the introduction of accrual accounting in 2001. The key documents published and disseminated by EC are the following:

- i) EC's Roles, Responsibilities & Procedures for Capital Assets (revised April 30, 2001);
- ii) EC's Policies, Guidelines, Explanations & Examples for Capital Assets (revised April 30, 2001); and
- iii) Merlin Fixed Asset Module Procedures.

When introduced in 2001, the first two documents were disseminated not only to the accounting and asset management community but to all managers. The third document addressing FA Module procedures was disseminated to the accounting and asset management community only. Since that time, the Financial Services Directorate has introduced a "Capital Assets Accounting Issues" document to address specific issues with respect to the reporting and accounting of various transactions affecting assets. Various versions of this document are in circulation. For instance, most regions have indicated they have either version 13 dated October 2003 or version 15 dated April 2004 while the departmental Website hosts version 9 and the Public Folders presents version 13. All regions have indicated that this issue document was useful in responding to specific issues they have had pertaining to accounting for capital assets.

In April of 2004, the Administrative Services and Environmental Management Directorate issued, through an e-mail correspondence to the regional asset management community, a proposal for FA file procedures. The document was sent asking for comments. The procedures were not formally implemented thereafter. Other aspects still in need of clarification and confirmation at that time were the period of retention for asset records/information and the development of a checklist of what is required in each FA file.

The policy and procedures documents are fairly complete but are in need of up-dating. For instance, the process described in the document entitled "Roles Responsibilities & Procedures for Capital Assets" presents a decentralized approach to capital assets reporting and accounting when in fact in several regions, it is a centralized approach that is being used. That document also refers to managers completing an *Asset Record Input and Transaction form* which does not exist. Rather a document entitled *Equipment Distribution Record* is used for the same purpose.

The policy document restricts the concept of bundling of assets to building and to specific National Monitoring Networks used by the Meteorological Services of Canada. Regional FA Managers, other than the Ontario Regional FA Managers have indicated having difficulties with the concept of bundling of assets for Meteorological Service of Canada equipments (radars, buoys) and systems.

Regional FA Managers and Accounting Chiefs have indicated that most of the time they rely on procedures and the accounting issues documents to sort out issues occurring from time to time. If certain issues are not included in the documents, they will contact one of the two experts in HQ for advice. They have indicated that advice is readily available from both the Financial Services and Administrative Services Directorates to the point that often, instead of looking in documents to solve a given issue, they will phone the experts. Some regions have indicated having difficulty making corrections in the system without the assistance and intervention of the experts.

There are very few regional procedures although some regions have indicated developing certain guidance documents which could be useful to all. Some regions have raised the lack of certain policies or procedures document, notably with respect to cost minimizing disposal and donation of assets.

Some regions have raised concerns about the impact of the new departmental organizational structure on the tracking of capital assets to the right custodians.

### **Recommendations:**

**The Financial Services and Administrative Services and Environmental Management Directorates should review the policy and procedures documents with the intent of reflecting the most recent and appropriate processes for reporting and accounting on capital assets and putting emphasis on those areas causing more concerns to users i.e. managing in a centralized approach, bundling, betterments and corrections of entries.**

**The Administrative Services and Environmental Management Directorates should issue and disseminate a formal policy on FA file procedure and the retention of assets files.**

**The Administrative Services and Environmental Management Directorates should complete policy and procedures documents on areas such as cost minimizing disposal and donation of assets as they impact on the quality of information.**

**The Financial Services and Administrative Services and Environmental Management Directorates should ensure the most recent versions of policies and procedures documents are disseminated and available on the Web and in Public Folders.**

## **Management Response**

*All policies and procedures documents for capital assets will be reviewed to reflect the most recent and appropriate processes and include additional subjects such as cost minimizing disposal and donation of assets. The most recent documents will be posted on EC Web site. This will be addressed as part of the implementation of the Corporate Services Renewal initiative which will include a comprehensive review of all corporate service business processes (including financial and administrative) across the department with a view to developing integrated, department-wide standards.*

### **6.4. Training on Capital Assets Reporting and Accounting**

Initial training was organized in all regions for all FA Managers and Accounting Chiefs. Additional training was offered to the same community in the fall of 2003 with respect to specific accounting issues that had proven difficult in the first two years of accrual accounting. This formal training to the financial and asset management community has been complemented by regular conference calls organized by the Financial Services and Administrative Services and Environmental Management Directorates to address specific topics of interest. Regional FA Managers and Regional Accounting Chiefs have indicated receiving adequate training since the implementation of accrual accounting and believe they have a solid knowledge of capital assets reporting and accounting.

Those regions that adopted a decentralized approach to capital assets reporting and accounting have also developed training sessions addressed to managers and administrative assistants and have been offering these sessions regularly. Managers in regions that adopted a centralized approach have not received the same training. The Regional FA Managers in these regions have indicated that managers are not sufficiently involved in the capital asset process and believe their lack of involvement is mostly due to a lack of awareness that could be solved through increased training. These managers have indicated that, if managers were more actively involved in capital assets reporting and accounting, this would improve the quality of information on capital assets.

The Financial Services Directorate has appointed a manager responsible for financial training. It is the intention of the Directorate to ensure that all managers received a minimum level of training with respect to financial management. That manager was mandated to put in place an infrastructure for training managers and to develop a training strategy. Given two Regional FA Managers (Ontario and Pacific and Yukon Regions) have already developed training materiel for managers, this material should be used to organize department-wide training and awareness sessions for managers.

### **Recommendations:**

**The Financial Services and Administrative Services and Environmental Management Directorates, as per their stated responsibilities, should continue to offer, when required, training programs for Regional FA Managers and Accounting Chiefs and their staff.**

**The Financial Services and Administrative Services and Environmental Management Directorates should also develop training programs addressed to the particular needs of managers and their administrative assistants. In order to develop such training materiel, the two HQ Directorates should build on what has already been developed by the Ontario and Pacific and Yukon Regions. These training sessions could either be delivered by the Regional FA Manager and Accounting Chief or by the National FA Manager and the National Capital Asset Accounting Chief or both. Financial Management Advisors could also participate and facilitate in such training and awareness sessions for managers.**

### **Management Response**

*Continuous training programs and supporting documentation will be provided to Regional FA offices, managers, administrative assistants and FMA offices, as required.*

## **6.5. Controls Surrounding the Reporting and Valuation of Capital Assets**

The Financial Services and Administrative Services and Environmental Management Directorates have developed a series of internal controls for ensuring that capital assets reporting and accounting is properly done. These controls are expressed in the document “Roles, Responsibilities & Procedures for Capital Assets”. Amongst the key controls defined in this document are the existence and dissemination of policies, procedures and guidelines, the availability of advice and guidance, the delivery of training, the existence of reconciliation process between the General Ledger (GL) and FA modules and the existence of a monitoring function to ensure that capital assets processes are well understood and complied with. This section of the report is mostly concerned with the reconciliation process as other internal controls are addressed elsewhere in the report.

The National FA Manager and Capital Asset Accounting Chief have developed in fiscal year 2003-04 a reconciliation process which was carried out successfully for the first time at the end of fiscal year 2003-04. At the end of last fiscal year, all regions carried out a reconciliation exercise between the GL and the FA modules and all were able to reconcile. This indicates that all accounts payable recorded into the GL which were originally coded with a line object indicating a capital asset acquisition, have been identified and posted as a capital asset into the FA module. Of course, if an asset was acquired and not identified with the right line object, the system would not capture such item as being a capital asset and as a result, such an item would not have been recorded as a capital asset. Such situations should not occur too often especially if managers and Regional FA managers are working together in the early planning process for the acquisition of capital assets. This reconciliation process does not ensure the integrity of the FA Module.

These reconciliations between the GL and FA Module are requested by the Financial Services and Administrative Services and Environmental Management Directorates on a monthly basis and both directorates are monitoring very closely the variances between the GL and FA modules.

During the year, there is usually a variance of about \$1M between the GL and the FA modules. However, at year-end everything is reconciled.

We have learned through the conference calls that several regions are not doing these reconciliations on a monthly basis but are rather doing them when time permits. These regions have indicated that they know nonetheless that the variance between the GL and the FA modules is not very significant since they examine the variance report. Even so, we would recommend that such reconciliation be carried out monthly to avoid any problem at year-end and also to complete the month-end procedures required by the Financial Services Directorate.

The Prairie and Northern Region has been doing its reconciliation on a monthly basis but indicated having difficulty performing them due to system generated timing variances and the absence of FA print-out. These difficulties should be reported to HQ for remedial action as it is HQ expectations that such reconciliations be done monthly.

### **Recommendations:**

**The Regions should do their reconciliations on a monthly basis, thus avoiding any surprise at year-end.**

**The Prairie and Northern Region together with the Financial Services and Administrative Services and Environmental Management Directorates should be identifying and solving the system related issues that are surfacing when doing monthly reconciliations.**

**Based on the external assessment carried out yearly, the Financial Services Directorate should identify areas of greater vulnerability and discuss them with regions in an effort to constantly improve the quality of the financial information on capital assets.**

### **Management Response**

*The Financial Services and Administrative Services and Environmental Managements Directorates will continue to insist that Regional FA and accounting offices do their reconciliations on a monthly basis. Specific challenges identified by Prairie and Northern Region will be resolved by identifying and rectifying the system related issues.*

*Additionally, the Financial Services Directorate will work with the Regions to identify areas of greater vulnerability in an effort to constantly improve the quality of the financial information on capital assets.*

*As part of the proposed Departmental Assets Management Approach, all annual asset plans should include a tag to either capitalize or expense a proposed acquisition, which, if applicable, will include all related costs including installation and freight charges. This will ensure the appropriate accounting treatment is identified at the outset in consultation with managers, administration and financial experts.*



## **6.6. Provision of Advice and Guidance**

The National FA Manager and the Capital Asset Accounting Chief have been working together since the inception of accrual accounting and focusing on improving capital assets reporting and accounting. They have developed policies and procedures documents as well as the accounting issues document. They have developed training sessions and have organized regular conference calls to ensure that the asset management and capital asset accounting community is well informed of its responsibilities with respect to capital asset reporting and accounting. Regional FA Managers and Accounting Chiefs have indicated that these two individuals ability to work together have provided the foundation for the cooperation between the two groups at the regional level. As a result, all regions interviewed have indicated that the collaboration between the two groups has helped solved regular issues that come up from time to time.

## **6.7. Monitoring and Verification of Capital Assets**

The policy document published by EC indicates that the provisions of the policy shall be monitored by the Financial Services and Administrative Services and Environmental Management Directorates. So far this monitoring obligation has been limited to producing a monthly variance report comparing the GL and the FA modules and requiring regions to perform a monthly reconciliation between the two modules. The directorates have indicated that the monthly variance reports have not exceeded more than \$1 million dollars in the past year. When necessary, the Directorates will phone a region that has a particularly high variance.

There has not been any site visits to the regions where the application of the policies and procedures would be reviewed and/or additional training or awareness would be carried out with managers and/or the asset management and accounting community.

Regions would benefit from these monitoring visits to discuss issues that are particular to their own region and could also benefit from the sharing of good practices happening in other regions. This would also allow the department to confirm if it can withstand the scrutiny of an annual audit of the valuation of capital assets.

We believe that monitoring visits should be instituted as soon as conveniently possible.

### **Recommendation:**

**The Financial Services and Administrative Services and Environmental Management Directorates should institute visits to regions to monitor the application of the policies, procedures and guidelines on capital assets reporting and accounting. These visits should be at least annual at the beginning and should diminish when the Directorates are satisfied that the provisions of the policies are adequately implemented.**

## **Management Response**

*The Financial Services and Administrative Services and Environmental Management Directorates will institute a new monitoring process to gather information on a periodic basis (annually as a minimum) to assess compliance with policies, procedures and guidelines based on a representative sampling approach.*

*Additionally, visits to Regional offices will be proposed, on an as required basis, where inconsistencies or non-compliance with policies and/or procedures prevail.*

### **6.8. Documentation and Records supporting Capital Assets**

As the auditor reported earlier, the proposed FA File procedures for Capital Assets has not yet been formally approved and implemented in all regions. Nonetheless, three regions have reported having adopted similar good practices. Other regions have partially implemented the procedures but are not retaining the asset file for the life of the asset. The following regional situation exists:

- National Capital Region, a unique asset file is maintained in two different locations. This file contains the invoices, the Equipment Distribution Record as well as all contract information. The file is retained for the life of the asset;
- Ontario Region, a unique asset file is maintained and the file contains the invoices, the Equipment Distribution Record as well as all contract information. The file is retained for the life of the asset and beyond;
- Québec Region, a unique asset file is maintained and the file contains the invoices, the Equipment Distribution Record as well as all contract information. Real property asset files are maintained in Montreal while moveable asset files are maintained in Québec. The file is retained for the life of the asset;
- Prairie and Northern Region, no unique asset file is maintained, however the financial file (Accounts Payable File) is kept for a period of 2 years on site and sent to Archives where it is kept another 7 years or according to Archives rules. A materiel management file is also kept for the life of the asset with the Equipment Distribution Record and all contract information.
- Atlantic Region, a unique asset file is maintained and called the Accounts Payable File. This file contains the invoice, the Equipment Distribution Record as well as all contract information. This file is kept for a period of 2 years on site and sent to Archives where it is kept another 7 years or according to Archives rules;
- Pacific and Yukon Region, no unique asset file is maintained, however a financial file (Accounts Payable File) is kept for a period of 2 years on site and sent to Archives where it is kept another 7 years or according to Archives rules. A materiel management file is kept for

the life of the asset with the Equipment Distribution Record and all contract information. This file is kept by each branch having acquired the asset. It is not centrally maintained by the Regional FA Manager;

All those regions having implemented the unique file approach have done so as of April 1 of last year and have not developed asset files for assets in existence at that time. The department must emphasize the documentation of its asset if it wants to be able to withstand the scrutiny of an audit in the near future.

### **Recommendations:**

**The Administrative Services and Environmental Management Directorate should formalize the procedure concerning the maintenance of a unique asset file in all regions and should also formalize the retention period of that file.**

**The monitoring visit recommended in the previous section should serve to assess the implementation of this procedure as this is important if the department wants to uphold the tests of an audit in the future.**

### **Management Response**

*The Administrative Services and Environmental Management Directorate will formalize its draft FA file management procedures, including confirmation of the retention period.*

*Application of these procedures will be monitored by implementing the measures proposed in the previous section 6.7 on monitoring.*

## **6.9. Overall Conclusion and Opinion**

The auditor concludes that the department has made good progress toward the establishment and the communication of processes to manage and value capital assets. All regions have indicated being in a better position to understand the policy, procedures and guidelines relating to the recording and accounting of capital assets. The materiel management and regional accounting offices are working together in ensuring the quality of financial information pertaining to capital assets.

A new reconciliation process between the General Ledger and the Fixed Assets Modules of MERLIN ensures that capital assets acquired and recorded into the financial system are captured in the FA Module.

Improvements to the management processes are recommended mostly with respect to the involvement of managers in the process leading from the identification that a new capital asset has been acquired throughout the life of the asset. The auditor also believes that a greater role can be played by the Financial Management Advisors in capital assets.

The auditor has recommended that the Financial Services and Administrative Services and Environmental Management Directorates institute visits to regions to monitor the application of the policies, procedures and guidelines on capital assets reporting and accounting. She has also recommended that the procedures concerning the maintenance of a unique asset file in all regions be formalized. These procedures should also specify that the retention period of that file should match the life of the asset.

## **APPENDIX A – AUDIT CRITERIA**

1. The department has organized a function for reporting and accounting on capital asset in both HQ and regions.
2. Policies, procedures and guidelines are complete and allow those with reporting and accounting responsibilities to discharge them efficiently.
3. Training is available and regularly provided to FA Managers, Accounting Chiefs and managers in reporting and accounting on capital assets.
4. Provision of advice and guidance in reporting and accounting on capital assets is readily available.
5. Controls surrounding the reporting and valuation of capital assets have been adequately designed.
6. The provision of the capital asset policy, procedures and guidelines are monitored regularly by those exercising functional authority. Goods practices are shared amongst regions.
7. Appropriate financial and materiel management records are maintained to support the value of capital assets during throughout the life of the asset.

## **APPENDIX B – MAPPING OF THE FIXED ASSET RECORDING PROCESS**

The following activities described the key process in the recording and accounting of capital assets:

- a. The Manager identifies a requirement for the acquisition of an asset and makes a determination as to whether the asset being acquired is a capital asset. All the costs associated with the acquisition of the capital asset are identified and communicated to the Regional FA Manager and Regional Accounting Chief for proper tracking. The manager establishes the useful life of the capital asset. The manager documents the basis for the decisions made.
- b. The Manager assigns an Asset Tag number to the capital asset.
- c. The Purchasing Officer conducts a procurement action via the Purchasing module of MERLIN.
- d. The Manager receives and takes control of the capital assets and completes the *Asset Record Input and Transaction Form (Equipment Distribution Record)*.
- e. Accounting Operations receives the invoice(s) and inputs the acquisition information, financial coding (the line object used is important), asset description (including the asset tag number) and economic object into the Accounts Payable Module. When the payment is approved under Section 33, the transaction is posted to the General Ledger (GL).
- f. Posting to the GL automatically sends the capital asset record to the Fixed Assets module via “*Prepare Mass Additions*” screen (because of the line object selected).
- g. The Regional FA Manager reviews the downloaded data in the “*Mass Additions Screen*” to verify the accuracy and to match information list to the *Asset Record and Input and Transaction Form (Equipment Distribution Record)*.
- h. The Regional FA Manager posts the acquisition of the capital asset into the FA module.