

Report of the Auditor General of Canada to the House of Commons
for the Fiscal Year Ended
March 31, 1976

Minister of Supply and Services Canada 1976

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Auditor General of Canada
Auditeur général du Canada

The Honourable Donald S. Macdonald, P.C., M.P.,
Minister of Finance.

I have the honour to transmit herewith my Report to the House of Commons for the fiscal year ended March 31, 1976, to be laid before the House in accordance with the provision of section 61(2) of the Financial Administration Act, R.S., c. F-10.

Auditor General of Canada

OTTAWA, November 19, 1976

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REPORT OF THE AUDITOR GENERAL
TO THE HOUSE OF COMMONS
FOR THE FISCAL YEAR ENDED MARCH 31, 1976

1

INTRODUCTION

1.1 The principal functions and responsibilities of the Auditor General of Canada are set out in Sections 56 to 65, Part VII, of the Financial Administration Act, R.S., c. F-70. His responsibilities in respect of those Crown corporations for which he has been appointed auditor are set out in Sections 76 to 78 of the Act. The relevant sections of the Act are included as Appendix A to this Report.

In compliance with Section 61 of the Act, my Report for the fiscal year ended March 31, 1976, is presented herewith.

1.2 My examination included general reviews of the accounting procedures and such tests of accounting records and other supporting evidence as were considered necessary in the circumstances. The staff of the Audit Office was given full access to all vouchers, records and files relating to the accounts of all departments, Crown corporations and other agencies and was provided with all the information and explanations required. I should like to express my appreciation and that of my associates in the Audit Office for the co-operation extended to us by officials of departments, agencies and Crown corporations.

1.3 The financial statements of the Government of Canada for the fiscal year ended March 31, 1976, which have been prepared by the Receiver General for Canada in accordance with the provisions of Section 55 of the Financial Administration Act and which appear in Volume I of the Public Accounts of Canada, have been examined and certified by me as required by Section 60 of the Act. These statements and my certificates thereon are reproduced in Part 14 of this Report.

1.4 Also included in Part 14 is a statement of the Exchange Fund Account showing assets and liabilities as at December 31, 1975, together with my Report to Parliament in accordance with Section 18 of the Currency and Exchange Act, R.S., c. C-39.

FINANCIAL MANAGEMENT AND CONTROL STUDY

FINANCIAL MANAGEMENT AND CONTROL STUDY

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2

EFFECTIVE CONTROL OF THE PUBLIC PURSE: A SITUATION FOR SERIOUS CONCERN

Conclusion and Opinion

2.1 I am deeply concerned that Parliament - and indeed the Government - has lost, or is close to losing, effective control of the public purse. I expressed that concern a year ago in my Annual Report, stating that:

The present state of the financial management and control systems of departments and agencies of the Government of Canada is significantly below acceptable standards of quality and effectiveness.

I based that conclusion on a comprehensive examination of financial management and controls in 28 departments and agencies of government.

The examination resulted in 34 recommendations for strengthening and improving financial controls at the central government-wide level and in hundreds of observations and recommendations at departmental and agency levels. The findings and recommendations are described in detail in the Supplement to my 1975 Report entitled "Report of the Auditor General of Canada on Financial Management and Control Practices within the Government of Canada".

2.2 During this second year of the massive special study of financial management and control throughout the Government of Canada which was launched in May 1974, our examinations have been concerned mainly with the Crown corporations of which I am the auditor. The findings and recommendations are contained in succeeding parts of this Report. The conclusions can be summarized as follows:

In the majority of the Crown corporations audited by the Auditor General, financial management and control is weak and ineffective. Moreover, coordination and guidance by central government agencies of financial management and control practices in these Crown corporations are virtually non-existent.

2.3 The full results of the two-year study lead me inescapably to the opinion that:

Based on the study of the systems of departments, agencies and Crown corporations audited by the Auditor General, financial management and control in the Government of Canada is grossly inadequate. Furthermore, it is likely to remain so until the Government takes strong, appropriate and effective measures to rectify this critically serious situation.

2.4 In arriving at this opinion, I have given most careful consideration to the supporting evidence, much of which follows in this Report or can be found in my 1975 Report. The official proceedings of the Standing Committee on Public Accounts from March to June of 1976 contain additional important and relevant evidence. I refer especially to those hearings at which the President, the Secretary, and other senior officers of the Treasury Board acknowledged, virtually without reservation, the existence of these major deficiencies and weaknesses and outlined in general terms action plans to correct them.

I have also been influenced in my opinion by the results of monitoring and follow-up reviews that my officers have made both at the central and departmental levels to ascertain progress in developing and implementing action plans to remedy these unsatisfactory situations. Our follow-up reviews in the Treasury Board Secretariat and in departments and agencies, conducted more than a year after most of these situations were brought to the attention of the government officials directly concerned, suggest in some cases a failure to grasp fully the significance of the major deficiencies and to identify effective ways of correcting them, coupled with a lack of action or even of plans to remedy the unsatisfactory conditions. Most disturbing of all: at the central level only a relatively minor organizational change has been made and additional resources and man-years commensurate with the needs have not yet been allocated to ensure the restoration as soon as possible of adequate financial management and prudent and effective control of public funds throughout government.

2.5 In recommending much stronger Government action than heretofore taken or announced to assure Parliament that public funds are under effective control at all times, I should like to cite a comment that I made on April 1, 1976, at a hearing of the Public Accounts Committee:

I have not been persuaded that the requirements for good financial management and control differ or need to differ at all in government from any other corporation in the country, with this additional point - that I think they have to be more stringent because in government we are dealing with what I regard, in a sense, as trust funds which are provided by the taxpayers of Canada to finance operations, whereas in the private sector many times shareholders put up money knowing very well that there is a major risk factor.

It is evident from the foregoing that I hold firmly to the view that public funds are, in effect, trust funds and must be treated accordingly. Financial controls and safeguards over funds in the public sector should be at least as reliable and strong as those over trust funds in the private sector.

2.6 My over-all conclusion and opinion, set out above, is based on the breadth and depth of the financial management and control study that my office, with the very substantial support of the Canadian

public accounting profession, conducted throughout government during the last two years. More than 100,000 professional hours have been devoted to the study by my staff and by more than 50 partners and staff members of leading public accounting firms, most of whom were loaned to my office from May 1974 to May 1976 under the Interchange Canada Program of the Public Service Commission.

The study was conducted under the leadership of a distinguished member of the Canadian accounting profession, Robert B. Dale-Harris, F.C.A., a senior partner of a national (and international) public accounting firm, and a former President of the Institute of Chartered Accountants of Ontario. He was assisted by a steering committee comprising partners of several national (and international) public accounting firms. At the formal completion of the study in May, 1976, Mr. Dale-Harris and five other partners of firms, all of whom were intimately involved in the study, accepted my invitation to become the Independent Advisory Committee on Financial Management and Control Standards. In this way their valuable counsel, based on their wealth of knowledge and experience in financial management and control systems and practices in both the public and private sectors, will continue to be available to me and to my senior officers. The members of this Committee have authorized me to state that they unanimously endorse and support my opinion on the current state of financial management and control in the Government of Canada. The membership of the committee is as follows:

Robert B. Dale-Harris, F.C.A. (Chairman) - partner, Coopers & Lybrand
N. Glenn Ross, F.C.A. (Deputy Chairman) - partner, Coopers & Lybrand
Thomas C. Dawson, C.A. - partner, Touche Ross & Co.
Glenn D. J. Grosset, C.A. - partner, Peat, Marwick and Partners
Ronald O. Moore, F.C.A. - partner, Woods, Gordon & Co.
Edward W. Netten, C.A. - partner, Price Waterhouse Associates

Possible Causes of the Present Unsatisfactory Situation

2.7 Two questions will undoubtedly occur to Members of Parliament, to whom this Report is presented: What caused this alarming state of affairs to develop? What can and should be done to rectify it?

2.8 The answer to the first question must be based partly on conjecture since our examination of financial management and control systems and practices concentrated on the situation as it is and what should be done to correct it rather than on how it developed historically.

However, it seems clear that the present unsatisfactory and vulnerable situation came about because certain key recommendations on financial management and control made by the Royal Commission on Government Organization (Glassco Commission) in 1962 were not implemented. Perhaps they were not understood, although the recommendations relating to the decentralization of financial authorities were evidently understood and were fully implemented, culminating in 1969 in the abolition of the Office of the Comptroller

of the Treasury (established in 1931 as a result of a concern by the Government of that day that public moneys were not under effective control). Unfortunately, the concurrent and equally important Glassco recommendation that new counterbalancing controls be instituted and that existing ones be strengthened was not implemented - certainly not in the manner and to the extent visualized by Glassco. Thus, it is apparent that the situation which now causes my concern has not developed overnight. Control over public funds would appear to have been deteriorating for at least the last 15 years.

2.9 Other factors that would appear to have contributed to the inadequate financial controls that now exist are:

- An attitude (tempered to some extent during periods of constraint such as at present) on the part of many managers at all levels that funds are readily available and that they themselves are not personally accountable for ensuring that public funds and assets placed at their disposal are under strict control at all times and that funds are expended prudently, economically, and with the utmost concern that good value is received for money spent.

- A genuine and widespread lack of comprehension on the part of senior officials of government as to what effective management and control of public funds actually consists of.

- A lack of recognition by these same senior officials of the role a senior departmental financial officer could and should play in assisting them to administer with prudence, probity and economy the public funds for which they are accountable and thereby manage more effectively the organizations over which they have jurisdiction.

- An unawareness among deputy heads of the characteristics of a fully qualified, thoroughly competent and experienced senior financial officer and of the significant contribution such a person could make as a full-fledged member of the organization's top executive team, given properly defined responsibilities and adequate authority and resources to carry them out.

2.10 It is perhaps natural that deputy heads have tended to rise to their senior responsibilities in recognition more of their talents as policy advisers than of their experience as administrators. Few of them have had the opportunity or occasion to be trained in or to become experienced with effective financial control systems. A senior official told me recently that, for a good many years, recognition and rewards in the federal public service have gone to those who could devise ingenious new programs rather than to those charged with the responsibility of restraining and controlling expenditures and ensuring that good value is obtained for the money spent.

It is all the more surprising, then, that these men and women have no single senior official acknowledged and designated as the chief financial officer of the government to whom they can turn for advice on the financial control and management of the very large amounts of public funds for which they are accountable, for assistance

in selecting financial officers for their departments, or for guidance on the responsibilities which they should expect these officers to discharge.

2.11 Glassco looked to the Treasury Board Secretariat to counterbalance the substantial delegation to departments of responsibility for financial management and control. Significant developments since Glassco affecting the responsibilities of the Treasury Board and its Secretariat, include: - a more than fivefold increase in the level of federal government budgetary expenditures including old age security payments (\$6.5 billion in 1961; \$34 billion in 1976);

-the introduction in 1967 of collective bargaining for the public service and the assignment to Treasury Board of the responsibility for its administration;

-the assignment to Treasury Board in 1969 of responsibility for administering the official Languages Act and implementing the bilingualism program in the public service;

-the growth in the staff of the Treasury Board (150 in 1962; 750 in 1976) and the correspondingly enormous increase in the responsibilities, and demands on the time, of the Secretary of the Treasury Board; and

-the relatively small proportion of resources and man-years devoted specifically to the financial administration policy and evaluation unit in the Treasury Board Secretariat (8 man-years in 1972; 10 in 1973; 10 in 1974; 15 in 1975; 35 in 1976).

2.12 The foregoing does not purport to be an exhaustive description of the probable causes of the widespread weaknesses in financial control but only of some that are obvious.

Basic Recommended Actions to Rectify the Situation

2.13 I turn now to the more important question of what should be done to restore effective control of the public purse to the Government - and thereby to Parliament. My 1975 Report described in detail many of my recommendations to attain this objective. These were endorsed unanimously by the Public Accounts Committee in its Sixth Report to the House of Commons under date of June 30, 1976 (See Appendix F of this Report). Part 5 of this Report contains additional recommendations based on the examinations conducted during this second year of the financial management and control study and Part 4 reviews what has been done to remedy the deficiencies reported last year. Part 3 highlights the conclusions of the study and outlines the essential elements of a good financial control system.

2.14 I believe there are two actions of paramount importance which the Government should take to establish the foundation for an evolution toward a completely satisfactory system of financial management and control which would be fully compatible with

maintenance of the decentralized authority of deputy heads proposed by Glassco. These recommended actions are:

(1) The establishment of the position of chief financial officer of the government, preferably with the title Comptroller General of Canada, with deputy minister status and a direct reporting relationship to the President of the Treasury Board, and with duties and authorities fully commensurate with the important responsibilities of such a key position - a position which I rate, as do the members of my Independent Advisory Committee on Financial Management and Control Standards, as the most important and responsible financial executive position in both the public and private sectors of Canada.

(2) The selection and appointment as the first Comptroller General of Canada of a person with appropriate professional qualifications, with a proven record of outstanding competence and achievement at senior levels of responsibility, and with extensive experience as a senior financial executive in a large-scale organization in either the public or private sector. The appointee should have the sort of impressive credentials and personal characteristics that will enable him to gain quickly the confidence and respect of his Minister, of the Treasury Board, of the Cabinet, of parliamentary committees, of his peers (the deputy heads of all departments and agencies, and the heads of partially or fully-owned and controlled government corporations), of financial and accounting personnel throughout government who will look to him for functional leadership including advice and guidance on financial and accounting matters, of national professional accounting bodies, and of the Auditor General and his senior officers.

Unless the Government responds positively to these two recommended actions I am convinced that the present unsatisfactory state of affairs will persist. Action on both recommendations - especially the selection and appointment of a properly qualified person to become the first Comptroller General of Canada - will lay the essential foundation of a soundly-conceived program for restoring effective control over public funds and assets, and for ensuring probity, prudence and economy in their management. I am confident that the Government, Parliament, and, indeed, all taxpaying Canadians, will subscribe to these objectives.

2.15 To avoid any possibility of misunderstanding, I should emphasize my belief that a fundamental restructuring of the Treasury Board Secretariat is required. The functions relating to resource allocation, personnel policy, administrative policy, and management of the official languages program, would remain with the Secretary of the Treasury Board or would be otherwise assigned as the Government may decide. All functions relating to financial management and control would be assigned to the Comptroller General of Canada, a deputy head like any other but with a status comparable to that of the Secretary of the Treasury Board. His responsibilities relative to other deputy heads and his relationships with departmental financial officers are described in Part 3 of this Report. His basic responsibilities would include the design, development, implementation and monitoring of adequate systems and procedures to ensure that the form of the

Estimates provides a sound basis for the Government's budgetary control system, that public moneys and assets are under effective custody and control at all times, that accounting procedures and financial reports throughout government (including the Public Accounts) conform to acceptable accounting principles and standards, that expenditures of public moneys are made with due regard for economy and efficiency, and that satisfactory procedures measure the effectiveness of programs where they could reasonably be expected to apply. The responsibility for maintaining the central accounts of Canada would be transferred to the Office of the Comptroller General from the Department of Supply and Services where it is now located.

2.16 Because of the similarity of titles, some may mistakenly think that in proposing the establishment of a position with the title of Comptroller General of Canada I am advocating a return to the highly centralized pre-audit type of accounting function carried out by the Comptroller of the Treasury until 1969. This is not so. Such a system would not work under present conditions. What I do advocate is the type of financial control exercised by the chief financial officer of virtually every business organization of any size in Canada, or, indeed, throughout the world. In the larger multi-division and multinational corporations, operations are usually highly decentralized, just as they are in Canada's largest organization, the Government of Canada. It is well accepted that financial control can be fully effective in decentralized organizations, providing there is a soundly designed, consistently applied and effectively operating accounting and financial reporting system, under the over-all direction of a thoroughly seasoned and competent chief financial officer.

2.17 While I have emphasized that, in my judgement, the two actions at the central level of government of establishing the position of Comptroller General and appointing to it the right person are of paramount importance in achieving the ultimate objective of sound financial control throughout government, they should be paralleled eventually in every department, agency and Crown corporation that is accountable to the Government and to Parliament for the effective and efficient management and control of public funds.

Specifically, the senior financial officer, preferably designated as the Comptroller (in combination, if appropriate, with another designation such as Assistant Deputy Minister in departments or Vice-President in Crown corporations) should have prescribed authorities that are fully commensurate with his key duties and responsibilities. He could report directly to the deputy head (of departments and agencies) or head (of Crown and government-controlled corporations). He should, ex officio, be a member of the top management group (executive committee, management committee, etc.). He should have the breadth of vision to fully comprehend the content and significance of existing policies and new policy proposals, combined with the financial expertise and experience necessary for rendering constructive advice to his deputy head and fellow members of the top management group on how to make effective use of the

appropriate financial management techniques in administering departmental programs. Thus, he should possess professional and personal qualifications and senior financial executive experience that are commensurate with his responsibilities and that will enable him to enjoy the respect and confidence of the deputy head or head to whom he reports, of his peers in the senior management group of the organization of which he is the senior financial officer (comptroller), and of the Comptroller General. Since it is critically important that the right appointments be made to these key positions, I would urge that, despite the pressing need for action to improve financial management and control in departments, sufficient time and care be taken to identify suitable candidates.

2.18 My views on these matters have already been stated clearly in hearings of the Public Accounts Committee during March, April and May, 1976. Their restatement is intended to ensure that they receive appropriate consideration in light of the conditions referred to in this, my current Report to the House of Commas.

So far as I am aware there are no important differences of opinion between senior government officials, on the one hand, and my officers, my advisers and myself, on the other, as to the nature and extent of the deficiencies and weaknesses in financial controls. These have been acknowledged with few reservations on many occasions in this Report, in my 1975 Report, and in the twice-weekly meetings of the Public Accounts Committee from March through June, 1976.

2.19 But there appears to be an important difference of opinion with respect to the basic recommended actions set out above that I consider to be essential for correcting the situation about which I am so seriously concerned. This difference of opinion was evident in several of the hearings of the Public Accounts Committee during March and April, 1976. Excerpts from two hearings of the Public Accounts Committee are relevant. The first is a statement by the Secretary of the Treasury Board at a hearing held on March 18, 1976:

The Treasury Board is the chief financial office of the Government of Canada. I happen to serve as Deputy Minister of the Treasury Board, and I have a responsibility, delegated by my Minister to me, to carry out those functions, administrative functions, relative to that task. But the Treasury Board is, to use an analogy, the chief financial office represented here.

A Committee member asked the following question:

... I think this is an important exchange. When you say the Treasury Board is the chief financial office, I wonder if adequate consideration has been given to pinpointing an individual just so we can talk in normal business language?

To which the Secretary of the Treasury Board replied:

Mr. Chairman, it may seem satisfying to do that but I have to deal with reality in the sense that the Treasury Board is the group

responsible in the Government of Canada for the finances of the Government of Canada, and I will not qualify that statement.

However, then one comes to the question: How does the Treasury Board discharge that responsibility? It does so by appointing a Secretary of the Treasury Board and I am responsible to them for that function.

So the second point is - I have to put it in my own terminology because I think it is correct in terms of parliamentary language - that I have simply a delegated responsibility and I am not independent of the Government of Canada. I am the public servant.

Another member asked:

Do you not feel there should be a chief financial officer?

The Secretary of the Treasury Board replied as follows:

No, sir, I believe a government governs and the government is responsible for doing so and is accountable to the country and it must discharge that responsibility.

I say that very directly.

At a subsequent hearing of the Public Accounts Committee held on April 6, 1976, in response to a question by a member, I replied as follows:

. . . I say on the record this morning - because this is perhaps our last chance to put before this Committee the underlying reasoning that went behind this major report. I can assure you that hours and hours and hours were spent in debating these questions before we put them on the record - I do have two further points. One, that this man (the chief financial officer) should be the umpire, the umpire on which. . . the government of the day can rely. He is an interpreter of financial information; he is the man who has the responsibility of ensuring that funds are under good control. I know what the specifications are; we have tried to say them in paragraph 10.40 (of the 1975 Annual Report).

I will go further and tell you that, in my judgement, if the government should see fit at some future day to appoint a Comptroller General of Canada, I can assure you that those responsibilities are probably 10 times as great as those of the Auditor General of Canada.

I think every possible care should be taken to find the most outstandingly competent man in Canada. When you realize, as Mr. Martin said, that \$40 billion is equivalent to probably the top 17 corporations in this country in their spending, it may give you some perspective of how seriously I view this job.

2.20 Concerning this matter, the then President of the Treasury Board, The Honourable Jean Chrétien, P.C., M.P., at a hearing of the Public Accounts Committee and on other occasions, expressed some concern about having two officials of deputy minister rank, the Secretary of the Treasury Board and the Comptroller General of Canada,

reporting to him since important matters might fall between them and thus be unattended. This is a natural and understandable concern on the part of an exceedingly busy Minister discharging the onerous and important responsibilities of President of the Treasury Board. With respect, I have ventured the suggestion that the proposed dual reporting arrangement be tried. If, after a suitable period, the President of the Treasury Board considered it to be a less than satisfactory arrangement, a different reporting relationship could be introduced whereby the Comptroller General could report to a Minister of the Treasury Board, other than the President, preferably one with no other ministerial responsibilities.

2.21 On May 17, 1976, a question relating to this matter was asked in the House of Commons by Mr. Alan Martin, M.P. (Scarborough West) as follows:

Mr. Speaker, my question is for the President of the Treasury Board. In view of the recommendation implied by the Auditor General in his report for the year ended March 31, 1975, and later enunciated by him before the Standing Committee on Public Accounts, would the minister give very careful consideration to the establishment of the position of chief financial officer within the framework of the Public Service of Canada, the position to have express responsibility for overseeing matters relating to the adequacy of financial accounting and control measures over the some \$40 billion of annual revenues and expenditures involved in the current operations of the government?

The Honourable Jean Chrétien, P.C., M.P., then President of the Treasury Board, replied as follows:

Mr. Speaker, as everyone knows, we studied thoroughly the Auditor General's recommendations which we all accepted, except two. As concerns the position mentioned by the honourable member, I am prepared to consider it favourably. There is a problem of organization within the government. We strongly intend to establish the required mechanisms to the satisfaction of the Auditor General, and I think that with respect to this particular matter, the Treasury Board and the Auditor General will finally find a common ground. However, it is a problem of governmental organization and we may not be able to meet all the requests of the Auditor General, but if we can meet them in a proportion of 98 per cent, as we did until now, I think it is a good average.

2.22 It is evident from the foregoing exchange that at the ministerial level the issue remained open at that time and, so far as I am aware, has not yet been finally decided by the Government.

Under the circumstances, attaching as much importance as I do to the appointment of an appropriately qualified person to the position of Comptroller General of Canada, I consider it is my duty to set out the matter clearly in this Report.

2.23 Adoption by the Government of my recommendations for the creation of a position of Comptroller General and appointment of the

right person to fill it will not ensure that all of the complex facets that make up a sound financial management and control system will fall into place immediately and automatically. However, the establishment of the position of Comptroller General with requisite authorities and responsibilities, desirably reporting directly to the President of the Treasury Board, and above all else the appointment of the right person to the position and the allocation of adequate resources to enable him to tackle his formidable task with confidence and vigour, will lay a firm foundation for achieving the ultimate goal of a truly effective system. By these actions the Government, Parliament, and the people of Canada, can receive assurance that the public purse will once again come under effective control.

I mentioned earlier that it appears that effective control over the public purse has been deteriorating steadily for up to 15 years. With the type of action that I recommend, backed up by a full measure of support from the Government, I am confident that, even in such an enormous and complex organization as the Government of Canada, many of the basic weaknesses can be corrected within a reasonable period of time - say two years - and that more fundamental improvements such as an effective budgetary control system and much better financial information for managerial, governmental and parliamentary purposes can be introduced progressively. 1980 seems to me to be a reasonable target objective for the accomplishment in large measure of most of these goals if the program is developed with the necessary expertise, pursued with real thrust under strong leadership, and given unstinted Government support.

2.24 Due to the highly unsatisfactory state of financial control throughout government to which I have directed the attention of Parliament in my 1975 Report and in this Report, I consider it my professional duty as a responsible servant of Parliament to increase still more substantially the professional resources of my Office in an effort to counterbalance to some extent the deficiencies and weaknesses that have been disclosed, discussed, reported to the House of Commons and acknowledged by the Government. Mindful that some of the largest frauds ever uncovered have been perpetrated because of weaknesses in financial and audit controls in computerized data processing, I recently launched a comprehensive special study to evaluate the effectiveness of computer controls in all departments and agencies of government and in the Crown corporations of which I am the auditor, where electronic equipment processes data used for financial and accounting purposes.

2.25 It is clear to me that the Government and its senior officials share the concerns I have expressed about the current weaknesses and deficiencies in financial control. The Government's actions since my appointment as Auditor General in July 1973 in responding promptly and affirmatively to my requests to strengthen the professional resources of my Office, the need for which is now so clearly apparent, are tangible evidence of both the Government's concern and its strong support of my Office. On no occasion has the Treasury Board denied, altered, or reduced in any material respect my submissions for additions to the senior executive and professional

complement of my Office, or for funds needed to raise professional standards or to carry out special examinations such as the financial management and control study and others dealt with in this Report. Furthermore, I have been led to believe that most of the key recommendations of the Independent Review Committee to strengthen the independence and modernize the operations of the office of the Auditor General are likely to be incorporated soon in a new Auditor General of Canada Act. Through these actions I am greatly encouraged in the belief that in 1978 the Office of the Auditor General will attain its centennial year in the best position that it has ever been to fulfil effectively its mandate to serve as "the watchdog of Parliament".

2.26 In 1973 at the time of my appointment as Auditor General I adopted a policy of directing promptly to the attention of the officials concerned significant irregularities in transactions and weaknesses in financial management and control procedures discovered in the course of our examinations, together with an identification of the causes of the deficiencies and recommendations for corrective action, with a view to having such action initiated expeditiously. In my Annual Report to the House of Commons both the deficiencies and the remedial actions taken or planned are to be reported, thus facilitating the work of the Public Accounts Committee.

This practice was later endorsed in the Report of the Independent Review Committee on the Office of the Auditor General and is being followed consistently. In accordance with this policy, the comments, observations and recommendations in this Part of my Report, as well as those in the following two Parts (3 and 4), have been reviewed in detail during September and October in a number of discussions with senior officials of those central agencies most directly concerned. Also, early in September, I brought these matters to the personal attention of the then President of the Treasury Board, The Honourable Jean Chrétien, P.C., M.P., and shortly thereafter to the personal attention of The Honourable Robert Andras, P.C., M.P., the present President of the Treasury Board.

The officials concerned, and both Ministers, have assured me that they share fully my concern about the present state of financial management and control in the departments, agencies and Crown corporations audited by my Office. They have indicated that positive and significant steps will be taken to rectify the situation in a context compatible with related aspects of administrative accountability by officials. I understand that an announcement of the actions to be taken will be made as soon as possible after this Report has been tabled in the House of Commons. This response will be welcome because it is only with the strong support of the Government and the continuing co-operation and vigorous action on the part of the senior officials directly concerned that the current unsatisfactory conditions can be rectified.

KEY ELEMENTS IN CONTROLLING THE PUBLIC PURSE

Introduction

3.1 This Part of my Report provides an outline of the key elements of financial management and control that should exist throughout the Government of Canada, including the roles of the people who are essential for their successful operation.

3.2 Before providing this outline, I believe it important to state clearly the fundamental assumptions underlying the proposals for improvement submitted by my Office after the second year of its study of financial management and control in the departments, agencies and Crown corporations of which I am the auditor. These are:

- Parliament is entitled to an informative plan for and accounting of the funds it entrusts to the Government;

- parliamentary control of the public purse can be effected only through the Government's own control;

- the size, complexity and dynamic nature of government today do not permit management and control of its finances exclusively by central agencies;

- better decisions will be made and funds will be managed more effectively if reliable and timely information of the right kinds and amounts is available at appropriate levels of management; and

- cost-consciousness on the part of program managers must be encouraged and systems to promote this should be in place.

3.3 Forty-five years ago; the Government found that the decentralized system of financial management and control then in effect seriously undermined its ability and that of Parliament to control the public purse. It took strong action, apparently effective for a time, by:

- creating the Office of the Comptroller of the Treasury and placing all accounting staff serving departments under his direction;

- centralizing in his Office all banking, cheque issue and accounting;

- recording potential expenditures, or commitments, in the accounts kept by the Comptroller; and

- making all expenditure transactions subject to the pre-audit, or review and approval in advance, of the Comptroller's officers.

These actions were followed by a strengthening of the Treasury Board Secretariat and moves to standardize the classification of information in both budgetary proposals and accounting reports so that attention could be focused in Estimates review on increases over the

preceding year and budgetary control could be exercised in a routine manner by comparing expenditures with allotments in the knowledge that the information was both certain and consistent. The resulting system of financial management and control relied on two central agencies: Treasury Board and the Office of the Comptroller of the Treasury, each an arm of the Department of Finance. It was so standardized that its routine operations required personnel without extensive financial skills and managerial experience. Moreover, at the time it enabled Treasury Board to issue rules for departmental practices and enforce them through the pre-audit of the Comptroller of the Treasury.

3.4 In 1960-62, the Royal Commission on Government Organization (Glassco) focused attention on the need to dismantle this centralized and restrictive form of financial control in favour of financial management practices that give program administrators greater freedom to react in a more dynamic fashion to changing conditions. This has since been accomplished by devolving most financial responsibilities on the deputy heads of departments, by transforming the Office of the Comptroller of the Treasury into a central service agency, and by emphasizing Treasury Board's more positive means of giving central leadership through the budgetary process and statements of administrative policy. The study of financial management and control by my Office, however, shows that deputy heads have generally failed to demonstrate that they appreciate the critically important nature of their responsibilities for financial management and control; the quality of the central services provided by the Department of Supply and Services has not been equal to departmental needs; and Treasury Board has become so preoccupied with its program review and resource allocation roles that inadequate attention has been given to its other financial management and control responsibilities. The Board's Secretariat has not created the central systems needed for effective budgetary control and has not caused departmental systems to adhere to its financial administration policies.

3.5 Neither my 1975 Report nor this one proposes reverting to the 1931 system which had obviously outgrown its usefulness many years ago. Deputy heads must continue to have primary responsibility for financial management and control within their departments, but they require adequate systems and staff to do so. In addition, the Government must have the central systems and staff it requires to discharge its continuing responsibility for safeguarding its collective interests and those of Parliament through giving leadership, direction and support in financial matters to deputy heads and their staffs.

3.6 The system of financial management and control that the study indicates is needed can only be as effective as the people who design and operate it. Therefore, this Part of my Report seeks to explain the system in relation to the joint roles of the Treasury Board Secretariat and a proposed new officer, the Comptroller General of Canada, in enabling the Government to discharge its collective responsibilities. This Part also examines the role of the senior financial officer of a department who might desirably be designated as Comptroller (with the added designation Assistant Deputy Minister where appropriate). It should be understood that the relationship

between the Comptroller General, the Government's chief financial officer, and departmental comptrollers, the chief financial officers of departments, would be quite different from that which existed between the Comptroller of the Treasury and chief treasury officers in departments between 1931 and 1969. Although attached to departments, the chief treasury officers performed responsibilities assigned by law to the Comptroller of the Treasury, not to deputy heads. Since primary responsibility and accountability for financial management and control now rests and should remain with deputy heads, departmental comptrollers must be part of their staffs, having only a functional relationship to the Comptroller General. The use of the title, comptroller, for these officers is intended to explain their roles, not to suggest any diminution in the authority and responsibility of deputy heads.

The proposal in last year's Report for unifying central responsibility for financial management and control in a single central agency refrained from describing explicitly the nature of the central agency and the relationships of its head to the government, to other central agencies, and to deputy heads and their financial advisers, since there appeared to be substantial agreement between senior government officials and my Office on the magnitude of the problems and on the urgent need for remedial action. The remedial actions to date, as described in Part 4, have convinced me not only of the need for a Comptroller General, but also of the need to explain in this Report both his role and those of departmental comptrollers. It will be seen that these roles are significantly different from those performed until 1969 by the Comptroller of the Treasury and his chief treasury officers in departments.

The Need for a Financial Plan

3.7 Planning takes many forms in the Government of Canada and no element of financial management receives more attention. But, instead of being the cornerstone of the system for managing and controlling financial resources, it is a separate process primarily designed from the departmental viewpoint to obtain additional resources and from the central viewpoint to allocate available resources. The resulting documents are inadequate as action plans since they do not describe what is to be done, who is to do it and what resources are required for the purpose. Thus, managers lack the direction and commitment required, and there is no means of holding them accountable by comparing their actual performance in relation to plans. Under the present system there is little need for financial officers to be intimately involved in either central review or preparing plans in departments since production of a plan that can be used in managing and controlling resources is a secondary objective and one that, if done well, might conflict with the main objective of obtaining or allocating additional funds.

3.8 Until a decade ago, the Estimates were prepared primarily by objects of expenditure which identified what needed to be acquired in terms of human resources, materials, services and capital goods. Financial officers compiled such Estimates either by asking each organizational unit to specify its requirements or by asking those

responsible for acquiring the resources centrally to forecast them on an aggregate basis. While this form of planning gave little guidance as to why resources were needed or how they were to be used, it had some effect in limiting and controlling expenditures since there was a high degree of certainty as to what resources the money was to be spent on and who had the responsibility for acquiring them.

During the late 1960s, the Treasury Board quite rightly sought to improve this process. The steps it took undoubtedly made the process more useful for the strategic planning purposes of determining how much money should be spent and how it should be distributed. This was accomplished by introducing an additional step, known as the Program Forecast, six months in advance of the Estimates as an opportunity to review new programs and settle on total funding levels. At the same time the information in both the Program Forecast and the Estimates was consolidated into fewer programs with an activity analysis supplementing the object-of-expenditure information which was consolidated at that time. The Program Forecast procedures have deficiencies -such as the failure of the Government and senior departmental management to give adequate guidance to those below - but the main criticism is that this strategic planning process has not been followed up by the type of operational and financial planning that would provide a basis for measuring management performance.

3.9 The Program Forecast should continue to be the primary responsibility of the Treasury Board Secretariat and planning units in departments. However, once broad objectives and the amounts of resources to be provided are settled, departmental managers should prepare operational plans which should be translated into financial plans by their supporting financial staff. On behalf of their deputy heads, departmental comptrollers should examine these plans in detail to ensure that:

- wherever possible, objectives are expressed in an operational manner and identify expected outputs;

- output volumes are forecast and their costs estimated so they provide reliable targets for management efficiency; and

- resource requirements are carefully determined with due regard for economy and their availability.

This process should result in realistic Estimates, acceptable to management, and specific enough to provide an adequate basis for budgetary control through financial reports which show the performance of individual managers and analyse the causes of deviations from plan.

3.10 The role of the Comptroller General of Canada should be to see that departmental systems function in this fashion, and to examine the Estimates of departments, not from a resource allocation point of view since this should remain the responsibility of the Treasury Board Secretariat, but to make sure that the underlying systems reliably reveal planned efficiency and economy and that detail is adequate enough for subsequent analysis of variations between actual and planned results.

The Treasury Board Secretariat, as part of its review of Program Forecasts, Estimates and program proposals, will require financial data for analysis. The Comptroller General's staff should be able to support the Secretariat by providing and evaluating basic data.

Hearings of the Public Accounts Committee this year indicated dissatisfaction with the Estimates information submitted to Parliament and showed the desire of Members to receive much more specific information about departmental plans. Improvements in this area are the responsibility of the Government. The Comptroller General of Canada, through his review of departmental financial plans, should be able to propose to the Treasury Board how the information submitted to it can be adapted and summarized in the Estimates to satisfy parliamentary needs.

Central leadership is required to create a budgetary plan that meets the needs of the Government and ultimately of Parliament. The Government, in delegating financial authority must prescribe the form in which budgetary information is submitted by departments, and how historical data are reported for budgetary control and analysis. As a senior official of the Government, the Comptroller General would ensure that the Government's needs are met. It is my responsibility, as an officer of Parliament, to work with him to identify Parliament's information needs and endeavour to see that they are met.

3.11 This year's study of Crown corporations audited by the Auditor General points up sharply the need to provide much more adequate financial plans to Parliament and to the Government so they can be examined in relation to the Government's plans as a whole and so there will be a clear understanding of what corporation managements expect to achieve with the resources granted to them or derived from their own operations. The form of disclosure of these plans to the Government should be the responsibility of the Comptroller General and my Office should continue to point out where their disclosure to Parliament is not sufficient.

The Need for Budgetary Control

3.12 Traditionally, Parliament has controlled government spending by imposing annual limits on expenditures for purposes specified in appropriations. The Government subdivides these appropriations into allotments to make more specific the uses to which funds may be put. To ensure that appropriation and allotment limits are not exceeded, there is still a statutory requirement to record potential expenditures (commitments) in the accounts so that the annual limits on cash disbursements are not exceeded.

3.13 Last year's Report questioned whether such a system can be fully effective in view of the dynamic and on-going nature of most departmental activities, and the lead time necessary to implement most government programs. It suggested that budgetary control could be maintained more effectively at the central and the departmental levels through financial reports that regularly compare planned and actual expenditures and performance. Such systems, while endorsed in recent

Treasury Board policies, have never been effective due to the broad and incremental manner in which budgets are compiled, and also to centralized, cash-based financial reporting systems which neither produce financial data permitting comparison of planned and actual results nor incorporate the operational data which are necessary for its interpretation.

Since an effective budgetary control system is essential in any sound system of financial management, its lack is the most significant system deficiency indicated by my Office's two-year review of financial management and control. Last year's Report proposed a monthly government-wide report, based on an analysis of departmental budgets and expenditures and the variances between them, so that Treasury Board could take effective action to limit spending or to utilize unneeded resources. In response, the Treasury Board Secretary expressed concern that this would dilute the responsibility of departmental management. This is not intended nor would it be the result of the plan that is proposed. The responsibility of Ministers and departments to Parliament is direct and they must remain accountable for the way in which their responsibility and authority are exercised.

3.14 It is fundamental to sound financial control that a budgetary control system be operated by someone other than those who propose or approve budgetary allocations. The Comptroller General of Canada would provide the objectivity the Government needs since he would not be directly involved in the resource allocation decisions. Having responsibility for seeing that those decisions are translated into a financial plan that states clearly the intentions of departments and the expectations of the Government, he should devise and monitor the operation of a system that reports actual performance and that causes variances to be explained as due either to changes in conditions and plans, or to quality of performance.

3.15 A central system of budgetary control can work only if it is based on effectively functioning systems in each department and agency. Therefore, it should be the responsibility of departmental comptrollers to clarify plans and to interpret financial reports within their respective departments. The Comptroller General of Canada would rely on such departmental reports to provide the information required for directing significant matters to the attention of the Treasury Board.

3.16 The study of Crown corporations audited by the Auditor General indicates a need within corporations and the Government for the development and monitoring of similar systems.

The Need for Financial Reports

3.17 Traditional government financial reports were designed to show disbursements and commitments in relation to the annual amounts appropriated by Parliament so that the balances remaining in a year's authority could be readily determined. This information was provided quite readily by a central service agency since disbursement data were available as a by-product of cheque issue. Even so, such reporting

systems were of limited value unless departments submitted accounts promptly for payment and advised the central agency of commitments.

The Department of Supply and Services continues to provide most departments with their main financial reports and these now usually compare actual expenditures with those forecast for the same period. Budgetary figures on the standard reports are generally derived by prorating the annual Estimates over the year based on equal amounts for each period or by using the pattern of expenditures of the preceding year. Expenditure data consist of actual disbursements, plus the few accruals that departments choose to put into the system in the time available to them, presented in terms of responsibility and not in terms of specific activities. Although these reports are of some use to financial officers responsible for monitoring cash flow, they are of limited value in measuring management's performance since neither planned nor actual expenditure data reported provide a reliable indication of what management has actually accomplished in the period covered. Since these statements are seldom considered fully appropriate by the managers of most departments, many are taking steps to establish additional financial reporting systems of their own.

3.18 Any significant improvement in the usefulness of financial reports requires action to make planned and actual data more comparable and more representative of the period they cover. A central service agency will not be able to provide the type of reports that departments and central agencies require unless the Comptroller General and departmental comptrollers first ensure that budgetary and expenditure data of the required type are available.

Departments and Crown corporations require strong comptrollers capable of improving financial reports substantially and the improvement must take place before managers are likely to be convinced of their usefulness. The budgetary data must reflect their operational plans for a given period, and appropriate accounting procedures must be adopted to provide financial and operational data which truly pertain to the period reported on. This objective is most likely to be achieved if there is a Comptroller General with responsibility to the Treasury Board for prescribing standards of accounting and financial reporting which meet the needs of both the Government and departments or corporations.

Financial reports containing only financial data will never adequately measure management's plans or performance. Operational data must be incorporated into them. At present many departments are establishing separate systems for this purpose. However, separate systems are usually uneconomical and operating managers may lose confidence if there is any discrepancy in the information they provide. Departmental, agency and corporate comptrollers and the Comptroller General should have the skills to provide what is likely to be the most useful financial and operational information, and the objectivity to ensure that it is reliably and consistently displayed. Once the chosen system is working satisfactorily, competing systems should be abandoned with a significant saving in cost.

3.19 Parliament, as well as departments and the Government, requires significantly improved financial reports. It now is informed through periodic financial reports and the Public Accounts of Canada, responsibility for which is shared by the Departments of Finance and Supply and Services and the Treasury Board. Responsibility for these financial reports should be undertaken on behalf of the Treasury Board by the Comptroller General although he may wish to have a central service agency continue to prepare them. My office would then have a single government official to whom matters involving the adequacy of financial information submitted to Parliament could be referred.

In exercising his responsibility on behalf of the Treasury Board for the form of the Estimates, and of the Public Accounts, the Comptroller General should ensure that these two documents will report information in a consistent manner. The Public Accounts would more successfully achieve its main purpose of providing an accounting to Parliament and the public on how public funds are spent if significant variances between planned and actual financial transactions and the operations performed were explained. Parliament would then have more useful data showing how Government policies are being implemented and would thereby be in a better position to assess new financial plans on the basis of past performance.

The Need for Financial Control

3.20 Parliament and the Government traditionally exercise financial control over individual transactions by specifying in statutes or regulations certain minimum standards of procedure and propriety. Until 1969, these were enforced through the independent pre-audit of the Comptroller of the Treasury. The fault with this system was that it substituted for management's own judgment the test of being able to get the transaction through an external agency.

Since 1969, deputy heads have had complete responsibility for controlling the use of funds provided to them, within the rules prescribed by Parliament and the Government. The financial management and control study, however, found that controls were not being rigorously applied and that application was regarded as a clerical responsibility, not involving management or even senior financial officers.

Effective control involves establishing a division of responsibility and systems to ensure that the work of one person or one element of a system is, without unnecessary duplication, continuously and automatically checked by another. Many financial officers have lacked the training and authority to establish such systems, particularly when these involve operations outside their immediate responsibility.

3.21 External review of departmental systems should be a responsibility of the Comptroller General. He should be specifically required to approve their principal internal control features as it is better to avoid weaknesses than deal with them after they occur.

3.22 Effective control involves imposing checks on the way

managers exercise their authority. This is difficult since it involves challenging what someone feels entitled to do. The staff of the Comptroller of the Treasury had the necessary independence but to such an extent that managers were often frustrated or unnecessarily delayed. Those now performing such checks normally report to the persons they check. Thus, the balance may have swung too far to ensure effective control. This is why financial officers in a department need to be able to look for guidance to a senior officer, such as a comptroller, who can assist in resolving differences between financial and operational staff and who can, if necessary, refer disputes directly to the deputy head for resolution. Departmental comptrollers, while owing their primary allegiance to their deputy heads, must be able to look to a Comptroller General for functional guidance.

3.23 The Government's guidance to departments would normally be based on regulations and policies which the Comptroller General has recommended to, and have been approved by, the Treasury Board. Deputy heads normally would supplement these by issuing departmental instructions on the recommendation of their comptrollers. In a decentralized system of financial management and control, adherence to these regulations, policies and instructions depends on the reliability, integrity and competence of each person responsible for exercising financial control. The Comptroller General and departmental comptrollers must guard against breakdowns in controls or laxity in their application through appropriate internal audit action and other forms of review. Where financial officers fail to discharge their responsibilities, this should be drawn to attention of the managers to whom they report directly and be taken into account in determining their future advancement as financial officers. The Public Service Commission has already taken steps to consult Treasury Board on appointments of senior financial officers, If similar arrangements are made to consult departmental comptrollers in making appointments within departments, high standards will not only be prescribed, but will be enforced.

3.24 The foregoing sections describe the roles of a Comptroller General and departmental, agency and corporate comptrollers within a system that would provide effective control of the public purse. The essence of the Comptroller General's responsibility is that he should be directly responsible and accountable for all financial information systems designed for the use of the Government. This would give the Government one officer to whom it could look for the integrity and adequacy of the financial information that it receives. This would not detract from the role of the Treasury Board Secretariat, but would give it an associated office whose full time and efforts are devoted to providing effective management and control of the public purse. In keeping with the basic concept of all internal control that there be an appropriate division of responsibilities, it would also provide the Government with a separate source of advice within its own organizational structure and control. This is not unlike the situation in the private sector where chief executives and management committees rely on a chief financial officer to inform and advise them objectively on the financial consequences of the policies and programs advocated by those with operational responsibilities.

3.25 Having a single senior government official who concentrates his attention exclusively on financial control, accounting systems and financial reporting and who is directly responsible to the Treasury Board for the financial information communicated by the Government to Parliament in the Estimates and Public Accounts would significantly improve the effectiveness of my Office. My office, not that of the Comptroller General, should ensure that the Estimates and the Public Accounts satisfy Parliament's interests. Where there are differences between the Office of the Comptroller General and my Office on how the Government presents financial information to Parliament, these would normally be resolved through discussions between our respective Offices. Unresolved differences would be reported in my Annual Report, which is referred to the Public Accounts Committee. The Comptroller General would then attend hearings of the Committee, carrying on the practice recently established at the Committee's request that a senior official should represent the Treasury Board (and the Government) at all of its meetings.

3.26 I believe that Parliament and the people of Canada have the right to sound information on planned and actual expenditures and that the Government cannot afford the risk of being misled by the lack of adequate and objective information. It is one thing to choose a course of action for reasons of public policy, knowing that it is neither the most economical nor the most efficient. It is another thing not to have complete and reliable information on which to base a decision. The latter is something no Government can afford. The role I am proposing requires a high degree of professional expertise and objectivity which can exist only if there are no conflicting responsibilities. This explains why the personal qualifications and judgment of the person appointed Comptroller General of Canada and the responsibilities and reporting relationships of the position are particularly important.

REVIEW OF ACTIONS ON REPORTED DEFICIENCIES IN FINANCIAL MANAGEMENT AND CONTROL PRACTICES

Background

4.1 Monitoring activities Part X of my 1975 Annual Report contained a summary of the observations and 34 main recommendations of government-wide significance arising from the special study of financial management and control. The Supplement to the Report included comprehensive documentation of these findings summaries of reports on each of the 28 departments and agencies studied, and responses by deputy heads.

The Standing Committee on Public Accounts has reviewed the observations and recommendations, together with the original and updated responses by the Treasury Board and by the deputy heads of several departments. In several appearances before the Committee, I stated my commitment to monitor Government actions to correct deficiencies and to report to the House of Commons on any I felt were not satisfactory.

In August, 1976, my officers met Treasury Board Secretariat officials to review their responses to the 34 main recommendations and to ascertain the corrective action taken or planned. Knowledge of departmental action was obtained through the progressive introduction of systems-based auditing which is becoming an integral part of audit programs.

This Part itemizes and comments on the actions taken or planned by central agencies and by individual departments and agencies.

4.2 Nature and purpose of the recommendations made by the financial management and control study. The prime purpose of the financial management and control study was to comply with Section 58 of the Financial Administration Act requiring me to satisfy myself as to the adequacy and appropriateness of the rules and procedures pertaining to the custody and administration of public funds and assets. This was to enable my Office to determine the reliability of the systems of financial management and control so we could assess the adequacy of our audit examinations, practices, professional resources and priorities. This reflects a well-established principle of contemporary auditing that the degree of reliance that can be placed on a financial control system should determine the scope of audit examinations. The effects of the study on the responsibilities of the Auditor General of Canada were clearly stated in paragraph 2.8 of my 1975 Report.

Until it has become evident through follow up and monitoring by my representatives that the measures applied by central and departmental management to correct the deficiencies in the

financial and accounting controls have accomplished their purpose, I cannot be completely satisfied, as the Financial Administration Act requires, that the rules and procedures applied are sufficient to control adequately the accounts relating to the Consolidated Revenue Fund and to public property.

Consequently, in accordance with the precepts of good auditing, I consider it my duty to increase our audit tests and monitoring activities materially in order to counteract, to some extent at least, the shortcomings in internal accounting and financial controls the study reveals.

4.3 The recommendations, which just as appropriately could have been called conclusions, aimed at highlighting for the House of Commons and the Government the principal areas of concern which were described in greater detail in the Supplement to the 1975 Report. Although the Supplement mentioned corrective actions that might be appropriate, the recommendations intentionally focused on the problems to be resolved so that attention would not be diverted to debating the way to do it.

Similarly, recommendations to deputy heads, also reported in the Supplement, were worded to focus on the principal areas of concern, the departmental staffs having been provided with the detailed findings and suggestions for corrective action.

4.4 Sequence of events. The financial management and control study began in September 1974. The findings of the first wave of 14 departmental studies became available from November 1974 and those of a second wave from April to August 1975. During that period, my Office had the full-time assistance of 34 partners and managers from 16 firms of chartered accountants under the Interchange Canada Program of the Public Service Commission.

4.5 Mid-way through the first year of the study the results were analyzed and a summary of significant government-wide findings was prepared. Due to their serious nature the preliminary findings were shortly thereafter made available to several senior officials so they could initiate corrective action as soon as possible and also so any error of fact in the findings could be corrected. In July 1975, a draft of the report on the study was provided to these same officials followed by a final draft in September. This was included in my Annual Report which the Minister of Finance tabled in the House of Commons on December 9, 1975.

4.6 In February 1976 Treasury Board Secretariat officials, for the first time, indicated orally that they disagreed with two of the 34 main recommendations and had qualifications concerning a further 10. There was no indication at that time of corrective action in response to the 22 agreed recommendations.

4.7 In March 1976 the Standing Committee on Public Accounts began examining the findings on financial management and control.

The President of the Treasury Board appeared before the Committee and indicated that the chief means by which the Government would take action to remedy deficiencies was by creating a new branch of the Treasury Board Secretariat to be responsible for all financial administrative policy matters. He confirmed in the Committee that the Government was substantially in agreement with recommendations made by the Auditor General. He went on to state that:

Our endorsement alone, however, will not resolve these issues, many of which have concerned us for some time. It is clear that a great deal of time and effort must be dedicated by the new Financial Administration Branch of the Treasury Board Secretariat to the further improvement of the financial management processes of the Government of Canada. Given the size, complexity and unique nature of the organizations that comprise this entity, it would be foolish for me to pretend that the changes that we seek to bring about can be implemented overnight. The major limiting factor will be the shortage of qualified financial administrators who have a sound practical knowledge and experience of government financial legislation, regulations, systems and procedures. The availability of staff with such knowledge and experience is a basic prerequisite for the successful implementation of revised policies and procedures. Those members of the Committee with experience in matters of this nature will no doubt acknowledge that the implementation phase is always the most difficult part of any management scheme.

We must therefore seek to recruit and train such staff and this, of course, must be accomplished within the government-wide resource constraints that are now in force. It will not be an easy task and, when combined with the plans to implement the approved recommendations of other studies and reports such as the Study of the Accounts of Canada, and the Report of the Independent Review Committee on the Office of the Auditor General of Canada, it presents a formidable workload for the new Financial Administrative Branch. I have every confidence, however, that it will be accomplished efficiently and effectively.

4.8 At subsequent meetings of the Public Accounts Committee, Treasury Board Secretariat officials identified and briefly explained the recommendations with which they disagreed and those with which they could only express qualified agreement. As to the qualifications, the Secretary of the Treasury Board said:

I accept all of them as real problems and all of them are accepted as matters which deserve consideration ... I think many of the qualifications could have been almost a foot-note to an unqualified acceptance.

4.9 At Committee meetings in March, a meeting of Treasury Board and Audit Office officials was proposed to review, the

issues underlying the recommendations and report back to the Committee any issue where agreement had not been reached. For this purpose, in early June the staff of the Treasury Board was provided with a summary of the detailed proposals in the Supplement. On June 21, 1976, the summary was forwarded by the Treasury Board to the Chairman of the Committee as an attachment to updated responses to each of the 34 main recommendations (see Appendix H of this Report). To further assist the Treasury Board Secretariat in planning corrective action, a 105-paragraph schedule was made available, containing further observations on the main recommendations which arose during the financial management and control study.

Need for Stronger Central Direction

4.10 The situation in 1975. The Supplement to my 1975 annual Report described the existing central agency responsibilities for financial management and control:

- The Treasury Board Secretariat -

Program Branch, for resource allocation, budgetary control and preparation of the Estimates;

Planning Branch, for a broad range of planning and evaluation techniques, including performance measurement systems and operational audit and for approving departmental plans for financial organizations;

Personnel Policy Branch for payroll policy and systems;

Administrative Policy Branch, specifically through its Financial Administration Division, for all other financial management matters;

-The Department of Supply and Services, Services Administration, for a wide range of prescribed and optional services and control functions, including the processing of financial transactions and payrolls, providing accounting and financial reporting services, maintaining the central accounts of Canada, operating the Consolidated Revenue Fund and preparing the Public Accounts;

-The Minister of Finance, for determining the form of some of the principal financial statements of Canada included in the Public Accounts;

-The Public Service Commission, for recruiting and appointing financial officers and for providing professional development and training services.

Within this setting, deputy heads have primary responsibility for the adequacy of financial management and control systems in their departments.

4.11 The widespread and serious deficiencies in financial management and control systems indicated an urgent need for sustained co-ordination and leadership of the financial function throughout government and led to the following comments in the Supplement to my 1975 Report:

For financial controls to be improved in the manner envisaged in this report, leadership is required from a central agency. Responsibility for central direction could continue to be provided by several central agencies as at present, but it is clear that, if controls are to be co-ordinated and present deficiencies are to be remedied, responsibilities should be unified wherever possible within a single central agency. (Supplement, paragraph 10.14)

If the Treasury Board is to give stronger central direction, responsibility should be unified at some point other than the Secretary himself, since the Secretary's many other important responsibilities make it unlikely that he will be able to give financial management and control the attention they require. (Supplement, paragraph 10.19)

4.12 Response of the Government. This recommendation for clarification and unification of responsibilities in a single central agency wherever possible was included among those to which the Government had given its unqualified endorsement. However, the original response given by the President of the Treasury Board did not include among the responsibilities of the new Financial Administration Branch the following responsibilities singled out in the recommendation:

- advising on the form of the Estimates and the Public Accounts;

- assessing departmental program and activity structures, and cost and other measurement systems in support of them;

- approving and monitoring departmental budgetary control, financial reporting and financial control systems;

- providing analyses of variances between planned and actual financial performance.

These omissions are so significant as to suggest that this might well have been listed among recommendations which received qualified acceptance at that time. Some subsequent events indicate that the nature and role of the Financial Administration Branch will parallel more closely the recommended responsibilities. The June response states that the Branch will "ultimately" assume responsibility for the form of the Estimates.

Action is being taken to amend the Financial Administration Act so that the Branch may assume full responsibility for the form of the Public Accounts.

The major matters for which the Branch has no responsibility include:

- program and activity structures;
- performance measurement systems; and
- budgetary control systems involving both central and departmental analysis of variances between planned and actual financial performance.

4.13 Organization and activities of the Financial Administration Branch. At the beginning of the study in September 1974, the Financial Administration Division consisted of six officers headed by a Director. Shortly thereafter an Assistant Secretary, Financial Administration was appointed. By September 1975, the Financial Administration Division had 13 professional staff and was divided into two groups, policy development and policy evaluation. Since then, it has become a Branch headed by a Deputy Secretary with plans for an ultimate establishment of about 60 officers.

By September 1976, the Branch had increased its professional staff to 19 made appointments to four of its nine senior positions, and planned to add up to 16 more officers over the next year. Difficulties are being experienced in finding suitably qualified candidates. Since the Branch wants to ensure that it develops its in-house capabilities to the maximum, plans do not at present call for extensive use of professionals on a short-term contract basis.

4.14 With its additional staff, the Branch has been able to do more in those activities in which it has been involved in the last few years. These include:

- assisting in drafting legislation (including a new Auditor General Act);
- evaluating and interpreting legislation, regulations and policies on financial administration;
- participating in studies of the financial reporting and payroll systems operated by the Department of Supply and Services;
- conducting evaluations of departmental adherence to Treasury Board directives and guidelines on financial administration;
- considering matters raised by the Office of the Auditor General;
- lecturing at staff training programs of the Public

Service Commission; and

- developing and implementing its plan of organization, preparing job descriptions and interviewing potential candidates.

4.15 New or substantially changed activities of the Branch include:

- attending all meetings of the Standing Committee on Public Accounts and, for the first time, representing the Treasury Board Secretariat at hearings concerning other departments;

- planning implementation of the interdepartmental Study of the Accounts of Canada;

- advising on organizational proposals and resource requirements for financial administration groups;

- participating in the selection of senior departmental financial officers; and

- responding to requests for advice from financial officers throughout government.

4.16 However, the Branch has yet to deal with many of the specific recommendations of the financial management and control study. The policies, directives and guidelines on financial administration that existed when the study began remain unchanged although a circular letter to departments asked them to advise the Branch of any changes that should be considered.

Responses to Other Recommendations

4.17 Nature of the responses. A set of written responses by the Secretariat to the government-wide recommendations followed the encouraging comments of the President of the Treasury Board before the Standing Committee on Public Accounts. These were tabled at the last meeting of the Committee before the summer recess. Since these responses are broadly worded, it is difficult to assess the Government's intentions in each area. The responses seem to break down approximately as follows:

- six recommendations where positive action is clearly indicated but without any indication of its form or timing;

- 16 recommendations where there appears to be agreement, but no clear indication of planned corrective action; and

- 12 recommendations where some disagreement has already been expressed and there is no indication of alternative corrective action.

4.18 The initial responses by deputy heads to the

departmental recommendations were encouraging to the extent that they generally indicated that the areas identified were subjects of concern which deserved and would receive attention. However, subsequent follow-up indicated in many cases actions to date are confined to further studies, formulation of plans, and development of policies and manuals. Often, restraints of government-wide systems are referred to where no action is planned.

4.19 Undoubtedly, it is difficult to take corrective action across the government, when so many departments and agencies are involved, or for departments themselves to take unilateral action in areas where central agencies are also concerned or where some consistency among departments is required. Stronger leadership is obviously necessary if the pace of implementation is to quicken.

This leadership must now come from the Secretary of the Treasury Board but the immense responsibilities that rest with that officer make effective leadership of the financial function difficult. The Deputy Secretary of the Financial Administration Branch can co-ordinate the efforts of the several branches of the Secretariat with respect to financial management and control, but since each has a significant impact in financial control areas, time is required to achieve the consensus that is necessary for effective action.

4.20 It is evident from its responses that the Treasury Board Secretariat tends to continue to view its role as a policy-setting and evaluation group with little operational initiative to cause things to happen. Financial officers at departmental headquarters also view their roles primarily as policy promulgation and advisory and they are not actively involved in implementing or executing these policies. Unfortunately, the lower levels where things are supposed to happen seldom have the resources in numbers, training and experience to implement the policies, or lack the authority to take corrective action where headquarters or central and service agencies are involved.

In these circumstances, there is a tendency for each department to proceed independently with its own plans, possibly with conflicting or competing objectives and perhaps conscious of the advantages of protecting or increasing its authority or defending practices with which it is comfortable. Furthermore, several departments are re-examining and redesigning accounting, payroll, costing and financial reporting systems without clearly understanding how the Department of Supply and Services plans to improve its systems, and before the study of the form of the Estimates has begun and the means of budgetary control have been agreed on.

4.21 Many departmental and central agency responses report that matters are under study. Most items have been studied before, notably by the Glassco Commission and by subsequent

studies by Treasury Board and by departments independently. Most Glassco conclusions are still relevant.

4.22 It is not practical or useful in this Report to analyse the implications of each of the individual recommendations to departments, their written or stated responses and their actions to date. However, some generalized and specific observations of particular importance to Parliament can be made usefully under each of the main headings in Part X of my 1975 annual Report to the House of Commons.

4.23 Estimates and Public Accounts. My 1975 annual Report called for "a comprehensive study of the form of the Estimates and the information submitted by each department and agency in support of appropriation requests . . . to determine changes needed to achieve better disclosure, as well as better control by Parliament and by the Government of departmental spending in relation to the appropriations provided." This recommendation received strong support from the members of the Public Accounts Committee who specifically suggested conducting the study in two phases - the first to introduce any obvious improvements this year and the second to initiate improvements over the longer term. Improvements in the form of the Estimates and in the information submitted by each department in support of appropriation requests are of fundamental importance since this is the basis for establishing the accountability of departments to the Government and of the Government to Parliament. Although the response indicated that there would be a study, it referred only to the information needs of Parliament. As such a study does not appear to be either under way or specifically planned, it is difficult to know whether the control aspect of the recommendation is being overlooked.

4.24 The Report also recommended that "a single central agency should be responsible for the form of the Estimates and the Public Accounts so that a more adequate and consistent accounting can be rendered to Parliament." The Financial Administration Branch has assumed responsibility for the form of the Public Accounts, but the Department of Supply and Services will remain responsible for their preparation. This transfer of responsibility has little significance until it is combined with responsibility for the form of the Estimates. While there are plans to transfer this latter responsibility from the Program Branch, the timing of the transfer appears to be uncertain (see paragraph 4.12).

4.25 Allocation of resources. Recommendations under this heading were designed to ensure that the products of the system, the detailed budgets and the Estimates, would provide a sound basis for clearly establishing accountability within government. The recommendations focus on the need for the Program Branch to take steps to ensure that:

- financial forecasts better reflect Government objectives;

-financial forecasts and resource allocation decisions are based on complete and reliable financial data; and

-uncertainties, technical problems or misunderstandings and misdirected efforts are corrected through better communication of requirements.

4.26 The Personnel Policy Branch in conjunction with the Public Service Commission took the positive step of proposing policies and systems on human resource planning. When approved and implemented, this will satisfy the need reflected in the recommendation for improved recognition of personnel implications in Program Forecast and Estimates reviews. The responses provide little indication of any significant action in other areas.

4.27 Recommendations to departments and agencies focused on the need to improve the communication of priorities, the quality of information on which budgetary decisions are made, and the review procedures including the review of revenue policies. There has been limited remedial action. Treasury Board to date has done little monitoring of departmental resource allocation methods. At the departmental level there has been no noticeable increase in the involvement of financial officers in the process and there is little assurance that the information that departments provide to Treasury Board and to Parliament results from systems and procedures adequate enough to ensure its reliability.

4.28 Budgetary control. The recommendations on budgetary control described in a government context the elements of a conventional budgetary control system which are an essential and integral part of the management process of any large and successful organization. The need to decentralize management responsibility and authority brings with it the need to establish clearly the accountability of managers at the outset and to maintain this accountability by a complete and continuing analysis and by a comparison of actual to planned performance. Once resources are allocated in a manner that reflects the plans of the Government, budgets in appropriate detail are needed to provide a reliable basis for measuring the accountability of the responsible managers. A financial reporting system is then required to reveal the performance of managers to their superiors, to the Government, and ultimately to Parliament.

Existing systems usually do not attempt to hold managers accountable in this manner. As long as Treasury Board adheres to the philosophy stated in its response that such monitoring systems might unduly restrict the freedom of managers to manage, there is little to ensure that funds once allocated will be spent as planned. However, the traditional systems of allotment control and commitment control have proved ineffective as a means of monitoring or controlling the rate of expenditure during the program delivery phase, and as a means of establishing or maintaining the accountability of managers.

4.29 The Treasury Board Secretariat is giving some recognition to the need for improved financial information. However, it has demonstrated reluctance to introduce systems that may be interpreted as diminishing the authority of managers within departments even though designed to hold the managers accountable during the program delivery phase for what was promised when resources were allocated.

4.30 Responding to similar recommendations to departments, most deputy heads indicated they would be improving budgetary control through better financial reporting, but that it would take time to redefine programs and activities, to identify cost elements, to prepare realistic operating budgets, and to integrate these into their accounting systems. This matter is unlikely to receive the priority it warrants as long as the responsible central agency continues to be reluctant to introduce a system of budgetary control.

4.31 Accounting systems. Studies were recommended of the two major central systems of the Department of Supply and Services, the financial reporting and payroll systems, and numerous detailed suggestions were made to influence the direction of these studies. Weaknesses in these systems have ramifications which run through all other aspects of financial management and control, and therefore these suggestions were made to ensure that the purposes of the systems were not lost sight of in dealing with problems of a technical nature.

4.32 In response:

-Departments have made some effort to improve the use of financial reports and to eliminate duplications, and there is a greater awareness of the need to integrate supplementary systems with principal accounting systems. However, departments continue to be dissatisfied with the financial reporting services provided by the Department of Supply and Services and are operating or developing reporting systems of their own.

-A study of the financial reporting system began in June 1975 under the direction of the Financial Administration Branch with staff from the Information Systems Division of the Administrative Policy Branch and the Department of Supply and Services.

-A comprehensive study of the payroll systems is now under way. Three of the five phases of the study on payroll systems have been completed, including the drafting of a policy on the allocation of responsibilities. The Department of Supply and Services is now standardizing and improving the processing of payrolls.

It is likely to be some time before there is any significant improvement in the quality of financial reporting and before most

systems are capable of supporting effective budgetary control.

4.33 Financial controls. Observations under this heading summarized a great number of weaknesses involving the detailed control of transactions and assets in departments and agencies, the complex and uncertain sharing of responsibilities among those involved, and the failure of departments to adhere to Treasury Board policies. All illustrated a lack of respect for the fundamental principle of internal control that duties should be carefully segregated so that, without unnecessary duplication of effort, one staff member or one element of a financial system maintains an effective independent control on the integrity and accuracy of another. Specific recommendations focused on expenditure transactions, payrolls, revenues, accounts receivable, inventories and the need for a central agency to ensure adherence to acceptable standards.

4.34 The Treasury Board Secretariat confirmed that the recommendations were consistent with existing Treasury Board directives and guidelines and that its evaluation program monitored adherence to these. Although this is true, the frequent need to persuade departments to adhere to Treasury Board policies indicates that stronger action may be required to ensure that adequate standards of financial control are in effect throughout the public service. This has been recognized by the evaluation division of the Financial Administration Branch which now seeks to identify significant examples of non-adherence to policy for reporting directly to deputy heads.

4.35 Most departments have recognized the need to improve controls on expenditure, payroll and revenue transactions and over inventories and accounts receivable. Corrective action is being taken where these controls involve the direct responsibilities of headquarters financial groups, but it has been considerably less successful where weaknesses involve systems operated by other persons. For example, the Treasury Board circular of March 1975, which stipulated that persons who prepare payroll input should not receive and distribute payroll cheques, is still not adhered to in some departments.

4.36 Internal audit. The principal concerns relating to internal audit stated in the 1975 Report are that:

- some departments have no internal audit;
- internal auditors are often involved in other duties which divert them from their audit responsibilities;
- coverage is not consistent or comprehensive; and
- staff is not sufficiently trained in or sufficiently familiar with its responsibilities.

4.37 As a result of its own evaluation program, Treasury

Board agrees with the recommendation and its written response indicates that the Financial Administration Branch will provide advice and leadership in internal audit activities in departments, and prescribe more comprehensive standards, for the scope, coverage and effectiveness of such audits. To develop these standards, the Branch recently initiated a study of the internal financial audit function across the government. Also, action is under way to recruit a senior officer to take responsibility for internal financial audit. However, because responsibility for operational audit remains with the Planning Branch, this form of internal audit may not be adequately integrated with internal financial audit.

4.38 Most departments have initiated action to improve the scope and quality of internal audit but not to the extent that this management and internal control tool deserves. Many have had difficulty in obtaining adequate resources for this function at a time of general restraint within the government.

4.39 Financial staff. Observations under this heading focused on the lack of an identifiable, cohesive financial community, and related staffing problems including:

- the number of diverse non-professional occupational groups performing financial functions and the effect of decentralizing financial responsibilities to the extent that many financial functions are performed on behalf of program managers by persons without adequate qualifications or training;

- the deficiencies and inequities in the financial staff classification standards and their application, including the failure of the personnel systems to recognize specialized and professional financial qualifications;

- the high demand for financial staff caused by decentralization and the resulting staff shortages, high turnover, loss of continuity, and appointments to positions requiring greater skills than the incumbents possess;

- the inability to recruit, train, develop and retain qualified financial administrators; and

- the lack of central monitoring of the performance of financial administrators and lack of guidance to departments on the quality of their staff or applicants for financial positions.

The written responses indicate that the recommendation for a comprehensive study to consider the advisability of establishing a professional government accounting group has not been acted on, because creation of such a group at this time might further aggravate the shortage of financial administrators. No alternative solution has been proposed.

4.40 A second recommendation called for a comprehensive

review to establish the need in government for financial administration personnel by type and level and to develop a program to alleviate the present shortage. The Chairman of the Public Service Commission indicated to the Standing Committee on Public Accounts in May that, since he had been advised of the findings a year earlier, 500 new Financial Administrators (FIs) had been appointed and 200 had transferred out of the classification, for a net gain of 300, bringing the shortage down to a normal 5% of the total positions. This favourable information takes into account the positions for which the Public Service Commission has been asked to make an appointment but it excludes the more significant numbers of financial positions for which responsibilities and position descriptions exist but man-years have not been authorized within departments or where departments have not yet requested Public Service Commission action. The Public Service Commission has indicated that the supply exceeds the known demands of departments for qualified junior level financial officers and trainees, and that it has not emphasized recruiting of intermediate and senior level financial officers from the private sector since the demands of the departments have been satisfied from within the Public Service.

The written response gave no indication that there would be a comprehensive study of the recommended type which would take into account such factors as the effect and extent of decentralization in departments, the willingness of departments to allocate new authorized man-years to meet their needs for financial management and control, and future recruiting and staff development plans.

4.41 Despite the situation stated above, departments still report a serious shortage of qualified financial staff at all levels, a high degree of turnover, and difficulties in obtaining approval for man-years for the financial and audit functions. Some departments tend to blame the Treasury Board for not authorizing adequate staff levels although deputy heads have discretion to allocate manpower within authorized limits.

4.42 The Financial Administration Branch has indicated that it will assist the Public Service Commission in the training, career development and appointment of financial officers. A Director, Professional Development, has been appointed. The Public Service Commission has undertaken to maintain an inventory of all public servants with an accounting background. The Branch is advising the Public Service Commission on senior appointments. The Planning and Financial Administration Branches are developing a new Government Expenditure Management course for senior executives.

4.43 Responsibility for financial management and control - thin departments. It was reported under this heading that:

-deputy heads have not recognized sufficiently the extensive degree of their financial responsibilities;

-deputy heads have not had competent senior financial officers reporting to them;

-senior departmental financial officers have not usually given effective direction and guidance to staff performing financial management and control duties within their departments;

-the responsibility of financial officers for financial controls has been narrowly circumscribed; and

-the Treasury Board has not been sufficiently involved in the appointment of departmental financial officers.

4.44 Treasury Board Secretariat responses state that the recommendations reiterate policy and that the policy evaluation group of the Financial Administration Branch monitors adherence. This overlooks the fact that compliance with existing Treasury Board policy continues to be inadequate.

Treasury Board policy provides that the senior departmental officer responsible for financial management and control should report directly to the deputy head and be a member of the management committee. Treasury Board policy does not require, as proposed in our recommendation, that "he should always have the training and experience to act as the deputy head's adviser on all aspects of financial management and control, and to provide the necessary leadership to all financial staff in the department." The policy evaluation teams have been reviewing and accepting financial organizations where the senior financial officer, in terms of experience and training, reports to other officers with administrative or personnel responsibilities and backgrounds. These situations should be unacceptable, particularly in large departments such as National Health and Welfare, where there are almost 100 persons in the organization ranking equal to or higher than the most senior full-time financial officer.

4.45 Recommendations called for a broader role within departments for senior financial officers so that they could give greater direction or guidance to all staff performing financial functions. Of particular importance is the need for more active involvement in maintaining budgetary control systems and in the selection, training and evaluation of staff with financial responsibilities, even when not directly under their supervision.

Many departments have designated a senior financial officer in accordance with Treasury Board policy and some have appointed him to the management committee. Financial officers have generally been given an increased role in the traditional areas of financial control, such as maintaining allotment and commitment control and exercising payment authority, and are becoming more involved in the control of revenues and

inventories. However, their role and involvement still have to be strengthened in the financial management functions of resource allocation and budgetary control where they tend to perform limited service functions. Financial officers are displaying more willingness to give direction and guidance to staff with financial responsibilities throughout the departments, but this frequently takes the form of financial manuals, with little detailed direction or involvement in the operations and performance evaluations of financial officers in the field

4.46 The last recommendation under this heading calls for an appropriate central agency of government to assist the Public Service Commission in all matters relating to training staff in the financial area, overseeing their career development and advising on their qualifications for advancement. The Financial Administration Branch has assumed this responsibility and arrangements have been made for the Public Service Commission to obtain the advice of the Branch before making any appointments to the senior financial officer positions in departments.

Findings and Departments and Agencies Studied in 1976

4.47 The second year of the financial management and control study, focused mainly on Crown corporations audited by the Auditor General, reported in Part 5, and on seven more departments and agencies as follows:

Department of Indian Affairs and Northern Development

Department of Justice

Department of National Health and Welfare

Department of Regional Economic Expansion

Department of Secretary of State

National Film Board

Statistics Canada

Findings were similar to those in the 28 departments and agencies studied in 1974-75. Appendix E is a summary of the recommendations and observations for each department together with the responses of the deputy head thereto.

4.48 The financial management and control study is continuing on a reduced scale in 1976-77 to cover the remaining agencies and Crown corporations audited by the Auditor General, and the Territorial Governments.

4.49 Some significant initiatives have been taken in response to the government-wide findings and recommendations of the financial management and control study. Although commendable,

these steps are not adequate in relation to the scope and significance of the deficiencies reported.

It is quite clear that despite the Government's acknowledgement that deficiencies exist and that it wishes to remedy them, corrective actions have been less than satisfactory both at central and departmental levels. Remedial action centrally has been greatest where the Financial Administration Branch does not share responsibility with another branch of the Treasury Board Secretariat. These are for the most part areas where existing policies are generally satisfactory and needed only enforcement. Similarly, remedial action within departments has centred in areas where the senior financial officer has clear authority to act. Where other organizations or field staffs are involved, progress has been much more limited.

Thus, both centrally and within departments, little has been done to improve the budgetary and budgetary control processes. Here, responsibility is shared centrally by three branches of the Treasury Board Secretariat and in departments financial officers play a secondary role to planning officers. As a result, financial officers at both levels have resorted to improving traditional systems, such as commitment control, because progress in introducing budgetary control systems of the type recommended by the financial management and control study depends on the co-operation of organizations primarily concerned with planning new initiatives or allocating available resources. These organizations tend to have little desire to become involved in control matters.

Departments have also been restrained from taking effective action to improve budgetary and budgetary control procedures because of the major involvement of central agencies in these processes. Major departmental initiatives in both areas require greater knowledge of the future plans of the Treasury Board and the Department of Supply and Services than is now available.

4.50 The key to more aggressive corrective action is organizational. Unless a Comptroller General is created with authority encompassing all aspects of financial management and control improvements to the budgetary process which are essential to significantly improved budgetary control and financial reporting are unlikely to take place. While the Department of Supply and Services is seeking to solve certain processing problems, any major improvements to its systems will require greater agreement on the uses to which its products are to be put.

Organizational action at the central level should provide a model for departments in establishing comptrollers with appropriate authority. Once responsibility is clarified and unified in a single central organization, action to establish effective systems of financial management and control within departments is likely to be more successful.

FINANCIAL MANAGEMENT AND CONTROL PRACTICES OF CROWN CORPORATIONS

5.1 Most government activities fall within the departmental form of organization. Although this uniquely governmental form could encompass all activities, Parliament has authorized the corporate structure for some to provide a significant degree of autonomy from other governmental bodies and from the rules and regulations of central agencies. In such cases, responsibility for operations is delegated to corporate management and their financial practices are modelled after the private, rather than the governmental, sector of the economy.

This study examines the financial practices of Crown corporations audited by my Office to determine whether the commercial approach satisfies the needs of Parliament and the Government, which approve the spending of public funds, and corporate management, to which the money is entrusted. This study is not concerned with the choice of organizational form for each government activity or a corporation's operational relationships within the government as a whole. These matters are essentially non-financial and therefore beyond the study's terms of reference.

5.2 Crown corporations generally attempt to use financial practices which measure profitability as in the private sector. However, although profitability is critical to decision-making in the private sector, the decisions of the Crown corporations studied involve significant social, cultural and economic objectives beyond those of the individual corporation. In achieving these objectives they require substantial public financial assistance, and discharge responsibilities similar to those assigned to departments.

This study concludes that:

In the majority of the Crown corporations audited by the Auditor General, financial management and control is weak and ineffective. Moreover, coordination and guidance by central government agencies of financial management and control practices in these Crown corporations are virtually nonexistent.

5.3 Among the findings:

-no central agency recognizes the need to identify all corporations owned or controlled by the Government of Canada;

-commercial enterprises in the private sector of the economy are subject to a greater degree of financial accountability than Crown corporations;

-financial management and control is not a priority within Crown corporations;

-the annual deficits and net debt of the Government of Canada are substantially understated due to the manner of accounting for Crown corporations;

-Parliament is presented with incomplete and fragmented financial plans and inadequate financial reports; and

-financing practices would preclude evaluating management performance even if central agencies had the responsibility to do so.

These deficiencies result primarily from the fundamental belief that those financial practices which are recognized as necessary for Parliament and the Government to control the public purse would undermine the independence of Crown corporations.

This study, therefore, proposes actions aimed at producing a blend of governmental and commercial financial practices that will enable Parliament, the government, and the management of Crown corporations to manage and control public funds properly.

5.4 It is recognized that, due to the truly commercial nature of their activities, there may be some Crown corporations not audited by my Office where the public interest can be properly safeguarded by assessing performance through comparison with similar organizations in the private sector. The study included only one corporation and its subsidiary that falls into this category, therefore no attempt has been made to determine the standards that should apply in such instances.

5.5 The findings and recommendations emerging from this study were conveyed in July 1976 to the central government agencies with responsibility in the areas concerned so they could undertake remedial action. Their response, conveyed to my Office through the Secretary of the Treasury Board, is reproduced after paragraph 5.27 of this Part. Brief summaries of the reports to the chief executive officers of the individual Crown corporations, and their responses, are included in Appendix D of this Report.

5.6 The responses from central agencies and from the chief executives of the Crown corporations studied indicate general agreement on the deficiencies and the courses of action proposed to remedy them. The emphasis in this Report on actions by central agencies should not be allowed to detract in any way from the primary responsibility of corporate officers for their internal financial management and control. Although the Report concludes that corporate officers have not given adequate consideration to this important aspect of their responsibilities, it is encouraging to report their positive responses to the recommendations and the action some have already taken to remedy deficiencies.

5.7 Subsequent sections of this Part include the significant findings contained in the full report which is attached as Appendix C and repeat in entirety the proposed courses of action. Chapter and paragraph numbers are cited to facilitate locating material in the

appendix.

Creation and Classification of Crown Corporations (Chapter II)

5.8 Creation of Crown corporations (paragraphs 2.2 to 2.12). The government has invested public funds and acquired an ownership interest in more than 30 corporations and corporate entities which are not scheduled in the Financial Administration Act or included in Volume III of the Public Accounts. Attempts were made to identify and list all such corporations but due to the lack of a central focal point, or a recognized need to identify these entities within the government, the completeness of the assembled listing could not be verified.

If the Financial Administration Act is to continue to serve as the basis for parliamentary and governmental control of Crown corporations it must embrace all government-owned and controlled corporations. This will ensure that the government's ability to monitor their performance is clearly defined and recognized by all parties concerned.

All government-owned and controlled corporations should be scheduled in the Financial Administration Act and subject to its provisions.

5.9 Classification of Crown corporations (paragraphs 2.13 to 2.31). The Financial Administration Act has permitted the management of Crown corporations a type of planning and accountability different from that accorded other governmental organizations since their characteristics were considered more similar to those of privately-owned organizations.

This study, however, discloses that the characteristics of the corporations examined are so similar to those of other governmental organizations that the Act should be changed to differentiate between these corporations and the truly commercial ones. Standards of financial control can then be developed for each group to ensure that Parliament and the appropriate central agencies of government receive the information required to assess corporate plans and monitor their performance.

The present classification of Crown corporations in the Financial Administration Act should be re-examined and two different groups should be created: one for all financially dependent corporations or those carrying on operations of a governmental nature; the other for all corporations meeting the test of financial viability and carrying on commercial activities. Since the nature of a corporation's operations and its resulting need for financial independence can and do change, the classification system should provide for regular reassessment of each corporation to ensure that classifications remain valid.

Budgetary and Accounting Consequences of

Crown Corporation Classification (Chapter III)

5.10 The Financial Administration Act classification of Crown corporations now has no direct bearing on the Estimates and on the Public Accounts of Canada since all Agency and Proprietary corporations are treated as if they were not part of the government for financial reporting purposes. The Estimates normally treat the government's investment in and advances to these corporations as non-budgetary transactions which results in these amounts being recorded as assets in the financial statements of Canada.

This treatment is understandable where a corporation's activities are nongovernmental in nature and the organization is financially independent. But exclusion of government-type activities that call for substantial financing from the public purse distorts the government's budgets and financial reports since the accounting treatment depends primarily on the organizational vehicle chosen to undertake the activity rather than the actual use of the funds.

Crown corporations which carry on government-type activity, or are financially dependent on the public purse, should be included in the Government of Canada accounting entity:

- to be consistent with the basic concept of segregating governmental from commercial activities undertaken under the auspices of the government; and

- to provide for more informative disclosure of summary information in the Estimates and in the Public Accounts so that these documents display consistently all government-type activities financed out of the public purse.

Forms of Corporate Financing (Chapter IV)

5.11 The various forms of government financing of Crown corporations have evolved in an attempt to model them after the private sector, apparently on the assumption that they can be validly measured against commercial entities.

Due to the nature of the operations of the corporations studied, however, these forms of government financing as now applied preclude:

- identifying costs to be paid out of the public purse and those to be borne by the users of the services; and

- assessing management performance.

5.12 Non-government loans (paragraphs 4.4 to 4.5). Although a corporation may have valid business reasons for seeking non-governmental sources of capital financing, this practice:

- results in the understatement of the net debt of the government; and

- creates commitments against the Consolidated Revenue Fund without the

specific approval of Parliament.

Crown corporation loan financing derived from external sources should be restricted and where deemed necessary it should be subject to appropriate parliamentary review through budget submissions.

5.13 Equity investment (paragraphs 4.6 to 4.8). The use of equity financing by Crown corporations is undesirable since it often obscures the actual costs of providing a service or provides opportunities to defer parliamentary review of activities that are not financially self-sufficient on a current basis.

The use of equity financing for Crown corporations should be eliminated where practical.

5.14 Government loans (paragraphs 4.9 to 4.23). The Crown corporations studied undertake activities that are primarily governmental in nature. The form of the financing from Canada therefore determines the division of costs between users and the public purse since certain advances are expected to be recovered and others are not.

The practice of granting loans to a corporation where there is little or no prospect of recovery from the users of its services is clearly undesirable since Parliament is not forewarned of the costs to be paid out of the public purse until the corporation cannot repay its loans. In addition, when advances which are in fact nonrecoverable contributions take the form of a loan, the financial statements of a Crown corporation are misleading.

If appropriate distinctions among contributions, loans and third-party claims were adopted for and adhered to in the Estimates for Crown corporations, management performance and the net cost of an activity could be assessed in relation to original plans by referring to the financial statements. In this manner, a corporation's management could be held accountable for its success in attaining the government's and its own projected targets concerning the cost of providing a particular service. Crown corporations should be financed so as to distinguish clearly between amounts to be recovered from users or resulting in financial claims against nongovernmental parties (i.e. loans) and those to be paid out of the public purse (i.e. contributions). This distinction would be based on the feasibility studies prepared by the corporation and approved by the government.

Preparation and Government Review of Crown Corporation Financial Plans (Chapter V)

5.15 Crown corporations use Program Forecasts primarily to support later requests for appropriations in the Estimates. Corporations not requiring new advances from the government or those only requesting advances against statutory loan authorities normally do not prepare Program Forecast and Estimates submissions. Capital, and Operating Budgets when required, also do not adequately disclose

over-all corporate plans and all sources of expected funding.

5.16 Communication of government objectives and priorities (paragraphs 5.11 to 5.13). Crown corporations are created in part to attain a degree of remoteness from the political process; nevertheless they remain instruments of government policy. This is especially true for the corporations studied due to the significant proportion of government financing they receive and the governmental nature of their operations.

Several ways of advising Crown corporations of the government's priorities now exist. These are often informal and their timing may not coincide with corporate budgetary submissions. Thus, corporations often make their own subjective assumptions concerning government priorities.

Governmental objectives and priorities, detailed enough to provide appropriate guidance, should be communicated formally to Crown corporations on a timely basis.

5.17 Communication of requirements for budgetary submissions (paragraphs 5.14 to 5.20). The form and content of budgetary submissions are not prescribed for Crown corporations. Corporations have only the Treasury Board Program Forecast and Estimates Manual to use for this purpose and it does not recognize any differences between corporate and departmental organizations and activities. As a result, Crown corporations receive inadequate guidance on the nature and the form of information required in Program Forecast and Estimates submissions and none at all about requirements for Capital and Operating Budgets.

Requirements for Crown corporation budgetary submissions should be included in a Treasury Board manual. Specific information requirements for individual corporations should be agreed among the Treasury Board Secretariat, the appropriate minister and the corporation, and once agreed, these requirements should be documented, updated regularly, and referred to in letters calling for submissions.

5.18 Program Forecast and Estimates submissions (paragraphs 5.21 to 5.44). Central agencies and the Cabinet require information concerning the over-all financial plans of Crown corporations before allocating financial resources within the government. This information is seldom adequately provided. Consequently, resource allocation decisions involving Crown corporations must often be based on incomplete and fragmented financial data.

Central agencies and ministers have to be informed of Crown corporation financial plans to discharge their responsibilities effectively under the Financial Administration Act. To accomplish this Treasury Board should prescribe the financial and operating data required to support Program Forecast and Estimates submissions by Crown corporations.

Presentation of Financial Plans to Parliament (Chapter VI)

S.19 Crown corporation Estimates and Capital Budgets now form the basis for parliamentary control, but they are not effective for this purpose since:

- Crown corporations use the Estimates solely to obtain parliamentary authority, not to disclose their plans for the fiscal year. The Estimates exclude corporations not requiring appropriations and seldom disclose all activities of those corporations included;

- Capital Budgets disclose a corporation's proposed capital projects and expected sources of financing but the supporting information provided is often so deficient that these documents are rendered meaningless; and

- Estimates and Capital Budgets each contain a portion of a corporation's plans but none presents a complete picture. As such, the information these documents contain usually frustrates rather than assists in understanding their activities.

The Estimates is the document most suited to provide disclosure of Crown corporation plans to Parliament. Therefore, procedures should be amended:

- to consolidate the Estimates and the Capital and Operating Budgets into one comprehensive document; and

- to develop appropriate procedures for remedying the deficiencies in the content of the information now available.

Once the Capital and Operating Budgets are fully integrated with the Estimates, thereby providing detailed supporting information, separate Capital Budgets would no longer be required by Parliament.

Budgetary Control (Chapter VII)

5.20 Central agency budgetary control (paragraphs 7.1 to 7.3). No central agency now reviews the execution of approved programs to ensure effective management of expenditures and achievement of the objectives proposed by a corporation and approved by the government.

A central agency should be responsible for monitoring Crown corporation financial results in relation to financial plans disclosed in the Estimates. The agency should:

- require standard financial information from each corporation, supplemented by additional information as required;

- obtain analysis of significant variances between actual and planned expenditures; and

- prepare a monthly report based on the analysis of approved budgets and expenditures, and variances between them.

5.21 Control of appropriations (paragraphs 7.4 to 7.11). The Treasury Board Guide on Financial Administration does not deal with the responsibilities of ministers and departments regarding control of appropriations for their associated Crown corporations. Current practices often do not ensure that funds are drawn or used for the intended purpose and that the terms and conditions approved by Governor in Council are complied with.

Procedures should be established to specify the documentation required to support draw downs from appropriations and to clarify the role of the appropriate minister.

5.22 Cash management (paragraphs 7.12 to 7.17). Although very few of the corporations studied have large unused cash balances or investment portfolios, this situation is not effectively monitored.

To ensure effective monitoring of Crown corporation cash balances, formal written procedures should be prepared specifying the nature of the information required and the form and timing of reporting. The information reported should be verified periodically.

Financial Reporting to Parliament (Chapter VIII)

5.23 Corporate financial statements (paragraphs 8.6 to 8.11). The form and content of the audited financial statements of many of the corporations studied are unacceptable. This is evidenced by the fact that 10 of the 27 audit opinions given to these corporations by my office were qualified in 1976.

Crown corporations have little incentive to adhere to generally accepted accounting principles or to improve financial reporting practices; moreover, there has been no direction from Treasury Board or any other central agency in this respect. As a result Parliament cannot assess how well corporation management has exercised the great degree of freedom granted to them in financial matters.

Treasury Board should issue and enforce directives requiring Crown corporations to use generally accepted accounting principles as laid down by the Canadian Institute of Chartered Accountants.

5.24 Financial disclosure in the Public Accounts (paragraphs 8.12 to 8.19). Due to the differing purposes of the three volumes of the Public Accounts, Crown corporation financial data is now included in each. Volumes I and II contain the financial information necessary to explain the amounts appearing in the financial statements of Canada but they lack appropriate detail and present corporate data in a variety of methods. Volume III contains the individual financial statements of more than 40 Crown corporations. Due to the number of corporations included and the wide spectrum of their activities, however, it is difficult for any reader to assess or to understand their overall activities without appropriate summaries of key financial data.

To assist Parliament in assessing both the individual and the

collective activities of Crown corporations:

- Volumes I and II of the Public Accounts should include corporate financial data appropriately integrated with departmental data, and expanded to include on a comparative basis the information proposed for the Estimates; and

- Volume III should contain summary financial information.

5.25 Annual reports (paragraphs 8.20 to 8.23). Annual reports seldom disclose corporate policies and the manner in which the corporation intends to further long-term corporate goals and government policy. In addition, production and output information or related statistics which would aid in assessing financial results are normally not included.

Treasury Board should:

- issue directives to Crown corporations giving guidelines on the form and content of financial and supplementary information to be contained in corporate annual reports; and

- monitor the annual reports of Crown corporations to determine why they are not tabled in Parliament within the time period specified in the Financial Administration Act so that appropriate remedial action can be taken.

Financial Management and Control within Crown Corporations (Chapter IX)

5.26 Financial management and control within many Crown corporations is deficient in the following key areas:

- budgetary control and management reporting systems are inadequate in both financial and operational terms;

- accounting systems do not include appropriate controls and checks to safeguard assets; and

- chief financial officers do not actively exercise budgetary control, ensure effectiveness of internal systems and controls, and direct staff with financial responsibilities.

Three key factors have influenced the attitudes of management and consequently the role of financial management and control within the corporations:

- traditionally the government has demanded very little accountability from Crown corporations in terms of reviewing their financial results or operations against original plans;

- most Crown corporations are not truly profit-oriented and do not operate in a competitive environment which imposes financial pressures on management; and

-the government has prescribed very few rules for Crown corporations in the area of financial management and control.

Given this background, financial management is not considered an important and integral part of the management processes in most Crown corporations.

Where financial staff perceives that corporate management does not require comprehensive financial information, accounting and management reporting systems are not developed. Where management performance is not assessed, budgetary systems serve mainly as a means of obtaining public funds.

The studies of individual Crown corporations indicated that the weaknesses and deficiencies in systems and methods of financial management and control are not common to all. Where they did occur, however, these weaknesses and deficiencies were significant in themselves and provided opportunities for the misuse of assets entrusted to the corporation. Even a limited incidence of weaknesses in the key elements of financial management and control supports the need for standards.

The central agency of government responsible for prescribing the standards of financial management and control in government departments and agencies should prescribe and enforce similar standards for Crown corporations.

Central Direction and Monitoring (Chapter X)

5.27 Three central agencies now share responsibility for giving central direction to Crown corporations: the Privy Council, the Department of Finance and the Treasury Board. This situation is further complicated by the fact that the departmental staffs of the ministers through whom the Crown corporations report to Parliament may also play a central review role.

In response to my 1975 annual Report, the government has announced that it plans to unify most responsibilities for financial management and control within Treasury Board. Certain responsibilities, now resting with the Minister of Finance, are to be assumed by the President of the Treasury Board. When this action is taken it would be appropriate also to clarify responsibilities of Treasury Board and of the Department of Finance for Crown corporations.

Proposals for a much more extensive presentation in the Estimates of expenditure plans of Crown corporations have been made by this study. This is part of Treasury Board's present responsibilities. However, the responsibilities of central agencies in respect of other areas of Crown corporation financial management and control are not clear. The responsibilities, which were identified in last year's Report as being appropriate for a central agency, should also be exercised by the same agency for Crown corporations that rely on the

public purse for a substantial portion of their financing or that carry on governmental activities. The role of the central agency should be to set standards and to monitor performance.

Central agency responsibility for financial management and control of the Crown corporations that are financially dependent on appropriations or that carry on operations of a governmental nature should be clarified in the Financial Administration Act. These responsibilities should include:

- recommending government policies, directives and guidelines in the area of financial management and control, and providing interpretations thereof;
- advising on the form of the Estimates and Public Accounts;
- assessing program and activity structures, and cost and other measurement systems in support of them;
- approving and monitoring budgetary control, financial reporting and financial control systems;
- providing analyses of variances between planned and actual financial performances;
- establishing standards for and monitoring internal audit practices within Crown corporations;
- establishing the accounting practices governing the financial statements of Crown corporations and their presentation in the Public Accounts of Canada; and
- assisting in the selection, training and career development of financial staff.

(Reproduced below is the complete text of a letter dated October 20, 1976, from the Secretary of the Treasury Board in response to our request for his comments and observations on the findings included in the full report of this study which is printed in Appendix C.)

October 20, 1976.

Mr. J.J. Macdonell,
Auditor General of Canada,
La Promenade Building,
151 Sparks Street,
Ottawa, Ontario.
K1A 0G6

Dear Mr. Macdonell:

In response to your request, I have reviewed the draft of your "Government-Wide Report on Financial Management and Control Practices of Crown Corporations Audited by the Auditor General of

Canada". In order to assist the Standing Committee on Public Accounts in its consideration of your 1976 report, you have suggested that I should provide you with a precis of my comments and observations on your findings which could be published as part of that report. My only reservation with regard to this suggestion was that I would not be at liberty to comment on matters of ministerial responsibilities, since this is a prerogative of the Prime Minister.

I feel that it is important to recognize, as you have emphasized in paragraphs 2.23 and 2.31 of your report, that your study did not cover many of the larger or most of the commercially oriented corporations" and that your recommendations "are only intended to cover those corporations which are dependent on the public purse or which carry on government type operations". Notwithstanding this, I feel that your findings and recommendations concerning the financial management and control practices of the Crown Corporations that you do audit, will prove to be of great value in the ultimate development of legislative changes based on the larger study undertaken by the Privy Council Office, which covers the whole question of the appropriate relationship which should exist between Parliament, the Ministry and the various Crown Corporations.

The history of this relationship has, in large measure, been dominated by political and legal considerations. The independence of Crown Corporations which you mention in paragraph 10.6 has been maintained by successive governments. Although it would be difficult to reach back in history to demonstrate each case, it is fair to state that several corporations were established to fulfil a recognized need, in the knowledge that they could not be truly commercially oriented nor competitive, but that the advantages of utilizing a corporate mechanism should be taken.

Lest it be assumed that the relationship which now exists between Parliament and the Crown Corporations has developed over time by accident or omission, I would like to refer to the expressed wishes of Parliament in this matter. This parliamentary direction was given in 1951, during the debate on the Bill for the Financial Administration Act. This Bill specifically addressed control of the financial affairs of Crown Corporations. Until this time, all of what might be called the traditional shareholders prerogatives, vis-a-vis Crown Corporations, had been retained by the Ministry on behalf of the Crown. In 1951, however, Parliament decided to take unto itself certain of these prerogatives, whilst leaving the management of most of the mechanisms of direction and control over Crown Corporations in the hands of the Ministry. Through the assumption of these powers, Parliament thus ensured that it would be able, through the Ministry, to exercise a broad supervision of Crown Corporations.

The role of "appropriate Ministers" in this relationship has caused considerable concern to Ministers in view of the burden of their other duties and it was this concern which prompted the government to mount the Privy Council Office study of Crown Corporations. It is clear from your report and the thrust of its recommendations, that you too are primarily concerned with the

relationship which has hitherto existed between Parliament, the Ministry, the central agencies and Crown Corporations. I therefore feel that the timing of your report is most fortunate and that it will prove to be of great benefit to the government in its efforts to resolve this problem.

I do not feel that you would want me to comment on each of your observations in this response, since they are, in the main, enunciations of principles whose implementation will depend in large measure on the decisions taken by Parliament as to the future form of its relationship with Crown Corporations. I can assure you that your findings, which, I understand complement many of the findings of the study undertaken by the Privy Council Office, will be given the most serious consideration in framing whatever recommendations are made to Parliament on this subject.

In conclusion, I must thank you for the opportunity that you have given me to comment in this manner on your draft report.

Yours sincerely,

G.F. Osbaldeston

SPECIAL AUDITS AND INQUIRIES

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6

INTRODUCTION

6.1 A number of projects undertaken by the Special Audits and Inquiries Branch of the Office during the past year are reported on in the following seven parts of this Report:

OIL IMPORT COMPENSATION PROGRAM

RECEIPT AND DEPOSIT OF PUBLIC MONEY

OFFICE ACCOMMODATION

TRAVEL AND RELOCATION EXPENSES

INTERNAL CONTROLS IN PAYROLL SYSTEMS

MANUFACTURERS' SALES TAX

GRANTS AND CONTRIBUTIONS

Some of the projects are now completed and others are multi-year studies which are continuing. The reports generally represent a summary of more detailed observations communicated to and discussed with the departments or agencies concerned. We wish to acknowledge the full co-operation given to us in all cases.

6.2 The audit techniques and coverage developed for several of these studies will be incorporated in our continuing audit activities.

In cases where a sample of departments was taken, as for the study of the Receipt and Deposit of Public Money and the study of Travel and Relocation Expenses, this will ensure coverage of all departments and agencies.

6.3 The study of Grants and Contributions is a multi-year project and covered three departments and one agency in the first year. Further studies now under way will be reported on in my 1977 Report. In addition, government-wide observations will be made as required in next year's Report when the study of a larger number of departments and agencies is completed.

6.4 A project relating to economic indices used in financial management was initiated during the course of the past year. This project will be completed during the current year and reported on in my 1977 Report.

OIL IMPORT COMPENSATION PROGRAM

7.1 Introduction. Our continuing inquiry into the administration of expenditures under the Oil Import Compensation Program was undertaken in 1974 at the request of the Governor in Council under Section 62 of the Financial Administration Act.

The Program was implemented during the first quarter of the 1974 calendar year to cushion the economy from the impact of the rapid increase in the price of foreign crude oil used in Canada. It was administered by the Department of Energy, Mines and Resources under authority of Vote 11b, Appropriation Act No. 1, 1974, 1974, c. 1, until October 31, 1974, when, on the authority of Vote 52a of Appropriation Act No. 3, 1974, 1974-75-76, c. 2, it was transferred to the Energy Supplies Allocation Board which reports to the Minister of Energy, Mines and Resources.

The Program compensates importers of crude oil and petroleum products for specified cost increases, principally taxation and participation costs imposed by oil-producing countries since November 30, 1973, for cargoes, and since September 4, 1973, for freight. To be eligible for compensation, importers are required to maintain wholesale prices of imported petroleum products or products obtained from compensated crude oil at the levels suggested from time to time by the Minister of Energy, Mines and Resources.

Before July 1, 1975, compensation was based on the increase in FOB cost or on the increase in the host government take and participation, whichever was less, for each cargo of crude oil or petroleum product imported during the program as compared to an identical cargo imported on the base date, plus an allowance for the increase in the cost of transporting this cargo to Canada. The Program underwent a significant change with effect from July 1, 1975. All loadings since then are compensated on a flat-rate basis, inclusive of freight, the rate being determined by averaging monthly the delivered cost to eastern Canada of crude oil imported by efficient suppliers, and deducting the theoretical delivered cost of similar Canadian crude oil. The compensation differential between crude oil and imported petroleum products that existed before the change to the flat-rate basis has been retained in order to continue protection to eastern Canadian refiners.

Appropriations during the period covered by this report totalled \$3,090 million of which \$240 million was provided in the 1973-74 fiscal year, \$1,165 million in the 1974-75 fiscal year and \$1,685 million for the fiscal year ended March 31, 1976. Expenditures actually incurred from the inception of the Program totalled \$2,901 million of which \$157 million was paid in 1973-74, \$1,162 million in 1974-75 and \$1,582 million in 1975-76.

In my third report to the Governor in Council dated June 30, 1976, I noted that all compensation payments for cargoes loaded before

July 1, 1975, are on a provisional basis until the effect of the host government participation on the November 30, 1973, base-date costs has been assessed. An extensive analysis was necessary to ensure that comparative base-date costs claimants used for imports during the Program conformed to their supply contracts or, in the absence of supply contracts, to the prevailing market prices. In addition the Board's staff has had to ensure that these costs were adjusted to include any retroactive participation anticipated by the claimants in establishing the selling prices for their products for this period. The Board's staff also has to ensure that increases in freight costs used in establishing these selling prices were not compensated by the Program. The governing principle recognized by the Board is that claimants should be compensated either by the market or by the Program, but not by both. Conversely, claimants should not be asked to bear additional increases in the costs specified in the regulations that the Government will not permit them to pass on to the market.

Based on our review of the claims, procedures and controls, I reported that we were satisfied that, subject to the two following comments, provisional payments to March 31, 1976, have been properly processed and are in conformity with the legislation, regulations and guidelines.

7.2 Special freight compensation for cargoes lightened the Caribbean en route to Canada. Part of the compensation paid to importers under the Oil Import Compensation Program is in respect of increases in freight costs attributable to the increases since September 4, 1973, in the cost of tanker bunkers used in transporting petroleum or petroleum products to Canada.

The most economical method of transporting crude oil over long distances is by very large crude carriers (VLCCs). Since the beginning of the Program one of the importers with no access to deep water terminals at ports of entry to Canada that can accommodate VLCCs has been chartering them to transport crude oil from the Persian Gulf to points in the Caribbean where they are lightened into medium-sized vessels for transportation to terminal facilities the importer uses at ports of entry to Canada and elsewhere.

Prompted by a request from the importer, officials of the Department of Energy, Mines and Resources, decided early in the Program to make initial compensation payments for lightened cargoes on the assumption that these medium-sized (landed) vessels made the entire voyage. The Department took the view that this basis of payment should be regarded as provisional subject to re-evaluation. The assumption that the landed vessel made the entire voyage resulted in a significant reduction in the documentation required for provisional payment of the freight compensation and more expeditious compensation to the importer in respect of the additional transportation costs incurred since September 4, 1973, that could not be recovered directly from Canadian consumers under the Oil Import Compensation Program. In our opinion the use of theoretical voyages for calculating the applicable bunker freight costs was contrary to the regulations.

The application of another importer for the same consideration about a year later prompted a re-evaluation of this method of computing freight compensation. In the interval the Energy Supplies Allocation Board assumed administration of the Program. Although aware that payments were not based on the actual vessels used, the Board accepted the first importer's contention that the landed vessel basis of compensation had been approved by the Department and that different chartering arrangements would have been made had it not been approved. The Board also believed that insistence on the "actual-vessel" basis would have resulted in a heavy concentration of the least efficient, small-sized vessels transporting oil to Canada, with the result that compensation would have been even greater than that actually paid. It therefore decided that the method of calculation should not be changed retroactively for the first importer and that three other importers should be treated in the same manner for transshipped cargoes loaded before March 12, 1975. It was decided that for loading after March 12, 1975, all importers would have to base their claims for freight compensation on the vessels actually used in transporting crude oil to Canada.

It is estimated that for the period ending March 12, 1975, the compensation paid on the basis of the landed vessel being used as a measure of bunker freight costs exceeded the compensation that would have been paid pursuant to the regulations by about \$5 million.

7.3 Newfoundland Refining Company Limited bankruptcy. The Energy Supplies Allocation Board, as administrator of the Oil Import Compensation Program, is a preferred creditor in the bankruptcy of Newfoundland Refining Company Limited in the amount of \$15,914,000 representing overpayments of compensation. This situation arose because the Company significantly underestimated its exports on its most recent provisional claims.

Since my report to the Governor in Council, we have been informed that additional imports by the Company have been sold or otherwise disposed of in Canada, thereby eliminating the Company's liability to the Board.

7.4 Price restraint. With respect to the audit of price restraint, the objective of the Program is to cushion the Canadian consumers of imported petroleum products and products derived from imported crude from price increases that would otherwise have been necessary to recover the large increases in producer country take and participation that occurred on or after January 1, 1974. Canadian consumers had already experienced significant price increases during the second half of 1973 as a result of increases in posted prices and the reduction by the oil companies of discounts off posted prices.

On September 4, 1973, the Prime Minister, as part of the Government's cost-of-living control measures, requested voluntary oil price restraint. This request was directed at all producers, refiners, importers, jobbers and other wholesalers. It related to all crude oil and condensate produced anywhere in Canada and to motor

gasoline and most products in the middle distillate category, including stove oil, kerosene, home-heating oil and diesel fuel, for consumption in Canada. This price restraint applied except where the Minister of Energy, Mines and Resources was satisfied that increases in the cost of imported oil warranted passing on such increases to Canadian consumers. On January 31, 1974, the Minister issued a further statement requesting that the freeze be continued until April 1974 and extended it to all petroleum product prices in Canada with certain exceptions such as lubricating oils. The Minister also stated that prices would be frozen at levels prevailing in January 1974, that is prices were not to reflect the increased tax cost averaging about \$4.00 per barrel imposed by the oil producing countries on January 1, 1974. This action gave rise to the Oil Import Compensation Program.

The freeze with respect to price increases that would normally occur from actions taken by foreign producer countries has continued throughout the Program. Those price increases approved by the Minister were the result of rising non-crude costs and the decrease in import compensation that followed the allowed increases in western Canadian crude oil prices.

The Energy Supplies Allocation Board has been monitoring the price behaviour of the oil companies. In addition to participating initially in examining and collecting data at the companies, we have examined the additional data collected by the Board from September 1974 to December 31, 1975, and I am satisfied that price levels during this period did not exceed price levels prevailing in January 1974 adjusted for allowable cost increases.

Since October 14, 1975, the oil companies have been subject to Anti-Inflation Board price and profit guidelines and the Energy Supplies Allocation Board has been supervising the monitoring of the oil industry compliance with these guidelines on behalf of the Anti-Inflation Board.

RECEIPT AND DEPOSIT OF PUBLIC MONEY

8.1 Introduction. The Government of Canada's total cash receipts for 1975-76 approached \$75,000 million. Daily cash balances varied from a low of \$1,200 million to a high of \$4,600 million. The greater part of the daily balances consisted of deposits in interest-bearing accounts with the chartered banks. Since all moneys received by departments across Canada must flow through the Bank of Canada before deposit in these accounts, delay in transmitting receipts to the Bank can have a significant adverse effect on the interest earnings of Canada.

Governmental practices in the receipt and deposit of public money were reviewed during the year at selected Ottawa and regional office locations of nine departments. The findings and recommendations are summarized below. The recommendations are directed primarily at matters that apply across government. More detailed reports on the findings have been provided to the departments concerned and to the Treasury Board Secretariat.

8.2 Adequacy of internal control. In general, departmental practices do not adequately control cash received, do not comply with Treasury Board regulations respecting the receipt and deposit of public money and result in delays in the deposit of receipts. Individuals responsible for handling cash often appear to lack knowledge of and regard for relevant regulations, and an appreciation of the revenue lost due to delays in depositing receipts. Observed weaknesses in procedures for receiving and recording public money include failure to have two persons present when mail containing cash receipts is opened, to record cash receipts immediately, to endorse cheques and other negotiable instruments restrictively as received, to follow up the subsequent disposition of all receipts, and to separate the responsibility for custody of cash receipts from the responsibility for maintaining related accounting records. The various registers used by departments to record receipts do not always provide all the information required to control money received.

The chief financial officer of each department or agency should ensure that all cash receipts are subject to adequate systems of internal control and that policies and procedures respecting the receipt, handling and recording of public money conform to legislative and regulatory requirements, and that these are communicated by appropriately designed manuals.

The Treasury Board should consider adopting as administrative policy the requirement that all incoming mail, including mail addressed to individuals, be opened in the central mailroom of each department except mail redirected to a subsidiary mailroom or records office specifically approved by the chief financial officer as a mail-opening facility.

The Treasury Board handbook on mail management should set out the

minimum requirements for information to be included on the mailroom record of receipts and should include all the information necessary to establish responsibility for and control over cash receipts.

8.3 Deposit of receipt Departments are required by regulation to make a deposit daily when receipts exceed \$100. In few of the departmental programs examined are receipts deposited on the day of arrival or even on the following day. Processing times of two weeks or more are not uncommon. The average time lapse from date of receipt to date of deposit was 28 days in one program with receipts totalling \$360,000 during the first three weeks of January 1976.

Departmental financial systems do not place high priority on depositing receipts promptly. Accounting convenience usually outweighs other considerations in the timing of deposits. Where large volumes of receipts are handled, the processing of money for deposit is geared to the processing of the related accounting entries with the result that inventories of unprocessed receipts are often allowed to accumulate. At a centralized receipts processing office of one department where deposits each year amount to several thousand million dollars, a test by the department's internal audit staff in April 1976 found a time lapse of two to four working days between date of receipt and date of deposit. Reducing this time lapse to one day would increase government interest earnings by several million dollars each year.

The Treasury Board or another central agency should monitor departmental performance in receiving and depositing money and provide assistance to departments in developing financial systems that comply with regulations yet meet their specific needs.

The Treasury Board, in co-operation with the Public Service Commission, should develop programs to instruct financial officers, systems analysts and others involved in designing and maintaining financial systems on the need for and the methods of achieving sound practices in the handling and depositing of cash receipts.

The portion of the Treasury Board Guide on Financial Administration dealing with the receipt and deposit of public money should be expanded to emphasize the cost to government of delays in depositing receipts, and to state guidelines for achieving the objectives of financial systems in this area.

8.4 Deposit procedures. Significant amounts of receipts are not deposited at the locations where received but are forwarded to the applicable accounting centres for deposit. At a departmental office mentioned earlier, receipts processed for deposit in January 1976 totalling \$630 million consisted of 293,000 items; of these, 54,000 had been redirected from district offices to the centralized accounting office, delaying their deposit an estimated two to three days. This type of situation occurs throughout the year.

In one department, cash receipts which include large amounts of currency are sent each day by registered mail from scattered offices

to central locations for deposit. Many of these offices could deliver deposits by hand to local chartered banks, reducing the risk of loss and delays in mailing. In the metropolitan area of Ottawa alone, some 50 offices remitted January receipts totalling \$2 million by mail.

8.5 Receiver General bank accounts. Section 11 of the Financial Administration Act requires that all public money be deposited to the credit of the Receiver General who is required to establish accounts for the deposit of public money with banks and fiscal agents designated by the Minister of Finance. Within Canada, only the Bank of Canada and the chartered banks have been designated as depositories for public money. Apart from deposits to special purpose bank accounts and deposits made directly with the Bank of Canada, there are three methods of depositing public money with the chartered banks: (1) money may be deposited to a transfer account; (2) where no transfer account is established, money may be deposited in exchange for a transfer-of-funds voucher payable to the Receiver General; and (3) in the case of payroll deductions at source and individual tax remittances, money may be received directly by the banks for payment to the Receiver General account at the Bank of Canada. Where deposits are made to transfer accounts, the Receiver General has directed that transfer-of-funds vouchers must be obtained any time the balance exceeds \$10,000 or at least once a week.

There are weaknesses in controls over establishing and operating transfer accounts and deposit facilities, leading to the risk of loss or misappropriation of public money and delays in transmitting receipts to the Bank of Canada.

Although the Minister of Supply and Services is responsible as Receiver General for establishing accounts for the deposit of public money, the usual practice is for departments to make the arrangements with the banks on approval in writing from the Department of Supply and Services. Many transfer accounts are not in the name of the Receiver General but in the name of a department; in some cases transfer accounts were established without the approval of the Department of Supply and Services; and frequently credit unions and caisses populaires are used as depositories despite a 1973 legal opinion from the Department of Justice precluding their use.

The Receipt and Deposit of Public Money Regulations should require all bank accounts and deposit facilities to be established by the Receiver General and the banking community should be advised not to accept deposits of public money except with his authority. Departments using unauthorized deposit facilities should be required to make other arrangements.

In addition, the Department of Supply and Services should maintain a current inventory of authorized bank accounts and deposit facilities and devise appropriate systems and procedures for monitoring their use and for confirming outstanding balances periodically.

8.6 Transfer of fund The use of transfer accounts often delays

the transfer of cash receipts to the credit of the Receiver General account with the Bank of Canada. A directive of the Receiver General that accumulations in any one account may not exceed \$10,000 is not always followed. Some offices obtain transfer-of-funds vouchers only intermittently regardless of the amount on hand. Often transfer-of-funds vouchers are not for the full amount on deposit, necessitating preparation of reconciliations at the end of each month. Using deposit facilities instead of transfer accounts would involve some additional work in preparing increased numbers of transfer-of-funds vouchers, but it would speed up the flow of receipts to the Bank of Canada and eliminate the need for monitoring the operation of transfer accounts and the preparation of monthly reconciliations.

Poor departmental practices in delivering transfer-of-funds vouchers are further delaying the flow of cash receipts to the Bank of Canada. The vouchers are sometimes held pending receipt of accounting information or they are accumulated and deposited weekly. Frequently, the vouchers are mailed to the Bank of Canada rather than delivered by hand even when there is an agency of the Bank nearby. In other cases they are mailed by the receiving office to a regional office or to headquarters for deposit. These practices frequently result in additional delays of up to a week. Longer delays are not uncommon.

The Bank of Canada has developed a system for telexing each day to the Ottawa agency credit for transfer-of-funds vouchers deposited at agencies outside of Ottawa. Although departmental systems generally provide for deposits of transfer-of-funds vouchers to reach the Bank of Canada agencies in time to be included in the day's telex, our review disclosed numerous instances where receipt of vouchers supposedly delivered to the Bank of Canada before cut-off time was not acknowledged by the Bank until the following day. Some departments are not on the telex deposit system so their regional and district offices are obliged to mail to Ottawa for deposit the transfer-of-funds vouchers for funds received at points all across Canada.

The use of transfer accounts should be discontinued and a transfer-of-funds voucher in the full amount of the deposit should be obtained for each deposit with a chartered bank. These vouchers should be deposited directly at the Bank of Canada agency to which they can be most quickly transmitted. They should not be transmitted by mail when other cost-effective means are available. Departmental copies of deposit slips, transfer-of-funds vouchers or requisitions for transfer-of-funds vouchers should be stamped by the Bank of Canada agencies with the time and date of deposit so financial officers in the departments can monitor the timeliness of delivery of deposits to the agencies.

To improve the flow of receipts to the Consolidated Revenue Fund, the Government should study methods available for transmitting funds with a view to developing and implementing a more immediate system so deposits with chartered banks would be transmitted the same day to the Bank of Canada in Ottawa for credit to the Receiver General. As an interim measure, the Government should consider placing all departments and agencies on the telex deposit system.

8.7 Bank-remitted receipts. The greater part of income taxes, old age security tax, Canada Pension Plan contributions and unemployment insurance contributions is remitted through the chartered banks. A review of 80 remittances selected at random for the 30 days ended June 3, 1976, showed an average time lapse of 2.1 working days from the date of receipt by the chartered bank to the date payment was received by the Bank of Canada. There was a considerable variation in the performance of the individual banks ranging from a low average processing time of 1.5 working days to a high of 3.1 working days.

The time taken by banks to process and remit deductions at source by employers and individual tax instalments should be monitored continuously and appropriate action should be taken where improper remitting procedures or delays in remitting are observed.

8.8 Foreign Currency. Substantial amounts of government receipts are in foreign currencies, mostly United States dollars. Where such receipts are deposited in a chartered bank, the funds are immediately converted to Canadian dollars at the regular rate established by the bank. This rate includes a fee for handling the exchange transaction. In the Ottawa area, foreign currency receipts are usually deposited directly with the Bank of Canada. The procedures followed by the Bank of Canada in clearing instruments drawn in foreign currencies frequently result in delays of one to four weeks in crediting the account of the Receiver General. Cheques in United States dollars of \$100,000 or more are deposited by mail to a Receiver General chequing account with the Bank of Montreal agency in New York. A test of January deposits to this account disclosed time lapses of nine to 18 days from the date of receipt to the date of credit by the bank.

The procedures in effect for depositing and converting receipts in foreign currencies should be reviewed with a view to speeding up the crediting of such receipts to the Receiver General and minimizing the costs of conversion.

OFFICE ACCOMMODATION

9.1 Introduction. The Audit Office has conducted a study of the financial management and control of office accommodation in the federal government aimed at establishing the adequacy of: relevant legislation, executive regulations, and directives and guidelines of control agencies; departmental compliance with the directives and guidelines; and methods employed in determining new or consolidated space requirements and in managing and controlling the use of accommodation; and the system of accounting for the cost of the accommodation of departments and agencies.

The study reviewed documentation and the decision-making processes relating to the foregoing areas in a selected number of departments and agencies, notably the Department of Public Works and the Treasury Board. This was supplemented by fact-finding interviews with officials of the two Departments and with a variety of organizations both in the private sector and in the non-federal public sector. The cooperation of the officials and their staffs is acknowledged with appreciation.

The importance of the subject is indicated by the fact that at the time of the study the federal public service occupied approximately 39,231,000 square feet of office space at an annual equivalent rental cost of \$249 million, based on actual rental figures for leased premises and calculated costs for Crown-owned premises. It was not possible to establish how many of the approximately 321,000 employees regulated by the Treasury Board were accommodated in office space as the available information did not lend itself to such a calculation.

9.2 Relevance and adequacy of directives and guidelines. Legislative control of public service office accommodation is exercised through the Financial Administration Act, the Public Works Act, R.S., c. P-38, and the regulations stemming from them. In addition, the Treasury Board has issued directives and guidelines to be followed in providing office accommodation. These are intended to establish parameters of control for deputy heads and the Treasury Board, and also set upper permissible limits for space and cost. They apply to all departments and agencies listed under Schedules A and B of the Financial Administration Act.

The guidelines suggest that in calculating the amount of space required a department should first determine the average salary of the unit requiring space, then refer to a schedule that matches salary ranges with ranges of square feet, and finally calculate its total requirements by multiplying the number of employees to be accommodated by the selected square footage. This over-simplifies the situation because a realistic appraisal of requirements requires a distinction between working, ancillary service and excluded space. The guidelines cover the provision of ancillary service space, not regarded as normal working space and including aisles, conference rooms, meeting room

areas and other such requirements. Excluded space, which refers to space for special equipment and to other space required in addition to that covered by the guidelines, requires specific approval by the Treasury Board Secretariat.

Once requirements are established, allocation is left to departmental discretion, permitting some staff members or some functions to receive more generous treatment than others.

A survey of 14 organizations outside the federal government, selected because of their size to make comparisons more meaningful, revealed that they base space guidelines exclusively on the functional requirements of individual positions, not necessarily on salary levels, and that their total requirements are aggregates of the data obtained on this basis. The survey covered four life insurance companies, four banks, three oil companies, one public and one private utility company, and one provincial government. It showed that the provision of office accommodation for comparable levels of management in the federal government would appear to be more generous than in the organizations reviewed although comparisons are difficult to make in the absence of functional guidelines in the federal sector. The actual variance will differ from department to department and even within a given department depending on staff composition.

The Department of Public Works is currently developing for Treasury Board approval guidelines specifying space entitlement by functional needs. Our findings suggest that the move is timely, and that the Treasury Board should promulgate as soon as possible the revised guidelines, including instructions based on functional requirements and distinguishing between working, ancillary service and excluded space. It is difficult to escape the conclusion that certain current practices tend to encourage inefficient use of space and to give the appearance of overly-generous accommodation. These practices include the use of a range of useable square feet per person rather than a specific figure, a five-year planning period as specified in the space guidelines, together with the lack of guidelines on limits of space needed to meet an individual's functional requirements.

The effect of using a range of useable square feet per person rather than a specific figure requires clarification. The theory is that by matching the average salary of the unit to be accommodated with the mid-point of a range of square feet per person considered appropriate to the salary figure, the lower limit of the range will be reached at the end of a five-year occupancy period with provision for a 3% annual population growth. In spite of this, in some cases the upper limit of the range has been employed, thereby providing accommodation for double the 3% growth rate during the five-year period. In the absence of a closer review by the Treasury Board, the system could lead to using space in excess of justifiable requirements over an extended period if the annual growth rate is less than the arbitrary 3% contemplated initially, even if the guidelines are closely adhered to in determining requirements. There is no provision for returning surplus space to the Department of Public Works for appropriate disposition.

Departments and agencies should be required to include in their annual Program Forecast and Main Estimates submissions, or in a separate but related submission, an all-inclusive forecast of accommodation requirements based on projected manpower and on entitlement in accordance with the promulgated guidelines.

The Treasury Board should consider further amending its office accommodation guidelines to reflect a more specific target for useable square feet per person and a shorter planning period for space under direct departmental control, while retaining the over-all government requirement for a five-year forecast for planning purposes by the Department of Public Works. In addition, the Government should consider establishing long-term guidelines on the growth of the public service to facilitate planning for office accommodation, with due consideration to decentralization and other government objectives.

9.3 Adherence to directives and guidelines. The phase of our study relating to departmental compliance with Treasury Board directives and guidelines, in conjunction with relevant statutes and the regulations issued under their authority, covered eight departments and two agencies in detail. For 18 departments and agencies the examination concentrated on adherence to the guidelines in calculating departmental space requirements. In 13 cases in the latter group documentation was insufficient for our purposes or it was unavailable. In the other five, examination of the reported figures revealed that space use exceeded the relevant guidelines by more than 30% in three cases.

The Treasury Board Administrative Policy Branch has the responsibility for developing directives and guidelines pertaining to all aspects of accommodation. Adherence to the guidelines is monitored by the Board's staff only when a department requests additional space. We found the documentation supporting submissions to the Treasury Board for approval of space requirements to be incomplete in the case of three departments and one agency.

Departments and agencies should be instructed to establish appropriate mechanisms for ensuring adherence to Treasury Board directives and guidelines with respect to office accommodation. Internal audit units of departments and agencies should be required to review how their organizations comply with the directives and guidelines.

Finally, Treasury Board staff should monitor compliance with the directives and guidelines systematically and regularly.

9.4 Process of decision-making to provide new or consolidated accommodation. Our study included an evaluation of the procedures followed by the Department of Public Works in determining new or consolidated space requirements and in assembling and analysing all relevant data pertaining to the economic, environmental and social aspects of each available choice of appropriate office accommodation.

For that purpose we examined, on a limited test basis, the supporting

documentation at five of the Department's six regional offices.

The Department recently developed a comprehensive evaluation procedure consisting of a checklist of data to be assembled and a guideline presenting the relevant factors to be considered. On the basis of our examination we concluded that the Department's procedures meet the requirements of an appropriate decision-making process. In eight of 10 major projects we found that the guidelines had been adhered to in making final decisions and that the optimum financial choices had been taken into consideration.

The Department attempts to maintain an inventory of available private sector space within each region, including date of availability, amount of space, rental cost, quality and service, updating it periodically through advertisements inviting such information. Many accommodation requirements are met through these inventories. In the case of lease-purchase or long-term lease propositions, the Department calls for tenders based on detailed requirements and evaluates the bids on the basis of a preestablished point-rating system. It has been demonstrated as essential that client departments be scrupulous in making their requirements known only to the Department of Public Works and not to a lessor or builder-developer in advance of their negotiations with the Department. To act otherwise can lead to claims for rental due before the occupancy date, on the contention that normal leasing practices have ceased to prevail. For example discussions by a client department with the builder-developer of an office complex in Ottawa resulted in payment for vacant space (See 1974 Annual Report, paragraph 64). Government officials at all levels should be required to refrain from transmitting information about departmental space requirements to persons other than those in the public service authorized to receive it.

The process of developing an office accommodation building project from conception to final approval is lengthy. The Department of Public Works establishes the need after a review and analysis of the space required from data assembled from estimates of anticipated needs of the various departments and agencies. A preliminary economic analysis determines whether it is desirable to lease, to lease-purchase, or to construct a Crown-owned building. If construction is indicated a program approval submission must be made to the Treasury Board giving an estimate of the cost, which is based on past experience. Our examination indicated that although most factors had been adequately considered, the allowance made for cost increases was under-estimated at times as were the probable period of construction and the extent of specification changes.

In the past the appearance in public documents, and particularly in the Estimates, of preliminary cost estimates not based on detailed building designs has been misleading. Comparison with costs eventually incurred naturally has given rise to doubts about the controls being exercised. The practice has been discontinued and project costs now reflect the stage of development.

The Department of Public Works should make every effort to ensure that all factors pertaining to the cost of a building project receive adequate consideration and are reflected in the appraisal leading to a choice among alternatives.

9.5 Control and administration of accommodation. In general, the Department of Public Works is responsible for providing office accommodation to departments and agencies requiring it, whether in Crown-owned or leased premises. The Treasury Board is concerned with the over-all impact of the accommodation function and attempts to control it by issuing guidelines, by approving requests for additional space and by monitoring departments and agencies, including the Department of Public Works, on an if-and-when required basis.

Our study examined the process of determining additional space requirements and justifying existing ones in eight departments and two agencies, occupying 11,546,000 square feet of space at an annual rental equivalent of \$72 million (approximately 30% of the total space and rental by the federal government). None had documentation on hand that was adequate to support requests for space. In two cases support in writing for the decision-making process was inadequate. By analysing documentation on use of space required by Section 21 of the Treasury Board's "Office Accommodation Guidelines" we sought in 15 cases in the National Capital Region to establish the degree of compliance with or variances from the guidelines and the effectiveness of control exercised over accommodation. In three cases the information was not available and in seven it was only partially available. The Department of Public Works provides accommodation on the basis of data from departments or agencies giving projections of requirements in square feet. No review is made subsequently to verify the correctness of growth assumptions unless additional accommodation is requested. Once a department or agency occupies the space it assumes control over use and administrative management. Vacant or underused areas within the assigned accommodation is identified in the inventory records of the Department of Public Works as occupied and is therefore ignored in reviewing the possible disposal of vacant space.

Of the 15 departments or departmental units examined, none showed documentary evidence of considering interim use of vacant or under-used space. They either leave the space vacant or spread the staff out to fill it until it is required.

An examination of one departmental move to new space completed in September 1975 found that the unit involved had forecast a requirement of 103,000 square feet for its current and anticipated activities. The forecast included 13,000 to 14,000 square feet for an activity to be started within a year and 3,000 to 4,000 square feet for the expansion of an existing activity. Although the accommodation is shown as occupied in the Department of Public Works records, it remains unoccupied and is expected to remain so until early 1977 when resources may become available to complete plans for the two activities. In the meantime the space could perhaps have been put to temporary use.

The fact that departments and agencies are, in effect, in a

position to accept or reject space offered by the Department of Public Works militates against optimum space use. When a department regards as unsatisfactory the location or quality of space offered by the Department of Public Works, it may propose an alternative in a submission to the Treasury Board. However, this step is rarely taken. Usually the Department of Public Works attempts to satisfy the client department by locating space more to its liking. Situations of this kind could lead at times to deficiencies in the use of all available space.

Finally, although many departments and agencies maintain separate units responsible for accommodation, in some it is a part-time function of staff performing other duties. That is one reason why space analysis and management expertise varies from department to department. Another reason lies in the degree of importance an individual department attaches to the function, as illustrated by the variety of reporting relationships encountered. Some departments, particularly those with a small or part-time accommodation staff, use expert advice available from the Department of Public Works for space analysis, allocation and management. There is, however, no co-ordinated training program to lead to uniform applications of systems and methods and the use of up-to-date techniques and technical knowledge.

Under an earlier heading it was pointed out that the Treasury Board Secretariat does not monitor the efficiency of space administration by departments and agencies on a continuing basis and we have suggested that this be done. In addition, the Treasury Board should consider strengthening its present accommodation policy unit to permit adequate review and monitoring of all aspects of the administration of accommodation.

Departments and agencies should be required to maintain for their accommodation Program Forecast submissions and for monitoring purposes a space use record system containing all relevant information as to manpower, space entitlement, actual use of space and changes in use. This system and the decision making process involved in the administration of accommodation should be subject to internal audit review.

All under-used accommodation currently under departmental or agency control should be identified and assessed for possible reclassification as vacant space. The Department of Public Works should be assigned the responsibility for all space classified as vacant and should satisfy itself that departments and agencies adhere to the Treasury Board guidelines on accommodation or obtain specific approval for exemption before it implements requests for additional space or changes to existing space.

The Treasury Board, assisted by the Department of Public Works, should ensure that expertise in accommodation administration and appropriate staff development is available in departments and agencies.

The Treasury Board, the Public Service Commission and the Department of Public Works should develop and administer training programs in accommodation administration and participation in these by staff engaged in this function should be made part of job specifications.

9.6 System of accounting for costs of accommodation. Appropriations of the Department of Public Works finance the cost of constructing, lease-purchasing or leasing all office accommodation for the departments and agencies listed in Schedules A and B of the Financial Administration Act, certain Crown corporations listed in Schedule C, all Post Offices across the country, and all single-purpose accommodation within the National Capital Region. The cost appears as a program cost of the Department in the Estimates and in the Public Accounts, with specific identification of major program elements and building programs. In our opinion, this method of accounting for the provision of accommodation does not provide either the clarity or the comprehensiveness needed for an informed program review.

To permit an informed review of programs, due consideration must be given to all component costs, including that of providing accommodation. For that reason it is essential that the cost of accommodation be recognized by all concerned as an integral element, sometimes a major element, of a program and that appropriate weight be given to it when decisions are taken regarding the program. At the present time, with the exception of activities financed through revolving funds and certain Crown corporations required by law or direction to assume their accommodation costs, departments and agencies are not charged for accommodation.

In 1974 and again in 1975 the Standing Committee on Public Accounts took the view that if the rental costs of office accommodation were allotted to the user departments they would be more cautious in forecasts and more modest in choice of premises, and would make more determined efforts to avoid overspending budget allotments. On May 18, 1976, during its review of a comment in my 1975 Report, the Committee requested that I report in 1976 on the progress made by the Department of Public Works, the Privy Council Office and the Treasury Board Secretariat on a study of cost recovery for accommodation services. Although the study has been completed, the resulting reports reflect a lack of unanimity. The Department of Public Works favoured charging for services and issued a minority report. The Treasury Board Secretariat accepted the majority report which rejected the principle of passing on the cost of accommodation services to departments and agencies.

The cost of establishing and maintaining an accounting system for allocating accommodation costs, including billing and collection procedures, could outweigh the advantages of the cost-recovery system, provided other means are available to achieve effective cost control. It is quite possible that the desired cost consciousness within departments and agencies could be achieved by other means, including some recommended here, without going to the extent of actually billing

and collecting for services.

It is interesting to note that the Governments of Ontario and Quebec, after studying the subject for their respective purposes, have rejected the concept of cost recovery. On the other hand, a bill recently tabled by the Government of British Columbia reflects a favourable view of introducing accounting procedures for allocating office accommodation costs.

The Treasury Board, in consultation with the Department of Public Works, should complete as soon as possible its project for developing meaningful displays of accommodation costs in the Estimates and in the Public Accounts and for developing an appropriate reporting system to permit such cost displays.

The desirability of introducing a cost charge-back system for accommodation should again be considered by the Treasury Board after it is possible to assess the effectiveness of the controls the Board has recently established and those we are recommending.

TRAVEL AND RELOCATION EXPENSES

10.1 Introduction. The Audit Office has completed a study of travel and relocation expenses to determine: the extent to which departments and agencies comply with Treasury Board regulations, directives and guidelines; the effectiveness of Treasury Board and departmental controls in ensuring efficient use of funds allocated for travel and relocation; and the adequacy of the disclosure given to these expenses in the Public Accounts.

The records of six major departments were examined at their headquarters, regional and district offices. A random selection of 100 files for employees at various levels in each department led to examination of more than 4,200 claims.

Although the Estimates and the Public Accounts do not disclose travel expenses, we estimate that in 1975-76 they exceeded \$200 million and that the departments selected for examination accounted for 32% of this amount.

In all the departments examined Treasury Board regulations, directives and guidelines were either inconsistently applied, even within departments, or substantially ignored, as were Sections 26 and 27 of the Financial Administration Act that are intended to protect the Consolidated Revenue Fund from improper charges. Our study revealed little or no effort to ensure the most efficient use of travel funds.

Detailed observations and recommendations resulting from this study have been forwarded to the Treasury Board and to the appropriate departments. We shall be monitoring the action taken to correct the deficiencies reported.

10.2 Authorization to travel. The Treasury Board Travel Directive describes the rules, standards, procedures and rates or allowances that apply to government business travel but does not require written pre-authorization for trips.

Each trip should be authorized in writing in advance to ensure that all travel is justified, to control travel expenditures effectively and to keep such expenditures to a minimum. Any deviations from either the Travel Directive or the pre-authorization should be satisfactorily explained and approved in writing.

10.3 Pre-audit of claims. The extent of the pre-audit of claims varies between, and even within, departments. The pre-audit is weakened by the lack of independence of audit staff and the unavailability of certain data, such as standard mileages, times of arrival and departure, ticket stubs for prepaid fares and other vouchers or receipts required to pre-audit the claims effectively.

The scope and extent of the work to be carried out by pre-audit

staff should be standardized for all government departments and the Treasury Board should define and establish by regulation the standard documents and written information required to support all claims and any deviations from the Travel Directive.

A system should be developed within departments for reporting to top-level financial management any instances of non-adherence to regulations and procedures governing travel.

10.4 Central Travel Ace. Contrary to the Travel Directive, the Central Travel Service of the Department of Supply and Services is not always used by departments to secure transportation and accommodation at locations where it is available. Moreover, some departments use charge cards extensively instead of using the Service. Adequate internal controls are lacking in many departments with respect to billings from Central Travel Service, resulting in failure to recover some non-allowable expenditures.

Departments should be required to set up a system of internal control over billings received from the Central Travel Service to ensure that tickets purchased and charged are for transportation on authorized trips only and that no extra costs are incurred for personal trips or stopovers.

10.5 Travel air. Air fares were paid for trips for which no travel claims were submitted. There was usually no evidence on file of the need to travel first class. Weekend surcharges and extra charges for stopovers were paid without question and in a few instances recovery was not made for the unused portions of tickets.

To overcome these problems, claims should be submitted for all trips to ensure that the trip was properly authorized, and stubs for commercial transportation should be attached to claims so that it can be readily determined whether extra costs were incurred because of unauthorized stopovers or vacations taken in conjunction with a trip, and whether recovery was made if part of a trip was cancelled.

10.6 Mileage rates for privately-owned vehicles. The rates payable are substantially higher for privately-owned vehicles used for travel at the employer's request and are subject to reduction after 4,000 and 8,000 miles. There is seldom evidence of use at the employer's request although reimbursement is usually at the higher rate. Further, there is no approved guide for checking the mileage claimed. Numerous instances were noted of vehicles driven to destinations beyond 200 miles with no consideration given to the additional costs involved.

The Travel Directive should indicate how mileage claims are to be verified and claims for mileage between major centres should be identified separately from those within a metropolitan area.

If a request in writing for an employee to use his own car is not obtained before the trip, he should be reimbursed mileage at the rate payable when the employee requests permission to use his car, with the

cost restricted to that of a comparable trip by commercial carrier. When the employer authorizes the use of an employee driven vehicle and the destination is more than 200 miles away, the reason for its use should be indicated on the trip authorization. Expenses should be limited to costs of commercial transportation, where adequate commercial transportation is available and convenient, and an employee who wishes to use his own vehicle should be required to take annual leave for any excess travel time involved.

10.7 Use of privately-owned vehicles on government business. The Treasury Board's Policy and Guidelines for the Acquisition and Use of Motor Vehicles in the Government of Canada states that purchase of a publicly-owned vehicle is normally warranted when a need is identified that will involve driving more than 8,000 miles annually on government business. Numerous instances were noted where mileage for privately-owned vehicles greatly exceeded the limit.

Departments should be required to report to the Treasury Board on or before April 1 of each year the number of employees whose estimated travel on government business in their privately-owned vehicles will exceed 8,000 miles, indicating why the purchase of a government vehicle is not warranted.

In addition, a report showing the number of employees who have driven their privately-owned vehicles more than 8,000 miles in a year on government travel and the actual cost of the use of the vehicle should be submitted to the Board within 60 days after the end of each fiscal year.

10.8 Travel rented vehicles. Vehicles were rented without prior approval and in circumstances where it was not economical. To control rental of vehicles effectively the trip pre-authorization should state the reason for car rental, including any justification for the rental of a full-sized rather than a compact car.

10.9 Travel by taxi. Although taxis may be used when such transportation is justifiable and reasonable, our audits disclosed many irregularities including instances where employees claimed for the cost of taxi trips that were charged directly to the department. Control over the use of taxis was generally poor.

Our understanding is that a January 1976 Treasury Board circular letter requiring a review of internal control over taxi use and the maintenance of logs containing specified information has led to a significant improvement in the situation. Senior financial management in departments should ensure full adherence to these instructions.

10.10 Accommodation. Contrary to instructions in the Travel Directive, numerous claims for hotel accommodation at rates higher than the agreed rate listed in the Hotel Index were accepted without evidence that a satisfactory explanation had been obtained.

10.11 Meals and incidentals. Although Treasury Board has established composite allowances for meals and incidentals in Canada

and the United States, actual expenses are to be claimed for foreign travel unless the Board has specifically authorized a special per diem allowance. Composite allowances have been established by some departments without Treasury Board approval.

Treasury Board should establish and revise periodically the composite allowances for meals and incidental expenses payable in all major cities outside of Canada and the United States. These allowances should be based on the range of rates published by the Department of External Affairs. Special Treasury Board authority should be obtained for composite allowances payable at other locations, or claims for meals should be restricted to the maximum of the range established by External Affairs.

Expenses for meals in excess of the allowances specified in the Travel Directive have been approved without explanation or supporting receipts.

Reference has been eliminated from the Travel Directive to specified hours limiting meal periods. As a result, meals at unreasonable hours are now being claimed. Meals en route are often claimed in addition to those provided on the aircraft. It is often not possible to determine whether there is entitlement to the meals claimed, since copies of commercial transportation vouchers no longer need be attached to claims and times of arrival and departure do not have to be shown.

Any claims for meals exceeding the amounts specified in the Travel Directive should be supported by receipts with the circumstances necessitating the excessive costs indicated.

The Treasury Board should include in the Travel Directive the hours limiting meal periods or require every department and agency to establish meal periods applicable to its employees in travel status. Times of departure and arrival should be shown for the beginning and end of a trip and for stopover points en route, supported by ticket stubs when travel is by commercial carrier.

10.12 Extended temporary duty. When an employee is required to spend periods of more than two months in travel status at one location, the Travel Directive states that appropriate arrangements shall normally be made by the employer for suitable self-contained accommodation obtainable at weekly or monthly rental rates and the employee should not occupy the usual hotel-type room, with its more expensive daily rate, for more than seven days. This Directive is not being consistently followed.

The Travel Directive should be amended to make it mandatory for the employer to arrange for accommodation obtainable at weekly or monthly rates for employees required to spend more than two months in travel status at one location, or give prior written approval to arrangements made by the employee.

10.13 Relocation expense. The Treasury Board Relocation

Directive provides for reimbursing reasonable and necessary expenses an employee and dependent members of the family incur in relocating from one place of employment to another. The various parts of the Directive detail the expenses for which an employee may be reimbursed.

Many of the files examined were incomplete even though several months had elapsed since the date of relocation. In general it appears that the provisions of the Relocation Directive are not clearly understood, particularly with respect to interim accommodation.

Departments should be required to have on file written authorization for the relocation and the documentation of all expenses incurred, including the prescribed forms used in calculating the non-accountable allowance and billings for shipment of household effects. In the case of an appointee, the types of expenditures payable should be clearly specified and authorized.

10.14 Travel fund In all six departments included in the review, we found that many advances, both trip and standing, exceeded anticipated expenses Those not accounted for by the due dates totalled more than \$250,000. Advances are held by employees on educational leave and extended language training and by former employees who have transferred to other departments, been struck off strength or have died.

Some departments that have not obtained standing advances from the Department of Supply and Services' working capital advance account have effectively created a working capital advance fund out of appropriations by charging these advances to the same appropriation as trip advances, by-passing the existing governmental control system. Others do not maintain the required records of advances, expenditures made therefrom, and control accounts.

Overdue trip advances and unwarranted and excessive standing advances should be recovered through deductions from pay if requests for recovery are ignored beyond a 30-day period.

Procedures should be implemented to ensure that employees refund any advances before they proceed on extended periods of leave or language training and that the amount of any outstanding accountable advance is recovered before the issue of the final pay cheque when employees are struck off strength, resign or die.

10.15 Hospitality Instances were noted where expenditures for hospitality exceeded the maximum amounts specified in the Treasury Board Policy and Guidelines on Hospitality. In addition, travel expenses have been inflated because of numerous hospitality charges included in travel claims and incorrectly coded to travel.

Claims for hospitality should not be accepted unless the circumstances, the type of function and the number of persons entertained are clearly indicated and the approval of the Deputy Minister has been obtained where required.

10.16 Departmental charge cards. Some departments issue charge cards to employees which are used for commercial transportation, car rentals, hotel accommodation and meals. Although most departments restrict the issue of such cards to senior officials, several hundred cards were in circulation for one department.

Charge cards should be restricted to persons required to travel on short notice or when Central Travel Service and normal cheque-issuing facilities are not available. Internal control procedures should be established to ensure that charge cards are not used for personal expenses.

INTERNAL CONTROLS IN PAYROLL SYSTEMS

11.1 Introduction. The Audit Office conducted a government-wide review during the year to assess the adequacy of internal controls in payroll systems.

Responsibility for payroll is divided between the various government entities and the Department of Supply and Services. The departments, agencies and Crown corporations using the payroll services of the Department of Supply and Services maintain the individual employee information used to determine salary or wage payments and the financial data needed for control and accounting purposes. The Department of Supply and Services processes payroll action forms originating from departmental, agency and corporate records and produces payroll cheques and other payroll outputs.

Payroll systems cover in excess of 350,000 employees, more than 200,000 of them being paid from Ottawa. Payroll costs amount to about \$5,000 million annually, approximately 40% of governmental operating expenditures. Our study covered a sample of departments and DSS pay offices.

11.2 Audit observations. The following comments apply to all users of the payroll systems:

-We were unable to discover an instance where an official with budgetary responsibilities reviewed individual pay charges periodically. In each responsibility centre a responsible official should review and approve payroll charges.

-Responsibility for authorizing direct pay input forms under the various sections of the Financial Administration Act has been delegated to personnel officers. Commitment authority and payment authority should be delegated to financial officers and spending authority to line managers to provide adequate internal control over these forms.

-The direct pay input form is not compatible with the computer pay program and must be transcribed to other program-compatible forms. The batch control form designed to control input, processing and correction procedures has proved ineffective and is not used as a control document. Either the present program or the pay input form should be amended to eliminate the present duplication of effort which increases probability for error and makes control more difficult. Immediate action should be taken to implement some form of input control to ensure proper processing of all documentation submitted by departments.

-Order in Council PC 1969-886 of April 29, 1969, established the responsibilities of the Department of Supply and Services respecting the disbursement of pay including "the verification of pertinent data in personnel documentation submitted to paying offices to initiate,

change or terminate pay entitlements and deductions". To perform the verification process, each pay office must maintain a complete pay file for each Public Service employee whose pay it processes. When errors are found on the input forms, pay office clerks make corrections instead of returning the forms to the originating department. This additional verification and accumulation of employee files is redundant, providing departments adequately fulfil their responsibilities under the Financial Administration Act. Furthermore, the practice of amending documents after authorization nullifies the internal control associated with the procedures required by the Financial Administration Act since amendments are a departmental responsibility.

-The Department of Supply and Services direct pay input form was designed to provide for accumulation of a variety of personnel information, including payroll. Most errors in processing the forms were in fields other than payroll. Rejection of the forms for reasons not directly related to the payroll procedure results in unnecessary delays in the issue of some pay cheques, besides creating additional input control problems. Provision should be made for the computer to accept all proper payroll input for the issue of a pay cheque, while rejecting incompatible personnel information.

At present Treasury Board and the Department of Supply and Services are jointly conducting a comprehensive study of payroll systems. We understand this study is progressing favourably and intend to monitor the implementation of its recommendations.

MANUFACTURERS' SALES TAX

12.1 Introduction. The Excise Branch of the Department of National Revenue is responsible for administration of the Excise Act R.S. c. E-12, and the Excise Tax Act R.S., c. E-13, under which manufacturers' sales tax is levied. It comprises a Branch Headquarters in Ottawa, 11 regional offices, 22 district offices and three sub-offices.

A study conducted by the Audit Office indicated that the Branch is performing reasonably well within the limits of its available resources, although its over-all efficiency in the administration of the tax could be improved in a number of areas. Branch officials are aware of the potential improvements and have indicated that action has already been initiated to correct many of the weaknesses reported. We shall monitor the action taken by the Department to improve the administration of the tax.

To enhance the effectiveness of the administration of Manufacturers' Sales Tax, our detailed report to the Branch highlights a need for increased leadership and functional direction by Branch Headquarters in the areas of:

- audit development,
- audit training,
- audit programs, and
- technical interpretations

The first paragraph of each of the following sections contains our comments while the second contains the Department's action plans.

12.2 Audit development. The quality of the audit function would be enhanced by developing and implementing national standards for the conduct of the audit, working paper presentation, audit file review, supervision and audit quality control. It is a Branch Headquarters responsibility to develop those standards and to exercise functional authority on their implementation by the regional and district audit units.

The Branch is already engaged in strengthening its functional direction by reorganizing its Headquarters audit group to provide more accountability and by forming an Audit Development Committee to examine the area of professional development as it applies to Branch audit needs. The Committee is developing a macro plan of its program and has already undertaken specific projects in certain areas. The plan calls for the completion of all projects by June 1, 1977.

12.3 Audit training. There is a need for a systematic and comprehensive training program, incorporating on-the-job experience, which would go beyond existing technical training related to the application of the Excise Tax Act and would include professional audit training to improve investigative and analytical skills of new and

current staff and management training for supervisors. Furthermore, to broaden technical knowledge, a systematic staff rotation program among the audit teams, the technical service unit and the technical interpretations unit is recommended.

In addition to including the training aspects in the Audit Development Committee's terms of reference, Branch Headquarters is currently giving specific attention to training priorities. A comprehensive program will be drawn up by December 31, 1976, taking into consideration identified weaknesses.

12.4 Audit programs. In general our detailed report suggested added emphasis on the applicability, completeness and uniformity of audit programs, a standard reporting system at all levels, formal policy directives on new and on-going programs, criteria and guidelines for selection and frequency of audits, and standard audit procedures.

Branch Headquarters will provide additional functional direction by means of policy directives or manuals, and by monitoring the introduction and implementation of new programs as well as on-going ones. The Department expects to complete these projects by December 31, 1976.

12.5 Technical interpretations. Technical interpretations precedents are summarized on ruling cards available to technical interpretations and audit staff when making decisions. The ruling card index should be expanded to include all sources of reference material besides the complete rationale behind each ruling. Furthermore, our study indicated the need for quick updating of the cards, monitoring of rulings by the Policy Maintenance Unit, periodic national meetings of regional officers responsible for technical interpretations, and finally, for a planned rotation of staff between the regions and the Policy Maintenance Unit.

Branch officials have basically agreed with the observations on technical interpretations and improvements in all areas are progressively being implemented and should be completed by mid-1977.

GRANTS AND CONTRIBUTIONS

Introduction

13.1 The grants and contributions study seeks to evaluate the adequacy of financial management and control pertaining to grants and contributions in all departments and agencies of Government for which the Auditor General has auditing responsibilities.

The following aspects were considered in developing the study work program which provided for an examination of:

- the legislation and Treasury Board regulations, policies, directives and guidelines related to grants and contributions and the extent of compliance therewith;
- the adequacy of internal control systems and procedures relating to grants and contributions;
- a sample of cases to establish whether adequate control procedures are adhered to in carrying out the grant and contribution activity;
- the type and extent of reporting structure;
- the extent to which grants and contributions are monitored and audited by internal, operational or independent audit groups; and
- the extent of a functional or line responsibility for grant and contribution activities within departments and agencies.

This comprehensive review, planned on a multi-year basis, will eventually cover grant and contribution activities included in approximately 80 programs in all departments and agencies.

This Report deals with the one agency and three departments covered in the last year:

Canadian International Development Agency Department of External Affairs Department of Industry, Trade and Commerce Department of Regional Economic Expansion

Detailed reports have been issued to the agency and each department outlining our observations and recommendations. The reports have been discussed with senior officials and corrective action was taken immediately in many instances. The following condensed reports highlight points of interest and contain observations relating to matters of internal control.

If warranted by the audit findings, a general report will be prepared next year covering multi-departmental or government-wide issues once the coverage has been sufficient to identify properly significant aspects subject to observations.

Canadian International Development Agency

13.2 The functions of the Canadian International Development Agency (CIDA), originally the Economic and Technical Assistance Branch of the Department of Trade and Commerce, were transferred to the External Aid Office of the Department of External Affairs in 1960. In 1968 CIDA attained its present status as a Department within the meaning of the Financial Administration Act.

Three branches handle CIDA's program for grants and contributions: Bilateral Programs, Multilateral Programs and Special Programs, each headed by a vice-president. They have responsibility for eight sub-programs, as follows:

- International Development Assistance
- International Food Aid Program
- Grants to International Organizations for Multilateral Assistance Programs
- International Emergency Relief
- Grant to International Development Research Centre
- Scholarships to Canadians for Studies Related to International Development
- Contributions to Development Assistance Projects of Canadian and International Organizations
- Incentives to Canadian Private Investment in Developing Countries

Although CIDA's available funds for grants, loans and advances exceed \$1,000 million annually, information received from the Agency indicates that since 1974-75 the Treasury Board has imposed a ceiling each year on disbursements, as follows:

1974-75:	\$733 million
1975-76:	\$903 million

13.3 International Assistance Account. A special account known as the International Assistance Account, to provide economic, technical and educational assistance to developing countries, was established within the Consolidated Revenue Fund by External Affairs Vote 33d, Appropriation Act No. 2, 1965, 1964-65, c. 50. The account is increased each year by the amount voted for grants under the International Assistance allotment and is decreased by allowable expenditures.

An analysis of disbursements charged to the account in 1974-75 and 1975-76 shows that in addition to payments made for economic, technical and educational assistance projects, including related administrative expenditures, significant disbursements have been made for food aid, multilateral assistance and international emergency relief. As a result, expenditures appearing in the Public Accounts for these purposes under specific allotments do not represent the total amounts expended for these programs.

The legislation governing the International Assistance Account should be amended to ensure meaningful disclosure of expenditures in the Public Accounts.

13.4 International Food Aid Program. Bilateral food aid is negotiated directly between CIDA and recipient countries whereas multilateral food aid is supplied through international organizations.

Implementing a bilateral food aid project involves a number of phases carried out by different responsibility centres. A lack of operational co-ordination has created confused situations, sometimes detrimental to the food aid program. During the audit many shipping problems were noted in some regions. Although we were not able to estimate a percentage of loss incurred in transportation, exchanges of correspondence between CIDA and heads of missions in those regions make it evident that the quality of the food product at the point of destination is sometimes below standard, at times to the extent of complete deterioration. To improve performance, a project coordinator should be responsible for all stages of food aid projects, and CIDA and the Canadian Commercial Corporation should study all aspects of food aid transportation.

One of the objectives of the food aid program is to provide economic and technical assistance indirectly to recipient countries, and to this end Canada endorses an agreement with Colombo Plan countries whereby a recipient country must establish a counterpart fund to which is credited an amount equivalent to the value in Canadian funds of the food products, plus any costs of transportation. These funds can only be expended for economic and technical development projects as approved by the Minister of External Affairs.

Since the system does not easily allow for adjustments when goods are given out free or are sold at much lower prices than recorded in the books, recipient countries are required to keep an unrealistic set of accounts. In addition, since recipient countries must charge to the counterpart funds the cost of the project as approved by the Minister, they are often compelled to contribute to a project beyond their capabilities.

The basic principles underlying counterpart funds should be re-evaluated and the accounting methods reviewed to enable Colombo Plan countries to live up to the conditions of agreements and proceed with economic and technical development projects in accordance with the objectives of the food aid program.

13.5 Grants and contributions agreement A "Memorandum of Understanding" outlines terms and conditions applying to payments of grants or contributions for projects of bilateral assistance and a "Letter of Agreement" for contributions to an organization. Although both parties are expected to abide by their commitments our examination of a sample of agreements revealed some causes for concern:

-Some general memoranda of understanding dealing with technical cooperation date back several years and do not indicate a limit either

to the time or to the resources the Canadian Government intends to allocate.

-Certain countries do not honour commitments concerning their financial participation in a project with the result that CIDA incurs additional expenditures and increased project costs, sometimes of a substantial nature.

-Some contributions are awarded to organizations by a letter specifying the related conditions, but CIDA does not require that the letter be signed and returned. Consequently there is no formal commitment by the beneficiary.

13.6 Regulations, rules and conditions. The regulations and conditions prescribed by the Governor in Council and the Treasury Board concerning the payment of grants by CIDA are not always complied with, as illustrated by the following cases:

-Trainees' income tax is paid in addition to compensation even though this expenditure is not authorized by the regulations of the Governor in Council.

-The regulations require that the Treasury Board approve salary payments to experts in excess of \$25,000 per annum. Extra benefits, not covered by the regulations, have been granted by CIDA, indirectly raising the total compensation beyond \$25,000 while keeping the recorded salary within the limit. To prevent this type of situation, limits specified by the Treasury Board should include salaries, benefits and allowances.

Rules and conditions for approving contributions to non-governmental organizations are contained in a Treasury Board Minute issued in 1967 and have been amended from time to time to broaden the program's scope and add new activities. This now means that six Treasury Board documents contain the guidelines dealing with limits of approval and other conditions governing the program. Arrangements should be made for the consolidation into one document of all authorities and conditions applicable to contributions to non-governmental organizations.

13.7 Contracts. Important construction projects abroad are sometimes supervised by firms of architects or engineers who, according to a general contract, act as on-site project managers, awarding contracts and directing the undertaking. This delegation of authority can involve the award of field contracts for more than \$2 million without specific approval or review by CIDA. CIDA should review in detail the responsibilities entrusted to contractors responsible for work in developing countries and should study the contract forms used to ensure satisfactory control over public funds spent abroad.

Contracts that CIDA awards to firms for supervision and for performance of work, provide for advance payments. However, the total amount of the advance is not always mentioned in the authorizing

Treasury Board Minute. In one instance, it was noted that advances greater than the amounts provided for in the contract were paid to the contracting firm and interest of \$63,600 earned on advances was added to and expended for the project, without authorization. Contract submissions to the Treasury Board should clearly stipulate the advance payments to be made to the contractor.

13.8 Trainees' obligations. Candidates chosen to undertake a training program in Canada or elsewhere, must sign a document undertaking to return to their respective home countries after completing their studies. Frequently this commitment is not respected, creating embarrassment for Canada and the trainee's home country. A firm contract containing a reimbursement clause in case of failure by trainees to return to their home countries should be considered.

13.9 Field audit. The Operational Review Division is responsible for the operational field audit of projects carried out in developing countries. Because of a shortage of staff, the Division audited only six projects, in 1974-75 and only nine in 1975-76, out of more than 1,000 projects. The resources of the Division should be increased in order to expand the field audit coverage significantly.

CIDA should comply with Treasury Board guidelines specifying that contributions are subject to audit. Certified financial statements are required from nongovernmental organizations which have received CIDA's contributions. However, these statements do not separate the costs of projects involving CIDA's assistance from the total expenditures, making it impossible to determine the real cost. Only rarely were audits made of recipients' records.

13.10 Internal financial controls. Details of our findings and recommendations pertaining to internal financial controls have been reported to the Department. The most significant points raised were:

- Commitments in excess of disbursement ceilings. Financial reports for 1975-76 show cases of overcommitments of varying magnitude up to 300%. Contracts for international development assistance were signed before obtaining certification of the availability of sufficient unencumbered balances.

- Delegation of financial authorities. The chart of delegation of financial authorities does not indicate specific delegation of spending authority, maximum amounts for approval of grants and contributions, and financial authority delegated to missions abroad. The specimen signature cards do not show the position or function of signees. The cards are destroyed and replaced annually, thus making it difficult to verify the validity of signatures on documents. Temporary delegation is sometimes effected without the official consent of the competent authority.

- Financial controls abroad. CIDA's representatives and members of missions abroad make various on-site project payments. The audit of some 1974-75 transactions revealed a number of cases where such important expenditure controls as claim support documents and properly

authorized invoices were missing. Purchases are sometimes authorized after the fact.

-Requisitions for payments. Cheque requisition forms are prenumbered but no control is exercised on the numerical sequence. No cheque requisition batch control is made prior to certification for payment under Section 26 of the Financial Administration Act and no independent examination is performed of signatures under that Section and for spending authority under Section 27, resulting in a serious internal control weakness.

-Journal entries. Journal entries are made to correct commitment or coding entries, to transfer funds from one account to another, and to account for interdepartmental charges, including charges from the Department of External Affairs. The forms used to initiate a journal entry are not countersigned by the responsibility centre which authorized the original accounting entry. The explanations and justifications on the forms are sometimes incomplete or insufficient.

External Affairs

13.11 Aside from a minor contribution under the appropriation for the World Exhibition Program, provision for the payment of grants and contributions by the Department of External Affairs is contained within Vote 10, an element of the Canadian Interests Abroad program. Grants under this program seek to promote relations with foreign governments and intergovernmental institutions and to support information activities and cultural relations. Contributions consist mainly of fees for Canada's membership in international organizations.

Ten bureaux of the Department are involved in administering grants and contributions. In general, each bureau assigns to a desk officer the responsibility for maintaining liaison and co-ordinating information and activities with the recipient organizations.

Other government departments have a significant involvement in administering a number of grants and contributions, but the Department of External Affairs remains responsible for all financial matters related to each grant and contribution.

13.12 Parliament control over assessed contributions. No distinction is made in the Estimates listing of proposed contributions under Vote 10 between those of a voluntary nature and those which represent the anticipated annual cost to Canada of its membership in international organizations. The reporting in the Public Accounts follows the same pattern. Consequently the aggregate cost of such membership and the extent to which the anticipated cost is sometimes greatly exceeded by reality is not readily discernible. Since assessed contributions, according to the Parliamentary Vote 10 wording, are payable "in the amounts and in the currencies in which they are levied. . . notwithstanding that the total of such payments may exceed the equivalent in Canadian dollars. . . .", additional amounts which are necessary to defray increased assessed costs of Canada's membership in international organizations, do not require

specific parliamentary assent. As a result, the expenditures for assessed contributions exceeded the Estimates by \$3.9 million in 1974-75 and \$9.0 million in 1975-76. For more effective parliamentary control over this appropriation, the Vote wording should be modified to require Parliament's assent for additional funds through the submission of Supplementary Estimates.

13.13 Disclosure in the Estimates and Public Accounts Unexpended balances of contributions were transferred in 1974-75 and 1975-76 to a "special reserve (or lapsing) allotment" which was used, following Treasury Board approval, to fund new contributions. Expenditures of \$1,109,000 in 1974-75 and \$558,000 in 1975-76, representing nine additional contributions the first year and ten in the second, were funded from the special allotment.

13.14 Contrary to normal departmental practice, these contributions were not listed separately in the Main or Supplementary Estimates or in the Public Accounts. Thus, at no time before or after payment of these contributions was Parliament informed of the amounts of the individual contributions and the names of the recipients.

13.15 Estimates and budget control. A budget transfer of \$10,000 was made from the assessed contribution for the United Nations Organization allotment in 1975-76, to fund a new contribution approved by the Treasury Board. The allotment from which the transfer was made was over-expended by \$3.1 million at the year-end.

The amount of \$4,000 shown in the Estimates for the single contribution under the World Exhibitions Program was over-expended by \$1,000 in 1974-75 and \$2,478 in 1975-76. To offset these over-expenditures the Department used other funds within the Vote without Treasury Board approval. The action was contrary to a 1969 directive of the Board that each grant and contribution item listed in the Estimates constitutes a separate control allotment, with transfers requiring Board approval.

13.16 Internal financial control. The Department has been provided with details of our findings and recommendations on internal financial controls. The most significant points raised were:

- Spending and payment authorities. Instances have been noted where spending and payment authorities are being exercised by the same officer despite the recommendation of the financial management and control study included in my 1975 Report. Spending and payment authority should not be exercised by the same officer for the same transaction.

- Payment processing procedures. The files maintained for each allotment by the Finance Division, which normally contain copies of cheque requisitions, request memoranda and supporting documents for current and previous fiscal years, did not always follow a chronological order or contain all the required documents.

The Department's practice of not properly stamping cancelled cheque

requisition forms as "cancelled" or purging them from files made reconciliation of certain transactions difficult. Furthermore, changes were made to amounts originally shown on cheque requisition forms without documentation to explain the reason or the authority for change. There were other instances where these forms had incomplete information on the exchange rate, foreign currency totals and the fiscal year.

The Financial Administration Manual should document the procedure for pre-audit, preparation, processing and cancellation of the cheque requisition form. It should show clearly the supporting documents that must be produced before a payment can be processed.

Any change other than for foreign currency in the total on a signed cheque requisition form should be documented with a dated explanatory note and the re-authorization of the person who originally approved the requisition. Changes in these forms before approval should be properly initialled.

-Guide for the administration of grants and contributions. There are no written guidelines that could be used by the different bureaux involved in the day-to-day administration of grants and contributions.

An administrative guide, presently under development, outlining the procedures for the review, evaluation, approval, monitoring, audit, and documentation of grants and contributions should be given first priority.

Industry, Trade and Commerce

13.17 An examination was made of all programs and activities within the Department of Industry, Trade and Commerce involving grants and contributions excepting those of the Standards Council of Canada and Statistics Canada. A general department-wide report and 17 detailed reports dealing with each of the various programs and activities were discussed with departmental officials. Reaction was positive and corrective measures were planned immediately in a number of instances where weaknesses and deficiencies had been disclosed. Our departmental audit team will be following up on the action taken.

Although the audit did not point to any major weakness, a number could become more consequential if not corrected. The following paragraphs focus attention on what we regard as the more important control deficiencies and include recommendations for remedial action.

13.18 Evaluating, processing and approving requests for assistance. The process of submitting, evaluating and approving contributions under many programs involves several divisions and branches. On the basis of discussions and an examination of submissions for a number of programs, we concluded that adequate procedures were followed in evaluating requests for assistance. However, since files and documents were sometimes in a number of locations, it was difficult to find all the documentation required to establish who had reviewed final statements and other material, and the extent of the review.

There should be better documentation, a control sheet for example, to ensure that all the necessary steps are taken in processing requests for financial assistance. The role and responsibilities of the offices, branches and divisions involved in each program should be more clearly defined.

An approval board or advisory committee is established for most programs to review and make recommendations on applications for assistance. Normally minutes are prepared for each meeting, and are considered and approved with any required changes at the next. However, in some cases minutes were not signed as evidence of formal approval and in other instances they failed to detail the projects which received approval. Our reliance on the minutes for approval of assistance was further complicated since copies of minutes of some meetings held elsewhere were not on file in the Department.

The minutes of all meetings of the approval boards and advisory committees should show the projects being approved and be signed by the chairman and secretary as evidence of their authenticity, and copies should be kept on file in the Department.

After an approval board or advisory committee approves a submission, any changes in scope or significant error in the submission should require the preparation of an amended submission for approval. In one instance the Advisory Committee for the Program for the Advancement of Industrial Technology approved a submission of \$97,500. Subsequently, the company involved presented a new request for \$351,400. A submission requesting approval of \$353,600 received Committee approval although it erroneously included part of the funds already committed on the basis of the original submission. This brought the total approved to \$451,100, although the financial analysis of the estimate recommended only \$379,800. In spite of what had been approved, an amended commitment requisition was prepared and approved in a further and different amount, \$383,000, without further reference to the Advisory Committee.

13.19 Agreements After a contribution is approved, normally an agreement or letter of agreement setting out the conditions to be met is sent to the applicant for his signature. In some instances, however, no such agreement or letter appears to exist. A contribution payment should not be made unless documented by an agreement duly signed by both parties.

The Guide on Financial Administration, which applies to departments generally, stipulates that signing authorities should be delegated to positions and not to individuals. Nevertheless, the standard forms for formal agreement with applicants do not provide for the title of the officer signing for the Department. As a result the signing officer's title appears only rarely on agreements. It has been found difficult to identify signing officers, particularly when signatures are not distinct. The name and title of the signing officer should be typewritten on each agreement.

13.20 Monitoring of projects and audit of recipient claims. Certification as to entitlement to payment under Section 27 of the Financial Administration Act is provided by a project officer or on his recommendation by the Director/Chief of the Industry Sector Branch.

In addition to the involvement of a project officer in approving progress claims for payment, the Financial Services Branch through the Financial Analysis Directorate is required in some instances by a 1970 directive of the Department "to audit claims for payment and project expenditures based on guidelines provided by the Program Office". Before approving a project, the Financial Analysis Directorate evaluates the cost accounting records and systems of the company involved.

Most assistance agreements provide for monitoring by the Department through progress reports, consultant studies and suitably supported standard progress claims. It was evident from discussions with responsible officers that the submissions are used for monitoring purposes, but often we found it difficult to evaluate their effectiveness since required documentation, progress reports and advisory committee minutes were unavailable. In some cases files lacked documents essential to the purposes, and in others no files could be produced. Consequently, it was difficult to establish definitely what procedures had been followed and what controls had been exercised.

The examination by the Financial Analysis Directorate of progress claims does not constitute an audit in the accepted sense, and there are no guidelines to dictate the extent of its examination. It is apparent that the examination does include checking the arithmetical accuracy of the amounts shown on progress claims and an over-all appraisal of the claims to gauge whether they appear reasonable. However, the files do not indicate details of the work performed by the financial analyst in making his assessment.

Although the Financial Analysis Directorate generally makes a final examination of each project after completion, the project may have run for several years. This circumstance points up the importance of the steps taken in the interim by the project officer and the financial analysts.

Formal documentation, such as a monitoring control sheet, should exist to show that recipients have provided all required reports and other material, and that projects have been monitored and evaluated on an interim and final basis by the branch or office concerned, or both.

To that effect the Financial Analysis Directorate should make a special study of the procedures that project officers and financial analysts should follow, and spell them out specifically to avoid any significant deficiencies in the approval process.

A standard audit report should be introduced and copies sent to the Financial Services Branch, the branch concerned, and the Program Office where applicable. The project audit should include the

examination of a representative sample of progress and final claims and a periodic review of accounting records of companies until projects are terminated.

13.21 Internal financial control. Our detailed reports to the Department identified a number of inadequacies relating to internal financial controls as outlined below:

-Signing authorities. The present departmental document covering the delegation of signing authority in the area of Administration, Operation and Maintenance for purposes of Sections 25 (commitment authority), 26 (payment authority) and 27 (spending authority) of the Financial Administration Act specifically excluded authority for grants and contributions when it was introduced in 1974. The intent was to provide for this in a separate document. Although the necessary steps have been taken to meet this need, final approval is still pending. In the interim the general authority has been used as a guide for signing authorities for grants and contributions, although it does not strictly apply. The document respecting signing authority for grants and contributions should be made official and implemented forthwith.

-Commitment and decommitment of funds. The commitment requisition prepared following approval of a contribution is not a valid certificate of commitment since it is not certified in accordance with Section 25 of the Financial Administration Act. Furthermore, no commitment requisitions are processed for the Canadian Government Office of Tourism and other miscellaneous programs.

-Time lags of a few weeks to several months occur between the approval of contributions and the preparation of commitment requisitions.

-In a number of instances under the Defence Industry Productivity Program and the office of Export Programs and Services, unspent balances at the termination of projects have not been decommitted to increase amounts available for new applications.

-Year-end payments. A total of \$18 million in contribution payments under the Defence Industry Productivity Program was made in March and April 1976 as a charge to the 1975-76 fiscal year. This amount represents approximately 47% of the total outlay for the purpose during that year. Similarly, \$8.6 million was recorded in the final months, approximately 31% of the total contribution expenditure for the year under the Program for the Advancement of Industrial Technology.

-Although the terms of agreement require companies to submit monthly progress claims, delays of up to six months sometimes occur. Also, a branch may fail to act promptly in processing claims and find itself compelled to handle an unduly heavy work load as the year-end approaches. A lessening in the effectiveness of internal control measures could be a natural consequence. Companies should be required to comply with the terms of their agreements and submit progress claims regularly. Similarly, branches should process claims as

promptly as circumstances permit.

Regional Economic Expansion

13.22 The Department of Regional Economic Expansion is responsible for administering socio-economic programs in areas requiring special measures to improve opportunities for and access to productive employment. Its participation in the regional economic expansion initiatives is mainly expressed in terms of contributions to shared-cost projects with the provinces, incentives, and loans or loan guarantees.

In April 1975 the Department adopted a decentralized form of organization, establishing four regions each headed by an assistant deputy minister reporting directly to the Deputy Minister in Ottawa. Regional Offices (Maritimes, Quebec, Ontario and Western) are responsible for provincial offices located in each province within their Region.

13.23 Interim financing. Shared-cost agreements between Canada and the provinces provide for assistance by Canada, if a province so requests, in interim financing of projects. The nature and extent of this assistance specified in the terms of individual agreements varies but existing agreements generally provide that it be on the basis of:

- a specified percentage of Canada's share of claims submitted, based on estimates of costs incurred, certified by a senior officer of the province; or

- a specified percentage of Canada's share of funds required for a specified period or by a specific contract, based on the forecast of the cash requirement for that period, taking into account the status of the interim payment for the preceding period or the estimated amount payable under a specific contract.

For both types a province must account for each interim payment by submitting to Canada, within a specified period following such payment, a detailed statement of the actual costs incurred by the province, certified in a manner satisfactory to Canada. Any discrepancy between an interim payment and the provincial outlay must be adjusted promptly.

Our audit revealed a number of instances of failure to adhere to the interim financing terms of individual agreements. The deviations centred around the period within which a detailed and certified statement of actual costs incurred during a specified period must be submitted by a province for comparison with the interim payment. Failure to comply with that requirement makes it impossible to reconcile interim payments with actual costs, leading to the possibility of interim financing in excess of provincial requirements, as illustrated by the following example:

- Canada made an interim payment of \$330,000 to Ontario on March 14, 1975, with respect to a project undertaken by the Province under

the Subsidiary Agreement. This payment was not accounted for in the following quarter as the agreement stipulated and was still outstanding when an additional interim payment of \$693,000 was made in December 1975. A claim for costs of \$169,000 for the period March - December 1975 was received in March 1976, leaving a balance of \$854,000 to be accounted for. Nevertheless, on March 15, 1976, an additional interim payment of \$1.7 million was made.

In a number of cases, interim financing payments not fully accounted for by the required documentation and certificates, were charged to the appropriation as payments rather than as advances.

13.24 Audit of contribution Treasury Board Circular No. 1971/18, requires an audit of contribution payments to satisfy the donor that reimbursements or payments in connection with a shared-cost project are in accordance with agreements.

The audit of contributions is performed by the Audit Services Bureau on behalf of the Department. A review of the audit coverage at the time of our special study revealed that a significant number of payments in past years had not yet been audited.

The Department should develop and enforce audit policies that comply with Treasury Board Circular No. 1971/18.

13.25 Internal control A number of weaknesses pertaining to internal financial controls have been brought to the attention of the Department and, in most cases, were corrected immediately. The most significant cases related to:

- Non-existent or improperly authenticated specimen signature cards for delegation of financial authority.

- Exercise of spending and payment authority by the same person for a particular payment.

- Certification of payment request before obtaining confirmation of the availability of a sufficient unencumbered balance.

- Non-existence of a separate record and an independently maintained control account for accountable interim payments.

AUDIT OPERATIONS

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FINANCIAL STATEMENTS OF THE GOVERNMENT OF CANADA FOR THE FISCAL YEAR ENDED MARCH 31, 1976, AS PREPARED BY THE RECEIVER GENERAL AND INCLUDED IN THE PUBLIC ACCOUNTS OF CANADA

EXCHANGE FUND ACCOUNT STATEMENT OF ASSETS AND LIABILITIES AT DECEMBER 31, 1975

Summary of Revenue by Main Classification and Department for the Fiscal Year Ended March 31, 1976

Section Volume II) Department		Tax revenue \$	Return on investments \$	Postal revenue \$	Refunds of previous years' expenditures \$
1	Agriculture		114,213,954		608,378
2	Communications		2,840,921		89,747
3	Consumer and Corporate Affairs				14,369
4	Energy, Mines and Resources	1,062,930,799	16,832,270		1,633,835
5	Environment		2,093,410		777,714
6	External Affairs		1,647,392		877,280
7	Finance	468,113	1,157,129,629		5,235,000
8	Governor General and Lieutenant-Governors				15,831
9	Indian Affairs and Northern Development		6,799,175		1,149,331
10	Industry, Trade and Commerce		61,617,271		4,985,462
11	Justice				70,639
12	Labour				21,796
13	Manpower and Immigration		105,354		3,862,814
14	National Defence		983,339		4,007,527
15	National Health and Welfare				1,524,375
16	National Revenue	25,233,429,859	62,750		230,503
17	Parliament				80,544
18	Post Office			444,025,491	406,916
19	Privy Council				15,235
20	Public Works				
21	Regional Economic Expansion		25,932,948		6,320,310
22	Science and Technology				300,264
23	Secretary of State		40,635		4,029,784
24	Solicitor General		891,004		3,184,622

25	Supply and Services	4,861,387	295,990
26	Transport	151,239,477	1,275,137
27	Treasury Board		30,355
28	Urban Affairs	521,756,082	76,604,911
29	Veterans Affairs	27,754,206	3,386,857

26,296,828,771 2,096,801,204 444,025,491 121,035,526

Services and service fees	Proceeds from sales	Privileges, licences and permits	Bullion and coinage	Premium, discount and exchange	Miscellaneous	Total \$	Section (Volume II)
\$	\$	\$	\$	\$	\$		
14,747,621	3,691,722	279,961			234,505	133,776,141	1
	710				306	2,931,684	2
3,159,352		7,286,341			1,473,773	11,933,835	3
521,308	89,216	2,251,793			2,586,482	1,086,845,703	4
31,599	690,484	2,564,000			1,226,129	7,383,336	5
504,602	658	523,953			579,038	4,132,923	6
1,126,250			36,694,598	1,792,334	6,937,030	1,209,382,954	7
					14,583	30,414	8
383,454	187,908	19,347,050			339,583	28,206,501	9
139,037					3,228,036	69,969,806	10
1,416	668				511,641	584,364	11
3,381	5,490				3,732	104,399	12
37,593	5,745				8,846,756	12,858,262	13
					130,646	5,121,512	14
19,561,983	2,742,263	12,042			3,386,388	27,227,051	15
5,249,079	731,623	164,313			9,562,852	25,249,430,979	16
2,785		42,878			49,483	175,690	17
					93,791	444,526,198	18
	816				197,149	213,200	19
					8,050,222	8,050,222	20
1,507,003	266,509	2,444,830			2,083,284	38,554,884	21
					7,631	307,895	22
970,765	15,236	1,346,847			282,653	6,685,920	23
290,522	322,764	152,238			342,284	5,183,434	24
11,623	2,161,643				1,282,766	8,613,409	25
	14,057	1,420,421			2,098,488	156,047,580	26
					1,666,680	1,697,035	27

1,243,119					7,160,017	606,764,129	28
					1,492,897	32,633,960	29
48,249,373	12,170,631	37,836,667	36,694,598	1,792,334	63,938,825	29,159,373,420	

The accompanying notes are an integral part of this statement.

Details of Revenue by Departments can be found in departmental sections of Volume II.

T. K. SHOYAMA,
Deputy Minister of Finance

J. L. FRY,
Deputy Receiver General for Canada.

Auditor General's Certificate

The accounts relating to the revenue set forth in the above Statement have been examined under my direction and subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1976 in accordance with the accounting policies referred to in Note 1 to the Financial statements of the Government of Canada.

September 15, 1976

J. J. MACDONELL,
Auditor General of Canada.

THE GOVERNMENT OF CANADA

Statement of Expenditure and Revenue for the Fiscal Year Ended
March 31, 1976

Expenditure	Fiscal year ended	
	March 31, 1976	March 31, 1975
	\$	\$
Agriculture	651,092,048	665,947,151
Communications	65,406,184	60,604,029
Consumer and Corporate Affairs	61,666,522	49,377,682
Energy, Mines and Resources	1,828,778,161	1,366,503,835
Environment	452,575,696	384,984,343
External Affairs	678,483,922	549,644,602
Finance	6,914,826,227	6,006,431,520
Governor General and Lieutenant-Governors	2,333,391	1,911,136
Indian Affairs and Northern Development	843,071,146	673,692,919
Industry, Trade and Commerce	628,044,010	451,169,584
Justice	82,315,145	61,892,225
Labour	39,745,789	35,261,536
Manpower and Immigration	1,836,251,042	1,685,259,229
National Defence	2,973,680,285	2,511,873,121
National Health and Welfare	8,934,644,453	5,200,727,697
Adjustment for change in Old Age Security legislation (NOTE 4)	796,430,663	3,158,523,429
National Revenue	395,263,781	354,894,628
Parliament	66,967,138	51,232,347
Post Office	912,874,883	737,863,737
Privy Council	32,089,055	52,817,181
Public Works	622,907,752	524,896,570
Regional Economic Expansion	488,831,364	441,776,143
Science and Technology	194,894,951	167,878,626
Secretary of State	1,323,116,111	1,156,266,285
Solicitor General	584,299,819	451,924,759
Supply and Services	97,892,696	90,885,123
Transport	1,202,836,268	1,305,781,145
Treasury Board	142,091,157	113,811,984
Urban Affairs	439,867,516	278,879,990
Veterans Affairs	684,409,366	620,681,826
Total expenditure	33,977,686,541	29,213,394,382
Revenue		
Tax revenue-		
Income tax-		
Personal	12,202,172,142	10,068,290,599
Corporation	5,608,375,812	4,285,216,846
Non-resident	481,348,935	427,423,766
Excise taxes-		
Sales	3,365,175,403	2,900,071,165
Other	437,673,142	413,440,556
Special excise tax-Gasoline	425,084,290	
Oil export tax-charge	1,062,929,509	1,669,369,708

Customs import duties	1,887,211,598	1,808,860,186
Excise duties	815,521,259	747,959,844
Miscellaneous	11,336,681	7,378,292
Adjustment for change in Old Age Security legislation (NOTE 4)	796,430,663	3,158,523,429
	27,093,259,434	25,486,534,391
Non-tax revenue		
Return on investments	2,096,801,204	1,831,462,684
Post Office-Net postal revenue	444,025,491	485,460,974
Refunds of previous years' expenditures	121,035,526	84,066,152
Services and service fees	48,249,373	45,195,805
Proceeds from sales	12,170,631	15,776,963
Privileges, licences and permits	37,836,667	32,166,149
Bullion and coinage	36,694,598	47,551,916
Premium, discount and exchange	1,792,334	3,229,530
Miscellaneous	63,938,825	35,837,390
	2,862,544,649	2,580,747,563
Total revenue	29,955,804,083	28,067,281,954
Budgetary deficit	4,021,882,458	1,146,112,428

The accompanying notes are an integral part of this statement.
Details of Revenues and Expenditures by Departments can be found in
departmental sections of Volume II.

T. K. SHOYAMA, J. L. FRY,
Deputy Minister of Finance. Deputy Receiver General for Canada.
Auditor General's Certificate

The above Statement has been examined in accordance with the
provisions of the Financial Administration Act. I have obtained all
the information and explanations I have required and, subject to the
comments in my report to the House of Commons, I certify that the
Statement is in agreement with the accounts maintained by the Receiver
General for Canada and that, in my opinion, it exhibits a correct view
of the expenditure and revenue of Canada for the year ended March 31,
1976 in accordance with the accounting policies referred to in Note 1
to the Financial Statements of the oat of Canada.

September 15, 1976

J.J. MACDONELL,
Auditor General of Canada.

Summary of Budgetary Appropriations, Expenditures and Unexpended Balances by Departments for the Fiscal Year Ended March 31, 1976

Section (Volume II)	Department expenditure			Variances		Over-
		Appropriations	Expenditures	Unexpended Balances	Carried forward	
		\$	\$	Lapsed	\$	\$
1	Agriculture	(2) 688,979,593	651,092,048	10,219,387	27,668,158	
2	Communications	67,504,153	65,406,184	2,097,969		
3	Consumer and corporate Affairs	63,830,265	61,666,522	2,163,743		
4	Energy, Mines and Resources	1,933,696,504	1,828,778,161	104,918,343		
5	Environment	468,022,849	452,575,696	15,447,153		
6	External Affairs	716,171,224	678,483,922	37,687,302		
7	Finance	6,915,251,803	6,914,826,227	425,576		
8	Governor General and Lieutenant-Governors	2,398,186	2,333,391	64,795		
9	Indian Affairs & Northern Development	(3) 864,265,235	843,071,146	20,331,692	862,397	
10	Industry, Trade and Commerce	676,559,185	628,044,010	48,515,175		
11	Justice	83,308,457	82,315,145	993,312		
12	Labour	40,759,154	39,745,789	1,013,365		
13	Manpower and Immigration	1,860,285,519	1,836,251,042	24,034,477		
14	National Defence	2,986,774,618	2,973,680,285	13,094,333		
15	National Health and Welfare	8,946,905,822	8,934,644,453	12,261,369		
16	National Revenue	410,788,519	395,263,781	15,524,738		
17	Parliament	67,737,887	66,967,138	770,749		
18	Post Office	946,464,573	912,874,883	33,589,690		
19	Privy Council	36,047,855	32,089,055	3,958,800		
20	Public Works	667,255,950	622,907,752	44,348,198		
21	Regional Economic Expansion	512,096,856	488,831,364	23,265,492		
22	Science and Technology	197,361,402	194,894,951	2,466,451		
23	Secretary of State	(4) 1,352,730,770	1,323,116,111	29,559,071	55,588	
24	Solicitor General	619,484,117	584,299,819	35,184,298		
25	Supply and Services	106,135,969	97,892,696	8,243,273		
26	Transport	1,336,184,808	1,202,836,268	133,348,540		
27	Treasury Board	280,066,563	142,091,157	137,975,406		
28	Urban Affairs	465,293,337	439,867,516	25,425,821		201,648
29	Veterans Affairs	691,296,923	684,409,366	6,887,557		

34,003,658,096 33,181,255,878 793,816,075 28,586,143 201,648

(1) Available for expenditure in subsequent fiscal years: Department of Agriculture vote 15, 1971-72 and 1972-73, \$27,668,158; Department of Indian Affairs and Northern Development vote 30, 1971-72, \$862,397; Department of Secretary of State vote 1b, 1968-69, \$55,588.

(2) Includes \$31,953,741 carried forward from vote 15, Department of Agriculture 1971-72, 1972-73 appropriations.

(3) Includes \$1,313,286 carried forward from vote 30, Department of Indian Affairs and Northern Development 1971-72 appropriations.

(4) Includes \$66,037 carried forward from vote 2b, Department of Secretary of State 1968-69 appropriations.

The accompanying notes are an integral part of this statement.

Details of Appropriations and Expenditures by Departments can be found in departmental sections of Volume II.

T.K. SHOYAMA,
Deputy Minister of Finance.

J. L. FRY,
Deputy Receiver General for Canada.

Auditor General's Certificate

The accounts relating to the expenditures as set forth in the above Statement have been examined under my direction and subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1976 in accordance with the accounting policies referred to in Note 1 to the Financial statements of the Government of Canada.

September 15, 1976

J. J. MACDONELL,
Auditor General of Canada.

THE GOVERNMENT OF CANADA

Statement of Assets and Liabilities as at March 31, 1976

	March 31, 1976 \$	March 31, 1975 \$	Net increase or decrease (-) during 1975-76 \$
ASSETS			
1. Current assets-			
(a) cash, schedule A, section 10, page 16	3,614,799,413	4,234,018,115	-619,218,702
(b) Securities held for the securities investment account at amortized cost, schedule B-1, section 10, page 16	82,570,905	81,280,272	1,290,633

(c) other current assets, schedule B-2, section 10, page 16			
	107,411,058	306,125,996	-198,714,938
	3,804,781,376	4,621,424,383	-816,643,007
2. Departmental working capital advances, schedule C, section 10, page 17			
	859,915,801	772,579,830	87,335,971
3. Foreign exchange reserve accounts-			
a) Exchange Fund Account	4,754,279,053	4,793,279,053	-39,000,000
b) Canada's subscription to capital of the International Monetary Fund	1,341,602,661	1,252,980,128	88,622,533
	6,095,881,714	6,046,259,181	49,622,533
4. Social security accounts, schedule D, section 10, page 18-			
Canada Pension Plan investment fund	9,423,416,000	7,981,874,000	1,441,542,000
Unemployment Insurance Account-Advances-All or part to be recovered by parliamentary appropriations	2,158,290,693	1,656,747,924	501,542,769
Unemployment Insurance Account	166,948,796	100,101,962	66,846,834
	11,748,655,489	9,738,723,886	2,009,931,603
5. Investment held for retirement of unmatured debt			
	4,164,031		4,164,031
6. Advances, loans and investments-Domestic, schedule E, section 10, page 19-			
(a) Loans to, and investments in, crown corporations	18,152,652,514	15,217,510,623	2,935,141,891
Recovery likely to require parliamentary appropriations	236,234,315	237,499,094	-1,264,779
(b) Loans to provincial governments	1,142,641,318	1,005,282,390	137,358,928
(c) Municipal Development and Loan Board advances	213,018,697	223,567,797	-10,549,100
(d) Veterans Land Act fund (less reserve for conditional benefits)	507,744,336	526,500,373	-18,756,037
(e) Miscellaneous	974,276,521	905,369,913	68,906,608
	21,226,567,701	18,115,730,190	3,110,837,511
7. Advances, loans and investments-External, schedule F, section 10, page 25-			
(a) Loans to national governments	2,375,903,826	2,067,704,544	308,199,282
(b) Subscriptions to capital of, and working capital advances, loans and investments in international organizations	667,659,435	590,148,322	77,511,113
	3,043,563,261	2,657,852,866	385,710,395
8. Securities held in trust, schedule G, section 10, page 26			
	74,935,088	133,289,269	-58,354,181

9.	Deferred charges-			
	(a) Unamortized portions of actuarial deficiencies-			
	Canadian forces superannuation account	915,344,000	845,432,000	69,912,000
	Public service superannuation account	846,580,000	716,100,000	130,480,000
	Royal Canadian Mounted Police superannuation account	68,025,999	46,211,999	21,814,000
	(b) Unamortized loan flotation costs, section 6	256,531,807	199,011,844	57,519,963
		2,086,481,806	1,806,755,843	279,725,963
10.	Fixed assets	1	1	
11.	Inactive loans, schedule H, section 10, page 26	55,951,118	79,130,380	-23,179,262
	Total recorded assets	49,000,897,386	43,971,745,829	5,029,151,557
12.	Less: Allowance for losses on realization of assets	-546,384,065	-546,384,065	
	Net recorded assets	48,454,513,321	43,425,361,764	5,029,151,557
13.	Net debt, represented by excess of liabilities over net recorded assets, schedule I, section 10, page 26	23,296,450,232	19,274,567,774	4,021,882,458
		71,750,963,553	62,699,929,538	9,051,034,015
LIABILITIES				
14.	Current liabilities, schedule 1, section 10, page 27-			
	(a) Outstanding cheques	1,595,419,047	1,237,415,332	358,003,715
	(b) Accounts payable (that portion paid in April of the next following year)	984,131,309	1,049,213,277	-65,081,968
	(c) Non-interest-bearing notes payable to international organisations	175,508,481	198,539,264	-23,030,783
	(d) Matured debt outstanding	31,542,002	29,777,939	1,764,063
	(e) Interest due and outstanding	1,737,569,870	1,407,278,929	330,290,941
	(f) Interest accrued	888,945,263	759,011,026	129,934,237
	(g) other current liabilities	292,941,160	229,039,219	63,901,941
		5,706,057,132	4,910,274,986	795,782,146
15.	Foreign exchange reserve accounts-			
	(a) Non-interest-bearing notes payable to the International Monetary Fund	989,000,000	916,000,000	73,000,000

(b) Allocation of Special Drawing Rights in the International Monetary Fund			
	370,279,053	370,279,053	
	1,359,279,053	1,286,279,053	73,000,000
16. Deposit and trust accounts, schedule K, section 10, page 29	507,538,677	484,401,000	23,137,677
17. Annuity, insurance and pension accounts, schedule L, section 10, page 33-			
Social security accounts-			
(a) Canada Pension Plan	9,769,822,686	8,262,422,656	1,507,400,030
(b) Superannuation accounts	14,256,744,718	12,586,377,141	1,670,367,577
(c) other	1,543,744,362	1,479,157,340	64,587,022
	25,570,311,766	22,327,957,137	3,242,354,629
18. Undisbursed balances of appropriations to special accounts, schedule M, section 10, page 33	93,568,213	139,296,573	-45,728,360
19. Provision for compound and bonus interests on Canada Savings Bonds, schedule N, section 10, page 34	374,067,522	132,627,020	241,440,502
20. Deferred revenue, schedule O, section 10, page 34	423,325,534	317,518,354	105,807,180
21. Suspense accounts, schedule P, section 10, page 35	20,244,864	15,416,204	4,828,660
22. Unmatured debt, schedule Q, section 10, page 36-			
(a) Marketable bonds	15,622,508,842	14,489,510,161	1,132,998,681
(b) Canada Savings Bonds	15,517,377,950	12,915,182,050	2,602,195,900
(c) Special non-marketable bonds	61,684,000	51,467,000	10,217,000
(d) Treasury bills	6,495,000,000	5,630,000,000	865,000,000
	37,696,570,792	33,086,159,211	4,610,411,581
Total liabilities	71,750,963,553	62,699,929,538	9,051,034,015

The accompanying notes are an integral part of this statement.

Detailed Schedules of the Asset and Liability accounts can be found in Section 10.

T.K. SHOYAMA,
Deputy Minister of Finance.

J.L. FRY,
Deputy Receiver General for Canada.

Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Receiver General for Canada and that, in my opinion, it exhibits a correct view of the financial position of Canada as at March 31, 1976 in accordance with the accounting policies referred to in Note 1 to the Financial statements of the Government of

September 15, 1976

J.J. MACDONELL,
Auditor General of Canada.

Notes to the Financial Statements of the Government of Canada

1. SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

i. Basic Concepts

The two basic concepts of the Government's accounting system in the British North America Act are that all duties and revenues, other than those reserved to the Provinces, "shall form One Consolidated Revenue Fund" and that the balance of the Fund, after certain prior charges, "shall be appropriated by the Parliament of Canada". A third concept contained in the Financial Administration Act further provides that "All estimates of expenditures submitted to Parliament shall be for the services coming in course of payment during the fiscal year" but modifies this requirement by permitting debts incurred during a fiscal year to be paid within the thirty days following the end of that year.

ii. The Government of Canada as an accounting entity

The Government of Canada for purposes of these statements is defined as the aggregate of all departments, agencies, boards, commissions, councils, Crown corporations, funds and other bodies, but excluding the "agency" and "proprietary" corporations listed in schedules C and D of the Financial Administration Act, and those Crown corporations that are not subject to the Financial Administration Act.

iii. The identification of financial transactions

Section 106 of the British North America Act provides that all cash receipts are to be paid into the Consolidated Revenue Fund and that all cash payments are to be made from the Fund. The identification of financial transactions therefore begins with the identification of all cash transactions that lead to changes in the balance of the Consolidated Revenue Fund. Apart from cash transactions, a number of major internal transactions are also identified. These transactions do not lead to any change in the balance of the Consolidated Revenue Fund but are included in the Public Accounts because of legislation or regulations.

iv. Reporting of budgetary revenue

Revenue from parties outside the Consolidated Revenue Fund is recorded when received and is not adjusted for accruals. Revenue is reported gross except where Parliament permits netting of revenue against expenditures.

v. Reporting of budgetary expenditures

Expenditure includes all sums paid during the year, and payments made within thirty days following the end of the fiscal year on the account of debts incurred for operating expenditures, capital expenditures, grants and contributions.

Budgetary expenditures also include accruals of interest on the public debt, and accruals of salaries and wages earned but not paid at the fiscal year end.

Expenditures include internal transactions that do not lead to any change in the Consolidated Revenue Fund.

These transactions include interest and government contributions to pension accounts and to the Unemployment Insurance account, amortization of deferred charges, write-off of losses, undisbursed balances of appropriations to special accounts and credits to votes from other appropriations, revolving funds and other non-budgetary accounts.

vi. Reporting of assets

The recorded assets of the Government consist of:

- the realizable or income earning financial claims that it has acquired on other organizations and individuals as a result of events and transactions prior to the accounting date;
- other financial claims on third parties that yield no income and may not be realizable but for which no authority to write them off has been obtained from Parliament; and
- the debit balances in the Unemployment Insurance account and in the accounts for deferred charges, working capital advances and revolving funds.

The unamortized portion of actuarial deficiencies on the superannuation accounts and unamortized loan flotation costs are recorded as deferred charges, but no other deferred charges are recorded.

Financial claims on others, are carried at amounts advanced less amounts written off in accordance with parliamentary authority and have not been subject to any revaluation to reflect collectable or recoverable values.

Short-term assets and liabilities denominated in foreign currencies are carried at current exchange rates but those which are of a long-term nature are recorded at historical values as described later in the notes.

Assets not reported on the Statement of Assets and Liabilities include the following:

- Accruals of revenue
- Inventories and fixed assets, the latter being carried at nominal value.

The allowance for losses on realization of assets was previously charged to budgetary expenditure and is not shown as a liability but is deducted from the total of the assets. This allowance was created prior to 1957 by charges to budgetary expenditure, has remained unchanged since that date and does not constitute a reserve

related to specific revaluation of assets.

vii. Reporting of liabilities

The liabilities of the Government of Canada consist of:

-financial obligations to be paid in future to organizations and individuals outside the Government, including its employees, as a result of events and transactions prior to the accounting date; and

-credit balances for deferred revenue and undisbursed balances of appropriations to Special Accounts.

The liabilities exclude certain accounts payable for goods and services received in the fiscal year but which were not paid within 30 days thereof, and amounts accruing for such items as benefits payable upon termination of employment.

The government's obligations for superannuate pensions and annuities are valued on an actuarial basis, except the obligation arising under the indexation scheme. Under this scheme, the excess of the indexed benefits paid over contributions made in respect of any superannuate is charged to statutory appropriations.

2. RECEIPTS AND REVENUE NOT INCLUDED IN REVENUE ACCOUNTS

Revenue does not include amounts credited to other accounts as follows:

i. SOCIAL SECURITY ACCOUNTS

	1976	1975
The Old Age Security Fund -- (1)		
Personal Income Tax	\$ 507,000,000	\$
Corporation Income Tax	139,800,000	
Sales Tax	149,630,663	
The Canada Pension Plan	2,128,968,857	1,757,419,897
The Unemployment Insurance Account	2,088,356,644	1,623,400,000

(1)Old Age Security Fund -- First three months 1976 year only. This note applies only to the Summary of Revenue by Main Classification and Department shown on page 2.2 See also NOTE 4.

ii. DEPARTMENTAL ACCOUNTS

(in millions of dollars)
1976 1975

- a. Department of National Defense
Proceeds from sales of surplus property
and equipment credited to the account

and expenditures made therefrom were as follows:

National Defence --

Surplus Crown Assets account	13.3	9.8
Defence expenditures (\$7.1 million in 1975-76 and \$19.6 million in 1974-75)		

Proceeds from sales of non-surplus property and equipment credited to the account and expenditures made therefrom were as follows:

National Defence --

Replacement of Material account	1.0	1.3
Defence expenditures (\$1.0 million in 1975-76 and \$5.7 million in 1974-75)		
	14.3	11.1

- b. Post Office Department Accounts
Under authority of the Post Office Act, R.S., c. P-14, certain expenditures were made from gross postal revenue as follows:

Postmaster and staff --

Revenue offices	20.1	20.0
Semi-staff offices	47.1	42.8
Sub-post offices	9.2	9.1
	76.4	71.9
Other costs	8.0	8.0
	84.4	79.9

- c. Department of Transport Accounts
Receipts from the Air Transportation Tax which came into effect on December 1, 1974 have been credited to:

Transport --

Working capital advances		
Airports revolving fund	31.3	3.7
Budgetary expenditures	22.4	3.4
	53.7	7.1

- d. Budgetary Expenditure Accounts
Receipts and revenue credited to budgetary expenditures (1)
- | | | |
|--|-------|-------|
| | 782.6 | 714.3 |
|--|-------|-------|

(1) Includes receipts from the Air Transportation Tax of \$22.4 million (\$3.4 million in 1974-75) credited to budgetary expenditures.

iii. OTHER SPECIAL ACCOUNTS AND REVOLVING FUNDS

Applicable receipts and revenue were credited directly thereto.

3. REFUND OF PREVIOUS YEAR'S EXPENDITURES -- MINISTRY OF STATE FOR URBAN AFFAIRS

The Summary of Revenue by Main Classification and Department includes an amount of \$76.5 million in respect of Urban Affairs identified as "refunds of previous years' expenditures". This item is related to the costs reimbursed to Central Mortgage and Housing Corporation under certain provisions of the National Housing Act from January 1, 1975, to March 31, 1975. Reimbursed to the Corporation in the year ended March 31, 1975, these costs were charged to appropriations provided by statutory authority in that year. However, in the year ended March 31, 1976, in order to conform with the technical details of the appropriation acts these same costs were charged to the annual appropriation providing specifically for such reimbursements and a corresponding revenue was recorded under the caption referred to above. The practice which has been followed for a number of years in fact results in an overstatement of revenues of \$76.5 million in the current year (457.0 million in 1974-75). The Ministry's expenditures are also overstated by a similar amount.

4. CHANGES IN OLD AGE SECURITY LEGISLATION

The amendments to the Old Age Security Act which came into effect at the end of June, 1975, abolished the Old Age Security Fund and made benefits paid under the Act budgetary charges. Since then, transfers of personal and corporation income taxes and sales taxes previously made to the Fund have been discontinued. An appropriation later in the year authorized the write-off to budgetary expenditure of advances to the Fund outstanding at the end of June, 1975. The effect of these changes was to make Old Age Security benefits budgetary charges payable out of general revenue and to discontinue the transfers of tax revenue to the old Age Security Fund with effect from the end of June, 1975.

In the statement of Expenditure and Revenue which appears on page 2.4, both the expenditure and revenue of 1976 have been increased by \$796.4 million. The effect of these adjustments is to report Old Age Security transactions as if the change described above had come into effect on April 1, 1975. No change in budgetary deficit results from these adjustments to expenditure and revenue. No other statement in the 1976 Public Accounts carries these adjustments of revenue and expenditure.

For comparative purposes corresponding adjustments of \$3,158.5 million have been made to the expenditure and revenue of 1975. These adjustments are for the full year because the Old Age Security Fund operated for the whole of the 1975 fiscal year, whereas the adjustment required in 1976 was only for the three months of that year when the Fund was in operation.

The adjustments referred to above for axes credited to the

Old Age Security Fund, are detailed in the following table:

	1976	1975
	\$	\$
Personal income tax	507,000,000	1,642,000,000
Corporation income tax	139,800,000	550,500,000
Sales tax	149,630,663	966,023,429
	796,430,663	3,158,523,429

5.SPECIAL EXCISE TAX ON GASOLINE

An amendment to the Excise Tax Act, effective June 25, 1975 provides for a special excise tax on gasoline of 10c per gallon. Under certain conditions the amounts received may be refunded to purchasers.

During 1975-76 \$56.0 million had been refunded and charged to revenue.

6.RETROACTIVE SALARY AND WAGE PAYMENTS

A number of Collective Bargaining Agreements have been signed either prior to March 31st or by June 28, 1976 that call for retroactive payments and which have been or will be actioned in the 1976-77 fiscal year. The estimate of the retroactive payments to be made according to these contract settlements which pertain to the 1975-76 fiscal year is \$48.4 million.

7.TRANSFER OF DUTIES, RESPONSIBILITIES AND LEGISLATIVE CHANGES

Where transfer of duties, responsibilities or legislative changes take place in a fiscal year, the amounts for the previous fiscal year when material are adjusted for comparative purposes.

i.Contribution to Employee Benefits Plans -- For 1975-76 the statutory payments for the government's contribution to the Canada and Quebec Pension Plans and the Death Benefit account, previously included in the accounts of Treasury Board, have been added to the programs of each department and agency for whom the Treasury Board acts as employer. The amounts for 1974-75, which were \$36.2 million, have been reallocated to departmental accounts for comparative purposes.

ii.During 1975-76, responsibilities for the National research Council were transferred from the Treasury Board Secretariat to the Ministry of State for Science and Technology.

8. NET DEBT

The increase in net debt in 1975-76 reflects a budgetary deficit of \$4,021.9 million, compared to \$1,146.1 million for 1974-75.

9.UNAMORTIZED PORTION OF ACTUARIAL DEFICIENCIES

These accounts record the unamortized portions of the actuarial deficiencies in the Canadian Forces superannuation account, the Public Service superannuation account and the royal Canadian

Mounted Police superannuation account which have been set up as deferred charges. actuarial valuations are made quinquennially, the next of which will be made effective December 31, 1975 for the Canadian Forces superannuation account, December 31, 1977 for the Public Service superannuation account and December 31, 1974 for the Royal Canadian Mounted Police superannuation account. Any actuarial deficiency revealed at that time will be credited to the account and charged to unamortized portions of actuarial deficiencies and amortized to budgetary expenditure in five equal annual instalments commencing in the fiscal year in which the report is laid before Parliament. Also, the cost for benefits payable under the superannuation acts as a result of the authorization of salary increases are to be credited to the superannuation accounts and charged to unamortized portions of actuarial deficiencies and amortized to budgetary expenditure over a period of five years commencing in the year in which the increase is authorized.

10.ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies other than those of a short-term nature are recorded at historical values. The value of these assets and liabilities based on exchange rates in effect at March 31, 1976 (\$1 U.S. = \$.9844 Canadian) are summarized in the following statement.

		Valuation at Recorded March 31/1976 Valueexchange rate	Over (Under) valuation
	\$	\$	\$
ASSETS			
Securities held for the securities investment account	9,569,805	8,759,964	809,841
Foreign exchange reserve accounts			
Exchange Fund Account	4,753,385,540	4,543,289,700	210,095,840
Subscription to capital of the International Monetary Fund	1,341,602,661	1,252,118,972	89,483,689
Advances, loans and investments-- Domestic--			
Crown Corporations	78,740,478	73,311,556	5,428,922
Advances, loans and investments-- External--			
Subscriptions to capital of, and working capital advances, loans and investments in international organizations	662,055,851	624,903,755	37,152,096
	6,845,354,335	6,502,383,947	342,970,388
LIABILITIES			
Foreign exchange reserve accounts-- Allocation of Special Drawing Rights to the International			

Monetary Fund	370,279,053	408,213,551	(37,934,498)
Unmatured debt	175,567,392	159,866,560	15,700,832
	545,846,445	568,080,111	(22,233,666)

Balances in bank accounts operated in foreign currencies are converted to Canadian currency at the year end on the basis of closing market rates.

11.SPECIAL DRAWING RIGHTS

The liability for the allocation of Special Drawing rights issued by the International Monetary Fund has been recorded in the accounts of Canada in accordance with the Fund's accounting recommendations to participants. Although the liability arises from transactions associated with foreign exchange reserves, it is not taken into account in determining Canada's official international reserves.

12.CANADA PENSION PLAN

The accounts in respect of the Canada Pension Plan which are recorded on the Government's Statement of Assets and Liabilities are summarized in the following statement.

	1976 \$ (millions)	1975 \$
ASSETS		
Canada Pension Plan Investment Fund--		
Securities of, or guaranteed by--		
Provinces	9,361.7	7,930.4
Government of Canada	61.7	51.5
	9,423.4	7,981.9
LIABILITIES		
Canada Pension Plan account	9,769.8	8,262.4
Unmatured debt--		
Canada Pension Plan Investment Fund	61.7	51.5
	9,831.5	8,313.9
Net liability to the Canada Pension Plan	408.1	332.0

The liability amounts shown above do not purport to reflect any obligation of the Government of Canada to discharge the unfunded actuarial liability of the Plan. Details on the Canada Pension Plan Account can be found in Section 15 of Volume II.

13.UNEMPLOYMENT INSURANCE ACCOUNT

The accounts in respect of the Unemployment Insurance Account which are recorded on the Government's Statement of Assets and Liabilities are summarized in the following statement.

	1976	1975	Increase or decrease (-)
	\$ (thousands)	\$	\$
ASSETS			
Advances	2,158,291	1,656,748	501,543
Unemployment Insurance Account	166,949	100,002	66,847
	2,325,240	1,756,850	568,390
LIABILITIES			
Outstanding warrants	108,261	96,309	11,952

14.RECOVERY LIKELY TO REQUIRE PARLIAMENTARY APPROPRIATIONS

Recovery of the following loans is likely to require parliamentary appropriation in subsequent fiscal years:

	1976	1975
	\$ (millions)	\$
Unemployment Insurance Account (1)	2,088.3	1,271.7
Canadian Broadcasting Corporation	197.9	197.9
National Capital Commission	38.4	39.6
Northwest Territories	105.1	105.1
Yukon Territory	42.9	42.9

(1)Includes \$1,683.3 million charged to budgetary expenditure of 1976-77, on April 21, 1976.

15.MATURITY OF GOVERNMENT DEBT

i.Maturing within the next fiscal year.

That portion of unmatured debt maturing in 1976-77 is in the order of \$9,096.9 million including \$6,495.0 million of treasury bills, \$2,552.3 million of marketable bonds and \$49.6 million of Canada Savings Bonds.

ii.Maturing within the next five fiscal years.

The following amounts represent that portion of unmatured debt maturing before the year end on March 31:

Treasury Bills	Marketable Bonds	Savings Bonds	Canada Total
\$	\$	\$	\$
(in millions of dollars)			

1977	6,495.0	2,552.3	49.6	9,096.9
1978		2,582.9	28.4	2,611.3
1979		1,725.0	2,789.8	4,514.8
1980		2,103.3	152.1	2,255.4
1981		1,897.8	1,002.0	2,899.8
	6,495.0	10,861.3	4,021.9	21,378.2

It should be noted however that all Canada Savings Bonds are redeemable on demand regardless of maturity date. The total amount of \$15,517.4 million of Canada Savings Bonds shown on the Statement of Assets and Liabilities, including \$4,021.9 million maturing within the next five fiscal years, is therefore redeemable at any time.

Details of unmatured debt disclosing the above information may be found in Section 10 of this volume.

16. CONTINGENT LIABILITIES

The contingent liabilities of Canada consist of the following:

	1976	1975
	\$	\$
	(millions)	
Railway securities guaranteed as to principal and interest	582.9	596.2
Other outstanding amounts	16,541.3	15,034.5
	17,124.2	15,630.7

Details of these contingent liabilities, together with certain indeterminate guarantees, are listed in Section 10.

ASSETS

1.(a) Cash represents balances of current and special deposits at credit of the Receiver General for Canada in banks in Canada, London, New York, Paris, Bonn, Brussels, Rome and Frankfurt and cash in hands of collectors and in transit. Cash in hands of collectors and in transit represents moneys received by public officers on or before March 31 but not deposited to the credit of the Receiver General for Canada until after that date. Indian agencies revenue trust bank accounts record moneys held in trust for Indians in authorized banks in Canada, and temporary deposits in Customs and Excise bank accounts record moneys held as a security for the temporary entry of goods or to otherwise ensure compliance with various departmental regulations.

1.(b) This shows the temporary holdings by the Government of Canada at amortized cost of its own securities (including Canada savings bonds at par for resale to subscribers under the government employees instalment purchase plan).

1.(c) This category includes moneys received after March 31, but

applicable to the current year, Post Office moneys in hands of collectors and in transit at March 31. Accounts receivable, with the exception of those held as charges against departmental working capital advances, are not included in this statement. Summaries of accounts receivable furnished by departments are shown in a section of Volume II.

2. Departmental working capital advances constitute the advances outstanding at the close of the relative fiscal years for working funds of certain government departments.

3. (a) This is the valuation of advances to finance the purchase of gold, foreign exchange and securities. The balance of advances at March 31, 1976 also includes the Canadian dollar equivalent of 358,620,000 units of Special Drawing Rights issued to Canada by the International Monetary Fund. This total does not include the earnings of the Exchange Fund Account for the period January 1, 1976 to March 31, 1976 which amounted to \$73,011,867.

3. (b) This account records Canada's quota in the International Monetary Fund.

In this organization members' quotas are now expressed in Special Drawing Rights and are normally paid in gold (25%) and the remainder (75%) in the member's currency. If the fund does not require a currency, this portion of a member's quota may be paid in the form of non-interest-bearing notes payable on demand, except for a cash working balance of at least one per cent. Whenever this working balance contains more than \$1 million in excess of this minimum requirement, the fund remits cash to the member and demand notes are substituted in round lots of \$1 million; conversely should the working balance fall below minimum requirements the reverse action takes place. These notes are carried as a liability of the Government of Canada under the heading "foreign exchange reserve accounts".

Until 1972 quotas were expressed in U.S. dollars. When Canada joined the fund in 1946-47 its quota was set at U.S. \$300 million. This was raised to U.S. \$550 million in October 1959, in May 1966 to U.S. \$740 million and in December 1970 to U.S. \$1,100 million or 1,100 million SDR's at the then prevailing rate of U.S. \$1 = 1 SDR.

4. The Canada Pension Plan Act, 1965 directed that this account be established to record the purchase and the sale of securities of the Government of Canada, of a participating province, or of any agent of Her Majesty in right of that province that is guaranteed as to principal and interest by the province. The amount by which the operating balance of the Canada Pension Plan account in any month exceeds the estimated amount required to meet all payments in the following three-month period is available for the purchase of securities of participating provinces. Securities of Canada shall be purchased with the excess remaining after purchasing securities of each province as required.

Also included are those assets accounts in respect of the Unemployment

Insurance Account.

5. This account represents acquisition of marketable bonds for the purpose of redemption and cancellation before maturity.

6. (a) Loans to, and investments in, crown corporations represent the government's outstanding advances to crown corporations for working capital, capital expenditure and other purposes, investment in the capital of corporations and advances to corporations for relending. The government equity in crown corporations as recorded in the Accounts of Canada as at March 31, 1976, together with the unrecorded government equity in the surpluses (less deficits), reserves, etc., of the crown corporations at their respective years ended coincident with, or immediately prior to, the fiscal year ended March 31, 1976, is shown in section 10 of this volume.

6. (b) Under this heading are loans to provinces made under relief acts and other legislation.

6. (c) This account records loans made to provinces and municipalities under the Municipal Development and Loan Act, under which advances were made to the Municipal Development and Loan Board to provide financial assistance by way of loans to augment or accelerate municipal capital works programs.

6. (d) This account records the cost of the acquisition of properties, building materials, livestock, farm equipment and commercial fishing equipment for purposes of the act for sale to qualified veterans of World War 2 and Korea under sale agreements which carry specified conditional benefits if the terms of such agreements are adhered to by the veterans.

6. (e) This category is composed of miscellaneous loans and balances receivable.

7. (a) Loans to national governments consist mainly of the loan to the Government of the United Kingdom under the authority of the United Kingdom Financial Agreement Act, 1946, loans to foreign countries under the Export Credits Insurance Act for purchase of goods and services in Canada and special loan assistance to developing countries.

7. (b) This category records Canada's subscription to the capital of the Asian Development Bank, the Caribbean Development Bank, the Inter-American Development Bank, the International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation and working capital advances and loans to international organizations.

8. This category records the security holdings of various deposit and trust, and annuity, insurance and pension accounts.

9. (a) These accounts record the unamortized portions of the actuarial deficiencies in the Canadian Forces superannuation account,

the Public Service superannuation account and the Royal Canadian Mounted Police superannuation account which have been set up as deferred charges. Actuarial valuations are made quinquennially, the next of which will be made effective December 31, 1975 for the Canadian Forces superannuation account, December 31, 1977 for the Public Service superannuation account and December 31, 1974 for the Royal Canadian Mounted Police superannuation account. Any actuarial deficiency revealed at that time will be credited to the account and charged to unamortized portions of actuarial deficiencies and amortized to budgetary expenditure in five equal annual instalments commencing in the fiscal year in which the report is laid before Parliament. Also, the cost for benefits payable under the superannuation acts as a result of the authorization of salary increases are to be credited to the superannuation accounts and charged to unamortized portions of actuarial deficiencies and amortized to budgetary expenditure over a period of five years commencing in the year in which the increase is authorized.

9. (b) This account consists of discounts, commissions, redemption and conversion premiums on loan flotations remaining to be charged annually to expenditure. These costs are amortized in the case of general loans, over the period from the date of issue to the earliest call date, if one is specified, otherwise to the maturity date of the loan, and in the case of Canada savings bonds over a period of five years from date of issue.

10. This records at a nominal value of \$1 such fixed assets of the government as land, buildings, works, equipment, etc., which, in accordance with long standing practice, are charged to budgetary expenditure at the time of acquisition or construction.

11. This group includes certain loans and advances which are not currently revenue-producing or realizable. From time to time a repayment may be made.

Under the provisions of vote 14b, 1975-76, Department of Finance, the repayment of a loan to Romania in the amount of \$23.2 million was forgiven during 1975-76.

12. This allowance is provided for losses on realization of assets.

NET DEBT

13. The net debt of Canada is represented by the excess of liabilities over the net recorded assets, and includes the deficit since Confederation together with certain amounts which have been charged directly through to net debt.

LIABILITIES

14. (a) This is the balance of cheques in Canadian dollars issued and unpaid on March 31, with the exception of those outstanding for ten years or more which have been transferred to non-tax revenue.

Cheques in foreign currencies are credited at the time of issue to appropriate "Cash in Receiver General current deposits" accounts.

14. (b) This account represents the cheques issued in April which are applicable to the previous fiscal year as authorized by section 30 of the Financial Administration Act.

14. (c) This account records non-interest-bearing notes payable to international organizations, excluding those payable to the International Monetary Fund which are included in the liability category "foreign exchange reserve accounts" see note 15 (a).

14. (d) This item represents the amount of matured bonds and other securities outstanding on March 31 with the exception of those transferred to revenue. In the fiscal year 1958-59 - a new practice was introduced of transferring to non-tax revenue those matured bonds and other securities which are outstanding for 15 years after the date of call or of maturity, whichever is the earlier, but in no event less than five years after the date of maturity.

14. (e) This represents the amount of interest which has become due on the public debt but remains unpaid.

14. (f) This represents the amount of accrued interest to March 31 on the public debt but which is not due and payable until some future date.

14. (g) This group includes miscellaneous liabilities of the Government of Canada. Generally the creditor is in possession of some form of the government's negotiable paper that is due and payable on demand. The liability for outstanding post office money orders and outstanding unemployment insurance warrants are the main items in this group.

15. (a) This account records non-interest-bearing notes payable to the International Monetary Fund.

15. (b) This account includes the allocation of Special Drawing Rights issued by the International Monetary Fund.

16. The accounts in this category represent the government's liability for moneys deposited for various purposes. They fall into two broad classes. The first of these, comprising the large majority of the accounts, consists of those cases where the government acts virtually as trustee, administering the funds for the purpose for which they were created. The other class is the deposit accounts which cover mainly those cases where the government has received the moneys as a guarantee that work will be properly performed.

17. (a) This category records the government's liability in respect of the Canada Pension Plan. These liabilities do not purport to reflect any obligation of the Government of Canada to discharge the unfunded actuarial liability of the Plan.

17. (b) This category records the government's liability in respect to the Public Service superannuation account, the Canadian Forces superannuation account and the Royal Canadian Mounted Police superannuation account.

17. (c) This category records the government's liability as an insurer of certain persons and as administrator of certain pension funds and government annuities that are not included in the previous two categories. The government receives premiums or similar assessments and in turn pays out specific benefits.

18. This category records the undisbursed balances of appropriations to special accounts from which disbursements may be made for authorized purposes. They fall into two classes. The first of these, comprising the majority of accounts, consists of those cases where Parliament has appropriated moneys for specific purposes. The other class consists of accounts to which is credited, under parliamentary authority, moneys arising from the sale of materials, supplies, equipment, land, works and buildings, which are available for the purpose of the Department of National Defence.

19. This account records the estimated amount of the prorated provision to March 31 for the special compound and bonus interests features applicable to certain Canada savings bonds.

20. This category records those accounts which reflect amounts due to the government but in respect of which payment has been deferred. These are contra accounts to corresponding items in the assets.

21. The accounts in this category cover items in which there are elements involving uncertainty as to accounting treatment or disposal and others in respect of which accounting treatment is known but which are held for final disposition pending completion of certain conditions.

22. This account shows the unmatured debt of the Government of Canada which includes bonds payable in U.S. dollars. Also included are special non-marketable bonds held in the Canada Pension Plan Investment Account.

Exchange Fund Account

(Established pursuant to the Currency and Exchange Act)

STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 1975

(with comparative figures as at December 31, 1975)

ASSETS	1975	1974
	Canadian Dollars	Canadian Dollars
Cash on deposit	\$ 894,462	\$ 613,384
	United States Dollars	United States Dollars
Assets in United State dollars		
Cash on deposit	\$ 7,244,974	\$ 1,537,821
United States Treasury bills and bonds at cost, with accrued interest	637,626,924	726,043,302
United States special Treasury notes at cost, with accrued interest	1,422,115,214	2,389,559,107
International Bank for Reconstruc- tion and Development bonds at cost, with accrued interest	57,742,890	59,302,825
Assets denominated in special drawing rights and expressed in United States dollars		
International Monetary Fund Special drawing rights allocated to Canada	419,820,609	439,076,350
Special drawing rights acquired, with accrued interest	139,271,972	139,015,184
International Monetary Fund notes, with accrued interest	292,448,977	173,868,022
Gold	<u>899,432,985</u>	<u>940,686,913</u>

\$3,875,704,545

\$4,869,089,524

Value of United States dollars converted to
Canadian dollars at the closing rate for
the United States dollar in Canada

1975-1.0160; 1974-.9906 3,937,715,818

Uncompleted contracts valuation adjustment 649,360

\$3,939,259,640

4,823,320,082

2,064,110

\$4,825,997,576

LIABILITIES

Due to Consolidated Revenue Fund,
in accordance with Section 16 of
the Currency and Exchange Act

Earnings on investments \$ 234,456,314

Net profit from trading operations
in foreign exchange, gold and securities 6,746,064

Net profit from the net valuation
adjustments on unmatched sales (1974-
purchases) of foreign exchange 10,966,031

Advances from the Consolidated Revenue Fund 252,168,409
Special drawing rights allocated to Canada 3,343,000,000

by the International Monetary Fund 426,537,738

4,021,706,147

\$ 267,374,030

1,976,395

105,084

269,455,509

4,253,000,000

434,949,033

4,957,404,542

Deficit

Balance - beginning of year 131,406,966

Valuations adjustments on previous year's
holdings on hand at the end of the year (114,591,692)

Net valuation adjustment on special drawing
rights denominated assets (including gold) 65,631,233

Balance - end of year 82,446,507
\$3,939,259,640

124,185,957

26,833,552

(19,612,543)

131,406,966

\$4,825,997,576

The accompanying note is an integral part of the financial statement.

Certified correct:

The Bank of Canada

G. K. BOUEY
Governor

EDITH M. WHYTE
Chief of the International Department

(This Statement and the Notes thereto are to be found on pages 7.19
and 7.20 of Volume II of the Public Accounts)

Exchange Fund Account - Continued

NOTE TO THE Financial STATEMENT

Objectives of the Account and significant accounting policies

The Exchange Fund Account was established pursuant to the Currency and Exchange Act, R.S., c. C-39, to aid in the control and protection of the external value of the Canadian monetary unit. The account is in the name of the Minister of Finance and is administered by the Bank of Canada as fiscal agent.

The significant accounting policies are outlined below:

Financing of the Account

The Account is financed with advances from the Consolidated Revenue Fund. These advances are presently limited by Order-In-Council dated June 6, 1972 to 6 billion dollars.

Valuation of assets

Assets in United States dollars are recorded at cost at the time of purchase including accrued interest where applicable. Premiums and discounts on securities are amortized over their remaining term to maturity.

Assets denominated in Special Drawing Rights (SDRs) including gold (1 troy ounce of gold = 35 SDRs) are valued at the U.S. \$/SDR rate. Since July 1974, this rate is calculated by the International Monetary Fund as a trade weighted average of the market values of sixteen major currencies. On December 31, 1975, the IMF reported the value of the SDR at US \$1. = SDR 0.854222.

For accounting purposes, the Canadian dollar values of the Account's U.S. dollar assets are established at the closing market rate for the U.S. dollar in the Canadian market.

Allocation of Special Drawing Rights

The Special Drawing Right was created by the International Monetary Fund to supplement existing international reserve assets. SDRs are allocated on the basis of each member's quota (subscription) in the Fund. The liability in respect to the net cumulative allocation represents the obligation that Canada would incur upon the termination of Canada's participation in the Special Drawing Account or on the liquidation by the International Monetary Fund of the Special Drawing Account.

Amounts due to the Consolidated Revenue Fund

The following policies are governed by the specific requirements of section 16 of the Currency and Exchange Act:

a) Earnings on investments.

Earnings on investments are recorded on an accrual basis and include interest and the amortization of premiums and discounts.

b) Net profit from trading operations in foreign exchange, gold and securities.

Net profit from trading operations in foreign exchange, gold and securities is transferred to the Consolidated Revenue Fund. Net losses however would be charged to the Deficit account. Sales of foreign

currencies during the year are matched against the most recent purchases.

c) Net profit from valuation adjustments on unmatched purchases or sales of foreign exchange, gold and securities.

Net profit from valuation adjustments on the increase or decrease in assets held in or expressed in United States dollars is credited to this account. A net loss would be charged to the deficit account.

Deficit account

This account includes the profit or loss arising from the changes in value of the SDR in terms of U.S. dollars. It also includes net losses from valuation changes on unmatched purchases or sales made during the year, and profits or losses arising from valuation adjustments to the inventory of assets held at the previous year-end.

AUDITOR GENERAL OF CANADA

Ottawa, Ontario

April 29, 1976.

THE HONOURABLE DONALD S. MACDONALD, P.C.. M.P.,
MINISTER OF FINANCE,
OTTAWA, ONTARIO.

Dear Mr. Macdonald,

I have examined the Exchange Fund Account and the transactions in connection therewith for the year ended December 31, 1975, as required by section 18(2) of the Currency and Exchange Act, R.S., c.C-39.

My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances. The Fund's holdings at the close of the year have been confirmed to us by the Auditors of the Bank of Canada.

In my opinion, the transactions in connection with the Account have been in accordance with the provisions of the Currency and Exchange Act, the records of the Account show truly and clearly the state of the Account and the accompanying statement of assets and liabilities presents fairly the financial position of the Account at December 31, 1975, in accordance with the accounting policies described in the Note to the Statement applied on a basis consistent with that of the preceding year.

Yours sincerely,

J. J. MACDONELL
Auditor General of Canada.

OBSERVATIONS BY AUDITOR GENERAL
ON FINANCIAL STATEMENTS OF
GOVERNMENT OF CANADA

15.1 Introduction. This Part contains my observations on certain practices on which the presentation of the Financial Statements of the Government of Canada for the year ended March 31, 1976, is based. These observations were included in Section 3 of Volume I of the Public Accounts of Canada. The matters giving rise to these observations have been commented on in my previous Reports to the House of Commons. These matters, while being in accordance with existing legislation and stated accounting policies and consistent with prior years, result in serious problems in the accounting presentation of the financial position and financial operations of the Government of Canada. The fundamental issues giving rise to these problems were the subject of review by the "Study of the Accounts of Canada" initiated by the Treasury Board in May 1973 and carried out jointly with the staffs of the Department of Finance and the Department of Supply and Services. Implementation of the recommendations of that Study will correct the treatment of these matters future years, except for the specific areas on which further study is to be carried out as recommended by the Public Accounts Committee. My views on the Study and the resulting recommendations together with a summary of the implementation status of these recommendations are contained later in this Part.

15.2 Loans likely to require parliamentary appropriation for write off. The following loans, in my opinion, do not represent assets of the Government of Canada. They are in fact a deferral of current and prior years' expenditures treated in this manner either because of the requirements of the underlying legislation or the failure to initiate write-off action.

Unemployment Insurance Account. Of the \$2,158 million advanced to the Unemployment Insurance Account at March 31, 1976, \$2,088 million relates to benefits paid to the unemployed before March 31, 1976. However, Section 136 of the Unemployment Insurance Act, 1971, 1970-71-72, c. 48, provides that the Commission is not to be reimbursed until 1976-77 and 1977-78. This portion will be considered as an expenditure of Canada in these years and although the inclusion of this large amount as an asset is dictated by the wording of the Act, it does not represent an asset of the Government of Canada. Indeed of this amount \$1,683 million, representing benefits paid for the year ended December 31, 1975, was charged to expenditure for 1976-77 on April 21, 1976.

The balance of \$70 million, advanced to the Commission to cover its operating deficit, is recoverable from contributions through future premiums.

Canadian Broadcasting Corporation, National Capital Commission, Northwest Territories and Yukon Territory. The following outstanding loans totalling \$384 million are described in Note 14 to the Financial

Statements as likely to require parliamentary appropriations in subsequent fiscal years for their recovery:

Canadian Broadcasting Corporation	\$ 198 million
National Capital Commission	38 "
Northwest Territories	105 "
Yukon Territory	43 "

\$ 384 million

These loans were made prior to March 31, 1975, to finance capital expenditures of these entities. Since that date, such capital expenditures have been financed by budgetary appropriations of Canada. Payments of principal and interest on the outstanding loans have been deferred by Order in Council until 1979 pending the write-off and deletion from the Accounts of Canada of the amounts owing.

Loans to Saint John Harbour ridge Authority. These loans are included in three categories as follows:

National Harbours Board	
Saint John Harbour Bridge Authority	\$ 15.0 million
Miscellaneous - The Department of Finance	
Saint John Harbour Bridge Authority	7.1 "
Municipal Development and Loan Board	
Advances	2.7 "

\$ 24.8 million

Revenues of the Saint John Harbour Bridge Authority have been insufficient to meet principal and interest payments on the National Harbours Board loan and the advances from the Municipal Development and Loan Board. The miscellaneous loan from the Department of Finance was made to cover the shortfalls on repayments of principal and interest. In these circumstances none of these loans can be regarded as collectible.

Loans to be forgiven. Loans to provincial governments include \$246 million for winter capital projects of which an estimated \$96 million relating to associated labour costs to May 31, 1975, is to be forgiven.

Outstanding loans made by the Department of Indian Affairs and Northern Development in respect of Indian housing assistance totalled \$8.7 million at March 31, 1976. These loans are non-interest-bearing and are subject to conditional forgiveness.

15.3 Loans and advances, the carrying value of which is questionable. The recorded amounts of the following loans and advances, represented as assets of the Government of Canada, are questionable in view of the following circumstances:

Loans to Crown corporations. A number of Crown corporations, including the Canadian National Railways, the National Harbours Board and The St. Lawrence Seaway Authority, have a history of deficits and lack

sufficient revenue to repay their outstanding loans except through parliamentary appropriations.

The amounts shown on the Statement of Assets and Liabilities include loans of \$1,442 million to the Canadian National Railways and \$315 million to the National Harbours Board. As has been pointed out in my Reports to the House of Commons, there is little prospect of these organizations being able to meet their principal and interest obligations. Loans to The St. Lawrence Seaway Authority total \$625 million. Interest payments in arrears increased from \$72 million at March 31, 1970, to \$192 million at March 31, 1976, and it is extremely unlikely that the Authority will be able to repay its capital indebtedness.

Loans to developing countries. Advances, loans and investments-External includes \$1,249 million in special loan assistance to developing countries. Most of these loans bear no interest and are usually repayable over 50 years with no payments falling due in the first 10 years. A certain number carry nominal interest rates of 3/4 of 1%. Loans for such long periods with such low interest rates have the characteristics of grants.

In addition, this category includes \$193 million representing special loan assistance to international development associations. These loans are working capital advances, have no repayment terms and bear no interest. Repayment will fall due only on termination of the association. These loans also have the characteristics of grants.

Loans to Atomic Energy of Canada Limited. Included in the loans to Atomic Energy of Canada Limited are the following, exclusive of accrued interest, relating to prototype nuclear power stations:

Gentilly I, Quebec	\$ 82 million
Douglas Point, Ontario	70 "
	\$152 million

Ontario Hydro and Hydro-Quebec are committed, under contract, to offer to purchase the prototype nuclear power stations at Douglas Point and Gentilly respectively at prices economically viable to the Utilities when the stations have been demonstrated to be a safe and dependable source of power. The Company is in the process of segregating the research, development and demonstration value attributable to these stations and intends to request a parliamentary appropriation for such amount. Whether the sale prices will be sufficient to permit the Company to repay the balance of the loans and related accrued interest remains to be determined.

Inactive loans. Accounts in this category comprise:

Loans to China	
Export Credits Insurance Act	\$ 49.4 million
Loans to Greece	6.5 "
	\$ 55.9 million

These loans are currently deemed to be not revenue-producing or realizable. In fact, there has been no change in the outstanding balances over the last 20 years.

15.4 Allowance for losses on realization of assets. The allowance for losses of \$546 million was established many years ago. This allowance is purely arbitrary and does not bear any relation to the matters observed on earlier in this section or to other possible losses. Moreover, departments are not currently required to identify delinquent loans and advances for purposes of assessing the adequacy of the allowance.

15.5. Accounting inconsistencies. While the accounting policies described in Note 1 to the Financial Statements describe the practices followed in the areas commented on below, I consider the following practices to be departures from the main accounting policies followed by the Government and to be inconsistent therewith.

Undisbursed balances of appropriations to special accounts. The undisbursed balances of appropriations to special accounts totalling \$94 million are made up of two basic amounts. The first portion (\$85 million) represents the balance of amounts appropriated by Parliament and recorded as expenditures in the current and prior years. Because of special wording in the vote texts of the Appropriation Acts, these sums were not spent but were credited to special accounts to be available for spending in future years. The second portion (\$8.6 million) represents revenues from the sale of surplus materials, supplies and equipment of the Department of National Defence which is also available for spending in future years because of the wording of the relevant legislation. These balances do not therefore constitute liabilities of the Government of Canada and the practice of recording them in this manner results in an overstatement of liabilities and net debt.

Amounts recorded as expenditures during 1975-76 and credited to special accounts amounted to \$158 million while relevant expenditures from these accounts during the year amounted to \$222 million. Revenues of \$13 million from sales of surplus property and equipment and \$1.0 million from sales of non-surplus property and equipment were credited by the Department of National Defence to its Surplus Crown Assets Account and Replacement of Material Account respectively. Expenditures and revenues are accordingly understated by \$64 million and \$14 million.

Unrecorded surpluses or deficits of revolving funds. Departmental working capital advances include advances totalling \$37 million to various revolving funds to finance the purchase of inventories or other aspects of the operations of revolving funds which would otherwise be met by budgetary appropriations. These advances are distinct from the advances made to revolving funds to finance the acquisition or construction of fixed assets. The Financial Statements of the Government of Canada for the year ended March 31, 1976, do not reflect the surpluses (or deficits) accumulated by a number of these funds at the year-end, the more important ones being the Airports

Revolving Fund and the Supply Revolving Fund which show surpluses of \$65 million and \$3.0 million respectively as at March 31, 1976. In addition, there are a number of other funds which have retained surpluses or deficits of lesser amounts.

The regulations in respect of revolving fund operations state that:

Revolving Funds and Working Capital Advances are expected to be self-sustaining. A surplus earned in any one year will be transferred to the Accounts of Canada as non-tax revenue, while a deficit will be recouped by authority of Parliament in final supplementary estimates unless special permission is granted to accumulate surpluses or carry over deficits.

Although the retention of surpluses by the two Funds referred to is in accordance with the authority granted to these Funds, this policy results in an inaccurate disclosure of the revenues and expenditures of the Government of Canada since those surpluses are used mostly to finance other types of expenditure, such as the acquisition of fixed assets, which would normally be financed by budgetary appropriations. Moreover, the failure of certain Appropriation Acts to establish a limit on the surplus that can be retained by a revolving fund (e.g. Airports Revolving Fund) reduces the control of Parliament over a fund's activities since accumulated surpluses provide a cushion against which losses or expenditures may be offset, thereby depriving Parliament of an opportunity to inquire into the reasons for the losses or the expenditures financed by surpluses.

Recording of fixed assets. Departmental working capital advances include loans of \$492 million to revolving funds, including \$488 million to the Airports Revolving Fund for operating and capital purposes. These loans have been used principally to finance the acquisition of fixed assets. As noted on page 1.7 of Section 1, "The Scope and Methods of the Public Accounts" of Volume 1 of the 1975-76 Public Accounts, the effect of treating such advances as "non-budgetary" is to reflect as assets of the Government of Canada the fixed assets acquired thereby. This is contrary to the general treatment of fixed assets which must be acquired through budgetary expenditures and recorded at a nominal value of \$1 and it results in an overstatement of assets normally recognized on the Statement of Assets and Liabilities of Canada.

The outstanding loans to the Airports Revolving Fund include \$121 million in respect of land acquisition costs at the Pickering site of the proposed Toronto II Airport on which further development has been postponed for the present. These land acquisition costs include capitalized interest on that portion of the loans that apply to the Pickering development. Such interest for 1975-76 amounted to \$18 million.

Supplementary Retirement Benefits Account. Actuarial valuations of the superannuation accounts (Public Service, Canadian Forces and Royal Canadian Mounted Police) are made quinquennially, with any resulting actuarial deficiencies being recorded in the accounts and amortized to budgetary expenditure in five equal annual instalments commencing in

the fiscal year in which the actuarial report is laid before Parliament. No similar actuarial valuation is made, however, of the Supplementary Retirement Benefits Account.

The Supplementary Retirement Benefits Act, R.S., c. 43 (1st Supplement), introduced, in 1970, an indexation scheme in respect of superannuation benefits to current and future superannuates. Additional employee contributions, matching government contributions and interest were credited to the Supplementary Retirement Benefits Account from which the increased benefits resulting from indexation were to be met. The indexation factor for the first two years of the scheme was 2 per cent annually. An amendment to the Act in 1973 increased this factor to the consumer price index. This amendment also provided that the indexation benefits to pre-1970 superannuates and that part of the indexation benefits to post-1969 superannuates in excess of their share of the contributions and interest credited to the Supplementary Retirement Benefits Account would be met from the Consolidated Revenue Fund and not from the Supplementary Retirement Benefits Account. During 1975-76 increased superannuation benefits paid due to indexation amounted to \$90 million, of which \$89 million was charged primarily to budgetary expenditure and accordingly to the Consolidated Revenue Fund, while only \$1.5 million was charged to the Supplementary Retirement Benefits Account. Comparative figures for the preceding year were \$57 million and \$2.2 million respectively. An actuarial valuation was not made of the liability assumed by the government at the time of the 1973 amendment to the Supplementary Retirement Benefits Act. The substantial benefit payments charged to the Consolidated Revenue Fund since January 1, 1974, indicate that this liability would be material. In addition, no periodic actuarial valuation of the current obligation of the Supplementary Retirement Benefits Account is being made. The actuarial liability for this Account is therefore not being recognized in the Financial Statements of Canada.

15.6 Accounts payable. The accounts payable of \$984 million reflected in the financial statements represent accounts paid in April of the following fiscal year for work performed, goods received or services rendered prior to the end of the current fiscal year and charged to the current fiscal year in accordance with Section 30 of the Financial Administration Act.

Accounts totalling \$89 million applicable to the fiscal year ended on March 31, 1976, which were carried over to be paid in the following fiscal year are not recorded in the financial statements but are disclosed in Section 11 of Volume 1 of the Public Accounts "Summary of Accounts Properly Chargeable to the Fiscal Year 1975-76 but carried over to the Fiscal Year 1976-77". of this total, \$11 million represents amounts payable to other government departments and agencies. Unrecorded accounts payable to third parties amounted to \$78 million, which remained unpaid for the following reasons:

Invoices received on or before April 30

Insufficient funds	\$ 28 million
Other reasons	32 "

Invoices received after April 30

18 "
\$ 78 million

The unpaid accounts to third parties at March 31, 1976, were \$21 million lower than at March 31, 1975, however, Note 6 to the financial statements discloses unpaid retroactive salaries and wages at March 31, 1976, in an estimated amount of \$48 million. No comparative amount was disclosed at March 31, 1975.

Based on the reported data, the net effect of the unrecorded unpaid accounts and retroactive salaries and wages is that the budgetary deficit for the year and the net debt at March 31, 1976, are understated by \$27 million and \$126 million respectively on the basis that all such unpaid accounts and unpaid retroactive salaries were chargeable to budgetary expenditure directly or indirectly.

15.7 Disclosure of revenues and expenditures. Certain revenues and expenditures are presented in a manner which distorts the total revenue and expenditure of the Government as well as the actual results of the operations of the individual departments concerned -

(i) Revenue is stated net of expenditure totalling \$84 million made from gross postal revenue under authority of the Post Office Act, R.S., c. P-14, as disclosed in Note 2 (item ii b) to the financial statements. In addition revenue does not include \$369 million representing non-tax revenue credited to budgetary expenditures, under authority of relevant Appropriation Acts, and included in the \$783 million referred to in item ii d of the same note. These practices have no effect on the reported deficit for the year but result in an understatement of both revenues and expenditures of \$453 million.

(ii) As disclosed in Note 3 to the financial statements, revenues and expenditures of the Ministry of Urban Affairs have each been overstated by \$77 million.

15.8 Study of the Accounts of Canada. The Report on the Study of the Accounts of Canada was tabled in the House of Commons on January 30, 1976, and referred to the Standing Committee on Public Accounts. On February 10, the Committee commenced deliberations and on March 9, the Fifth Report of the Standing Committee was tabled in the House of Commons. The Committee, after careful examination and having obtained the views of my Office, endorsed the 41 recommendations and recommended that the Treasury Board implement them as soon as it was technically possible to do so.

The Committee concluded as a result of the discussions that certain specific areas had not been given sufficient attention and felt that further study was necessary. These areas are:

- the accounting of current and future loans to other governments;
- the accounting of current and future loans to government-controlled organizations whose financing is unrealistic and who therefore may not be in a position to repay such loans;

-the classification of Crown corporations under Schedules C and D of the Financial Administration Act in accordance with the principles outlined in the Study; and

-the use of improper or unacceptable accounting principles by Crown corporations.

We fully support the 41 recommendations and have so stated to the members of the Committee. Although in certain areas, we favour changes that go further than those recommended in the Study, these recommendations are all in harmony with our views and should be implemented as quickly as possible. In the meantime, discussions should be continued on these possible further changes which include those referred to in the report of the Standing Committee as well as further changes in the format and content of the main financial statements of the Government of Canada.

The Financial Administration Branch of the Treasury Board is responsible for ensuring that the recommendations of the Study are implemented. In this regard, the Branch has undertaken to coordinate the implementation program, establish target dates and provide the necessary assistance. The recommendations have been segregated between those endorsing the retention of existing policies, those requiring legislative changes and changes in the Estimates process, and others requiring changes in regulations, directives or guidelines.

In accordance with Treasury Board's implementation plans to give effect to the recommendations in the Report on the Study of the Accounts of Canada, the new presentation format will be introduced as far as possible in the summary financial statements published in Volume I of the Public Accounts as at March 31, 1977. Further adjustments necessary to enhance the quality of information in these and supplementary financial statements are planned for implementation by March 31, 1978 to the extent permitted by enabling legislation at that time. In addition, some practices which the Study recommended be discontinued are being actively discouraged prior to the latter date.

Over the years, in the interest of sound financial disclosure, I have commented in my Reports on the practices that will now be corrected. My Office therefore firmly intends to monitor adherence to the present implementation program and to report whenever it appears that delays will occur.

COMMENTS ON THE FINANCIAL STATEMENTS AND OPERATIONS OF CROWN
CORPORATIONS AND OTHER ENTITIES

16.1 Introduction. Volume III of the Public Accounts contains financial statements, together with the auditors' reports thereon, of Crown corporations for their fiscal years ended during or coinciding with the year ended March 31, 1976. Of these, I have examined and reported on the following:

Atlantic Pilotage Authority
Atomic Energy of Canada Limited
Canada Deposit Insurance Corporation
Canadian Arsenals Limited
Canadian Broadcasting Corporation
Canadian Commercial Corporation
Canadian Dairy Commission
Canadian Film Development Corporation
Canadian Livestock Feed Board
Canadian National (West Indies) Steamships, Limited
Canadian Patents and Development Limited
Canadian Salt fish Corporation
Company of Young Canadians
Crown Assets Disposal Corporation
Defence Construction (1951) Limited
Eldorado Aviation Limited
Eldorado Nuclear Limited
Export Development Corporation
Farm Credit Corporation
Freshwater Fish Marketing Corporation
Great Lakes Pilotage Authority, Ltd.
Laurentian Pilotage Authority
National Arts Centre Corporation
National Battlefields Commission
National Harbours Board
Northern Canada Power Commission
Northern Transportation Company Limited
Pacific Pilotage Authority
Royal Canadian Mint
St. Clair River Broadcasting Limited
St. Lawrence Seaway Authority
Seaway International Bridge Corporation, Ltd.
Teleglobe Canada
Uranium Canada, Limited

I have also examined and reported on the financial statements of the National Capital Commission, which were not available in time for inclusion in the Public Accounts.

16.2 I am not the auditor or joint auditor of the following Crown corporations whose financial statements appear in Volume III of the Public Accounts:

Air Canada
 Bank of Canada
 Canadian National Railways
 Canadian Wheat Board
 Cape Breton Development Corporation
 Central Mortgage and Housing Corporation
 Federal Business Development Bank
 Industrial Development Bank

16.3 I have also examined and reported on the financial statements of the following agencies, revolving funds and special accounts for their fiscal years ended during or coinciding with the year ended March 31, 1976:

<u>Entity</u>	<u>Department</u>
Agricultural Products Board	Agriculture
Agriculture Revolving Fund	Agriculture
Agricultural Stabilization Board	Agriculture
Airports Revolving Fund	Transport
Board of Trustees of the Queen	
Elizabeth II Canadian Fund to Aid in	Privy Council
Research on the Diseases of Children	Secretary of State
Canada Council	National Health and
Canada Pension Plan Account	Welfare
Canada Pension Plan Investment Fund	National Health and
	Welfare
Canadian Government Photo Centre	
Revolving Fund	Secretary of State
Canadian Grain Commission	Agriculture
The Custodian	Supply and Services
Customs and Excise Revolving Fund	National Revenue
Defence Production Revolving Fund	Supply and Services
Economic Council of Canada	Privy Council
Exchange Fund Account	Finance
Fisheries Prices Support Board	Environment
Government Annuities Account	Manpower and
	Immigration
Government Telecommunications Agency	
Revolving Fund	Communications
Information Canada-Expositions	
Revolving Fund	Labour
Information Canada-Publishing	
Revolving Fund	Labour
International Development Research Centre	External Affairs
Medical Research Council	National Health and
	Welfare
National Film Board	Secretary of State
National Museums of Canada	Secretary of State
Passport Office Revolving Fund	External Affairs
Public Archives Central Microfilm Unit	
Revolving Fund	Secretary of State
Public Service Commission Bureau of	

Staff Development and Training Revolving Fund	Secretary of State Agriculture
Race Track Supervision Revolving Fund	
Royal Canadian Mounted Police (Dependants) Pension Fund	Solicitor General
Science Council of Canada	Ministry of State for Science and Technology
Statistics Canada Revolving Fund	Industry, Trade and Commerce
Supply Revolving Fund	Supply and Services
Unemployment Insurance Account	Manpower and Immigration

All of the above financial statements and my reports thereon are included in Volume II of the Public Accounts with the exception of those of the Canadian Government Photo Centre Revolving Fund and the Public Archives Central Microfilm Unit Revolving Fund which were not available in time for inclusion in the Public Accounts. The financial statements of Information Canada - Expositions Revolving Fund and Information Canada - Publishing Revolving Fund are included in Volume II without my reports as my examinations had not been completed in time for these reports to be included in the Public Accounts.

16.4 I have qualified my reports on the financial statements of some of the corporations and other entities listed in paragraphs 16.1 and 16.3 above because I observed deficiencies in accounting, inconsistencies with the governing statutes or other matters which have an effect on the fairness of the financial statements. The more significant of these observations are outlined in succeeding paragraphs.

16.5 I have also examined and reported on the financial statements of the following entities which are not included in the Public Accounts:

- Army Benevolent Fund
- Canadian Army Welfare Fund
- Canadian Broadcasting Corporation Pension Board of Trustees
- Canadian Forces Personnel Assistance Fund
- Government of the Northwest Territories
- Government of the Yukon Territory
- King George V Silver Jubilee Cancer Fund for Canada
- La Cie de Radiodiffusion de Matane Ltée.
- Northwest Territories Housing Corporation
- Post Office Guarantee Fund
- R.C.A.F. Association
- R.C.A.F. Benevolent Fund
- R.C.M.P. Benefit Trust Fund
- R.C.M.P. Fine Fund
- R.C.N. Benevolent Fund
- Standards Council of Canada
- Yukon Housing Corporation

16.6 Agriculture Products Board - Inventory valued in excess of estimated realizable value. Pursuant to the Agricultural Products Board Act, R.S., c.A-5, the Agricultural Products Board was authorized by the Governor in Council on March 25, 1976, to purchase canned apples and to sell them at prices that in aggregate would not result in a loss of more than \$552,000.

At March 31, 1976, canned apples were included in the inventory of the Board at a cost of \$412,300. In accordance with agreements entered into by the Board sale of the apples will produce revenue of approximately \$184,700. Although the estimated loss of \$227,600 was disclosed in a note to the financial statements, no adjustment was made in the accounts. My report to the Minister of Agriculture on the examination of the Board's accounts for the year ended March 31, 1976, was qualified accordingly.

16.7 Atomic Energy of Canada Limited - Carrying values of prototype nuclear power stations in excess of estimated realizable value. Previous Reports (paragraph 6.2 in 1975) drew attention to the excessive carrying values of the Douglas Point and Gentilly I prototype nuclear power stations which were constructed by Atomic Energy of Canada Limited and are operated under agreements with Ontario Hydro and HydroQuebec respectively.

The Company has title to both stations and has borne the entire capital costs. Ontario Hydro and Hydro-Quebec are committed, under contract, to offer to purchase the respective stations at prices that are economically viable to the utilities when the stations have been demonstrated to be a safe and dependable source of power.

At March 31, 1976, the cost of the stations, including interest to the date they began operation, less a write-down of \$0.5 million in the case of Douglas Point, amounted to \$77 million for Douglas Point and \$90 million for Gentilly I. These amounts are shown as plant and property on the balance sheet of the Company.

The carrying values of these stations include significant amounts relating to research, development and demonstration activities and the Company is in the process of segregating the portion of the capitalized costs that relates to these activities. The Company intends to seek a parliamentary appropriation for this amount and apply the appropriation to reduce both the carrying value of the stations and the amount of the respective loans by Canada.

My report to the Minister of Energy, Mines and Resources on the examination of the Company's accounts for the year ended March 31, 1976, was qualified because it is not known whether the aggregate of parliamentary appropriations and proceeds from eventual sales will be sufficient to recover the cost of these prototype stations.

16.8 Atomic End of Canada Limited - Failure to accrue interest on loans from Canada. My 1975 Report (paragraph 6.3) drew attention to the failure of Atomic Energy of Canada Limited to accrue interest on loans from Canada relating to the financing of the Douglas Point and

Gentilly I prototype nuclear power stations for the period following their in-service dates. The liability for such interest at March 31, 1976, amounted to \$62 million of which \$9 million was incurred during the year then ended.

The Company has held discussions on refinancing these installations with the Department of Finance and the Treasury Board Secretariat during the past year, but no appropriation from Parliament has yet been sought to provide funds for payment of the unrecorded interest.

My report to the Minister of Energy, Mines and Resources on the examination of the Company's accounts for the year ended March 31, 1976, was qualified because the Company failed to record in the accounts the interest which, in accordance with the terms of borrowing, has accrued on the loans during the period following the in-service dates of the stations.

16.9 Atomic Energy of Canada limited - Fail to provide for loss relating to Argentine contract. Atomic Energy of Canada Limited (AECL) in partnership with Italimpianti - Societa Italiana Impianti, Italy, (Italimpianti) entered into a contract effective April 11, 1974, to supply within a period of 69 months a 600 MW capacity nuclear power station with CANDU PHW reactor to Comision Nacional de Energia Atomica, Argentina (CNEA). The partners are individually and jointly responsible for carrying out the terms of the contract.

Under the terms of the contract, AECL provides Canadian goods and services, including project and design engineering and Argentine goods and services, at firm prices subject to some escalation. In the case of the Canadian goods and services, the adjustment for escalation is subject to a ceiling. AECL has also agreed to lease the heavy water required to operate the power station.

The contract includes specific penalties for late delivery and bonuses for early delivery. Penalties are also provided relating to certain technical and material supply guarantees.

In 1975 AECL estimated that it would incur a loss of approximately \$100 million on this contract and met Italimpianti and CNEA in the first half of 1976 to renegotiate the terms, including prices, escalation provisions and date of delivery. Although the main renegotiations were completed before the financial statements of AECL for the year ended March 31, 1976, were issued on June 16, 1976, a new agreement had not been drawn up and the terms had not been approved by the competent authorities of the countries of the three contracting parties.

Under generally accepted accounting principles, full provision should be made for all known or estimated losses on uncompleted contracts. In view of the incomplete status of the renegotiation of this contract, AECL made no such provision for loss in its financial statements for the year ended March 31, 1976, and our report to the Minister of Energy, Mines and Resources on these financial statements

was qualified accordingly.

16.10 Canadian Broadcasting Corporation - Accrued interest not recorded. My 1975 Report (paragraph 6.4) referred to the failure by the Canadian Broadcasting Corporation to record accrued interest on loans from Canada amounting to \$198 million on which payments of principal and interest were deferred until March 31, 1979, by Orders in Council.

Unrecorded interest on such loans for the fiscal year ended March 31, 1976, amounted to \$14 million and the total liability for accrued interest at March 31, 1976, was \$28 million. My report on the financial statements was qualified for failure to record this interest.

16.11 Company of Young Canadians - Severance payments to volunteer memo My report to the Secretary of State dated June 10, 1976, on the accounts of the Company of Young Canadians for the year ended March 31, 1976, contained a qualification in respect of a resolution by the Council of the Company to make severance payments equivalent to one month's living allowance to volunteer members of the Company immediately before its dissolution in March 1976. Such payments amounted to \$185,500. In my opinion, authorization for these payments was not within the powers of the Company under the Company of Young Canadians Act, R.S., c. C-26.

16.12 Fisheries Prices Support Board - Weaknesses in administration. The financial statements of the Fisheries Prices Support Board for the year ended March 31, 1976, are the first statements of the Board to be submitted to my Office for audit. In my report on the statements I stated that due to serious weaknesses in internal control I was unable to satisfy myself concerning the appropriateness of deficiency payments to fishermen and producers totalling \$834,000. These weaknesses included inadequacies in documentation and in procedures for processing claims, coupled with the failure of the Board to audit the records of producers to validate their claims. The Board has stated that it is taking steps to correct these deficiencies.

My report also disclosed that:

(a) the Board had not sought approval of the Governor in Council, as required by the Fisheries Prices Support Act, R.S., c.F-23, for the prices at which it purchased fishery products totalling \$2.5 million. A note to the financial statements sets out the Board's intention to seek the required approval on a retroactive basis; and

(b) the absence of any supporting documentation relating to the establishment of prices prevented me from satisfying myself that the Board had complied with the requirement of its Act to endeavour to secure a fair relationship between the returns from fisheries, and those from other occupations, in prescribing prices for the purchase of fisheries products and for determining the level of deficiency payments. The Board has stated that such legislated requirements have become outdated since 1944, and are now of lesser importance than consideration of whether the current income of a group of fishermen has

been seriously affected by a decline in raw fish prices, or by an increase in their operating costs relative to the immediately preceding period.

16.13 National Capital Commission - Capital assets recorded at values greater than amounts to be realized on disposal. My 1975 Report (paragraph 6.7) drew attention to agreements whereby the National Capital Commission is committed to dispose of certain properties under agreements with the Provinces of Ontario and Quebec, the City of Ottawa and railway companies at amounts substantially less than cost. Property surveys had not been completed and the final determination of the cost and of the proceeds of sale had not been made at March 31, 1976. As a result, the properties to be transferred were shown at cost and not at estimated realizable value on the balance sheet at March 31, 1976. My report to the Minister of State for Urban Affairs on the examination of the Commission's accounts was qualified accordingly.

16.14 National Capital Commission - Failure to repay loans from Canada. During 1975 the Department of Public Works (DPW) received various Treasury Board authorizations to negotiate and complete a purchase of lands in the Ottawa centre core at a cost of \$22 million. It was subsequently decided that the purchase arrangements would be concluded by the National Capital Commission (NCC) and accordingly the Governor in Council authorized the purchase by NCC of the centre core lands, in accordance with the terms which had been negotiated by DPW.

The NCC financed the purchase of the centre core lands with the proceeds of the sale to the Crown (represented by the Minister of Public Works) of properties at Rideau Centre, Place du Portage and Place du Centre which the Commission had purchased some years ago. The sale price was set at \$25 million to be settled by a cash payment of \$22 million and utilization of an advance of \$3 million made to NCC by DPW in 1972. However, the acquisition of these properties was funded through loan appropriations totalling approximately \$11 million, the terms of which, as set out in Orders in Council, required the NCC to repay the loans if the property acquired from such loans was "sold, granted, conveyed, or otherwise disposed of". The Orders in Council further provided that if moneys received exceeded the amount of the loans "such excess shall be applied against the principal outstanding on other loans made to the Commission". In this case the excess is estimated to be \$14 million.

In my opinion the \$22 million received from DPW should have been applied against outstanding loans as required by the Orders in Council authorizing the purchase of the properties disposed of. The funds would not then have been available for purchasing centre core lands, and parliamentary authority would have been required to provide the funds to do so. My report to the Minister of State for Urban Affairs on the examination of the Commission's accounts for the year ended March 31, 1976, was qualified accordingly.

16.15 Pilotage Authorities - Contingent liabilities for superannuation costs. Under provisions of the Pilotage Act, 1970-71-72, c. 52, contract pilots may choose to become employees of the

Authorities and become entitled to count earlier service as pensionable under the Public Service Superannuation Act, R.S., c. P-36. Certain pilots have exercised their option to become employees and have elected to purchase pensions in respect of past service. These elections have created an obligation to make matching employer contributions. The Authorities are of the opinion that any liability rests with the Crown and that they will not be required to meet the obligations. They believe they should not be required to make any payments for services performed before the Authorities came into being and before the pilots became their employees. Accordingly, no provision has been made in the respective accounts of the Authorities. The facts are disclosed in notes to their financial statements. In respect of past service elections made to December 31, 1975, the total payments required over the years as employer contributions to the Superannuation Plan have been estimated at \$1.5 million. A further contingent liability for employer contributions to the Superannuation Plan, estimated to exceed \$1 million, exists in respect of possible future elections by pilots.

Our reports on the financial statements of the Atlantic Pilotage Authority, the Laurentian Pilotage Authority and the Great Lakes Pilotage Authority, Ltd., were qualified because their accounts present a true and fair view of their financial position only if the Authorities are not held liable for the costs of past service pension contributions.

16.16 Royal Canadian Mint - Understatement of net income. In 1975 the Royal Canadian Mint sold approximately half its land holdings in Winnipeg. The entire sales proceeds of \$1,118,000, including a net gain of \$439,000, were recorded in the accounts of the Mint as a deduction from the cost of land shown on the balance sheet. If generally accepted accounting principles had been followed, the net gain would have been taken into income and net income reported for the year would have been \$3,234,000 instead of \$2,795,000. Under the Royal Canadian Mint Act, A.S., R-8, the reported net income for 1975 was required to be paid over to the Receiver General for Canada. Therefore the amount to be paid over was similarly understated in the accounts by \$439,000.

Our report to the Minister of Supply and Services on the financial statements of the Mint for the year ended December 31, 1975, was qualified because of the failure to record the gain on sale of land in net income.

16.17 The St. Lawrence Seaway Authority - Inadequate provision for depreciation of fixed assets. My 1975 Report (paragraph 6.10) drew attention to the failure of The St. Lawrence Seaway Authority to provide for depreciation on the major portion of its fixed assets. During the 15 month period ended March 31, 1976, no depreciation was recorded on \$399 million of the Authority's total fixed assets of a depreciable nature of \$415 million. Failure to provide adequately for depreciation on all capital assets that are susceptible to deterioration and obsolescence is not in accordance with generally accepted accounting principles. My report to the Minister of Transport on the Authority's financial statements for the 15 months ended March

31, 1976, was qualified accordingly.

16.18 Failure to accrue employee termination benefits. Employees of Crown corporations are usually entitled to receive payment of termination benefits on retirement or separation. Generally these benefits accrue to employees with service of more than 10 years and are payable in accordance with governing legislation or collective agreements, or both. Employee termination benefits represent a cost of employment and as such should be accrued in corporation accounts over the service periods of the appropriate employees and reflected in the annual operating results and accumulated surplus or deficit balances.

Although many Crown corporations properly accrue employee termination benefits, others charge termination benefit costs to operations of the period in which payments are actually made, usually disclosing the estimated liability for the benefits by way of a note to the financial statements. Where this failure to accrue employee termination-benefit costs affected the fairness of the financial statements of a corporation, my report on those financial statements was qualified. The corporations for which my report was qualified in this respect, and the estimated amounts of the unrecorded liability accumulated to March 31, 1976, are as follows:

<u>Corporation</u>	<u>Estimated amount of unrecorded liability at March 31, 1976</u>
Atomic Energy of Canada Limited	\$ 10,000,000
Canadian Broadcasting Corporation	28,700,000
Farm Credit Corporation	1,125,000
The St. Lawrence Seaway Authority	6,000,000
The Seaway International Bridge Corporation, Ltd.	64,000

OBSERVATIONS REPORTED IN ACCORDANCE WITH THE REQUIREMENTS
OF SECTION 61(1) (a) TO (f) OF THE FINANCIAL ADMINISTRATION ACT

Section 61(1)(a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada

17.1 Failure to recover costs of trans-border highway services between Canada and the United States. Article 9(b) of the 1961 Postal Convention between Canada and the United States provides that each country bear the cost of conveying its surface mails to the other. This Article further provides that if by agreement one country does the conveying in both directions over land, other than by rail, each shall share transportation costs in proportion to the distance travelled over its territory. In such cases, each country pays the full cost and claims reimbursement for that portion attributable to the other.

In September 1970 administration of trans-border highway services was transferred to the appropriate district offices as part of the decentralization program of the Post Office. Our audit of the Southwestern Ontario District Office in July 1975 disclosed that it had been paying its portion of the costs of trans-border highway services operated by the U.S. Postal Service but that since April 1, 1971, the United States had not been billed for its share of the cost of similar services provided and paid for by Canada. Since bringing this matter to the Department's attention, both district and headquarters levels have exchanged correspondence with the U.S. Postal Service with a view to effecting settlement. The amount recoverable by Canada in respect of the Southwestern Ontario District Office has been calculated by the Department at \$48,000 to March 31, 1976. There is another \$7,000 for the Central Ontario District Office for 1970-71 which was billed to the U.S. Postal Service but not paid and on which no follow-up action has been taken.

In April 1976 the Department requested all regional offices to provide details of any other trans-border services within their districts together with accounts of their costs and the basis on which these costs are shared between the two countries. The Department met with the U.S. Postal Service on September 1 to discuss settlement and future action with respect to Canada - United States cost sharing of trans-border services. Both parties agreed that no contract for trans-border services would be concluded in future without reference to headquarters in Ottawa and Washington through which all recoveries will be made.

Section 61(1)(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament

17.2 Payment to Manitoba improperly charged to 1975-76 appropriation. An agreement between the Department of the Environment and the Province of Manitoba to rehabilitate and develop a wildlife sanctuary stipulated that costs be shared equally between Canada and

the Province. The Province was to undertake the work from April 1, 1974, to March 31, 1979. If the Province wished, Canada would assist with the interim financing by an advance contribution of \$350,000 towards its share of the costs in 1974-75 and \$312,500 in each of the succeeding four years. Also, at the request of the Province, Canada could increase its annual advance contribution in any fiscal year, with compensating reductions in an ensuing year. The Province undertook to furnish detailed audited statements of expenditure on a quarterly basis.

In accordance with the agreement, Canada made advance contributions of \$350,000 in 1974-75 and \$312,500 in 1975-76. On March 29, 1976, the Province requested an interim contribution from Canada for 1976-77 of \$463,000. This amount was paid in April 1976 and charged to a 1975-76 appropriation of the Department. This was contrary to Section 30 of the Financial Administration Act which provides for such a payment to be applied to the previous year's appropriation only if an obligation existed at the end of the year in accordance with a contractual arrangement.

Furthermore, although Canada's contributions amount to \$1,125,000 of \$1,600,000 authorized under the agreement, the only audited statement from the Province covers the period April 1, 1974, to June 30, 1975, and accounts for expenditure of \$83,600 of which Canada's share is \$41,800. The Department advises that it has requested the Province to furnish audited reports and that in future such reports will be analyzed to ensure that further payments are justified.

17.3 Contract payment improperly charged to 1975-76 appropriation. The Department of the Environment entered into a contract on April 21, 1976, to obtain computer technology, to be completed in four phases, the first in August 1976 and the last in February 1977. The contract, amounting to \$198,600, was to be funded to the extent of \$35,000 by the Canadian Forestry Service and \$20,000 by the Canada Land Directorate, both part of the Department, with the balance of the funds, \$143,600, provided by the Department of Supply and Services. Monthly progress claims were to be based on laid-down cost of materials and 75% of labour charges, as calculated at prescribed rates, and all progress claims were to be supported by invoices.

The contractor submitted a billing dated March 31, 1976, to the Forestry Service for \$35,000 with no supporting evidence to indicate what, if any, work had been completed. Contrary to the provisions of the contract, the billing was neither detailed nor substantiated. It did not have the required holdback of 25% on labour charges deducted and it represented the Service's full share of the contract costs.

The Department paid the claim in full in April 1976 and charged the amount to its 1975-76 appropriation. Section 30 of the Financial Administration Act provides for payment during the first 30 days immediately following the end of the fiscal year for goods received or services rendered before the year-end or payable then under any contractual arrangement. The amount paid was not a proper charge to

1975-76 since there was no evidence that any work had been completed before the year-end and the contract was not in force at that date.

17.4 Acquisition of properties in Hong Kong improperly charged to 1975-76 appropriation. On March 11, 1976, the Department of External Affairs received authority from the Treasury Board to purchase 15 staff-quarter units in Hong Kong at a maximum cost of \$2.5 million, plus legal, real estate and related fees. Up to 10 units were to be purchased in 1975-76, for which \$1.5 million was available in the Department's capital budget, and five additional units in 1976-77, for which provision was made in the Department's 1976-77 budget.

On March 24, 1976, the Department paid to a legal firm in Hong Kong \$801,000 to be held in escrow for the purchase of the staff quarters. The legal firm invested the funds in three-month deposit receipts callable on demand, pending the purchase of suitable quarters.

The Treasury Board has directed that when property is purchased at the year end, a charge may be made against funds of the old year only if agreement for purchase was reached prior to March 31 and evidence of clear title delivered by April 30. Since neither condition was met, the amount of \$801,000 is not a proper charge against the 1975-76 appropriation of the Department.

17.5 Expenditure in excess of an appropriation. Vote 40 of the Ministry of State for Urban Affairs authorized program expenditures and contributions of \$5,026,000 for the Canadian Habitat Secretariat in 1975-76. Expenditure charged to the Vote during the year amounted to \$5,227,600, \$201,600 in excess of the appropriation, contrary to Section 26(3) of the Financial Administration Act which prohibits any payment being made that would result in an expenditure in excess of the appropriation. The overexpenditure of the appropriation resulted from ineffective budgetary control by the Secretariat.

17.6 Working capital advances exceeded. When Parliament authorizes the establishment of a revolving fund in an appropriation act, it also sets the limit on the total advances that may be outstanding at any one time. During the year we noted the following cases where advances exceeded the amount authorized:

(a) The maximum amount that may be advanced at any time to the Public Service Commission Staff Development and Training Revolving Fund is \$2 million as established by Secretary of State Vote L 112b, Appropriation Act No. 4, 1974, 1974-75-76, c. 21. Although the amount outstanding at March 31, 1976, was \$1.7 million, our examination of the Fund's accounts and records during the year disclosed that the authorized amount was exceeded during each of the first eleven months of the year.

(b) Post Office Vote 541, Appropriation Act No. 4, 1954, 1953-54, c. 67, established a working capital advance account for acquiring and managing material to be used in manufacturing uniforms, satchels and mailbags. Paragraph 7.3 of our 1975 Report noted that the Post Office

had exceeded by \$200,000 the authorized limit of \$1.5 million for the account.

In 1975-76 the Post Office exceeded the authorized limit each month by amounts ranging from \$700,000 in December 1975 to \$62,000 at March 31, 1976, due to unexpected delays in the delivery of completed products and to increased demands for mailbags and uniforms.

Subsequent to the comment in our 1975 Report, the Post office undertook an audit directed primarily at an assessment of financial controls over the advance account. Inadequacies and weaknesses in financial controls were reported with recommendations for improvement.

An increase in the authorized maximum of the advance was also recommended. On April 29, 1976, the Treasury Board approved a submission made March 24 proposing an increase in the authorized limit from \$1.5 million to \$3 million, subject to a Supplementary Estimate being sought. On the same date the Treasury Board approved an allocation of \$500,000 from its 1976-77 Vote 5, Government Contingencies, to be reimbursed when the Supplementary Estimate is obtained.

(c) The maximum amount that may be advanced at any time to the Canadian Government Photo Centre Revolving Fund was established at \$450,000 by Secretary of State Vote L90, Appropriation Act No. 3, 1971, 1970-71-72, c. 46. Our examination of the Fund's accounts disclosed that the authorized amount was exceeded in each of the months of April, July and August, 1975. During recent months steps have been taken to improve control over and collection of accounts receivable to minimize working capital requirements.

Section 61(1)(d) an expenditure was not authorized or was not properly vouched or certified

17.7 Nugatory payment arising from termination of a transportation contract. In July 1975 the Canadian International Development Agency requested the Canadian Commercial Corporation to arrange transportation of food supplies, including 2,000 tons of wheat flour, from an eastern Canadian port to Port-au-Prince, Haiti, between September 8 and 22, 1975, or as early as possible after the product was ready. The supplies were being forwarded in response to an urgent request from the Government of Haiti.

On August 13, 1975, a contract for \$92,000 was awarded for shipping the wheat flour from Halifax. On the following day, the Agency arranged for immediate shipment of 500 tons of wheat flour from Montreal by another carrier which later transported the balance of 1,500 tons. The original contract was cancelled and the carrier filed a claim for \$35,000. Following legal advice, the amount of \$35,000 was paid and charged to the appropriation of the Agency.

This transaction was completed without obtaining the approval of the Governor in Council which is required when no value or service is received by the Crown.

Section 61(1)(e) there has been a deficiency or loss through the fraud, default or mistake of any person

17.8 Losses through the fraud, default or mistake of any person.

Section 61(1) (e) of the Financial Administration Act requires the Auditor General to report annually to the House of Commons every case in which he has observed that there has been a deficiency or loss through the fraud, default or mistake of any person.

Section 98(3) of the Act requires every payment out of the Public Officers Guarantee Account and the amount of every loss suffered by Her Majesty by reason of defalcations or other fraudulent acts or omissions of a public officer, together with a statement of the circumstances, to be reported annually in the Public Accounts. In accordance with this requirement, Volume I of the 1975-76 Public Accounts details such losses in Section 12. These are summarized as follows:

	<u>Number</u>	<u>Losses</u>	<u>Recoveries</u>	<u>Net loss</u>
Cases reported in 1975-76 -				
Environment	1	\$ 1,500	\$ -	\$ 1,500
Indian Affairs and Northern Development	3	29,185	1,906	27,279
National Defence	3	3,875	3,875	-
National Health and Welfare	1	29,444	27,756	1,688
National Revenue -				
Customs and Excise	4	636	203	433
Taxation	3	475	-	475
Post Office	110	232,012	54,465	177,547
Public Archives	1	3,974	360	3,614
Solicitor General -				
Royal Canadian Mounted Police	3	1,361	1,361	-
Veterans Affairs	2	14,815	13,989	826
Sub-totals	131	317,277	103,915	213,362
Additional losses on cases reported in prior years	15	11,731	7,962	3,769
	146	\$ 329,008	\$ 111,877	\$ 217,131

Losses caused by default or neglect of postal employees are chargeable to the Post Office Guarantee Fund and losses suffered by reason of defalcations or other fraudulent acts or omissions of public officers in other departments are chargeable to the Public Officers Guarantee Account. During 1975-76 the amounts charged to the Fund and to the Account were \$155,540 and \$45,139 respectively.

In the course of our examination, we have identified no further losses by reason of defalcations or other fraudulent acts or omissions of public officers except for those cases which are still under

investigation as at March 31, 1976, and are therefore not reported in the 1975-76 Public Accounts but will be reported when finalized.

In addition to losses involving public officers, there are inevitably, in the administration of the numerous and complex programs of the Government, some losses through the fraud, default or mistake of individuals outside the Public Service. These, when encountered in our test examinations, are brought to the attention of the administering department and, if significant, are commented on in our Report. There were a number of possible fraud cases of undetermined amounts, some of which may involve public servants, which were not pursued because sufficient evidence could not be obtained, and other cases which are presently under investigation or before the courts. None of these losses is reported in the Public Accounts.

17.9 Exchange loss due to mistake on cheque requisition. In June 1975 the Department of National Revenue - Customs and Excise received an invoice for payment in the amount of 370 Dutch florins. The cheque requisition was erroneously prepared for 370,000 Dutch florins but the error was not noted during the pre-audit function. The Department of Supply and Services converted the sum to its Canadian dollar equivalent and purchased a Bank of Canada draft at a cost of \$157,000.

The Department of National Revenue, on receipt of the processed requisition discovered the amount to be in error, requested the return of the draft and requisitioned a new cheque for 370 Dutch florins, \$148. The original draft was subsequently repurchased for \$144,000 at a loss of \$13,000 caused by a decline in the exchange rate.

OTHER CASES THAT THE AUDITOR GENERAL CONSIDERS SHOULD BE BROUGHT TO THE NOTICE OF THE HOUSE OF COMMONS IN ACCORDANCE WITH SECTION 61(1) OF THE FINANCIAL ADMINISTRATION ACT

18.1 Payments to agents inadequately documented. In November 1972, Atomic Energy of Canada Limited (AECL) appointed an exclusive agent to act on AECL's behalf to effect the sale of a nuclear generating station in the territory of the Republic of Korea. Terms and conditions satisfactory to AECL and to the Government of Canada were to be established subsequently.

On December 30, 1974, the then President of AECL communicated with the agent confirming the understanding that the agent's fee in respect of the supply contract, then successfully negotiated, would be \$17,000,000, plus \$3,000,000 for services to be rendered (\$500,000 a year for the six years following the coming into force of the contract) for a total of \$20,000,000, being approximately 5% of the initial contract price.

The supply contract was signed on January 27, 1975, and came into force on January 26, 1976. On this latter date the agent submitted billings for \$17,000,000 and for the first \$500,000 annual instalment, both payable on February 26, 1976.

The new President of AECL, who had been appointed in January 1975, did not immediately authorize payment of the invoices as he was having second thoughts about the amounts involved. On February 17, 1976 he raised the matter with the recently appointed Chairman of AECL who discussed his and the President's concern with Ministers and senior Government officials. It was decided to inform the agent that the invoices as submitted could not be paid but that AECL stood ready to pay reasonable amounts for past and future services.

The agency agreement was discussed at a special meeting of the Board of Directors on March 1, 1976, and on March 2 and 3, 1976 meetings were held with the agent and some of his senior executives during which a memorandum of understanding dated March 4, 1976, was drawn up outlining a new arrangement.

In summary it was agreed that:

(a) the agent would submit a statement of account detailing all services performed in the period commencing on June 15, 1972, and ending with the coming into force of the supply contract on January 26, 1976, including a charge to cover overhead and administrative costs;

(b) the agent would submit an invoice covering the fee for services rendered in the prosecution of the sale in an amount equal to 1% of the contract value of \$514,239,170 (being \$424,104,000 escalated from

June 1974 to January 26, 1976, in accordance with the provisions of the contract).

In addition, it was agreed that in the event that the supply by AECL to Korea of a second unit is made, AECL would retain the services of the agent as its exclusive agent in the Republic of Korea in respect of such supply.

In accordance with discussions that took place in March, 1976, the agent subsequently entered into a "Contract Support and Services Agreement" with AECL outlining types of administrative and other services of a non-technical nature that might be rendered subsequent to January 26, 1976, during the period of construction and until the expiration of the warranty period. For such future services, AECL is to pay up to an aggregate amount not to exceed \$5,142,392 based on quarterly statements detailing actual expenses incurred, with the further proviso that quarterly payments will be at the minimum rate of \$175,000. The agreement also provides for an advance payment of \$2,000,000 to be applied in respect of such services.

On April 7, 1976, a payment of \$15,373,181 was made pursuant to the agency agreement comprising:

Commission - 1% of contract price	\$ 5,142,392
Expenses	8,098,500
Interest re delay in payment of invoices from February 26 to April 7, 1976	132,289
Advance payment for post contract services	2,000,000
	\$15,373,181

The documentation in support of the expenses totalling \$8,098,500 consists of four invoices - three from the agent's consultants in amounts of \$1,285,000, \$514,000 and \$899,500 - and the fourth for \$5,400,000 from the head office of the agent's group of companies. The amount of \$5,400,000 is an allocated proportion of the total expenses of the agent Company for the years 1972 to 1975 made by that Company in accordance with the instructions of its President. Attached to the \$5,400,000 invoice is a statement issued by the agent's auditors that the expenses were allocated in accordance with the agent's instructions.

Subsequently the agent's auditors expressed the opinion that the costs and expenses related directly to the project had been fairly presented, and the allocations of administrative and general expenses had been limited to the figures needed to arrive at a total of about US \$5,400,000 and represented a part only of such expenses which could properly have been charged to the project.

In our opinion, the invoices and documents provided do not fulfil satisfactorily the undertaking in the memorandum of understanding dated March 4, 1976, that the agent shall submit a statement of account detailing all services performed during the

period commencing June 15, 1972, and the coming into force of the contract on January 26, 1976. We consider that the documentation in support of the payment of \$8,098,500 is inadequate, in that it is supported only by general statements without details.

In addition, the April 30, 1976, quarterly statement the amount of \$295,000 presented pursuant to the "Contract Support and Services Agreement" does not provide any information about the nature of the expenses incurred.

AECL effective April 11, 1974, contracted together with its partner, Italimpianti - Societa Italiana Impianti, Italy, (Italimpianti) to supply a 600 megawatt (electric) nuclear generating station to Commission Nationale de Energia Atomica, Argentina. On April 19, 1974, the then President of AECL authorized the payment of a \$2,415,000 (\$2,500,000 U.S. funds) commission to a "commercial agent" relating to "services rendered during negotiations over an extended period".

The payment was made on instructions (January 28, 1974) from Italimpianti who subsequently confirmed (March 11, 1974) that the direct payments by Italimpianti for the same purpose would total \$2,500,000 U.S. funds and that they had advanced \$300,000 U.S. funds in March 1973.

This payment of \$2,415,000 is not supported by an agreement or invoice from the agent. We consider that the correspondence with Italimpianti does not provide adequate supporting documentation.

18.2 Purchase and modification of a fishing vessel unfit for navigation. As part of a project of technical assistance in fisheries training methods to the Republic of Colombia, the Canadian Commercial Corporation purchased the "MV Gulf Guard" for \$175,000 on behalf of the Canadian International Development Agency. A contract for modification was awarded at \$264,500 but later increased to \$453,800 because of unforeseen requirements, bringing the total cost of the ship to \$628,800. Additional costs for advisers, crew travel, etc., brought the total cost to the Agency to \$828,000 at March 31, 1976.

In April 1976 the Republic of Colombia refused to accept the ship, because of her instability and unsuitability for the proposed operation. Alternative courses of action are still being sought.

18.3 Deterioration of emergency food shipment. Following a request from the Government of Haiti for food aid on an emergency basis, the Canadian International Development Agency in June 1975 initiated a \$1 million program, including the supply of various types of seeds.

Seed potatoes valued at \$63,900, including transportation charges, were ready for loading at Summerside, P.E.I., by mid-November. A transportation contract for the seed potatoes was

arranged by the Canadian Commercial Corporation. Shipping was delayed when the carrier failed to carry out the contract and another vessel had to be obtained. Loading was completed on December 11, 1975.

Instead of proceeding directly to Haiti, the vessel picked up other cargo in Baie Comeau, Quebec, and arrived at Port-au-Prince on December 30, 1975. Canadian Embassy staff in Haiti and representatives of the Haitian Government noted signs of frost and sea-water damage to the potatoes. The cargo of seed potatoes had completely deteriorated and had to be buried immediately.

A claim for the loss was made against the shipper by the Canadian Commercial Corporation. The shipper is resisting the claim, alleging that the damage to the cargo was due to sea-water entering the vessel during heavy storms encountered during the voyage and that no proof of freezing has been produced.

18.4 Inadequate control of payments to fishermen and fish processor. During the year the Department of the Environment instituted a program aimed at rehabilitating the groundfish industry by payments to fishermen and to Canadian processors of fishery products. The program applied only to certain species of fish, with limitations placed on both the quality and the quantity to be accepted. Payments to fishermen amounted to \$21,528,000 and to processors \$16,903,000. For fishermen the payments were based on landings and for processors on a portion of production.

The Department did not introduce centralized uniform rules and procedures to govern the payments, with the result that action to discontinue payments was not taken promptly when the total groundfish landings eligible for assistance was reached. Consequently, the Department paid out approximately \$1 million after the program reached the quantity limitations.

Payments were made on the basis of claims submitted to four departmental regional offices which, in a large measure, had the responsibility of developing and implementing their own systems and procedures. Despite a lack from the outset of central direction and control of the procedures adopted and followed, it was not until late in the year that the Department requested internal audits at the major regional offices which processed claims accounting for nearly 90% of the total amount involved. As a result, the corrective action called for by the audits could not be taken before the year-end.

The most serious of the numerous internal control weaknesses noted at these major regional offices are described below. Because of them we were unable to satisfy ourselves as to the appropriateness of the bulk of the expenditures made under the program:

(a) The required data submitted in support of the quantities and quality of the fish shown on fishermen's claim forms on which payments were based was not retained by the Department but returned to the claimants.

(b) Claim forms bore no evidence of having been checked for eligibility or authenticity. One case was noted where \$80,000 was paid to a processor with respect to claims submitted after the temporary registration issued to him by the Department had expired.

(c) Claim cheques were not sent directly to recipients in accordance with accepted internal control requirements, but were routed through regional offices which had approved the related claims.

(d) Processors' records were not audited although an official of the Department did make inspections at certain plants. Treasury Board regulations governing contributions call for the audit of such payments.

(e) At one location claims were accepted for payment without making all the required checks. We were informed that this was done to clear up a backlog of claims so that the objectives of the program would not be jeopardized.

Although the Department acknowledges that weaknesses existed in the program, it feels that there were mitigating circumstances. It states that since conditions in the industry were critical and an immediate injection of funds was required, it was necessary to consider the objectives of the program first, and to complete accountability after the initial pressure was relieved. The Department advises that positive measures were taken to ensure that the same weaknesses that existed in 1975-76 would not be repeated in 1976-77 and that it proposed to conduct field audits of processing plants for both the 1975-76 and the 1976-77 years.

18.5 Land rental paid under long-term lease for property not being occupied. In April 1974 the Crown, on behalf of the Department of the Environment, acquired a leasehold interest in a 55-acre waterfront property in Greater Vancouver as the site for the Pacific Environment Centre. The Department paid \$4,000,000 to the previous tenant and agreed to lease back approximately 9.5 acres for renewable 10-year terms at an annual rental of \$1 for the first 10 years, the present worth of which is \$702,000 at current market rental rates.

Since the terms of the acquired lease limited the use of the property to industrial purposes, a new lease was negotiated with the owner covering the same period and providing for an annual rental of \$241,400, negotiable every five years but never to be less than \$241,400 per year. This compares with the annual rental of \$48,180 paid by the previous tenant, renegotiable every 20 years to the year 2045. The amount of \$241,400 was determined on the basis of the estimated market rental rates for the property less the amortization over the life of the lease of the Crown's investment of \$4,702,000 on purchase of the leasehold interest.

In November 1974 the Minister of the Environment advised the owner that despite a decision to defer construction of the Pacific Environment Centre because of budgetary restraints, the Government of Canada would nevertheless honour the agreed rental provisions even

though the lease was as yet unsigned.

On May 31, 1976, the land was identified as excess Crown property by the Department of Public Works on behalf of the Department of the Environment and negotiations were entered into with the owner concerning acceptable alternative uses. The result of these transactions has been:

(1)The previous tenant received \$4,000,000 for its leasehold and simultaneously negotiated a sub-lease on its own behalf for approximately 9.5 acres for renewable 10 year terms, the first of which would be at an annual rental of \$1, and the present worth of which at market rental rates is \$702,000;

(2)The owner of the property now receives an annual rental of at least \$241,400 until the year 2045 in contrast to the \$48,180 per year previously received; and

(3)Since April 1974, the Crown has paid \$4,000,000 and an annual rental of \$241,400 for property for which it has no present use.

18.6 Low return on long-term mortgage credit to farmers. The interest rates payable by the Farm Credit Corporation on funds borrowed from the Consolidated Revenue Fund are rates which are fixed for six-month periods commencing April 1 and October 1. The Farm Credit Act, R.S., c. F-2, and the Farm Credit Act Interest Rates Regulations provide for the interest rate paid by farmers on mortgage loans obtained from the Corporation to be 1% in excess of the fixed borrowing rate applicable to the Corporation for the same six-month period in which the loan to the farmer is approved.

Interest rates determined on this basis, during a period of rising interest rates, have the effect of considerably reducing or eliminating the 1% margin provided to the Corporation by the Act and Regulations when loans are approved during one six-month period and disbursed in the next six-month period.

At March 31, 1976, loans to borrowers approved but not disbursed amounted to \$172.5 million of which \$68.3 million was at 8 1/2% and \$104.2 million at 9%. The majority of these loans were disbursed in the following six-month period, during which the Corporation's borrowing rate was 8 3/4%. As the Corporation's margin on these loans ranges from a maximum of 1/4 of 1% to a loss of the same percentage, there is a continuing loss of potential income during the life of the loan. The actual annual loss to the Corporation on the \$68.3 million of loans at 8 1/2% will be \$170,000.

18.7 Improper accounting and control procedures in the Indian Arts and Crafts Central Marketing Service Revolving Fund. Indian Affairs and Northern Development Vote L18b, Appropriation Act No. 1, 1972, 1972, c.1, authorized the establishment of a revolving fund to finance the operation of the Indian Arts and Crafts Central Marketing Service. The amount outstanding at any time is not to exceed \$1,400,000. The amount recorded as outstanding at March 31, 1976, was

\$821,000.

In the course of our examination of the Department's records relating to the operations of the Fund we noted that improper accounting procedures were being followed:

- the value of inventories of \$364,000 taken at the Fund's inception has been recorded as a current liability of the Fund instead of advances subject to interest.

- from its inception to June 30, 1975, the Fund has been reimbursed by parliamentary appropriations totalling \$1,562,000 for annual operating losses, including \$132,000 for interest and \$113,000 for employees' benefits, but no accounting action has been taken to transfer the latter two amounts to revenues of Canada as required by the Treasury Board Directive on Revolving Funds and Working Capital Advances.

Our examination also disclosed that the inventory and accounting records of the Fund to June 30, 1975, were totally inadequate and that the internal controls were weak or non-existent.

On July 1, 1975, the Department, with Treasury Board approval, entered into an agreement with a Company established for the specific purpose of reorganizing and managing the Indian Arts and Crafts Central Marketing Service. Basically, the agreement aims at a more efficient operation of the Central Marketing Service which frequently requires a fast response to marketing opportunities. The ultimate objective is to transfer control to the Indian people when the Service becomes self-supporting. The agreement runs until December 31, 1977, but may be extended from year to year thereafter.

In entering into this agreement, the Department intended to obtain parliamentary authority through an Appropriation Act to close down the operations of the Revolving Fund and to operate the Central Marketing Service through Indian Affairs and Northern Development Vote 5, Appropriation Act No. 3, 1975, 1974-75-76, c. 57. The Department proceeded as intended but has not obtained parliamentary authority to close down the Fund, which was established specifically to finance the operations of the Central Marketing Service. It is our view that until parliamentary authority is obtained to close down the Fund, all transactions relating to the Central Marketing Service should be recorded in the Fund. The Department has re-affirmed its intention to- have the Fund liquidated as quickly as possible for which purpose parliamentary approval will be sought.

By March 31, 1976, the Company had received \$550,000 as contributions from Vote 5. During this same period Vote 5 was charged with \$79,000 for wages paid to departmental employees engaged in the Central Marketing Service and \$25,000 for partial reimbursement of expenses provided for in the agreement, such as management salaries, professional fees and travel costs incurred by the Company. These amounts are reflected in the financial statements submitted by the Company for the period to March 31, 1976. At that date the Company was administering public property and public moneys of the Central

Marketing Service in the amount of \$1,479,000 and had incurred a nine-month operating loss of \$200,000 before writing off \$381,000 from inventories and accounts receivable. Since these losses are not reflected in the Fund they are not subject to parliamentary scrutiny.

The agreement with the Company provides for all moneys received from the sale of merchandise to be held in trust for the Crown. In our view, these amounts are being improperly retained by the Company because they are public moneys and should be paid into the Consolidated Revenue Fund as required by the Financial Administration Act. The Department proposes to obtain a legal opinion on this question.

We have been advised by the Department that, "The moneys received by the Company from the sale of merchandise, together with the additional contributions made by the Department, were expended by the Company in the bona-fide operations of this enterprise. For this reason it is not now possible for those revenues received in fiscal year 1975-76 to be remitted to the Receiver General for Canada".

18.8 Deficit carried forward in excess of authorized amount. The Treasury Board has authorized the Public Service Commission Staff Development and Training Revolving Fund to carry forward surpluses or deficits annually up to a maximum of \$150,000. The accumulated deficit of the Fund at March 31, 1975, amounted to \$749,000. Of this amount, the Commission sought and received approval from the Treasury Board to recover an amount of \$180,000 from Treasury Board Vote 15 during 1975-76. However, parliamentary authority should have been sought in 1975-76 Supplementary Estimates to recover a further \$419,000 of the deficit. Instead, the Commission sought to have the carry-forward authority increased from \$150,000 to \$900,000 because it intended to recover the deficit from future operations. This request was not approved by the Treasury Board. The Commission plans to seek an appropriation in 1976-77 to recover the deficit at March 31, 1976, of \$747,000.

18.9 Excessive payments for residential services. In April 1975 the Treasury Board authorized the Department of the Solicitor General to expand its program of assistance to privately-operated Community-based Residential Centres (CRCs). The CRCs were to provide certain services for parolees in 1975-76 at approved per diem rates with a guaranteed minimum number of referrals each month, based on 75% of the average monthly use of the facility by the Department in the previous year. However, the applicable contracts were written to provide guarantees based on 75% of the average monthly maximum number of referrals in 1974-75, resulting in overpayments totalling \$61,000. One centre voluntarily refunded \$7,200 to compensate for the difference between the guaranteed minimum in its contract and the actual number of referrals.

For the fiscal year 1976-77, contracts with minimum guarantees have been amended to provide for guarantees based on 75% of the average monthly use of each facility during 1975-76 as provided for by the Treasury Board authority.

18.10 Inadequate guidelines for determining ferry deficits. The British North America Act requires Canada to provide efficient steam service for conveying mail and passengers between the mainland and Prince Edward Island. Under the Terms of Union with Newfoundland, Canada in 1949 took over operation of the Newfoundland Railway which includes certain marine services such as the Newfoundland coastal service and the North Sydney - Port aux Basques ferry service. That same year Canada assigned the management and operation of the services to the Canadian National Railways under an entrustment order "upon such terms and subject to such regulations and conditions as the Governor in Council may from time to time decide". No regulations or conditions have been issued by the Governor in Council and the CNR has operated the services without any formal agreement or guidelines. The Department of Transport has underwritten operating deficits calculated annually by the CNR.

Increased costs, more frequent sailings and low tariffs have resulted in increasing deficits, as shown in the following table:

	1975	1974	1973
	(in millions)		
North Sydney - Port aux Basques ferry service	\$ 60.3	\$ 60.3	\$ 35.7
Newfoundland coastal service	22.0	19.6	15.6
P.E.I. ferry service	13.0	10.7	8.3
	\$ 95.3	\$ 90.6	\$ 59.6

Absence of a formal agreement covering the terms and conditions for the operation of these services results in the Department of Transport being unable to verify the ferry deficits charged to its appropriation each year.

The Department has advised us that, in order to correct this situation and establish the required controls, a new subsidiary company of the Canadian National Railways will operate the subsidized ferry services.

COMMENTS ON MATTERS DEALT WITH IN PREVIOUS YEARS' REPORTS

19.1 Introduction. It is a policy of the Audit Office to encourage prompt remedial action on detected deficiencies and irregularities and to this end the Office maintains constant liaison with government departments, agencies and Crown corporations to obtain the co-operation of officials concerned with introducing corrective measures and to monitor their progress. Where our monitoring activities reveal that appropriate action has not been taken on matters disclosed in previous Reports, we report the circumstances to the House of Commons together with the reasons given by the officials concerned.

Part 4 of this Report includes our comments on actions taken during the past year to implement the major recommendations of the financial management and control study which were included in the Supplement to my 1975 Report. The present Part deals with other matters included in previous Reports which are of sufficient significance to be brought to the attention of the House again.

19.2 Reports of the Tree Bard Secretariat. By letter dated March 10, 1976, the Secretary of the Treasury Board advised the Public Accounts Committee of actions taken by various departments to resolve matters raised in my 1975 Report, other than those relating to the financial management and control study. The letter was tabled at the Committee meeting of March 16, 1976, and is included as Appendix G to this Report. The Secretary reported that action had been taken to resolve matters raised in 31 paragraphs; eight paragraphs were identified as dealing with problems which were considered as part of the Study of the Accounts of Canada and which, following the Committee's recent review of the Study Report, could be satisfactorily resolved; 12 paragraphs were considered to be such that it was not possible at March 10, 1976, either to determine whether the action initiated had resolved the problems or to discern readily the action required; and the remaining paragraphs were considered as general comments where no action appeared to be required.

19.3 On June 21, 1976, the Secretary of the Treasury Board informed the Public Accounts Committee of the Board's response to each of the 34 recommendations arising from the financial management and control study which were contained in my 1975 Report. The letter was tabled at the Committee meeting of June 29, 1976, and is included as Appendix H to this Report. The Secretary also referred to the listing of detailed recommendations developed by my Office from material contained in the Supplement to my 1975 Report and reported that they would be taken into consideration in carrying out the actions referred to in the response. He also noted that 79 of the additional 224 recommendations were reiterations of existing Treasury Board policy and that the Financial Administration Branch would continue to monitor departmental compliance with these and other policy requirements.

19.4 By letter dated July 27, 1976, the Secretary of the Treasury Board reported on action taken to resolve certain outstanding matters involving 13 paragraphs of my 1974 Report. This letter is included as Appendix I to this Report.

These reports by the Secretary of the Treasury Board to the Public Accounts Committee on the action taken to resolve matters reported by the Auditor General are of great assistance to the Committee and to my Office. They provide a useful record of progress achieved and of matters requiring further consideration by the Committee. Also, they contribute significantly to the continuing follow-up and monitoring activities of my Office.

19.5 Acquisition of Radio Engineering Products Limited as satisfaction for debts due to the Crown. The Public Accounts Committee in its Second Report to the House of Commons on March 6, 1975, requested the Auditor General to inform the House of developments in this matter.

In my 1975 Report (paragraph 11.7) we reported that it was the intention of the Department of Industry, Trade and Commerce to sell Radio Engineering Products Limited as soon as it had regained sufficient financial stability and marketing

prospects to attract a suitable buyer. This did not happen and on November 27, 1975, the Company filed a voluntary declaration of bankruptcy. At the time of bankruptcy it was indebted to the Crown to the extent of \$6 million.

The Trustee has informed us that he neither foresees any significant recovery nor expects further losses to the Crown.

19.6 Income tax owing by non-residents. Previous Reports (paragraph 103 in 1973) referred to deletion from the accounts of Canada of income tax revenue that could not be collected because the taxpayers were no longer resident in Canada.

During the year such deletions amounted to \$850,000 owed by 161 taxpayers.

The Public Accounts Committee in its Second Report dated March 6, 1975, recommended that:

"... consideration be given to changing the confidentiality provision (of the Income Tax Act) to require the publication of the names of all taxpayers whose accounts are written off."

On June 26, 1975, the Secretary of the Treasury Board submitted to the Public Accounts Committee the following comment on paragraph 103 of our 1973 Report:

"The question of confidentiality of tax information is under consideration by representatives of Justice, National Revenue - Taxation and Finance. One of the points under consideration is the publication of the names of taxpayers whose accounts are written off. We were informed by the Deputy Minister of the Department of National Revenue - Taxation in December 1975 that:

"With regard to your observation concerning 'Income Tax owing by non-residents', I would like to say that this relates to the publication of names of persons who owe taxes and have made themselves judgment proof by removing their assets beyond our jurisdiction. An inter-departmental committee has been established to study secrecy provisions in relation to the treatment of income tax information gathered in the course of administering the Income Tax law. This Committee made up of the Deputy Ministers of the Departments of Finance, Justice and National Revenue - Taxation have yet to make their final recommendations to the Government"

On September 23, 1976, we were informed that the Committee has completed its report, is preparing to discuss it with the three ministers concerned and expects to forward it to Cabinet in the near future.

19.7 Insufficient penalty for late payment of income tax. In previous Reports (paragraph 102 in 1973) we have drawn attention to the substantial amounts of income tax remaining unpaid at March 31 of each year and suggested that increasing late payment penalties beyond the six per cent rate the regulations currently prescribe could assist the Department of National Revenue materially in collecting its accounts. When this matter was first mentioned, in the 1967 Auditor General's Report (paragraph 128), total accounts receivable amounted to \$288 million.

At March 31, 1976, accounts receivable, secured to the extent of \$119 million, amounted to \$809 million, of which \$362 million had been outstanding for more than one year and \$207 million (4,056 accounts) pertained to assessments under appeal.

The Public Accounts Committee in its Second Report to the House of Commons, March 6, 1975, recommended that a more realistic penalty rate, in line with current interest rates, be prescribed. The Department of National Revenue prepared amendments to the regulations proposing changes but decided in April 1975 that no further action be taken at that time "in view of the marked decline in interest rates".

We have been informed that the Department of Finance is currently considering a further proposal from the Minister of National Revenue recommending a rate increase.

19.8 Errors in Public Service Superannuation Account pension and contribution calculation. We have reported annually since 1962 on the high rate of error in retirement benefits and related contributions. In recent years the Superannuation Division of the Department of Supply and Services has shown some improvement in the determination of benefits but the quality of data provided by the paying offices of the Department and by the personnel branches of employing departments has deteriorated. Also, the administration of the Superannuation Account continues to be frustrated by the multiplicity of changing regulations and reciprocal agreements with other organizations.

Renewed efforts by the Department are now underway to bring these errors under a certain measure of control. One important feature being considered provides for informing each contributor annually of his pension contributions and future pension entitlement, thus drawing the contributors themselves into the control system. Other activities are designed to improve the quality of data flowing from the pay offices to the Superannuation Division. In conjunction with these efforts my Office has agreed on a standard set of error-reporting criteria to monitor the results and to assess the progress made. We will continue to review the error rate to determine whether the implementation of the Department's proposals produces the desired results.

ORGANIZATION AND ACTIVITIES OF THE AUDIT OFFICE

ORGANIZATION AND ACTIVITIES OF THE AUDIT OFFICE

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ORGANIZATION AND ACTIVITIES OF THE AUDIT OFFICE

Introduction

20.1 The Audit Office is organized flexibly so as to meet the broad variety of responsibilities assigned to it both by statute and direction. Section 58 of the Financial Administration Act requires the Auditor General to form an opinion on the appropriateness of financial rules, procedures and authorities and whether or not there has been a complete and accurate accounting for public money and property; Section 60 requires a certification of the Statement of the Expenditure and Revenue of Canada and of the Statement of Assets and Liabilities of Canada; and Section 61(1) requires the reporting to the House of Commons of improprieties disclosed during examinations. Section 62 requires the Auditor General to make specific inquiries whenever the Governor in Council or the Treasury Board directs. Under this Section the Audit Office has been conducting a continuous

examination of the Oil Import Compensation Program, referred to in Part 7 of this Report.

20.2 The Auditor General also expresses an opinion on: the accounts of 35 Crown corporations in accordance with Section 77 of the Financial Administration Act; 33 special accounts and revolving funds of the Government of Canada which are required by the Treasury Board to submit their annual financial statements to the Auditor General for examination; the accounts of the Yukon and Northwest territorial governments under their respective acts; and the Accounts of the United Nations and several of its affiliated organizations at the request of the United Nations and with the concurrence of the Government of Canada.

Organization and Professional Activities

20.3 My 1975 Report indicated that a new executive organization, including 14 new positions, was implemented effective October 1, 1975.

This organization, with minor modifications, has provided the strength of leadership and executive direction which were, and will continue to be, of vital importance to the Audit Office. The Report stressed the need for executives of the Office to have and to discharge effectively delegated professional responsibilities on behalf of the Auditor General, much as a partner of a public accounting firm carries the full professional responsibility of the firm. The merits of this approach have been confirmed in the past year.

20.4 The Auditor General, Deputy Auditor General, Assistant Auditors General and Executive Director form an Executive Committee which has over-all responsibility for the direction, planning and administration of the Office and provides guidance or makes decisions with respect to professional issues referred to it by other members of the senior management group.

20.5 At October 1, 1976, the following officers (*several of whom were on loan to our Office for one to two years under Executive Interchange agreements through the Interchange Canada Program of the Public Service Commission) comprised the senior management group.

Auditor General
Deputy Auditor General
Assistant Auditors General

James J. Macdonell, F.C.A.
Rheal Chatelain, C.A.
*William A. Bradshaw, F.C.A.,
F.C.G.A.
W. Wallace Muir, B.A.

Executive Director

Michael H. Rayner, C.A.

Directors General,
Audit Operations

*Ross A. Denham, Ph.D., C.A.
W. Elwyn Dickson, C.A.
Marcel Ferland, P. Eng.
*Michael R. Harle, C.A.
Harold E. Hayes, C.A.

Joe E. Kirchner, C.A.
Bill H. Kuhn, C.A., R.I.A.
Edward F. McNamara, C.A.
*Bonnie P. Miller, C.A.
Lyle K. Osland, C.A.
Paul D. Ward, C.A.

Computer Auditing Services
Corporate Audits

*Ruben J. Rosen, C.A.
*J. Bryan McKnight, C.A.

Departmental Audits/Financial
Management and Control Study
International Audits
Professional Development
Professional Practices
Special Audits and Inquiries

D. Larry Meyers, P.Eng., C.A.
Edward R. Rowe, C.A.
Yvan Gaudette, C.A.
*John J. Kelly, C.A.
Raymond M. Dubois, C.A.

During September 1976, three individuals completed the terms of Executive Interchange agreements under which they had served the Office with distinction as members of the senior management group. On behalf of my colleagues in the Office, I would like to thank: Peter G. Boomgaardt, C.A., a partner of Price Waterhouse & Co. who served as Director General - Corporate Audits; L. Denis Desautels, C.A., a partner of Clarkson, Gordon & Co. who served as Director General - Public Accounts; and Patrick D. Lafferty, C.A., a partner of Coopers & Lybrand who served as Executive Director; for their outstanding contributions to our activities.

20.6 Over the last year, considerable effort was expended in determining more clearly the scope of my responsibilities with respect to each department and entity audited, and in developing an organizational structure that will best enable the Office to meet these responsibilities and obtain the optimum use of its professional resources. As a result, there has been a shift in emphasis to a project orientation whereby staff is being assigned to more clearly defined projects with specific terms of reference and time schedules.

For the Office, this approach offers the most selective and creative use of all too scarce professional staff resources. For the staff, it provides a wider range of opportunities for experience and professional development through involvement in a variety of projects, many of which are government-wide in scope.

Responsibility for liaison with the departments, agencies, and Crown corporations which we audit, and co-ordination and control of projects rests with the members of the senior management group.

20.7 As indicated in my 1975 Report, the Audit Office is making every effort to establish a career pattern for its staff similar to that in the major public accounting firms. Recruiting efforts are being directed primarily towards promising university graduates and qualified accountants. Training and manpower allocation efforts are intended to provide a basis for these persons to become professionals of the highest calibre, with the realization that many will move on after a few years into line positions in the financial areas of

government departments, agencies and Crown corporations or elsewhere as their career preferences indicate.

A formal internal training program based on operational requirements was introduced in October 1976. Coupled with existing and planned continuing education opportunities, the program will span the entire careers of our professional accountants. "On-the-job" training plays an important part in the education of our auditors and an assignment performance review system has been established to monitor their progress and to help identify professional development requirements.

University recruits are now required to enroll in professional training programs leading to qualification as a Chartered Accountant, Certified General Accountant, or Registered Industrial Accountant. As a result of interviews conducted in the autumn of 1975 with students from 36 campuses across Canada, 24 university graduates joined the Office this year and enrolled in one of the three professional training programs. Representatives of the Office will be interviewing students at university campuses again this year.

At August 1, 1976, 161 of our professional staff were qualified for membership in professional accounting associations. In addition 96 students-in-accounts were enrolled in programs leading to such qualifications.

The Audit Office has continued developing its activities in compliance with the Official Languages Resolution. During the year, 44 employees attended language training. One hundred and seventy employees are now bilingual, and one of the seven regional offices and one group in Ottawa are now designated as Units-working-in French.

The following table is a profile of full-time staff at August 1, 1976, March 31, 1976, and March 31, 1975, excluding those under the Executive Interchange Program:

	August 1, 1976	March 31, 1976	March 31, 1975
Senior management	16	15	5
Audit directors and managers	43	42	30
Supervisors and auditors	132	127	136
Other audit staff	105	95	74
Professional staff	296	279	245
Support and administrative staff	80	74	57
	376	353	302
In the National Capital Region	287	266	228
In other parts of Canada	89	87	74
	376	353	302

20.8 In addition, the Office has continued to make substantial

use of the Executive Interchange Program of the Public Service Commission to supplement its staff resources. Participants have included partners, managers and principals of professional accounting firms in the private sector as well as specialists from industry. These professionals serve in the Office for a period of a year or longer. At March 31, 1976, there were 17 individuals on the Program, including nine from the previous year; 13 were working on the Financial Management and Control Study, and four were involved in on-going audit activities. At August 1, 1976, there were 26 individuals on the Program: 11 on the Financial Management and Control Study; three on the Computer and Information Systems Evaluation Study; three in Professional Practices; four in Special Audits and Inquiries and five in on-going audit activities. The recent and current participating organizations are:

Aluminum Company of Canada, Ltd.

Arthur Andersen & Co.

Clarkson, Gordon & Co.

Coopers & Lybrand

Deloitte, Haskins & Sells

Ernst & Ernst

Fuller Jenks Associates

Gardner, McDonald & Co.

Laventhol & Horwath

MacGillivray & Associates

Peat, Marwick, Mitchell & Co. Price Waterhouse & Co.

Raymond, Chabot, Martin, Paré & Associés Séguin,

Préfontaine, Patenaude & Cie.

Thorne Riddell & Co.

Touche Ross & Co.

Zittrer, Siblin, Stein, Levine & Co.

20.9 Two of our recently-qualified chartered accountants are completing terms of service with public accounting firms under the provisions of the Interchange Canada Program. The Office also participated in other exchanges. An audit manager has just returned from the Office of the Auditor General of Australia after an 18 - month exchange for a senior member of the staff of that Office. Representatives from audit offices in Malaysia, Sri Lanka, Guyana and

Indonesia have worked for varying periods in the Audit Office during the last year.

20.10 During the peak period for year-end audits of Crown corporations and agencies, extending over the months of May, June and July, the Audit Office was fortunate in obtaining the services of 57 auditors from public accounting firms to augment its staff. This invaluable assistance allowed the Office to complete assignments within the prescribed time limits and to divert part of its staff to the audit of government departments as necessary prior to the certification of the accounts of Canada.

20.11 On behalf of my colleagues in the Audit Office, I record with sorrow the untimely death in August 1976 of Alexander G. Cross, C.A., who had been representing Canada on the North Atlantic Treaty Organization's International Board of Auditors and had recently been elected Chairman of the Board. Mr. Cross served the Office with distinction for 15 years. Sorrow is also expressed on the sudden death in June 1976 of Mr. Maurice Mulligan, who loyally served the Audit Office in Administrative Services for eight years.

20.12 Members of the Audit Office, who retired during the year include: Edna MacDonell, Audit Assistant, 45 years' service; J.R. Douglas, Assistant Auditor General and a member of the Executive Committee; C.F. Gilhooly, F.C.G.A., Director General; J.A.L. Vincent, Chief, Finance and Administration; and A.L. Beeman, C.A., Audit Supervisor, each with over 30 years' service; A.A. Rudy, C.A., Audit Director and J.H. Wake, C.G.A., Audit Manager, each with over 20 years' service and J.A.T. Kletter, C.G.A., Auditor. Each of these individuals has made a contribution to the effectiveness and spirit of the Office which is deeply appreciated. On behalf of their colleagues in the Audit Office, I wish them health and happiness in their retirement.

Assistance to the Standing Committee on Public Accounts

20.13 One of the objectives of the Audit Office is to render maximum assistance to the Standing Committee on Public Accounts in its review of the Report of the Auditor General of Canada to the House of Commons. I attend meetings of the Committee, with members of my staff, to provide such supplementary information as may be required on the various paragraphs in the Report, to testify at hearings, to provide evidence and to reply to inquiries. On request, the Office also assists the subcommittee on agenda and procedures of the Public Accounts Committee in planning its review of my Report.

20.14 During the last year, the Public Accounts Committee introduced a significant change in the method of conducting its review of my Report. Questions on matters contained in the Report, prepared with the assistance of the Committee's research officer, were forwarded to deputy heads of departments and agencies with the request that written responses be provided for distribution to the Committee at least ten days before the scheduled appearance of departmental representatives. A number of Members have commented that this new

procedure enabled them to make more effective use of the time available for direct questioning of departmental witnesses in meetings of the Committee.

Technical Assistance

To provide guidance to the Audit Office on complex technical matters, I formed two advisory committees of distinguished members of the Canadian accounting profession during the past year.

20.15 The Independent Advisory Committee on Government Accounting and Auditing Standards (a reconstitution of the former Advisory Panel on Accounting, Auditing and Financial Controls) comprises five chartered accountants who are recognized authorities on accounting and auditing principles and practices in Canada. The members are: Ross M. Skinner, F.C.A., of Clarkson, Gordon & Co. (Chairman); Alan J. Dilworth, F.C.A., of Touche Ross & Co.; W. Douglas Lennox, C.A., of Price Waterhouse & Co.; N. Glenn Ross, F.C.A., of Coopers & Lybrand; and W. Ross Walker, F.C.A., of Peat, Marwick, Mitchell & Co., with the Director General of Professional Practices serving as secretary. During the year, the Committee considered such matters as the recommendations of the report of the Study of the Accounts of Canada, the form and content of the Auditor General's future reports on the financial statements of Canada, the role of the Auditor General with respect to Crown corporations of which he is not the auditor, and the professional responsibilities of the Auditor General in representing Canada as a member, and present Chairman, of the United Nations Board of Audit.

20.16 The membership and role of the second committee, the Independent Advisory Committee on Financial Management and Control Standards, are described in paragraph 2.6 of this Report.

Financial Management and Control Study

20.17 The findings of the Financial Management and Control Study for 1975-76 are included in Part 5 and Appendices C, D and E of this Report. Parts 2, 3 and 4 deal with the conclusions reached at the end of the first two years of the study and with the results of our monitoring of actions taken by the Government on the study's 34 main recommendations reported last year.

The 1975-76 study concentrated on a review of the systems of financial management and control in 27 Crown corporations. Also included were seven departments and agencies which had not been among the 28 reviewed and reported on last year.

Partners and managers from a number of firms of chartered accountants whose services were made available under Executive Interchange Program made an important contribution to the 1975-76 program by providing continuity and experience to the program and leadership to individual studies. The staff of the Audit Office undertook increased responsibilities in all aspects of the program. This blend of resources, experience and expertise enhances this

continuing study.

20.18 At the end of this second year of the study, with reviews of the major departments, agencies and Crown corporations completed, it is appropriate to acknowledge with gratitude the outstanding contribution of the firms of chartered accountants and management consultants across Canada which made senior members of their staffs available to participate in the study. Without their support, the study would not have been possible. Listed below, beside the names of their firms, are the names of the individuals who have served, or are serving at present, as advisers or participants in the study. The Audit office is most grateful to each for his individual contribution to the study's success.

André Bélanger, C.A.	Thorne Riddell & Co.
Kenneth G. Belbeck, B.A.	Stevenson & Kellogg Ltd.
André Bernard, C.A.	Maheu, Noiseux & Associates
Ronald Blondeau, C.A.	Samson, Belair & Associates
Jean-Pierre Boisclair, C.A.	MacGillivray & Associates
Robert D. Bromley, C.A.	Price Waterhouse Associates
Edward Browne, C.A.	Peat, Marwick, Mitchell & Co.
Norman L. Calder, C.A.	Touche Ross & Co.
Ian C. Campbell, C.A.	Winspear Higgins Stevenson & Co.
Richard G. Carbonneau, C.A.	Seguin, Prefontaine, Patenaude & Cie.
Edward J. Case, F.C.A.	Arthur Andersen & Co.
Robert J. Cobb, C.A.	Ernst & Ernst
Lyon D. Cohen, C.A.	MacGillivray & Associates
John B. Cole, C.A.	Coopers & Lybrand
Robert L. Cummings, C.A.	P.S. Ross & Partners
Robert B. Dale-Harris, F.C.A.	Coopers & Lybrand
Thomas C. Dawson, C.A.	Touche Ross & Co.
L. Denis Desautels, C.A.	Clarkson, Gordon & Co.
Campbell M. Dick, C.A.	Price Waterhouse & Co.
Raymond M. Dubois, C.A.	Peat, Marwick, Mitchell & Co.

Daniel P.J. Fillion, C.A.	Ernst & Ernst
Douglas A. Fraser, C.A.	Arthur Andersen & Co.
Allen H. Gertsman, C.A.	Laventhol & Horwath
Martin Greenwood, C.A.	Gardner, McDonald & Co.
Thomas H. Gregory, C.A.	Winspear Higgins Stevenson & Co.
Glenn D.J. Grosset, C.A.	Peat, Marwick and Partners
Claude D. Henry, C.A.	Maheu, Noiseux & Associates
Terry D. Hodgins, C.A.	Coopers & Lybrand
Ronald J. Holowka, C.A.	Deloitte, Haskins & Sells
Larry Houston, C.A.	MacGillivray & Associates
D. Malcolm King, C.A.	Woods, Gordon & Co.
Robert E. L'Abbe, C.A.	Raymond, Chabot, Martin, Pare & Associates
Patrick D. Lafferty, C.A.	Coopers & Lybrand
Marcel J. Lalonde, C.A.	Arthur Andersen & Co.
Brahm D. Levine, C.A.	Zitttrer, Siblin, Stein, Levine & Co.
Bruce W. Matthews, F.C.A.	Thorne Riddell & Co.
J. Bryan McKnight, C.A.	Peat, Marwick, Mitchell & Co.
Paul-Andre Michaud, C.A.	Samson, Bélair & Associés
Richard Mineau, LL.L.	Price Waterhouse Associates
Ronald O. Moore, F.C.A.	Woods, Gordon & Co.
Edward W. Netten, C.A.	Price Waterhouse Associates
S. Scott Osinski, C.A.	Price Waterhouse & Co.
Douglas C. Quinn, C.A.	Ernst & Ernst
Andre R.C. Rancourt, C.A.	Arthur Andersen & Co.
N. Glenn Ross, F.C.A.	Coopers & Lybrand
Trevor R. Shaw, C.A.	Laventhol & Horwath

Larry W. Shick, P. Eng.	Price Waterhouse Associates
John R. S. Stankiewicz, C.A.	Clarkson, Gordon & Co.
Kenneth C. Stilwell, C.A.	Deloitte, Haskins & Sells
Peter J. Taylor, F.C.A.	Price Waterhouse & Co.
Brian C. Travers, C.A.	Laventhol & Horwath
Donne C. Traxel, C.A.	Coopers & Lybrand
Daniel Williams, C.A.	Raymond, Chabot, Martin, Pare & Associates
Frank W. Wolman, F.C.A.	Laventhol & Horwath
Jack E. Zitttrer, C.A.	Zitttrer, Siblin, Stein, Levine & Co.

20.19 Because of the importance of the findings to date, the study will be continued until all substantive entities audited by the Auditor General have been reviewed. The 1976-77 program will include a comprehensive evaluation of financial and internal accounting controls in agencies, Crown corporations and territorial governments not previously studied. The terms of reference of the 1976-77 study, which are unchanged from the previous two years, provide for an examination of:

(a) the statutes and centrally controlled regulations, policies, directives and guidelines relevant to financial management and control, and the extent of compliance therewith in departments, agencies, Crown corporations and territorial governments;

(b) financial systems and procedures in these organizations including budgetary controls, accounting for revenue, pricing and costing systems, expenditures, assets, liabilities, commitments, and financial reporting systems;

(c) the integration of accounting processes and systems with the central systems;

(d) the extent to which the financial systems and procedures are monitored and audited by internal or operational audit groups or both;

(e) the type, accuracy, timeliness, purpose and use of internal financial information and reports currently prepared;

(f) the duties, responsibilities and functions of financial and accounting managers and staff with special reference to the system of financial and accounting control and the relationships of their functions with central financial and accounting agencies;

(g) the accounting principles and standards of financial reporting and disclosure followed by the organizations.

As part of the 1976-77 program, my Office has formed special groups which will, in concert with the audit teams, formally and actively monitor the actions taken by departments, agencies, commissions and Crown corporations in response to the study findings and recommendations, and in accordance with the undertaking requested by, and given to, the Standing Committee on Public Accounts.

Special Audits and Inquiries

20.20 The Special Audits and Inquiries Branch of the Audit Office was established to initiate and conduct studies of a government-wide or subject nature broader in scope than the normal day-to-day audit activities. It operates on a project basis and uses internal staff supplemented as necessary by industry or government specialists or by professionals of other disciplines. Separate terms of reference are developed for each project, with emphasis on the adequacy of control systems.

Studies of the following were conducted during the year and are reported on in Parts 7 to 13 of this Report:

Oil Import Compensation Program Receipt and Deposit of Public Money
Office Accommodation Travel and Relocation Expenses Internal Controls
in Payroll Systems Manufacturers' Sales Tax Grants and Contributions

Audit Operations

20.21 The findings of the Office's Audit Operations activities for 1975-76 are included in Parts 14 to 19 of this Report.

Parts 14 and 15 contain respectively the Auditor General's certificates on the main financial statements of Canada and our observations dealing specifically with the presentation of these statements. This year, for the first time, the observations included in Part 15 have been reproduced in Volume I of the Public Accounts for the convenience of the readers of the financial statements. This change was prompted by concerns expressed by the Independent Committee for the Review of the Office of the Auditor General. It represents a first step toward full implementation of the Committee's recommendations on the responsibilities of the Auditor General in relation to the Government's financial statements.

Part 16 of the Report includes comments on the financial statements and operations of the Crown corporations and other entities for which the Auditor General is required to provide separate professional opinions. All of such corporations and entities are listed in this Part.

Parts 17 and 18 contain the observations required by Section 61(1) of the Financial Administration Act on improprieties disclosed during Audit Office examinations and on other cases the Auditor

General considers should be brought to the notice of the House of Commons.

Finally, Part 19 comments on matters dealt with in previous Reports which are of sufficient significance to be reported to the House of Commas again. These comments arise from the office's continuous follow-up and monitoring of actions taken to correct deficiencies previously reported.

Computer and Information Systems Study

20.22 The Office is undertaking a government-wide Computer and Information Systems Evaluation (CAISE) Study to assess the adequacy of the management and financial control of electronic data processing (EDP) and related activities.

The study will be carried out under the over-all direction of Ruben J. Rosen, C.A., appointed to the position of Director General - Computer Auditing Services. Mr. Rosen, a partner of Fuller Jenks Associates, is on loan to the Audit Office under the Executives Interchange Program of the Public Service Commission. Earlier in his professional career, he was chairman of the Computer Study Group of the Canadian Institute of Chartered Accountants which produced two research studies, "Computer Control Guidelines" in 1970 and "Computer Audit Guidelines" in 1975. These have received wide acclaim in Canada and internationally.

The terms of reference of the study provide for examination of:

EDP organization and related controls

EDP documentation, standards and controls

Activities and controls relating to acquisition of EDP equipment and facilities

Computer systems development activities and controls
Computer operations and related controls

Computer processing and procedural controls

The extent of compliance with the Treasury Board Guide on EDP Administration.

The Executive Interchange Program is being used to recruit much of the required expertise in EDP methods and controls. It is gratifying that virtually all of the national public accounting firms in Canada have agreed to make available their most senior EDP audit partners and appropriately qualified staff for the study, some of whom will act in a part-time advisory capacity to the Director General. Members of our own professional staff at all levels will participate actively in the program.

International Audits

20.23 The Auditor General of Canada is one of the three members of the Board of Auditors of the United Nations, having been reappointed by the General Assembly for a third three-year term expiring June 30, 1977. In June 1976, I was elected Chairman of the Board of Auditors for a second year. Among other duties in this capacity, I have primary responsibility for representing the Board at meetings of committees of the General Assembly. In addition, the Auditor General is the auditor of the International Civil Aviation Organization, a specialized agency of the United Nations with headquarters in Montreal. As such, I am a member, and currently Chairman, of the United - Nations Panel of External Auditors which includes the auditors of all United Nations specialized agencies.

In accordance with United Nations Financial Regulations and Rules, the Auditor General of Canada accepts joint and several responsibility for all audits including those undertaken by his two colleagues on the Board of Auditors. The activities audited by the Canadian Audit Office on behalf of the Board during the 1975-76 fiscal year were:

United Nations office at Geneva
United Nations Trust Funds, Special Missions and
Special Expenses
United Nations Development Program United Nations Office of Technical
Co-operation United Nations Industrial Development Organization United
Nations Fund for Population Activities

In June 1976, the Board of Auditors approved significant organizational and procedural changes in order to achieve more unified and integrated audit plans and programs to be carried out by the Board members representing Canada, Colombia and Ghana, which replaced Pakistan on July 1, 1976. After carefully considering the recommendations of an independent two-man Canadian team commissioned by me in 1976 to review Canada's auditing practices and standards as a member of the Board, the members agreed:

-To appoint a Director General - U.N. External Audit, who will serve as chairman of an Audit Operations committee comprising senior representatives of each of the three countries on a full-time basis as Directing External Auditors. Edward R. Rowe from the Audit office has accepted a two-year appointment as Director General, and will be accompanied by Michael Harle as Directing External Auditor for Canada.

-To develop an audit manual for the United Nations, shift the emphasis from transaction to systems auditing, adopt a unified and integrated audit plan, and collaborate with the administration in developing financial reporting and financial administration guidelines.

Professional Practices

20.24 Efforts continued during the year to establish sound policies, practices and procedures to support the activities of the Office. In particular, the new uniform audit approach, referred to in

the 1975 Report, has been introduced and is progressing satisfactorily. The professional staff has received introductory training in the use of the new procedures which are directed towards evaluating internal control and the impact of the evaluation on overall audit procedures. Practical audit aids such as internal control questionnaires and audit program preparation guides were developed and are now in use.

The working sections of the comprehensive audit manual, referred to in last year's Report have been completed and general distribution to all professional staff members is forthcoming. Bulletins relating to office policy for pertinent technical matters were initiated and a system for their distribution on a regular basis has been established.

A research centre is being established to provide professional staff with a facility for researching technical auditing and accounting matters.

Legislative Auditors' Meeting

20.25 The Canadian Legislative Auditors held their fourth annual meeting in Victoria September 16-17, 1976, and exchanged views on technical and other matters of common interest. Some 40 senior members of the federal and provincial audit offices attended. The agenda included such timely subjects as: the education, training and accreditation of government accountants; the evaluation of government expenditures; government accounting and auditing standards; and a report by each of the legislative auditors on the effect in their jurisdiction of the Report of the Independent Review Committee. Guest speakers were R.M. Skinner, partner of Clarkson, Gordon & Co. and Chairman of the Auditor General's Independent Advisory Committee on Government Accounting and Auditing Standards, and Professor A.M. Moore of the Department of Economics, University of British Columbia.

Audit Office Expenditures

20.26 The operating expenses of the Audit Office for the fiscal year 1975-76 amounted to \$9.3 million, of which approximately 85% or \$7.9 million was for salaries and other personnel costs. A comparative statement of expenditures follows:

	1975-76 (in thousands of dollars)	1974-75
Salaries	\$7,056	\$5,841
Contribution to employee benefit plans	803	633
Travelling, staff transfer and communication expense	611	455
Professional and special services	578	469
Materials and supplies	125	66
Office furniture and equipment	87	98
Annual Report, advertising, etc.	62	11
Rentals - office machinery and		

equipment	47	26
Repairs and maintenance	19	5
Other	24	20
	9,412	7,624
Less: Cost recoveries		
International audits	137	121
	\$ 9,275	\$ 7,503

Recommendations of the Independent Review Committee.

20.27 The Report of the Independent Review Committee on the Office of the Auditor General was tabled in the House of Commons by the Minister of Finance on April 14, 1975. The Report represented 17 months of intensive study by the Committee's Chairman, the late J.R.M. Wilson, F.C.A., (see paragraph 20.31) and its two members, Marcel Belanger, O.C., C.A., of Quebec and A. Lorne Campbell, Q.C., of Winnipeg, who were appointed in late October 1973 to review:

-the responsibilities that should be carried out by the Auditor General, including the scope of his audits and the nature of his reports; and

-the independence of the Auditor General and the nature of the relationships he should maintain within and outside the government.

During the last year, the Committee's Report has been under active study by government officials who, in consultation with my Office, have prepared a draft Bill for consideration by the Government. I was naturally delighted therefore to note the following reference in the Throne Speech at the opening of the Second Session of the Thirtieth Parliament on October 12, 1976:

...you will be asked to consider a Bill designed to clarify the duties and responsibilities of the Auditor General of Canada, and to provide him with better means of fulfilling his important function as a servant of Parliament.

20.28 Action initiated on a number of the Committee's suggestions and recommendations that do not require a change in legislation was identified in Part XII of my 1975 Report. The current status of action on each of the Committee's 47 recommendations is shown in Appendix B to this Report and the following paragraphs provide fuller explanations of actions taken or required on certain of the recommendations.

20.29 Recommendations 2, 6, and 7, which are concerned with the summary financial statements of the government presented each year in the Public Accounts, relate directly to the recommendations of the Study of the Accounts of Canada. As mentioned in paragraph 15.8, responsibility for co-ordinating action on the recommendations of the Study has been assigned to the Financial Administration Branch of the Treasury Board Secretariat which has developed an implementation program for this purpose. The Audit Office will monitor adherence to

this program and will report whenever it appears that delays will occur.

20.30 The Independent Review Committee stressed the need for a comprehensive set of accounting principles for government and, in its twelfth recommendation, proposes that the Auditor General participate in studies aimed at the development of such principles. In my 1975 Report (paragraph 12.5) reference was made to the Audit Office's intent to provide a full measure of support to a task force appointed by the Canadian Institute of Chartered Accountants to review the feasibility of establishing a standing committee of the Institute on government accounting and auditing standards. On the recommendation of that task force, the Institute recently established the Government Accounting and Auditing Study Group to carry out further studies. The Deputy Auditor General, Rheal Chatelain, C.A., represents the Audit Office on this Study Group which is chaired by N. Glenn Ross, F.C.A., and also includes Ross M. Skinner, F.C.A., both of whom are members of my Independent Advisory Committee on Government Accounting and Auditing Standards (see paragraph 20.15).

During the last year staff of the Audit Office have continued to play active roles in the various national and provincial accounting and auditing organizations to which they belong. A number of senior executives are members of standing committees of such organizations and the Office has provided speakers to conferences and meetings of professional accountants and auditors on numerous occasions. Special emphasis is placed on the maintenance of close working relationships with the professional organizations in which the Office's 96 students -in-accounts are registered and staff at all levels have participated in technical training sessions of these organizations.

John Robertson McKay Wilson

20.31 On July 17, my colleagues in the Office and I were deeply saddened by news of the sudden death of J.R.M. Wilson, F.C.A., one of Canada's most distinguished accountants and Chairman of the Independent Committee for the Review of the office of the Auditor General of Canada. Mr. Wilson, former senior partner of Clarkson, Gordon & Co., was President of the Ontario Institute of Chartered Accountants in 1956-57 and of the Canadian Institute of Chartered Accountants in 1966-67. He was appointed a member of the Ontario Securities Commission in 1975 shortly after submitting the Report of the Independent Review Committee to me.

Both during and after the 17-month period of the Independent Review Committee's study of the responsibilities, relationships and independence of the Auditor General, Mr. Wilson served with both wisdom and enthusiasm as a close and trusted adviser to me and to the Audit Office. In his career he rose to the peak of his profession and he was widely recognized, nationally and internationally, not only as an administrator but also as a teacher, researcher and leader, in all of which roles he was eminently successful. This life-long experience is clearly reflected in the Committee's Report, which is appropriately and commonly referred to as the "Wilson Report".

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

for the Fiscal Year Ended March 31, 1976

Minister of Supply and Services Canada 1976

Catalogue No. FA1-1976/2

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K1A 0G6

To the Honourable the Members of the House of Commons

My Annual Report to the House of Commons for the fiscal year ended March 31, 1976, has been tabled by the Minister of Finance. This year's Report, like that of last year, had to be lengthy enough (630 pages in English, 701 pages in French) to inform Parliament adequately of the results of the examinations made by my Office.

Well aware that Members of Parliament have heavy demands on their time, I realize that many will find it difficult to examine the full Report in detail. To acquaint them with its contents, and as an aid to identifying sections in which they may be particularly interested, this Conspectus has been prepared.

The Conspectus does not cover every detail in the Report. Rather, it presents a summary of the significant matters. To facilitate reference to the full Report, the Conspectus is written within the same general structure. In addition, a detailed table of contents for the complete Report is attached. For full information on the matters contained in the Conspectus, reference should be made to the Report.

Although the Conspectus has been prepared primarily for use by Members of Parliament, I hope that it will also serve as a convenient guide to the Report for others in the public and private sectors who have a particular interest in its subject matter.

J.J. Macdonell
Auditor General of Canada

November 1976.

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INTRODUCTION	

My Report for the fiscal year ended March 31, 1976, has been tabled in the House of Commons. This Report has been published in two volumes, one in English (630 pages, including appendices) and one in French (701 pages with appendices).

The main text of the Report is divided into four sections:

- oConclusions of the financial management and control study at the end of the first two years of the study and of our monitoring of Government actions to implement recommendations of the study that were reported in 1975.

- oResults of special audits and inquiries in seven project areas.

- oA report on audit operations for 1975-76.

- oA description of the organization and activities of the Audit Office in 1975-76.

Nine appendices follow the main text. Some are included for reference purposes; others contain information supporting the statements and conclusions of the Report.

For the reader's convenience, references to the various Parts of my Report are provided beside the headings in this Conspectus and a table of contents for the Report is attached. For detailed information on each item in the Conspectus, reference should be made to the appropriate Part of the Report.

FINANCIAL MANAGEMENT AND CONTROL STUDY

Conclusion and Opinion (Parts 2 to 5)

In May 1974, the Audit Office initiated a comprehensive examination of the financial management and control system of the Government of Canada. The first year of the study focused on a broad assessment of existing systems in 28 government departments and agencies. In carrying out this review, the professional staff of the Audit Office was assisted by more than 30 partners and managers of 16 public accounting firms across Canada, loaned to the Office through Executive Interchange under the Interchange Canada Program. The findings and recommendations resulting from their efforts were detailed in a supplement to my 1975 Report and were also summarized in that Report.

In 1974-75, the study identified many deficiencies in the Government's systems of budgetary control, of financial reporting, of control over financial transactions, and in internal audit procedures. Financial functions in many departments were found to be understaffed, and personnel with responsibility for carrying out these functions were frequently frustrated by a lack of authority, direction, and training required to perform their duties effectively. After reviewing the findings of the study team, I concluded in my 1975 Report that:

The present state of the financial management and control systems of departments and agencies of the Government of Canada is significantly below acceptable standards of quality and effectiveness.

In 1975-76, the study concentrated on financial management and control systems in 27 Crown corporations. In addition, it examined seven government departments and agencies not included in the first year's review. Again, my staff was assisted by more than 20 professionals, most of them on loan from leading public accounting firms under the Interchange Canada Program.

Crown corporations generally attempt to use financial practices which measure profitability, as in private sector organizations. The study sought to determine whether this commercial approach is satisfactory from the point of view of Parliament and the Government, which approve the spending of public funds, and of corporate management, to whom these funds are entrusted. The study led to the following observations on the Crown corporations reviewed:

- oNo central government agency recognizes the need to identify all corporations owned or controlled by the Government of Canada.

- oCommercial enterprises in the private sector are subject to a greater degree of financial accountability than Crown corporations.

- oFinancial management and control is not a priority within Crown corporations.

- oThe annual deficits and net debt of the Government of Canada are substantially understated due to the manner of accounting for Crown corporations.

- oParliament is presented with incomplete and fragmented financial plans and inadequate financial reports.

- oFinancing practices would preclude evaluating management performance even if central agencies had the responsibility to do so.

As a result of these observations and other findings of the study, I have concluded that:

In the majority of the Crown corporations audited by the Auditor General, financial management and control is weak and ineffective. Moreover, coordination and guidance by central government agencies of financial management and control practices in these Crown corporations are virtually non-existent.

To remedy these deficiencies, the study group put forward recommendations directed largely to the responsible central government agencies. These recommendations and the response of the Treasury Board are presented in Part 5 of my Report. The recommendations sought to produce a blend of governmental and commercial financial practices that would permit proper management and control of public funds by Parliament, the Government, and Crown corporation management.

Our proposals necessarily emphasize remedial action that might be taken by the central agencies, but we recognize that the primary responsibility for financial management and control rests with Crown corporation officers. It should be noted that the chief executives of the corporations studied have generally acknowledged the deficiencies we identified and have agreed to the courses of action proposed to remedy them. In some cases, corrective action has already been taken.

The review of the seven departments and agencies excluded from the 1974-75 study produced findings similar to those reported last year. Observations and recommendations for each department and agency are included in Appendix E of my Report.

Because of the importance of the findings of the last two years, the financial management and control study will continue until all organizational entities audited by the Audit Office have been reviewed. In 1976-77, the work is being directed to agencies, Crown corporations, and territorial governments not previously examined.

Although a few parts of the study are still to be completed, some important conclusions have been reached about the quality of financial management and control as currently practised in the Government. I am deeply concerned that, on the evidence of the two-year examination carried out by the Audit Office, Parliament - and indeed the Government - has lost or is close to losing effective control of the public purse.

On examining the findings to date, I am led inescapably to the opinion that:

Based on the study of the systems of departments, agencies and Crown corporations audited by the Auditor General, financial management and control in the Government of Canada is grossly inadequate. Furthermore, it is likely to remain so until the Government takes strong, appropriate and effective measures to rectify this critically serious situation.

As noted in Part 2 of my Report, in arriving at this opinion, I gave most careful consideration to the supporting evidence, much of which appears in the Report or in my 1975 Report. The official proceedings of the Standing Committee on Public Accounts from March to June of 1976 contain additional important and relevant evidence. I refer especially to those hearings at which the President, the Secretary, and other senior officers of the Treasury Board acknowledged, virtually without reservation, the existence of these major deficiencies and weaknesses and outlined in general terms action plans to correct them.

I have also been influenced in my opinion by the results of monitoring and follow-up reviews made by my officers both at the central and departmental levels to ascertain progress in developing and implementing remedial action plans. Our findings are discussed in detail in Part 4 of my Report. Here I shall only summarize our conclusions.

The follow-up reviews in the Treasury Board Secretariat and departments and agencies, conducted more than a year after most of these situations were brought to the attention of the government officials directly concerned, suggest in some cases a failure to grasp fully the significance of the major deficiencies and to identify effective ways of correcting them, coupled with a lack of action or even of plans to remedy them. Most disturbing of all: at the central level only a relatively minor organizational change has been made and the additional resources and man-years commensurate with the needs have not yet been allocated to ensure the restoration as soon as possible of adequate financial management and prudent and effective control of public funds throughout government.

In recommending much stronger Government action than heretofore taken or announced to assure Parliament that public funds are under effective control at all times, I should like to cite a comment that I made on April 1, 1976, at a hearing of the Public Accounts Committee:

I have not been persuaded that the requirements for good financial management and control differ or need to differ at all in government from any other corporation in the country, with this additional point - that I think they have to be more stringent because in government we are dealing with what I regard, in a sense, as trust funds which are provided by the taxpayers of Canada to finance operations, whereas in the private sector many times shareholders put up money knowing very well that there is a major risk factor.

I firmly believe that public funds are, in effect, trust funds and must be treated accordingly. Financial controls and safeguards over funds in the public sector should be at least as reliable and strong as those over trust funds in the private sector.

From its inception, the study was conducted under the leadership of a distinguished member of the Canadian accounting profession, Robert B. Dale-Harris, F.C.A., a senior partner of a national (and international) public accounting firm, and a former President of the Institute of Chartered Accountants of Ontario. He was assisted by a steering committee comprising partners of several national (and international) public accounting firms. At the formal completion of the study in May, 1976, Mr. Dale Harris and five other partners of firms, all of whom were intimately involved in the study, accepted my invitation to become the Independent Advisory Committee on Financial Management and Control Standards. In this way their valuable counsel, based on their wealth of knowledge and experience in financial management and control systems and practices in both the public and private sectors, will continue to be available to me and to my senior officers. The members of this Committee have authorized me to state that they unanimously endorse and support my opinion on the current state of financial management and control in the Government of Canada. The membership of the committee is as follows:

Robert B. Dale-Harris, F.C.A. (Chairman) - partner, Coopers &

Lybrand

N. Glenn Ross, F.C.A. (Deputy Chairman) - partner, Coopers &

Lybrand

Thomas C. Dawson, C.A. - partner, Touche Ross & Co

Glenn D.J. Grosset, C.A. - partner, Peat, Marwick and Partners Ronald

O. Moore, F.C.A. - partner, Woods, Gordon & Co.

Edward W. Netten, C.A. - partner, Price Waterhouse Associates

Possible Causes of the Present Unsatisfactory Situation (Part 2)

Two questions will undoubtedly occur to Members of Parliament, to whom my Report is presented: What caused this alarming state of affairs to develop? What can and should be done to rectify it?

The answer to the first question must be based partly on conjecture, since our examination of financial management and control systems and practices concentrated on the situation as it is and what should be done to correct it, rather than on how it developed historically.

However, it seems clear that the present unsatisfactory and vulnerable situation came about because certain key recommendations on financial management and control made by the Royal Commission on Government Organization (Glassco Commission) in 1962 were not implemented. Perhaps they were not understood. But recommendations relating to the decentralization of financial authorities were understood and fully implemented, culminating in 1969 in the abolition of the Office of the Comptroller of the Treasury. Unfortunately, the equally important Glassco recommendation that new counterbalancing controls be instituted and that existing ones be strengthened was not implemented as visualized by Glassco. Thus, it is apparent that the situation which now causes my concern has not developed overnight. Control over public funds would appear to have been deteriorating for at least the last 15 years.

Other factors that would appear to have contributed to the inadequate financial controls that now exist are:

oAn attitude (tempered to some extent during periods of constraint such as at present) on the part of many managers at all levels that funds are readily available and that they themselves are not personally accountable for ensuring that public funds and assets placed at their disposal are under strict control at all times and that funds are expended prudently, economically, and with the utmost concern for value received.

oA genuine and widespread lack of comprehension on the part of senior officials of government as to what effective management and control of public funds actually consists of.

oA lack of recognition by these same senior officials of the role a senior departmental financial officer could and should play in assisting them to administer with prudence, probity, and economy the public funds for which they are accountable and thereby manage more effectively the organizations over which they have jurisdiction.

oAn unawareness among deputy heads of the characteristics of a qualified, competent, and experienced senior financial officer and of the contribution such a person could make as a member of the organization's top executive team, given properly defined responsibilities and adequate authority and resources.

Deputy heads have tended to rise to their senior responsibilities in recognition more of their talents as policy advisers than of their experience as administrators. Few of them have had the opportunity or occasion for training in or experience with effective financial control systems. A senior official told me recently that, for many years, recognition and rewards have gone to those who devise ingenious new programs, rather than to those charged with the responsibility of restraining and controlling expenditures and ensuring that value is obtained for money spent.

It is all the more surprising, then, that these men and women have no single senior official acknowledged and designated as the chief financial officer of the government to whom they can turn for advice on the financial control and management of the very large amounts of public funds for which they are accountable, for assistance in selecting financial officers for their departments, or for guidance on the responsibilities which they should expect these officers to discharge.

Glassco looked to the Treasury Board Secretariat to counterbalance the substantial delegation to departments of responsibility for financial management and control. Significant developments since Glassco affecting the responsibilities of the Treasury Board and its Secretariat, include:

oA more than fivefold increase in the level of federal government budgetary expenditures including old age security payments (\$6.5 billion in 1961; \$34 billion in 1976).

oThe introduction in 1967 of collective bargaining for the public service and the assignment to the Treasury Board of the responsibility for its administration.

oThe assignment to the Treasury Board in 1969 of responsibility for administering the Official Languages Act and implementing the bilingualism program in the public service.

oThe growth in the staff of the Treasury Board (150 in 1962; 750 in 1976) and the correspondingly enormous increase in the responsibilities, and demands on the time, of the Secretary of the Treasury Board.

oThe relatively small proportion of resources and man-years devoted specifically to the financial administration policy and evaluation unit in the Treasury Board Secretariat (8 man-years in 1972; 10 in 1973; 10 in 1974; 15 in 1975; 35 in 1976).

Basic Recommended Actions to Rectify the Situation (Parts 2 and 3)

I turn now to the more important question of what should be done to restore effective control of the public purse to the Government - and thereby to Parliament. My 1975 Report described in detail many of my recommendations to attain this objective. These were endorsed unanimously by the Public Accounts Committee in its Sixth Report to the House of Commons under date of June 30, 1976 (see Appendix F of the Report). Further recommendations have emerged from the second year of the financial management and control study.

What is required is a major Government commitment to the development of an effective financial management and control system. As part of our study, we have identified the key elements of such a system and developed proposals for putting them in place. The details of our plan are presented in Part 3 of my Report, and they may be summarized as follows.

There are four basic requirements of an effective system of financial management and control:

- oA financial plan that serves as a cornerstone for managing and controlling financial resources.

- oA central system of budgetary control, based on effectively functioning control systems in each department and agency.

- oComplete and appropriate financial reports.

- oEffective financial control based on a system of continuous and automatic checks on expenditure decisions.

I believe there are two actions of paramount importance that the Government should take to establish the foundation for an evolution toward a completely satisfactory system of financial management and control - a system fully compatible with maintenance of the decentralized authority of deputy heads proposed by Glassco.

These recommended actions are:

- oThe establishment of the position of chief financial officer of the government, preferably with the title Comptroller General of Canada, with deputy minister status and a direct reporting relationship to the President of the Treasury Board, and with duties and authorities fully commensurate with the important responsibilities of such a key position - a position which I rate, as do the members of my Independent Advisory Committee on Financial Management and Control Standards, as the most important and responsible financial executive position in both the public and private sectors of Canada.

- oThe selection and appointment as the first Comptroller General of Canada of a person with appropriate professional qualifications, with a proven record of outstanding competence and achievement at senior levels of responsibility, and with extensive experience as a senior

financial executive in a large-scale organization in either the public or the private sector. The appointee should have the sort of impressive credentials and personal characteristics that will enable him to gain the confidence and respect of his Minister, of the Treasury Board, of the Cabinet, of parliamentary committees, of his peers (deputy heads of departments and agencies, and heads of partially or fully-owned and controlled government corporations), of financial and accounting personnel throughout government who will look to him for functional leadership, of national professional accounting bodies, and of the Auditor General and his senior officers.

Unless the Government responds positively to these two recommended actions, I am convinced that the present unsatisfactory state of affairs will persist. Action on both recommendations - especially the selection and appointment of a properly qualified person to become the first Comptroller General of Canada - will lay the essential foundation of a soundly-conceived program for restoring effective control over public funds and assets, and for ensuring probity, prudence, and economy in their management. I am confident that the Government, Parliament, and, indeed, all taxpaying Canadians will subscribe to these objectives.

I believe a fundamental restructuring of the Treasury Board Secretariat is required. The functions relating to resource allocation, personnel policy, administrative policy, and management of the official languages program would remain with the Secretary of the Treasury Board, or would be otherwise assigned as the Government may decide. All functions relating to financial management and control would be assigned to the Comptroller General of Canada, a deputy head like any other but with a status comparable to that of the Secretary of the Treasury Board. His responsibilities relative to other deputy heads and his relationships with departmental financial officers are described in Part 3 of my Report. His basic responsibilities would include the design, development, implementation, and monitoring of adequate systems and procedures to ensure that the form of the Estimates provides a sound basis for the Government's budgetary control system, that public moneys and assets are under effective custody and control at all times, that accounting procedures and financial reports throughout government (including the Public Accounts) conform to acceptable accounting principles and standards, that expenditures of public moneys are made with due regard for economy and efficiency, and that satisfactory procedures measure the effectiveness of programs where practical. The responsibility for maintaining the central accounts of Canada would be transferred to the Office of the Comptroller General from the Department of Supply and Services. Because of the similarity of titles, some may mistakenly think that, in proposing the establishment of a position with the title of Comptroller General of Canada, I am advocating a return to the highly centralized pre-audit type of accounting function carried out by the Comptroller of the Treasury until 1969. This is not so. Such a system would not work under present conditions. I do advocate the type of financial control exercised by the chief financial officer of virtually every business organization of any size in Canada or, indeed, throughout the world. In the larger multi-division and

multinational corporations, operations are usually highly decentralized, just as in the Government of Canada. It is well accepted that financial control can be fully effective in decentralized organizations, provided there is a soundly designed, consistently applied, and effectively operating accounting and financial reporting system, under the over-all direction of a seasoned and competent chief financial officer.

While I have emphasized the paramount importance of establishing the position of Comptroller General and appointing to it the right person, eventually every department, agency, and Crown corporation should have a senior financial officer, preferably designated as the Comptroller (in combination, if appropriate, with another designation such as Assistant Deputy Minister in departments or Vice-President in Crown corporations) with prescribed authorities fully commensurate with his key duties and responsibilities. He should report directly to the deputy head or equivalent and be, ex officio, a member of the top management group (executive committee or management committee). He must comprehend fully the content and significance of existing policies and new policy proposals, and must have the financial expertise and experience to render constructive advice to his deputy head and colleagues on the effective use of the financial management techniques in administering departmental programs. He should possess professional and personal qualifications and senior financial executive experience commensurate with his responsibilities so that he may enjoy the respect and confidence of the deputy head, his peers in management and the Comptroller General. Since it is critically important that the right appointments be made to these key positions, I would urge that, despite the pressing need for action, sufficient time and care be taken to identify suitable candidates possessing outstanding qualifications.

My views on these matters have already been stated clearly in hearings of the Public Accounts Committee during March, April, and May 1976. Their restatement is intended to ensure that they receive appropriate consideration in light of the conditions referred to in my current Report to the House of Commons.

So far as I am aware, there are no important differences of opinion between senior government officials, on the one hand, and my officers, my advisers, and myself, on the other, as to the nature and extent of the deficiencies and weaknesses in financial controls. These have been acknowledged by these officials, with few reservations, on many occasions in my current Report, in my 1975 Report, and in the meetings of the Public Accounts Committee from March through June 1976.

But there appears to be an important difference of opinion with respect to the basic recommended actions I consider essential to correct the situation about which I am so seriously concerned. This difference was evident in several of the hearings of the Public Accounts Committee during March and April 1976. Excerpts from two hearings of the Public Accounts Committee are relevant. The first is a statement by the Secretary of the Treasury Board at a hearing on March 18, 1976:

The Treasury Board is the chief financial office of the Government of Canada. I happen to serve as Deputy Minister of the Treasury Board, and I have a responsibility, delegated by my Minister to me, to carry out those functions, administrative functions, relative to that task. But the Treasury Board is, to use an analogy, the chief financial office represented here

A Committee member asked the following question:

...I think this is an important exchange. When you say the Treasury Board is the chief financial office, I wonder if adequate consideration has been given to pinpointing an individual just so we can talk in normal business language?

To which the Secretary of the Treasury Board replied:

Mr. Chairman, it may seem satisfying to do that but I have to deal with reality in the sense that the Treasury Board is the group responsible in the Government of Canada for the finances of the Government of Canada, and I will not qualify that statement.

However, then one comes to the question: How does the Treasury Board discharge that responsibility? It does so by appointing a Secretary of the Treasury Board and I am responsible to them for that function.

So the second point is - I have to put it in my own terminology because I think it is correct in terms of parliamentary language - that I have simply a delegated responsibility and I am not independent of the Government of Canada. I am the public servant.

Another member asked:

Do you not feel there should be a chief financial officer?

The Secretary of the Treasury Board replied as follows:

No, sir, I believe a government governs and the government is responsible for doing so and is accountable to the country and it must discharge that responsibility.

I say that very directly.

At a subsequent hearing of the Public Accounts Committee held on April 6, 1976, in response to a question by a member, I replied as follows:

I say on the record this morning - because this is perhaps our last chance to put before this Committee the underlying reasoning that went behind this major report. I can assure you that hours and hours and hours were spent in debating these questions before we put them on the record - I do have two further points. One, that this man (the chief financial officer) should be the umpire, the umpire on which . . . the government of the day can rely. He is an interpreter of financial information; he is the man who has the responsibility of

ensuring that funds are under good control. I know what the specifications are; we have tried to say them in paragraph 10.40 (of the 1975 Annual Report).

I will go further and tell you that, in my judgement, if the government should see fit at some future day to appoint a Comptroller General of Canada, I can assure you that those responsibilities are probably 10 times as great as those of the Auditor General of Canada. I think every possible care should be taken to find the most outstandingly competent man in Canada. When you realize, as Mr. Martin said, that \$40 billion is equivalent to probably the top 17 corporations in this country in their spending, it may give you some perspective of how seriously I view this job.

The then President of the Treasury Board, The Honourable Jean Chretien, P.C., M.P., at a hearing of the Public Accounts Committee and on other occasions, expressed concern about having two officials of deputy minister rank, the Secretary of the Treasury Board and the Comptroller General of Canada, reporting to him since important matters might fall between them and be unattended. This is an understandable concern on the part of a busy Minister. With respect, however, I have ventured the suggestion that the proposed dual reporting arrangement be tried. If, after a suitable period, the President of the Treasury Board considered it to be a less than satisfactory arrangement, a different reporting relationship could be introduced whereby the Comptroller General could report to a Minister of the Treasury Board, other than the President, preferably one with no other ministerial responsibilities.

On May 17, 1976, a question relating to this matter was asked in the House of Commons by Mr. Alan Martin, M.P. (Scarborough West) as follows:

Mr. Speaker, my question is for the President of the Treasury Board. In view of the recommendation implied by the Auditor General in his report for the year ended March 31, 1975, and later enunciated by him before the Standing Committee on Public Accounts, would the minister give very careful consideration to the establishment of the position of chief financial officer within the framework of the Public Service of Canada, the position to have express responsibility for overseeing matters relating to the adequacy of financial accounting and control measures over the some \$40 billion of annual revenues and expenditures involved in the current operations of the government?

The Honourable Jean Chrétien, P.C., M.P., then President of the Treasury Board, replied as follows:

Mr. Speaker, as everyone knows, we studied thoroughly the Auditor General's recommendations which we all accepted, except two. As concerns the position mentioned by the honourable member, I am prepared to consider it favourably. There is a problem of organization within the government. We strongly intend to establish the required mechanisms to the satisfaction of the Auditor General, and I think that with respect to this particular matter, the Treasury

Board and the Auditor General will finally find a common ground. However, it is a problem of governmental organization and we may not be able to meet all the requests of the Auditor General, but if we can meet them in a proportion of 98 per cent, as we did until now, I think it is a good average.

It is evident from this exchange that at the ministerial level the issue remained open at that time and, so far as I am aware, has not yet been finally decided by the Government.

In the circumstances, attaching as much importance as I do to the appointment of an appropriately qualified person to the position of Comptroller General of Canada, I have considered it my duty to set out the matter clearly in my Report.

Adoption by the Government of my recommendations for the creation of a position of Comptroller General and appointment of the right person to fill it will not ensure that all of the complex facets that make up a sound financial management and control system will fall into place immediately and automatically. However, the establishment of the position of Comptroller General and the appointment of the right person to the position will lay a firm foundation for achieving a truly effective system. By these actions the Government, Parliament, and the people of Canada can receive assurance that the public purse will once again come under effective control.

I am confident that, even in such an enormous and complex organization as the Government of Canada, many of the basic weaknesses can be corrected within a reasonable period of time - say, two years - and more fundamental improvements such as an effective budgetary control system and much better financial information for managerial, governmental, and parliamentary purposes can be introduced progressively. 1980 seems to me to be a reasonable target date for the accomplishment of most of these goals, if the program is developed with expertise, pursued with thrust under strong leadership, and given unstinted Government support.

In view of the highly unsatisfactory state of financial control throughout government to which I directed the attention of Parliament in my 1975 Report and in this year's Report, I consider it my professional duty as a responsible servant of Parliament to increase still more substantially the professional resources of my Office in an effort to counterbalance to some extent the deficiencies and weaknesses that have been disclosed, discussed, reported to the House of Commons, and acknowledged by the Government. Mindful that some of the largest frauds ever uncovered have been perpetrated because of weaknesses in financial and audit controls in computerized data processing, I recently launched a comprehensive special study to evaluate the effectiveness of computer controls in all departments and agencies of government and in the Crown corporations of which I am the auditor, where electronic equipment processes data used for financial and accounting purposes.

It is clear to me that the Government and its senior officials share

the concerns I have expressed about the current weaknesses and deficiencies in financial control. The Government's actions since my appointment as Auditor General in July 1973 in responding promptly and affirmatively to my requests to strengthen the professional resources of my Office, the need for which is now so clearly apparent, are tangible evidence of both the Government's concern and its strong support of my Office. On no occasion has the Treasury Board denied, altered, or reduced in any material respect my submissions for additions to the senior executive and professional complement of my Office, or for funds needed to raise professional standards or to carry out special examinations such as the financial management and control study and others dealt with in my Report. Furthermore, I have been led to believe that most of the key recommendations of the Independent Review Committee to strengthen the independence and modernize the operations of the Office of the Auditor General are likely to be incorporated soon in a new Auditor General of Canada Act. Through these actions I am greatly encouraged in the belief that in 1978 the Office of the Auditor General will attain its centennial year in the best position that it has ever been to fulfil effectively its mandate to serve as "the watchdog of Parliament".

In 1973 at the time of my appointment as Auditor General, I adopted a policy of directing promptly to the attention of the officials concerned significant irregularities in transactions and weaknesses in financial management and control procedures discovered in the course of our examinations, together with an identification of the causes of the deficiencies and recommendations for corrective action, with a view to having such action initiated expeditiously. As part of this policy, my Annual Report to the House of Commons sets forth both the deficiencies and the remedial actions taken or planned. An important objective of this policy and practice is to facilitate the work of the Public Accounts Committee.

This practice was later endorsed in the Report of the Independent Review Committee on the Office of the Auditor General and is being followed consistently. In accordance with this policy, the comments, observations and recommendations outlined above and included in Part 2 of my Report, as well as those in Parts 3 and 4, have been reviewed in detail during September and October in a number of discussions with senior officials of those central agencies most directly concerned. Early in September, I brought these matters to the personal attention of the then President of the Treasury Board, The Honourable Jean Chretien, P.C., M.P., and shortly thereafter to the personal attention of The Honourable Robert Andras, P.C., M.P., the present President of the Treasury Board.

The officials concerned, and both Ministers, have assured me that they share fully my concern about the present state of financial management and control in the departments, agencies and Crown corporations audited by my Office. They have indicated that positive and significant steps will be taken to rectify the situation in a context compatible with related aspects of administrative accountability by officials. I understand that an announcement of the actions to be taken will be made as soon as possible after the tabling of my Annual

Report in the House of Commons. This response will be welcome because it is only with the strong support of the Government and the continuing co-operation and vigorous action on the part of the senior officials directly concerned that the current unsatisfactory conditions can be rectified.

SPECIAL AUDITS AND INQUIRIES

The Special Audits and Inquiries Branch of the Audit Office initiates and conducts studies that are broader in scope than normal day-to-day audit activities. The work of the Branch is directed to specific projects, and internal staff resources are supplemented, as required, by industry or government specialists or by professionals in other disciplines. Although separate terms of reference are established for each project, in all cases the main focus is the adequacy of existing financial management and control in specific areas.

In 1975-76, the Special Audits and Inquiries Branch conducted studies on seven specific subjects:

- oOil Import Compensation Program.
- oReceipt and deposit of public money.
- oOffice accommodation.
- oTravel and relocation expenses.
- oInternal controls in payroll systems.
- oManufacturers' sales tax.
- oGrants and contributions handled by
 - Canadian International Development Agency
 - Department of External Affairs
 - Department of Industry, Trade and Commerce
 - Department of Regional Economic Expansion.

The study of grants and contributions is a multi-year project. Studies of other departments and agencies currently under way will be reported in 1977. Next year's Report also will include the results of a study initiated in 1976 relating to economic indices used in financial management.

Six of the seven studies reported on this year were initiated by the Audit Office. The exception is the inquiry into the Oil Import Compensation Program which was initiated in 1974 at the request of the Governor in Council.

Details of the work of the Special Audits and Inquiries Branch in 1975-76, along with our recommendations for remedying specific deficiencies, are contained in Parts 6 to 13 of my Report. Here we highlight the findings of the seven studies.

Oil Import Compensation Program (Part 7)

The Oil Import Compensation Program was implemented in early 1974 to cushion the Canadian economy from the impact of rapid increases in the price of foreign crude oil used in Canada. The Program compensates importers of crude oil and petroleum products for specified cost increases, principally taxation and participation costs, imposed by oil-producing countries. To be eligible for compensation, importers were required to maintain wholesale prices of imported petroleum products or products obtained from compensated crude oil at the levels suggested by the Minister of Energy, Mines and Resources until October 14, 1975, when these importers became subject to Anti-Inflation Board price and profit guidelines.

On the basis of our review of claims, procedures, and controls, we are satisfied that, with the exception of overpayments amounting to an estimated \$5 million that have been made to importers who transshipped cargoes en route to Canada, provisional payments made to March 31, 1976, have been properly processed and conform to the legislation, regulations, and guidelines established for the Program.

With respect to the audit of price restraint, we are satisfied that price increases for imported petroleum products or products derived from imported crude oil during the period September 1974 to December 1975 did not exceed price levels prevailing in January 1974, adjusted for allowable cost increases. Since the inception of the Anti-Inflation Board price and profit guidelines, the Energy Supplies Allocation Board has been supervising the monitoring of compliance by the oil industry with these guidelines.

Receipt and Deposit of Public Money (Part 8)

In 1975-76, the Government of Canada's total cash receipts were almost \$75,000 million. Daily cash balances, consisting largely of deposits in interest-bearing accounts with the chartered banks, ranged from \$1,200 million to \$4,600 million.

All moneys received by government departments must flow through the chartered banks before being deposited with the Bank of Canada. In view of the large sums involved, it is important that departments follow highly efficient receipt and deposit procedures to avoid losses of government interest earnings.

Our study of central and regional office locations of nine departments has indicated that, in general, current practices do not permit adequate control of cash received, do not comply with Treasury Board regulations regarding the receipt and deposit of public money, and result in delays in the deposit of receipts. Specifically, we found that departmental financial systems do not place high priority on depositing receipts promptly, and that the deposit procedures that departments follow tend to be inefficient. For example, in contravention of the regulations, departments often hold receipts for as long as two weeks before depositing them. In addition, receipts

are frequently mailed to an accounting centre for deposit, rather than deposited at the location of the recipient office. This practice incurs a risk of loss, as well as delaying the deposit of government funds.

Apart from deposits to special purpose bank accounts and deposits made directly with the Bank of Canada, there are three methods of depositing public money with the chartered banks:

- oMoney may be deposited to a transfer account.

- oWhere no transfer account is established, money may be deposited in exchange for a transfer-of-funds voucher payable to the Receiver General for Canada.

- oIn the case of payroll deductions at source and individual tax remittances, money may be received directly by the banks for payment to the Receiver General account at the Bank of Canada.

We found some important weaknesses in the controls that exist for establishing and operating transfer accounts and deposit facilities. These deficiencies increase the risk of loss or misappropriation of public money and result in further delays in the transmittal of receipts to the Bank of Canada.

Similar problems arise in the use of transfer-of-funds vouchers. We found that departments are slow to deliver these vouchers, and that they tend to transmit them by mail instead of delivering them by hand to a Bank of Canada agency in their area.

Delays also occur in the remittance by chartered banks to the Bank of Canada of receipts for income taxes, old age security tax, Canada Pension Plan contributions, and unemployment insurance contributions.

Office Accommodation (Part 9)

At the time of our study of the financial management and control of office accommodation in the federal government, the public service occupied approximately 39 million square feet of office space at an estimated annual cost of almost \$249 million.

Our review of existing directives and guidelines for the provision and allocation of office space indicated that some current practices tend to encourage inefficient use of space and give the appearance of overly-generous accommodation. There is a need to devise a more realistic formula than now applied for calculating space requirements, and to develop guidelines on the limits of space needed to meet an individual's functional requirements. The Department of Public Works is currently developing such guidelines for approval by the Treasury Board.

For most departments included in the study, a lack of pertinent information prevented an assessment of their adherence to established guidelines; but in three of five cases where information was

available, we found that the present use of space exceeds the guidelines by more than 30%. Moreover, our examination of the process of determining additional space requirements in eight departments and two agencies, which together occupy about one-third of the total office space available, revealed the absence of sufficient documentation to justify requests for space.

The Department of Public Works provides accommodation on the basis of projections of space requirements submitted by departments and agencies. These projections include an assumed growth factor. In the event that the expected growth is not realized, the space remains vacant or under-utilized, for once a department or agency is assigned accommodation, it assumes control over the use and management of that space. There is at present no provision for returning surplus space to the Department of Public Works for reallocation.

Finally, we have found that the present system of accounting for costs of accommodation is inadequate, insofar as these costs are not related to specific programs of departments and agencies. In fact, at the present time, the majority of departments and agencies are not charged for the office space they occupy and there is no meaningful display in the Estimates and Public Accounts of accommodation costs applicable to them. Whether or not a cost recovery system is adopted, an informed review of government programs requires that accommodation costs should be recognized as an integral component of any program, and they should be given appropriate weight in making decisions regarding the program.

Travel and Relocation Expenses (Part 10)

Our study of travel and relocation expenses was directed towards assessing the extent to which departments and agencies currently comply with Treasury Board regulations, directives, and guidelines; the effectiveness of Treasury Board and departmental controls in ensuring efficient use of funds allocated for travel and relocation; and the adequacy of the disclosure of such expenses in the Public Accounts.

We examined the records of six major departments, which together account for about 32% of total travel expenses in the Government. Although the Public Accounts do not identify such expenses separately, for 1975-76 they are estimated to exceed \$200 million.

In the six departments we examined, Treasury Board regulations, directives, and guidelines were either inconsistently applied or substantially ignored. There appears to be little or no effort to ensure the most efficient use of travel funds.

Internal Controls in Payroll Systems (Part 11)

In 1976, a government-wide review was undertaken to assess the adequacy of internal controls in payroll systems. These systems cover more than 350,000 employees and involve about \$5,000 million in annual payroll costs (approximately 40% of total government operating expenditures). Our study covered a sample of departments and

Department of Supply and Services pay offices.

A brief summary of deficiencies observed is provided in Part 11 of my Report. These include inadequate delegation of the responsibility for authorizing direct input data to the payroll system, lack of proper reviews of payroll charges in departments and a number of internal control weaknesses in the payroll systems operated by the Department of Supply and Services.

It is expected that these deficiencies will be addressed and remedied in a study of payroll systems currently being carried out by the Treasury Board and the Department of Supply and Services.

Manufacturers' Sales Tax (Part 12)

The Excise Branch of the Department of National Revenue is responsible for the administration of the manufacturers' sales tax. Our study indicated that the Branch is performing reasonably well within the limits of its available resources, although improvements could be made in audit development, audit training, audit programs and technical interpretations. The Excise Branch has taken steps to correct the deficiencies we reported.

Grants and Contributions (Part 13)

We are conducting a multi-year study aimed at evaluating the adequacy of financial management and control pertaining to grants and contributions in several departments and agencies audited by the Audit Office. In 1975-76, the following agency and departments were examined:

- oCanadian International Development Agency (CIDA)
- oDepartment of External Affairs
- oDepartment of Industry, Trade and Commerce
- oDepartment of Regional Economic Expansion

Our observations and recommendations relating to matters of internal control are summarized in Part 13 of my Report. Here we shall only mention some of the deficiencies identified in each case.

Canadian International Development Agency. CIDA's program for grants and contributions is handled by three branches - Bilateral Programs, Multilateral Programs, and Special Programs - which together are responsible for eight sub-programs. Our review revealed a number of problems and inadequacies in the management and control of funds allocated to these purposes:

- oSome expenditures charged to the International Assistance Account in 1974-75 and 1975-76 were in fact disbursements for food aid, multilateral assistance, and international emergency relief. Thus, the figures contained in the Public Accounts relating to expenditures for

these purposes do not accurately represent the total amounts actually spent in each case.

oWith respect to the International Food Aid Program, a lack of operational co-ordination within the Agency has created problems that are sometimes detrimental to the effectiveness of the Program. In addition, accounting methods currently in use for agreements under the Colombo Plan tend to interfere with the ability of participating countries to live up to the conditions of agreements.

oGrants and contributions agreements do not always define a limit to the time span of the agreement or the resources to be committed by the Canadian Government. Moreover, the failure of some countries to honour financial commitments to projects results in additional expenditures and costs for CIDA.

oThe regulations and conditions concerning the payment of grants by CIDA are not always complied with.

oIn some cases, general contracts are issued to firms for the supervision of important construction projects abroad, and these firms are authorized to award field contracts for the actual construction work. The specific approval of CIDA is not required for the awarding of these contracts, even though they may amount to as much as \$2 million for a single contract.

oCIDA's Operational Review Division is responsible for the operational field audit of projects carried out in developing countries. Because of a shortage of staff, in 1974-75 the Division audited only six projects and in 1975-76 only nine, out of more than 1,000 projects.

oInadequacies in internal financial controls include over-commitment of funds, failure to specify the delegation of financial authorities, failure to maintain adequate financial controls abroad, and poor control of requisitions for payments.

Department of External Affairs. Grants made through the Department of External Affairs aim at promoting relations with foreign governments and intergovernmental institutions and at supporting information activities and cultural relations. Contributions consist mainly of fees for Canada's membership in international organizations.

Our review of the management and control of grants and contributions disclosed the following:

oThere is a need to improve parliamentary control over the appropriation for assessed contributions. Expenditures in this area in 1975-76 exceeded the Estimates by \$9 million.

oThere is also a need for improved disclosure to Parliament of grants and contributions. In 1974-75, unexpended balances of specific appropriations were transferred to a "special reserve (or lapsing) allotment", which was used to fund new contributions. These contributions were not listed separately in either the Estimates or

the Public Accounts; thus, Parliament was at no time informed of who received individual contributions and in what amounts.

oThere are instances within the Department where spending and payment authorities are exercised by a single officer, although it was recommended in 1975 that, in the interest of effective internal control, each of these authorities should be delegated to a different person.

oThe Department's payment processing procedures are inadequate to ensure proper control. For example, payment files are incomplete; and cheque requisition forms are sometimes changed without documentation of the reason or the authority for the change.

oAt present, no written guidelines exist on the day-to-day administration of grants and contributions for use by the various bureaux of the Department responsible for these items.

Department of Industry, Trade and Commerce. Our review of the Department's programs and activities involving grants and contributions has not revealed any major weaknesses in existing management and control procedures.

Improvements could, however, be made in the following ways:

oThere should be better documentation of the steps taken in evaluating, processing, and approving requests for financial assistance. The role and responsibilities of the offices, branches, and divisions involved in each program should be clearly defined.

oThe Department should ensure that, after a contribution is approved, the applicant signs an agreement or letter of agreement setting out the conditions to be met before payments may be made. This practice is currently followed in most, but not all, cases.

oThe monitoring of projects should be improved by the use of formal documentation showing that recipients have provided all required reports and other material, and that the responsible branch or office has carried out interim and final evaluations of all projects.

oBeneficiaries should be required to submit monthly claims for contribution payments in accordance with the terms of their agreements, and departmental branches should process claims promptly, to avoid the heavy accumulation of claims at the end of the fiscal year.

Department of Regional Economic Expansion. The Department of Regional Economic Expansion administers a variety of programs aimed at improving opportunities for and access to productive employment. It provides contributions to shared-cost projects with the provinces, financial incentives, and loans or loan guarantees.

In the course of our audit, we have identified the following weaknesses:

oIn a number of instances, failures to comply with the interim financing terms of individual agreements with the provinces resulted in excessive interim financing by the federal government.

oIn some cases, interim financing payments not fully accounted for by the required documentation and certificates have been charged to the appropriation as payments rather than advances.

oAt present, audit coverage of contributions is incomplete, omitting a significant number of payments made in past years.

A number of weaknesses pertaining to internal financial controls also identified in the study have subsequently been corrected by the Department.

Audit Operations

The Audit Operations activities of the Audit Office in 1975-76 are described in Parts 14 to 19 of my Report. Parts 14 and 15 present my certificates on the main financial statements of Canada and our observations on these statements. This year, for the first time, the observations included in Part 15 have been reproduced in the Public Accounts for the convenience of readers of the financial statements.

Part 16 presents comments on the financial statements and operations of Crown corporations and other entities, specifically noting those cases where I have qualified the audit reports tabled in the House of Commons and giving the reasons for such qualification.

Parts 17 and 18 identify irregularities disclosed during our examinations and other cases that I consider should be brought to the notice of the House of Commons. Part 19 comments on various deficiencies noted in previous Reports which have not subsequently been corrected and are of sufficient importance to be reported again.

Observations on the Financial Statements of Canada (Part 15)

All certificates to the 1975-76 financial statements of Canada are subject to the comments contained in my Report.

Part 15 of my Report contains specific observations on the presentation of the financial statements. The matters giving rise to these observations, while being in accordance with existing legislation and consistent with prior years, have been commented on in my previous Reports to the House of Commons. Problems identified are in the following areas:

oRepresentation as assets of the Government of Canada of loans that likely will require parliamentary appropriation for write-off and loans that are of questionable carrying value. These include advances of \$2,088 million to the Unemployment Insurance Account, loans of \$2,382 million to certain Crown corporations and loans of \$1,249 million to developing countries.

oThe arbitrary allowance of \$546 million for losses on the realization of assets that bears no relation to actual or other possible losses.

oAccounting practices that are inconsistent with the main accounting policies followed by the government.

oThe policy of omitting certain accounts payable and unpaid retroactive salaries from recorded accounts payable.

oThe presentation of certain revenues and expenditures in a manner which distorts the total revenue and expenditure of the government as well as the results of the operations of the individual departments concerned.

Part 15 of my Report also recognizes that the Fundamental Issues giving rise to these problems were reviewed as part of the Study of the Accounts of Canada, initiated by the Treasury Board in May 1973 and carried out jointly with the staffs of the Department of Finance and the Department of Supply and Services. A number of the Study's 41 recommendations are being implemented and further study of certain specific areas is being undertaken at the request of the Public Accounts Committee of the House of Commons. These actions should result in the correct treatment in future years of the matters listed above.

Qualifications Pertaining to Crown Corporations and Other Entities (Part 16)

Audit reports prepared and tabled in 1976 were qualified in some instances because I observed deficiencies in accounting practices, inconsistencies with the governing statutes, or other matters affecting the fairness of presentation of information in financial statements. The following Crown corporations or agencies are identified in my Report as having received qualified reports:

oAgricultural Products Board. In the financial statements of the Board for the year ended March 31, 1976, inventory was valued at \$227,600 in excess of its estimated realizable value, through the failure to adjust for known losses on future sales.

oAtomic Energy of Canada Limited. In my 1975 Report, I drew attention to the excessive carrying values of two prototype nuclear power stations in relation to their estimated realizable value. My report on the company's accounts for the year ended March 31, 1976, was again qualified because it is still not known whether the cost of these prototype stations can be fully recovered.

oIn 1975 and again in 1976, I have reported the company's failure to record in its accounts the interest accrued on loans from Canada relating to the financing of the two prototype nuclear power stations for the period following their in-service dates.

oIn its financial statements for 1975-76, the company made no

provision for estimated losses on a contract negotiated with an Argentine agency for the supply of a nuclear power station.

oCanadian Broadcasting Corporation. In 1975 and again in 1976, the Corporation failed to record accrued interest amounting to \$14 million on loans from Canada.

oCompany of Young Canadians. In 1975-76, immediately before dissolution of the Company, severance payments totalling \$185,500 were made to volunteer members, equivalent to one month's living allowance. The Company of Young Canadians Act does not give the Company the authority to make such payments.

oFisheries Prices Support Board. My opinion on the Board's financial statements for 1975-76 was qualified because of a number of weaknesses detected in its administrative practices. In particular, in the case of deficiency payments to fishermen and producers totalling \$834,000, the Board was not able to supply adequate documentation in support of claims or to assure me that adequate procedures were followed in processing and validating claims.

oNational Capital Commission. In 1975 and again in 1976, the accounts of the Commission recorded certain capital assets at values greater than the amounts to be realized on disposal of these assets.

The Commission also failed to repay to Canada an amount of \$22 million received from the sale of lands, as required by the Orders in Council authorizing the original purchase of the lands.

oPilotage Authorities. Three pilotage authorities - the Atlantic, the Laurentian, and the Great Lakes - may be held liable for the costs of past service pension contributions amounting to \$1.5 million for elections made by pilots to December 31, 1975, and a possible additional \$1 million for future elections. This liability is not reflected in the financial statements of the pilotage authorities for the year ended December 31, 1975.

oRoyal Canadian Mint. The financial statements of the Mint for the year ended December 31, 1975, understate the net income of the corporation by \$439,000 resulting from a gain on the sale of land.

oThe St. Lawrence Seaway Authority. In 1975 and again in 1976, the Authority failed to make provision in its financial statements for depreciation on a major portion of its fixed assets.

In addition to the specific cases cited above, the following five Crown corporations failed to accrue the liability for termination benefits to which their employees were entitled: Atomic Energy of Canada Limited, Canadian Broadcasting Corporation, Farm Credit Corporation, The St. Lawrence Seaway Authority, and The Seaway International Bridge Corporation, Ltd. The estimated amounts involved ranged from \$64,000 to \$28.7 million.

Irregularities and Other Cases (Parts 17 and 18)

Our examinations for 1975-76 disclosed one case where a government department or agency failed to collect or receive money belonging to Canada:

- oThe Post Office Department failed to recover costs of trans-border highway services between Canada and the United States amounting to \$55,000 to March 31, 1976.

In five instances, appropriations were exceeded or applied to a purpose not authorized by Parliament:

- oIn April 1976, the Department of the Environment made a payment of \$463,000 to the Province of Manitoba as an advance contribution for 1976-77 and charged the payment against a 1975-76 appropriation.

- oThe Department of the Environment made a contract payment of \$35,000 in April 1976, charging the amount to its 1975-76 appropriation, even though there was no evidence that the work billed for had been completed and the contract against which the billing was made was not in force at the year-end.

- oThe Department of External Affairs charged an amount of \$801,000 against its 1975-76 appropriation for the acquisition of properties in Hong Kong without meeting the conditions laid down by the Treasury Board with respect to the timing of purchase arrangements.

- oThe appropriation for the Canadian Habitat Secretariat in the Department of Urban Affairs was exceeded in 1975-76 by \$201,600. The over-expenditure resulted from ineffective budgetary control by the Secretariat.

- oWorking capital advances to revolving funds exceeded the amount authorized in three instances: the Public Service Commission Staff Development and Training Revolving Fund; the Post Office account for acquiring and managing materials used in manufacturing uniforms, satchels, and mailbags; and the Canadian Government Photo Centre Revolving Fund administered by the Secretary of State.

The following example of an expenditure that was made without authorization or without being properly vouched or certified was found:

- oIn 1975, the Canadian International Development Agency made a nugatory payment of \$35,000 in respect of a claim made on termination of a transportation contract. This payment was made without the required approval of the Governor in Council.

Net losses attributable to fraud, default, or mistake of public employees totalled \$217,131 in 1975-76 as reported in Section 12 of Volume I of the 1975-76 Public Accounts. Also, as a result of a mistake on a cheque requisition by the Department of National Revenue, a loss of \$13,000 was incurred on the exchange of foreign currency.

Ten other cases noted during our examinations have been brought to the attention of the House of Commons:

oOn two occasions, Atomic Energy of Canada Limited made payments to agents for which documentation in support of the payments is inadequate. The amounts concerned are \$8,098,500 and \$2,415,000, paid respectively to an agent who negotiated the sale of a nuclear generating station in the Republic of Korea and a commercial agent who rendered unspecified services respecting the supply of a nuclear generating station to Argentina.

oThe Canadian International Development Agency spent approximately \$828,000 to March 31, 1976, on the purchase and modification of a fishing vessel that subsequently proved unfit for navigation.

oAs a result of shipping delays and possibly inadequate protection of cargo, a shipment of seed potatoes supplied by the Canadian International Development Agency to the Government of Haiti deteriorated completely and had to be destroyed on arrival. The cargo was valued at \$63,900, including transportation charges.

oSerious weaknesses exist in the management and control of payments to fishermen and fish processors under a new program introduced in 1975 by the Department of the Environment. Payments made to March 31, 1976 amounted to \$21.5 million for fishermen and \$16.9 million for processors.

oIn April 1974 the Department of the Environment paid \$4 million and granted other consideration valued at \$702,000 to acquire a leasehold interest in a 55-acre Greater Vancouver waterfront property for which it has no present use. Also, a new lease was negotiated with the owner of the property, providing for a minimum annual rental of \$241,400 (until the year 2045) as compared with the rental of \$48,180 previously paid by the tenant from whom the leasehold interest was acquired.

oThe Farm Credit Corporation will incur an annual loss of \$170,000 resulting from low rates of return on long-term mortgage loans to farmers.

oImproper accounting and control procedures are being followed in the administration of the Indian Arts and Crafts Central Marketing Service Revolving Fund in the Department of Indian Affairs and Northern Development.

oThe deficit carried forward to 1975-76 with respect to the Public Service Commission Staff Training and Development Revolving Fund totalled \$749,000, exceeding by \$599,000 the amount authorized by the Treasury Board. The Commission intends to seek an appropriation in 1976-77 to recover the March 31, 1976 deficit of \$747,000.

oThe Department of the Solicitor General operates a program of assistance to privately operated Community-based Residential Centres. Payments made to certain Centres in 1975-76 exceeded those authorized

by the Treasury Board by a net amount of \$54,000.

oThe Canadian National Railways has responsibility for managing and operating ferry services between the mainland and Prince Edward Island, as well as marine services for Newfoundland and the North Sydney -Port aux Basques ferry service. There are at present no formal guidelines, regulations, or conditions governing the operation of these services. Since 1973, the deficits associated with the ferry services have increased from \$59.6 million to \$95.3 million. In the absence of adequate guidelines, the Department of Transport is unable to verify the amount of the deficit charged to its appropriation each year.

Matters Dealt With in Previous Reports (Part 19)

It is a policy of the Audit Office to encourage prompt remedial action on deficiencies and irregularities identified in our examinations. To this end, the staff of the Office maintains constant liaison with officials in government departments, agencies, and Crown corporations to assist them in introducing corrective measures and to monitor the achievement of improvements. When our monitoring activities reveal that appropriate action has not been taken on matters disclosed in my annual Reports, we report our findings to the House of Commons.

The following matters have been raised in Part 19 of my 1976 Report:

oIn my 1975 Report, it was noted that the Department of Industry, Trade and Commerce intended to sell its interest in Radio Engineering Products Limited as soon as the company had become sufficiently stable to attract a suitable buyer. This did not occur, and in late 1975 the company filed a voluntary declaration of bankruptcy. At the time of bankruptcy, it was indebted to the Crown to the extent of \$6 million. No significant recovery of this loss is expected.

oMy 1973 Report referred to deletion from the accounts of Canada of income tax revenue that could not be collected because the taxpayers were no longer resident in Canada. In 1976, such deletions amounted to \$850,000 owed by 161 taxpayers. The Departments of Justice, National Revenue, and Finance are considering the question of confidentiality with respect to possible publication, as a deterrent measure, of the names of taxpayers whose accounts are written off.

oAlso in 1973, my Report drew attention to the substantial amounts of income tax remaining unpaid at March 31 of each year. We recommended that late-payment penalties be increased beyond the 6% rate currently in effect. This proposal is still under consideration and no change has yet been introduced.

oSince 1962, we have reported annually that a high rate of error exists in calculations of retirement benefits and related contributions in the Public Service Superannuation Account. In recent years, there has been some improvement in the determination of benefits, but the quality of data provided by pay offices of the Department of Supply and Services and by departmental personnel

branches has deteriorated. The Department is engaged in a continuing effort to improve its information control system and to upgrade the quality of data supplied. The Audit Office is cooperating with the Department in monitoring the effect of any changes that are made.

ORGANIZATION AND ACTIVITIES OF THE AUDIT OFFICE (Part 20)

Organization and Professional Resources

The new organization structure implemented in October 1975 has proved to be an effective vehicle for carrying out the work of the Audit Office. The new structure, which has been modified slightly in the past year, provides for the delegation of professional responsibilities among senior management personnel of the Office, in much the same way as responsibilities in a public accounting firm are shared by the partners of that firm.

Important developments over the last year include the clarification of the scope of our auditing responsibilities and the adoption of a project-oriented approach to the work of the Office. By assigning staff to specific projects, with clear terms of reference and fixed time schedules, we are able to improve our operational effectiveness and make better use of our professional resources.

In 1975-76, a continuing effort was made to establish career opportunities for staff of the Audit Office similar to professional development programs in leading public accounting firms. As part of this initiative, a formal internal training program based on operational requirements of the Office was introduced.

Between March 31, 1975 and August 1, 1976, the number of full-time staff employed in the Audit Office increased from 302 to 376. During this period, our resources were further expanded by the addition of partners, principals and managers of professional accounting firms and specialists from industry, loaned to the Office through the Executive Interchange Program of the Public Service Commission. At August 1, 1976, there were 26 such persons in the Office.

Principal Activities

The activities of the Audit Office pertaining to the financial management and control study, special audits and inquiries, and audit operations have been described in the preceding pages of this Conspectus. Important work was also carried out in the following areas:

- oThe Audit Office continued to provide assistance to the Standing Committee on Public Accounts in its review of my Annual Report.

- oTo obtain guidance for the Audit Office on complex technical matters, I established two advisory committees consisting of distinguished members of the Canadian accounting profession: the Independent Advisory Committee on Government Accounting and Auditing Standards, and the Independent Advisory Committee on Financial Management and

Control Standards. Both committees have provided valuable counsel on important and complex matters concerning procedures and practices of the Audit Office; we shall continue to refer to them for professional advice during the coming year.

oThe Audit Office initiated a government-wide Computer and Information Systems Evaluation Study to assess the adequacy of the management and financial control of electronic data processing (EDP) and related activities. The study draws on the expertise of EDP specialists in many of the national public accounting firms in Canada.

oI continued to participate as Canada's representative on the three-member Board of Auditors of the United Nations and, in June 1976, I was elected Chairman of the Board for the second successive year. My primary duties in this position, as well as my other responsibilities in the international audit field, are described in my Report.

oThe Audit Office continued its efforts to establish sound professional policies, practices, and procedures and to develop useful aids to support its auditing activities.

Paragraph 20.26 of my Report presents a statement of expenditures for the Audit Office in 1975-76. For the fiscal year ended March 31, 1976, the operating expenses of the Office amounted to \$9.3 million, compared with \$7.5 million for 1975. Salaries and personnel - related costs amounted to \$8.4 million in 1975-76 and \$6.9 million in the previous year.

The last section of Part 20 is a brief report on recent actions undertaken to implement the recommendations of the Independent Committee for the Review of the Office of the Auditor General.

My Report closes with a sincere tribute to the late J.R.M. Wilson, F.C.A., one of Canada's most distinguished professional accountants, who died suddenly on July 17, 1976. He was Chairman of the Independent Committee for the Review of the Office of the Auditor General of Canada, whose landmark report was tabled in the House of Commons on April 14, 1975. The report of the Wilson Committee, as it has come to be known, has already begun to have a profound impact on the scope and professional practices of legislative auditing in Canada and around the world.

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APPENDIX A

FINANCIAL ADMINISTRATION ACT - PART VII AND EXTRACTS FROM PART VIII

FINANCIAL ADMINISTRATION ACT

R.S., c. F-10

Part VII

THE AUDITOR GENERAL OF CANADA

56. (1) The Governor in Council shall by commission under the Great Seal appoint an officer called the Auditor General of Canada to hold office during good behaviour until he attains the age of sixty-five years, but he is removable by the Governor General on address of the

Senate and House of Commons.

(2) The Auditor General shall be paid a salary equal to the salary of the Chief Justice of the Federal Court of Canada, including any additional salary authorized by section 20 of the Judges Act.

(3) The provisions of the Public Service Superannuation Act, except those relating to tenure of office, apply to the Auditor General.

(4) Such officers and employees as are necessary to enable the Auditor General to perform his duties shall be appointed in accordance with the Public Service Employment Act.

(5) The Governor in Council may appoint a person temporarily to perform the duties of the Auditor General during a vacancy in the office of the Auditor General.

57. (1) Notwithstanding any Act, the Auditor General is entitled to free access at all convenient times to all files, documents and other records relating to the accounts of every department, and he is also entitled to require and receive from members of the public service of Canada such information, reports and explanations as he may deem necessary for the proper performance of his duties.

(2) The Auditor General may station in any department any person employed in his office to enable him more effectively to carry out his duties, and the department shall provide the necessary office accommodation for any officer so stationed.

(3) The Auditor General shall require every person employed in his office who is to examine the accounts of a department pursuant to this act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by persons employed in that department.

(4) The Auditor General may suspend from the performance of his duty any person employed in his office.

58. The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the Consolidated Revenue Fund and to public property and shall ascertain whether in his opinion

(a) the accounts have been faithfully and properly kept;

(b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue;

(c) money has been expended for the purposes for which it was appropriated by Parliament, and the expenditures have been made as authorized; and

(d) essential records are maintained and the rules and procedures

applied are sufficient to safeguard and control public property.

59. The Auditor General shall

(a) make such examination of the accounts and records of each registrar as he deems necessary, and such other examinations of a registrar's transactions as the Minister may require; and

(b) when and to the extent required by the Minister, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities, authorized to be destroyed under this Act;

and he may, by arrangement with the registrar, maintain custody and control, jointly with the registrar, of cancelled and unissued securities.

60. The Auditor General shall examine and certify in accordance with the outcome of his examinations the several statements required by section 55 to be included in the Public Accounts, and any other statement that the Minister may present for audit certificate.

61. (1) The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that

(a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,

(b) any public money was not duly accounted for and paid into the Consolidated Revenue Fund,

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,

(d) an expenditure was not authorized or was not properly vouched or certified,

(e) there has been a deficiency or loss through the fraud, default or mistake of any person, or

(f) a special warrant authorized the payment of any money,

and to any other case that the Auditor General considers should be brought to the notice of the House of Commons.

(2) The report of the Auditor General shall be laid before the House of Commons by the Minister on or before the 31st day of December, or, if Parliament is then not in session, within fifteen days after the commencement of the next ensuing session and if the Minister does not, within the time prescribed by this section, present the report to the House of Commons, the Auditor General shall transmit the report to the Speaker for tabling in the House of Commons.

62. The Auditor General shall, whenever the Governor in Council

or the Treasury Board directs, inquire into and report on any matter relating to the financial affairs of Canada or to public property and on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought.

63. Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of such cases to the President of the Treasury Board.

64. The Auditor General may examine any person on oath on any matter pertaining to any account subject to audit by him and for the purposes of any such examination the Auditor General may exercise all the powers of a commissioner under Part I of the Inquiries Act.

65. An officer of the public service of Canada nominated by the Treasury Board shall examine and certify to the House of Commons in accordance with the outcome of his examinations the receipts and disbursements of the Office of the Auditor General.

Extracts from Part VIII

CROWN CORPORATIONS

76. The auditor is entitled to have access at all convenient times to all records, documents, books, accounts and vouchers of a corporation, and is entitled to require from the directors and officers of the corporation such information and explanations as he deems necessary.

77. (1) he auditor shall report annually to the appropriate Minister the result of his examination of the accounts and financial statements of a corporation, and the report shall state whether in his opinion

(a) proper books of account have been kept by the corporation;

(b) the financial statements of the corporation

(i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account;

(ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year; and

(iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the corporation for the financial year; and

(c) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation;

and the auditor shall call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.

(2) The auditor shall from time to time make to the corporation or to the appropriate Minister such other reports as he may deem necessary or as the appropriate Minister may require.

(3) The annual report of the auditor shall be included in the annual report of the corporation.

(4) Notwithstanding section 68, this section operates in lieu of section 132 of the Canada Corporations Act.

78. In any case where the auditor is of the opinion that any matter in respect of a corporation should be brought to the attention of the Governor in Council, the Treasury Board or the Minister of Finance, such report shall be made forthwith through the appropriate Minister.

APPENDIX 8

RECOMMENDATIONS OF THE INDEPENDENT REVIEW COMMITTEE ON THE OFFICE OF THE AUDITOR GENERAL RECOMMENDATIONS OF THE INDEPENDENT COMMITTEE ON THE OFFICE OF THE AUDITOR GENERAL

Action Status

The Canadian Auditor General

A
(paragraph 20.27)

1. Separate legislation should be enacted concerning the role, responsibilities and relationships of the Auditor General and the Audit Office. The present Financial Administration Act should be amended accordingly.

Reporting to the House of Commons

B
(paragraph 20.29)

2. The Summary of Appropriations, Expenditures and Unexpended Balances by Departments included in the Public Accounts should be expanded to include non-budgetary appropriations and expenditures. In reporting on this statement, the Auditor General should say whether or not any individual appropriation has been over-expended and, if any has, he should identify the appropriation and the amount of the overexpenditure.

3. (1) The Auditor General should report annually to the House of Commons

- (a) on the work of his Office and B
- (b) whether he has received all the information and explanations he required B

and he should call attention to anything resulting from his examination that he considers should be brought to the attention of the House of commons, including any cases where he has observed that

(i) accounts have not been faithfully and properly kept or public money has not been fully accounted for;

B

(ii) essential records have not been maintained or the rules and procedures applied have been insufficient to safe-guard and control public property, to secure an affective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditures have been made only as authorized; or

B

(iii) money has been expended other than for purposes for which it was appropriated by Parliament or value for money has not been obtained for any expenditure or expenditures,

A

provided that he should not be required to report on matters that, in his opinion, are not significant in the circumstances.

A

(2)The Auditor General should examine, in such manner as he deems necessary, the accounts and records of the administration.

B

4.The Auditor General should continue to use an annual report as his primary reporting vehicle. This report should be issued not later than the end of each calendar year.

B

5.The Auditor General should have the authority to issue a special report to the House of Commons on any matter of pressing importance or urgency tat, in his opinion, should nt be deferred until the issue of his annual report.

A

Reporting on the Financial Statements of Canada

B

(paragraph 20.29)

6.The Public Accounts should include among the main financial statements of Canada a new statement showing changes in financial position during the fiscal year and the causes of such changes.

B

(paragraph 20.29)

7.The three main financial statements of canada should appear together in the Public Accounts along with such notes and explanations as may be necessary.

B

(paragraph 20.21)

8.The Auditor General should set out concisely in his reports attached to financial statements appearing in the Public Accounts any reservations he may have and qualify his opinion accordingly.

9.The Auditor General should discuss with the appropriate deputy minister and minister any matters in the financial statements of canada that he thinks should be changed before they are signed and advise them of the qualifications he proposes to make in his opinion on the statements if such changes are not made.

B

B

(paragraph 20.21)

10.The Auditor General should continue to comment in his annual report to the House of Commons on matters included in the financial statements of Canada and be free to expand on the reasons for any qualification to his opinion that he found necessary to make.

B
(paragraph 20.21)

11. When the financial statements are presented together in the Public Accounts, complete with such notes and explanations as may be necessary, the Auditor General should express his opinion on all such statements in one report.

B
(paragraph 20.31)

12. The Auditor General should participate in studies of accounting principles for government, whether initiated by the accounting profession or by the Government itself.

B
(paragraph 20.21)

13. In reporting on the financial statements of Canada, the Auditor General should express his opinion as to whether they present fairly information in accordance with the stated accounting policies and on a basis consistent with that of the preceding year.

B
(paragraph 4.12)

14. The Government should consider the possibility of having one minister responsible for the preparation and the form and content of the Public Accounts.

The Audit of Crown Corporations and International organizations

15. The Auditor General should audit the financial accounts of all Crown corporations whose expenditures directly affect the budgetary accounts of Canada.

A

16. The audit of commercially oriented and financially self-sufficient Crown corporations should be conducted either by the Auditor General or by accounting firms, as deemed appropriate in each case.

A

17. The Auditor General should have the right of access to the financial records and documents of all Crown corporations of which he is not the auditor, as he deems necessary to the fulfilment of his responsibilities as auditor of the accounts of Canada.

A

18. The board of directors of every commercially oriented and financially self-sufficient Crown corporation should appoint an audit committee.

A

19. In appointing auditors to a commercially oriented and financially self-sufficient Crown corporation, account should be taken of the recommendation of its board of directors and audit committee.

A

20.The Auditor General should charge professional fees for audit services, as would be done by accounting firms, to the commercially oriented and financially self-sufficient Crown corporations of which he is the auditor.

C

B

(paragraph 20.23)

21.The Governor in Council should nominate or approve the appointment of the Auditor General to the board of Auditors of the United Nations and to the audit of international organizations. Such an appointment should be made only after consulting with him as to whether it would be compatible with the performance of his national responsibilities.

Relationships

B

(paragraph 2.26)

22.The Auditor General should not be restrained in his authority to advise appropriate officials of the public service of matters discovered in his examinations; he should in particular have the right to draw problems to the attention of the Treasury Board Secretariat at his own discretion.

B

(paragraphs 19.2 to 19.4)

23.The Secretary of the Treasury Board should continue to provide the Standing Committee on Public Accounts with a formal response to matters raised in the annual report of the Auditor General.

24.Consideration should be given to changing the Standing Orders of the House of Commons to provide that the annual report of the Auditor General tabled in the House shall be automatically referred to the Standing Committee on Public Accounts and that, if this Committee has not already been organized, it must be so within a reasonable period, say thirty days, after such referral.

A

25.The Government should give consideration to the appointment, for each appropriation, of an accounting officer who would be accountable for the proper accounting and administration of expenditures made thereunder.

A

B

(paragraph 20.13)

26.The Auditor General should, if the Standing Committee on Public Accounts requests him to do so, lend staff to the Committee to assist it in reviewing his report and in dealing with such other matters as may be referred to it.

27.The Auditor General should continue to play an active role in the

International organization of Supreme Audit Institutions and other bodies of a similar nature.

B

B
(paragraph 20.25)

28.The Auditor General should continue to participate in conferences of Canadian legislative auditors, and should take an active interest in the development of nationally accepted governmental auditing principles and standards.

B
(paragraph 20.31)

29.The Auditor General should maintain close relationships with the principal accounting bodies in Canada.

Staffing the Audit Office

A

30.Except for his reports to the House of Commons and his report on the financial statements of Canada, the Auditor General should be empowered to designate a senior member of his staff to sign on his behalf any report or opinion that he is required to give. Such member should indicate beneath his signature his position in the Office and the fact that he is signing on behalf of the Auditor General.

A

B
(paragraphs 20.7 & 20.9)

31.The Audit Office should develop and maintain a high quality professional development program for its personnel.

32.Separate classification and selection standards should be prepared for the professional and para-professional staff of the Audit Office to conform with the classifications that the Office recognizes for its own purposes, with broad and overlapping salary ranges.

A

B
(paragraph 2.25)

33.The Auditor General should have the flexibility to retain, on the basis she considers appropriate, whatever types of competence he requires to discharge his responsibilities effectively.

Independence

A

34.The appointment of the Auditor General and the appointment of a person temporarily to perform his duties during a vacancy in the office should continue to be made by the Governor in Council. Provision should also be made for the appointment by the Governor in Council of a person to perform the duties of the Auditor General in the event of his temporary incapacity.

35.The Auditor General should continue to be appointed to hold office during good behaviour until he attains the age of sixty-five years, and he should continue to be removable by the Governor General on address of the Senate and House of Commons. B

36.The Auditor General's salary should be fixed by statute at a level equivalent to the mid-point of the highest range of salaries paid to persons in the deputy minister classification within the public service. A

37.An Auditor General appointed from outside the public service should be given the option of choosing to participate in the pension plan provided for in the Public Service Superannuation Act or in another plan designed for short-service appointees such as the Diplomatic Service (Special) Superannuation Act. A

38.The Auditor General should have the right to make a special report to the House of Commons in the event that amounts provided for the Audit Office in the Estimates are, in his opinion, inadequate to enable him to fulfil his responsibilities. A

39.The Auditor General should have the authority, within the total dollar limitations established for the Audit Office in appropriation acts, to contract for professional services without the prior approval of the Treasury Board. A

40.The Office of the Auditor General should be specifically exempted from the provisions of the Financial Administration Act with respect to the division of appropriations into allotments. A

41.An officer of the public service, who is a professionally qualified auditor and who is not engaged in the financial administration of the Government, should be appointed by the Treasury Board as auditor of the Audit Office. In the event that such a person is not available, the services of an accounting firm should be sought. A

42.Employees of the Audit Office should continue to be appointed and promoted under the Public Service Employment Act, provided that the Public Service Commission continues to delegate to the Auditor General its authority under the Act, subject to its right to monitor the use made of this delegated authority. A

43.The Auditor General should be a separate employer as defined in the Public Service Staff Relations Act. A

44.Legislation establishing the Auditor General as a separate employer should contain transitional provisions for the continuation of existing collective agreements applicable to staff of the Audit Office until such time as the staff have taken the necessary votes and a bargaining agent can be certified under the Public Service Staff Relations Act. A

45.The Auditor General's right of access to information should be defined, not in relation to the Government's accounts, but in relation to the responsibilities assigned to him. A

A
(paragraph 20.1)

46.The Auditor general should continue to be empowered to undertake special assignments at the request of the Governor in Council, but should be under no obligation to perform such assignments if they would interfere with his primary responsibilities.

47.The Auditor General should present his reports to the House of Commons through the Minister of Finance who should be required to lay each report before the House within fifteen days of its receipt or, if Parliament is not then in session, within fifteen days after the start of the next session. If the Minister fails to do so, the Auditor General should transmit the report to the Speaker for tabling in the House of Commons. A

A-Amendment to legislation or new legislation is required.

B-Implementation action is in process or has been completed.

C-Audit Office has reservations concerning this recommendation.

(All paragraph references in this appendix identify paragraphs in the main body of this report)

APPENDIX C

FINANCIAL MANAGEMENT AND CONTROL STUDY:

FINANCIAL MANAGEMENT AND CONTROL PRACTICES OF CROWN CORPORATIONS

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I INTRODUCTION

SCOPE OF STUDY

1.1 On May 9, 1974, I informed departments and agencies of my plan for a two year government-wide study to evaluate the adequacy of financial management and control in the departments and agencies of which I am auditor.

1.2 The 1974-75 phase of this study concentrated on departments and agencies and formed the basis for the Financial Management and Control Study Supplement to my 1975 annual Report. Part 4 of my current Report describes the Public Accounts Committee, Treasury Board and departmental actions taken to date and the current status of these observations and recommendations.

1.3 The 1975-76 phase of the study concentrated on those Crown corporations included in Schedules C and D to the Financial Administration Act audited by the Office of the Auditor General, and on departments and agencies not covered in 1974-75. The review covered 27 Crown corporations and seven departments and agencies.

1.4 This year's phase disclosed that many of the matters pertaining to departments, reported in last year's Report, are also relevant to the Crown corporations studied. In addition, the study identified a number of significant items unique to Crown corporations. These items relate primarily to the independent status of Crown corporations under the Financial Administration Act and to their freedom from government financial regulations.

1.5 The study of Crown corporations was directed to an examination of:

(a) the statutes and centrally-controlled regulations, policies, directives and guidelines relevant to financial management and control, and the extent of compliance therewith in the Crown corporations;

(b) financial systems and procedures in Crown corporations including budgetary controls, accounting for revenues, expenditures, assets, liabilities and commitments, pricing and costing systems, and financial reporting systems;

(c) the integration of corporate accounting processes and systems with central systems;

(d) the extent to which the financial systems and procedures are monitored and audited by internal and operational audit groups;

(e) the type, accuracy, timeliness, purpose and use of financial information and reports currently prepared; and

(f) the duties, responsibilities and functions of financial and

accounting managers and staff with reference to the system of financial and accounting control, and to the relationships of their functions with central financial and accounting agencies.

1.6 Individual reports were issued to the chief executives of each Crown corporation examined. Appendix D of this Report provides details of the observations and recommendations reported, together with the corporations' responses. As with the departments and agencies studied in 1975, my Office will follow up on the actions indicated in these responses to determine that they actually take place. Subsequent reports will draw to the attention of Parliament corporate actions taken on the matters reported.

1.7 The original two-year term of this study has now ended, and with this report, its findings are a matter of public record. I believe that the study has achieved the over-all objective contemplated at the time it was originally conceived and launched, although certain aspects still require further action. These can be summarized as follows:

- my office, being committed to follow up the observations and recommendations, will draw Parliament's attention, in subsequent reports, to progress made;

- the remaining entities included in the original terms of reference will be studied in conjunction with the annual audit examination of these entities; and

- the information obtained from the study will be used to plan and conduct audit work carried out as part of the annual examination of the Accounts of Canada.

ORGANIZATION OF THE REPORT

1.8 This report contains the results of our analysis of the financial relationships that Parliament and the government have with Crown corporations, as well as those significant matters concerning their internal financial activities which are common to a number of the corporations studied. The observations in the individual corporation reports, contained in Appendix D, should be regarded as being added to or modified by the observations contained herein.

1.9 This report is divided into four sections, which may be summarized as follows:

- Chapters II, III and IV deal with when Crown corporations are created, and how they are classified and financed.

- Chapters V, VI, VII and VIII concern financial processes and consider the form of budgetary information submitted to Parliament, the procedures involved in reviewing financial plans, the methods used to control and monitor the use of financial resources, and the disclosure of financial results in the Public Accounts and corporate annual reports. Chapter IX contains observations common to a number of

corporations, and discusses matters included in the individual reports to them.

-Chapter X concludes the report by examining the roles of Parliament, central agencies and ministries in providing direction to and in monitoring Crown corporation activities.

1.10 The observations and related recommendations included in this report are designed to:

-allow Parliament and the government to control effectively that portion of the public purse administered by Crown corporations; and

-ensure that Crown corporations properly control the public funds entrusted to them.

These recommendations are not intended to alter or impair the operational independence that is the objective of the corporate form.

This concept of operational independence is of paramount importance, since the reason for adopting the corporate form is based on Parliament's desire to create an entity relatively free of the rules, regulations and procedures which might otherwise hamper the responsiveness of management to day-to-day operational requirements. This operating and financial flexibility allows them to respond more readily to changes in the environment in which they operate, but it must not be allowed to undermine the basic requirements of adequate financial management and control of public funds.

II CREATION AND CLASSIFICATION OF CROWN CORPORATIONS

2.1 Section 66 of the Financial Administration Act defines a Crown corporation as one "that is ultimately accountable, through a Minister, to Parliament for the conduct of its affairs, and includes the corporations named in Schedule B (Departmental), Schedule C (Agency) and Schedule D (Proprietary)". This report does not consider Departmental (Schedule B) corporations since the Financial Administration Act deems them to be departments for purposes of financial administration, and the findings reported in my 1975 annual Report apply to them as well as to departments.

CREATION OF CROWN CORPORATIONS

Methods of Creation

2.2 The Crown corporations scheduled in the Financial Administration Act have been created by:

-specific acts of Parliament designating them as corporations - for example, National Harbours Board and Canadian Broadcasting Corporation; or

-incorporation, under the Canada Corporations Act (now known as the Canada Business Corporations Act), by the appropriate minister with the approval of the Governor in Council, or by a third party before acquisition by the Crown - for example, Atomic Energy of Canada Limited and Eldorado Nuclear Limited.

2.3 The government has also invested public funds and thereby acquired an ownership interest in a number of additional corporations or corporate entities not scheduled in the Financial Administration Act:

-Volume I of the Public Accounts identifies six additional government controlled corporations, such as the Bank of Canada and the Canada Council, that are not subject to the Financial Administration Act;

-some departments, notably National Health and Welfare, and Industry, Trade and Commerce, have created corporations to undertake specific transactions or departmental activities - for example, Sports Participation Canada and Fashion Canada;

-the government, particularly through the Department of Industry, Trade and Commerce, has taken over ownership and control of corporations from the private sector - for example, Canada Air Limited, The de Havilland Aircraft of Canada Limited and Radio Engineering Products Limited;

-the government has undertaken certain activities in collaboration with private enterprise, using corporations it does not fully own - for example, Panarctic Oils Limited and Canada Development Corporation; and

-through the Ministry of Transport, the government has created "corporate bodies", which are defined as public, semi-autonomous corporations to manage specific public assets. As long as revenues exceed operating expenditures, these entities do not appear to be subject to any parliamentary control since their activities are not detailed either in the Estimates or in the Public Accounts - for example, Toronto Harbour Commissioners and Fraser River Harbour Commission.

These corporations, and any other government-owned or controlled corporations not scheduled in the Financial Administration Act, will be referred to as Unclassified in the balance of this report.

2.4 In view of their diversity and number, we attempted to identify all Unclassified corporations by requesting a complete listing of government-owned or controlled corporations from Treasury Board, the Department of Finance and the Privy Council Office. None could provide it. We also pursued this inquiry with a number of departments, agencies, and other sources of government information and were able to identify more than 30 corporations not scheduled in the Financial Administration Act. Due to the lack of a central focal point for such entities, however, we were unable to verify the completeness of this listing. All corporations and corporate entities identified in this fashion, together with those scheduled in the Act, are listed in Table I of this Appendix.

2.5 The number of Crown corporations and other corporate entities not subject to the provisions of the Financial Administration Act, and therefore prescribed uniform standards of financial control, seriously undermines the government's ability to monitor their activities. If non-scheduling is due to the inappropriateness of the existing classifications or of the financial control standards under the Financial Administration Act, it should be amended accordingly.

2.6 All government-owned and controlled corporations should be scheduled in the Financial Administration Act and subject to its provisions.

Reasons For Creation

2.7 The Royal Commission on Government Organization (Glassco), in its discussion of the organization of the Government of Canada, provides an insight into the evolution of the Crown corporation. Glassco noted that the department is the traditional form of organization in the Government of Canada and carries on the majority of government activities. The deputy minister of the department is fully accountable to his minister, and through his minister to the government, and to Parliament, for all aspects of the management of the department.

2.8 As government activities proliferated, many new programs were initiated and organized outside the normal departmental framework although remaining associated, for purposes of ministerial direction, with the various ministerial portfolios. These governmental entities

were established under a variety of titles including commissions, councils, boards and corporations.

2.9 Glassco found that:

- the choice of organizational form for each governmental activity involves an evaluation by the government and Parliament of what the public interest requires, having regard to all the circumstances of the case; and

- a Crown corporation should be used only when responsibility for the conduct of the program can be fully delegated to an independent group, and when suitable capitalization and an adequate revenue base ensure financial viability.

2.10 Glassco concluded that, should political circumstances require, all activities of government could be carried on under the departmental form since manufacturing operations, transportation services, lending and insuring activities, and all the rest could be managed within departmental organizations. Activities of these types can be found today within various departments. Why then have Crown corporations been created? Glassco said they were set up where:

- Parliament judges the public interest to be best served by an organization run in accordance with commercial standards. Ministerial control is limited to the definition of general goals and the selection of a competent directing board, leaving the organization free from governmental administrative rules and regulations, such as those relating to personnel and contracts.

- The operations are of a kind requiring a degree of remoteness from the political process. Such an arrangement allows interested and affected parties to be represented on the boards of directors, thereby enhancing public confidence in the impartiality of Crown corporations.

- There is a need to fill gaps in the economy where it would not be reasonable, for financial or national security reasons, to rely on private sector suppliers.

Additional criteria were cited by the Crown corporations studied. These were, in general, compatible with those stated by Glassco and tended to justify a particular corporation's existence rather than add to those stated above.

2.11 In summary, Crown corporations differ from departments in that they:

- have a separate legal identity and are therefore considered distinct from the government proper;

- are not bound by the financial, personnel and general administrative rules applicable to departments; and

- are characterized by reduced ministerial responsibility for their

activities and, therefore, are considered distinct from the related ministry.

2.12 This report is not concerned with the choice of organizational form for each government activity or the organization's operational relationships within the government as a whole since these matters are essentially non-financial and therefore beyond the study's terms of reference. These non-financial considerations, however, should not be allowed to override the basic managerial need for proper financial management and control by those who provide the funds, and by those to whom funds are entrusted.

CLASSIFICATION OF CROWN CORPORATIONS

2.13 The study of Crown corporations audited by my Office includes 13 designated as Agency (Schedule C), 13 Proprietary (Schedule D) and one Unclassified. Our review of the financial structure and nature of the operations of these corporations leads to the conclusion that the present classification does not provide a suitable basis for establishing parliamentary and governmental review of their activities. Before discussing this matter in detail it is useful to review briefly the primary purpose of the Financial Administration Act and the rationale behind the classification system.

Classifications Prescribed Under Financial Administration Act

2.14 The Financial Administration Act forms the foundation of the financial control system within the Government of Canada since it provides "for the financial administration of the Government of Canada, the audit of the public accounts and the financial control of Crown corporations". The Act defines the roles and responsibilities of the Treasury Board, the Department of Finance and the Auditor General, and the basis for parliamentary control of Crown corporation activities.

2.15 The Act gives the Governor in Council authority to classify Crown corporations as Departmental (Schedule B), Agency (Schedule C) and Proprietary (Schedule D), based on the following criteria:

Departmental "...a servant or agent of Her Majesty in right of Canada and is responsible for administrative, supervisory". or regulatory services of a governmental nature

Agency "...an agent of Her Majesty in right of Canada and is responsible for the management of trading or service operations on a quasi-commercial basis, or for the management of procurement, construction or disposal activities on behalf of Her Majesty in right of Canada";

Proprietary "...is responsible for the management of lending or financial operations, or for the management of commercial and industrial operations involving the production of or dealing in goods and the supplying of services to the public, and is

ordinarily required to conduct its operations without appropriations".

2.16 The criteria indicate that two fundamental factors are considered when Crown corporations are classified for purposes of the Act:

- (a) the degree of financial dependence, and
- (b) the nature of the activity undertaken.

At one end of the scale is the Departmental corporation that is financially dependent on parliamentary appropriations for its continued existence and that carries on governmental type activities.

At the other end is the Proprietary corporation that is expected to operate without parliamentary appropriations or other financial assistance and that carries on commercial activities. The Agency corporation falls somewhere in between, since it displays some of the characteristics of the other two.

2.17 The Financial Administration Act provides that Departmental corporations are deemed to be departments and therefore are generally subject to most governmental rules and regulations. Agency and Proprietary corporations are considered to be independent and therefore are granted a great degree of freedom from parliamentary and governmental review. This is illustrated by the fact that these corporations are not required to conform to most governmental administrative, personnel and financial rules so long as they satisfy the prescribed financial reporting requirements which are minimal, and essentially the same for Agency and for Proprietary corporations. These reporting requirements are limited to:

- a Capital Budget; and
- an Annual Report which shall include the statements of accounts of the corporation.

The Act also requires that Agency, but not Proprietary, corporations submit an annual Operating Budget to the appropriate minister but it is not submitted to Parliament.

Description of Corporations Studied

2.18 To assist in understanding the characteristics of the corporations studied we shall briefly review the significant features of this group. They displayed the following common features:

-More than one-half receive annual parliamentary appropriations to offset operating costs, as shown in Table II of this Appendix. In 1975, they received parliamentary budgetary appropriations of more than \$710 million out of total gross revenues of approximately \$1,400 million.

-They are primarily financed through loans from the Government of Canada, as shown in Table III of this Appendix. Chapter IV discusses in detail the various forms of capital financing adopted and the reasons for the methods selected.

- The operations of almost all are neither truly competitive nor truly commercial in the accepted business sense, as shown in Table IV of this Appendix. Various aspects of each corporation's operations are subject to competitive forces but the type of services or products provided and the governmental restrictions on rate setting severely limit the impact of these forces. The following examples illustrate the non-commercial environment within which they operate:

(i) A number of corporations derive all, or substantially all, of their revenues from the sale of goods and services to, or on behalf of, the Government of Canada and as such they are essentially carrying on a phase of a department's over-all activities - for example, Crown Assets Disposal Corporation, Defence Construction (1951) Ltd. and the Royal Canadian Mint.

(ii) Many corporations which manage assets on behalf of Canada are prevented from putting their operations on a commercial basis by regulation of the revenue rates charged to users by other governmental boards or commissions, or the original economics of the project preclude the charging of self-sustaining rates - for example, National Harbours Board and St. Lawrence Seaway Authority.

(iii) The rates charged for services have, at times, been specifically set by government policy at less than the cost of providing the service - for example, Farm Credit Corporation.

(iv) Some corporations have been created to provide a service to a specific segment or group within the economy. Since the groups which these corporations serve usually bring pressure on the corporation not to accumulate reserves to cushion against losses in bad times, the corporations could find themselves with large losses in a given year and with limited ability to recover these losses from the users of the service - for example, Canadian Dairy Commission and Northern Canada Power Commission.

(v) Some corporations were not intended to be commercial undertakings but were created to co-ordinate and to regulate the marketing efforts of various segments of the economy - for example, Canadian Dairy Commission and Canadian Saltfish Corporation.

(vi) Some corporations administer a phase of a departmental program - for example, Canadian Film Development Corporation.

2.19 A review of the activities of the corporations studied discloses:

- They vary in size in terms of total assets managed from under \$100,000 to more than \$1.7 billion, in number of employees from under 10 to more than 11,000, and in gross annual revenues, including budgetary appropriations, from less than \$600,000 to almost \$400 million.

- The nature of their operations covers a broad range of activities including lending, manufacturing, utility, insurance; and regulatory

functions. Their enabling legislation is generally broad in nature and we did not note any instances where they exceeded their stated mandates.

-Organizational structures are generally patterned after commercial models but they have evolved in response to the perceived needs of each corporation's management and board of directors.

2.20 A review of the significant financial and operational characteristics of the St. Lawrence Seaway Authority, the Pilotage Authorities and the Canadian Broadcasting Corporation, as summarized in the tables attached to this report, assists in illustrating the nature of the corporations studied.

(i) St. Lawrence Seaway Authority

For the year ended December 31, 1974, the Authority incurred a net loss of more than \$50 million of which approximately \$30 million was recovered through parliamentary appropriations. Gross operating revenues for the year were approximately \$25 million. In addition, the Authority is more than \$160 million in arrears on interest payments to Canada and has an accumulated deficit of approximately \$120 million. The survival of the Authority, at its current level of activity, is clearly based on continued financial assistance from Canada.

The operations of the Authority essentially involve the management of assets on behalf of Canada since the Seaway is part of the St. Lawrence waterways system and the remaining Canadian components of the system are owned and operated by the Ministry of Transport or the National Harbours Board (an Agency corporation).

The St. Lawrence Seaway Authority is classified as Proprietary under the Financial Administration Act.

(ii) Pilotage Authorities - (Atlantic, Great Lakes, Laurentian and Pacific)

For the year ended December 31, 1974, the Pilotage Authorities incurred net losses of more than \$5 million which were recovered through parliamentary appropriations. Gross operating revenues for the year were approximately \$16 million.

The Pilotage Authorities ensure safe traffic movement in Canada's waterways and, as with the St. Lawrence Seaway Authority, are only one of many components within Canada's marine transportation system.

The Pilotage Authorities were intended to be self-sustaining within five years of their creation in 1972 and accordingly were classified as Proprietary under the Financial Administration Act.

(iii) Canadian Broadcasting Corporation

For the year ended March 31 1975, the Corporation incurred a net loss of more than \$260 million of which \$235 million was recovered

through parliamentary appropriation. Gross operating revenues for the year were approximately \$75 million. In addition, the Corporation received approximately \$200 million in loans from Canada to finance acquisition of capital assets before March 31, 1974. Principal repayments and interest on these loans have been deferred until March 31, 1979. Subsequent capital additions have been financed through parliamentary appropriations and are therefore treated as contributions rather than as loans. The survival of the corporation, at its current level of activity, is clearly based on continued financial assistance from Canada.

The operations of the Corporation involve administration of a phase of the government's broadcasting and cultural programs and management of significant physical assets.

The Canadian Broadcasting Corporation is classified as Proprietary under the Financial Administration Act.

2.21 In summary, the examination of the Crown corporations studied illustrates that:

- the nature of their operations more closely parallels those undertaken in the government sector than in the private sector; and

- their ability to generate sufficient revenues to cover operating costs is so restricted that they could not survive financially without continued or at least guaranteed support from the government.

As such, they are quasi-commercial in nature and might more appropriately be considered extensions of existing departmental activities and programs. It should be emphasized that this conclusion does not apply to all the corporations studied. Eldorado Nuclear Limited and its subsidiary displayed certain characteristics significantly different from the others. The implications of this are dealt with later in this chapter.

Adequacy of Existing Classification System

2.22 The preceding section discussed the rationale for the Financial Administration Act classifications and the operational and financial characteristics of the corporations studied. This section considers the significance of these two factors and whether these characteristics are reflected in the existing classification system.

2.23 It should be noted that our terms of reference did not include corporations audited by public accounting firms (for example, Canadian National Railways, Air Canada, and Central Mortgage and Housing Corporation), and included only one of those described in Paragraph 2.3 as Unclassified. As a result, the study does not cover several of the larger or more commercially-oriented corporations.

2.24 A comparison of the foregoing conclusions about the operational and financial characteristics of the corporations studied with their classification under the Financial Administration Act leads

to the conclusion that the distinction between Agency and Proprietary corporations does not adequately recognize the degree of their financial dependence and the nature of their operations. The question then becomes whether all Crown corporations are comparable to their departmental counterparts. If this is the case there would be little or no rationale, from a financial management and control point of view, for distinguishing between the two groups.

2.25 Although this study included only one corporation which displayed characteristics significantly different from the general pattern previously noted, many not included in this study also appear to be financially viable and carrying on operations which are truly commercial in nature. Therefore, there would appear to be at least two distinct groups of Crown corporations:

- those financially dependent on Canada for their continued existence or carrying on operations of a governmental nature; and

- those financially viable carrying on operations truly commercial in nature.

The Financial Administration Act classifications do not reflect this distinction and, in fact, obscure it.

2.26 The Financial Administration Act has permitted management of Agency and Proprietary corporations a type of planning and accountability different from that accorded other governmental organizations since their characteristics were considered to be similar to those of privately-owned organizations. Our study, however, discloses that this presumption is not valid for those corporations studied.

2.27 The present classification of Crown corporations in the Financial Administration Act should be re-examined and two different groups should be created: one for all financially dependent corporations or those carrying on operations of a governmental nature; the other for all corporations meeting the test of financial viability and carrying on commercial activities. Since the nature of a corporation's operations and its resulting need for financial independence can and do change, the classification system should provide for regular reassessment of each corporation to ensure that classifications remain valid.

2.28 We do not wish to imply that either of these classifications should be grouped with Departmental corporations for purposes of financial control under the Financial Administration Act. We would not favour this on the grounds that the corporate structure was intended to provide greater freedom from detailed rules and regulations. These remain sufficient reason for a separate classification.

Implications of Proposed Classifications

2.29 Subsequent sections of this report consider whether the

unique financial status within the government of the corporations studied assists or frustrates Parliament and the central government agencies in assessing corporate plans and monitoring their performance. Observations and recommendations have been developed with the objective of keeping in proper balance the requirements to ensure that:

- Parliament and the appropriate central agencies of the government receive the information required to assess corporate plans and monitor their performance; and

- Parliament and central agency controls do not infringe on the authority delegated to the management of the corporation for the conduct of its day-to-day activities and do not detract from the effectiveness and efficiency with which these activities are carried out.

2.30 This study included only one corporation, Eldorado Nuclear Limited, that currently appears to be truly commercially oriented and financially viable. The activities of this corporation differ sufficiently from those carried on by the government that central agency co-ordination requirements should permit management a different type of planning and accountability than that proposed in this report.

2.31 The proposals in this report are intended to apply to those corporations that are financially dependent on the public purse or carry on government-type activities. Any corporation that meets the tests of financial viability and commercial-type activity would be subject to a different set of rules, whose nature we do not attempt to describe in this report.

III BUDGETARY AND ACCOUNTING CONSEQUENCES OF CROWN CORPORATION CLASSIFICATION

3.1 Chapter II concluded that the distinction in the Financial Administration Act between Agency and Proprietary corporations is not satisfactory. The need for a distinction between corporations financially dependent on the public purse or carrying on governmental types of activity, and those that are truly financially independent and are carrying on commercial types of activity, becomes fully apparent only by explaining the manner of accounting for Crown corporations in the Accounts of Canada.

3.2 The classification of Crown corporations has no direct bearing on the Estimates and on the Public Accounts since corporations are now treated as if they were not part of the government for budgeting and financial reporting purposes. The Estimates normally treat as non-budgetary expenditures the government's investment in and advances to Crown corporations which results in the recording of these transactions as assets in the Accounts of Canada.

3.3 Such treatment is understandable where a corporation's activities are nongovernmental in nature and the organization is financially independent. But exclusion of government-type activities that call for substantial financing from the public purse distorts the government's financial reports since the accounting treatment accorded such activities depends solely on the organizational vehicle chosen to undertake them rather than the ultimate use of the funds.

3.4 This chapter considers the rationale for the existing accounting treatment of Crown corporations in the Estimates and the Accounts of Canada, the concerns regarding the appropriateness of this treatment, and a proposal to remedy the identified problems.

RATIONALE FOR EXISTING TREATMENT

3.5 To understand the effect of treating Crown corporations as third parties in their dealings with the Government of Canada, it is necessary to describe the nature and parameters of the accounting entity now comprising the government in the financial statements required under the Financial Administration Act.

3.6 For financial reporting purposes accountants generally define an accounting entity as a recognizable unit or group of related units carrying on some form of economic activity. The entity should be defined so that it results in presentation of useful and meaningful information for interested parties. The definition is usually not limited by organizational boundaries, by degree of management autonomy, and by the accounting practices of the separate components. These can be accommodated when the components are brought together for reporting the financial affairs of the entity as a whole.

3.7 The Public Accounts defines the government of Canada accounting entity as: "The aggregate of all departments, agencies, boards, commissions, councils, Crown corporations, funds and other bodies, with two exceptions. These exceptions are the 'Agency' and 'Proprietary' Crown corporations, listed respectively in Schedule C and D of the Financial Administration Act and those Crown corporations that are not subject to the Financial Administration Act." The definition further states: "The distinction drawn between the Government of Canada as an accounting entity and those Crown corporations that are regarded as outside that entity reflects the different nature of the transactions of the Government of Canada and those of the Crown corporations in question. Within the Government of Canada, most financial transactions are undertaken for non-commercial purposes. Within the Crown corporations in question, commercial objectives are significant and are reflected in their accounting systems."

3.8 This definition of the government's accounting entity, however, is

based on a false assumption concerning the nature of the operations of the corporations studied. Since this definition diminishes the usefulness of the government's accounts it is necessary to examine the possibility of alternatives that would result in better financial information about the government's activities as a whole.

APPROPRIATENESS OF EXISTING TREATMENT

3.9 The Report on the Study of the Accounts of Canada considered the desirability of including all corporations owned and controlled by the government within the defined limits of the Government of Canada accounting entity for financial reporting purposes. It rejected this concept on the grounds that:

- they differ in purpose, outlook and method of accounting, so inclusion would obscure the generally accepted distinction between the public and private sectors;

- the result would be an arithmetical compilation only, with little economic or financial significance for purposes of financial reporting; and

- they would be technically difficult to include in view of their different accounting practices.

Public and Private Sector Distinction

3.10 The Study's assessment was based on the assumption that Crown corporation and departmental activities are fundamentally different. The Study went on to say: "The criteria used for purposes of classifying Crown corporations are very important. Among the criteria for Schedule C and D corporations should be economic and financial characteristics which differ from those normally associated with government". The Study's conclusion is therefore based on an erroneous assumption regarding the nature of the activities undertaken by many Crown corporations.

3.11 The analysis and assessment in Chapter II of the characteristics of the corporations studied concluded that:

- most of the corporations studied are financially dependent on the Government of Canada for their continued existence, either through parliamentary appropriations or other forms of financial assistance;

- significant portions of the operations of most are governed by non-commercial considerations, many of which differ very little from those applicable to departmental activities; and

- although outwardly they assume the appearance of commercial entities, in many cases their pricing and other managerial decisions are dictated by factors other than the economics of the market place, or they are involved in varying degrees in carrying out regulatory or other government-type activities.

Since the financing and the purpose of the activities of the corporations studied are so similar to those of other types of governmental activities, it must be concluded that any differences are essentially matters of form rather than of substance.

3.12 These observations may be illustrated by a comparison of the financial and operating characteristics of Crown corporations studied and departmental activities financed by revolving funds, and therefore brought inside the accounting entity by the Study. This comparison discloses that both:

- derive a substantial share of their financing from the Consolidated Revenue Fund and are dependent on government financial support for their continued

existence; and

-may be involved in operations of a manufacturing, servicing or trading nature which are often not significantly commercial in nature.

3.13 The activities of the Department of Transport further illustrates the similarities between activities of a corporation and of a department, for example:

-The construction and operation of the major international airports and related facilities in Canada have always been undertaken directly by the Ministry, at one time through normal appropriation financing and now through revolving funds, whereas the construction and operation of the major harbours and waterways have traditionally been undertaken by Crown corporations. In neither case have user rates normally been established high enough to produce sufficient revenues to repay advances for the construction. Both types of activity were primarily undertaken to facilitate transportation in Canada rather than to establish commercially viable operations.

-The construction and operation of Canadian waterways and related facilities illustrate an even greater similarity since this type of activity has been undertaken partly by Crown corporations and partly by the Ministry without the use of revolving funds. Harbours, certain toll canals, and pilotage services are financed through Crown corporations whereas lighthouses, ice-breakers, and non-toll canals are financed directly through regular parliamentary appropriations. All these facilities are closely regulated and interrelated.

3.14 Thus the choice of form of organization appears primarily to be a response to differing operational needs, rather than to financial characteristics or to the nature of the activities, since these are essentially the same.

Diversity of Operations

3.15 The Study argued against including Crown corporations in the government's accounting entity on the grounds that the resulting Estimates and Accounts of Canada would report such widely diverse operations that they would be little more than arithmetical compilations. Extending the use of Crown corporations to a wide spectrum of government operations, however, has blurred what might have once been a legitimate distinction. This diversity of operations is not any greater than that now found among departments and agencies already included in the accounting entity.

3.16 In fact, exclusion of certain Crown corporations from the accounting entity might be considered a greater distortion of the Estimates and the Accounts of Canada than their inclusion. This can be illustrated by referring again to the examples in paragraph 3.13:

-moneys advanced for the construction of major international airports are to be treated as budgetary expenditures in the Estimates and the Accounts of Canada since they are undertaken through a revolving fund in the Ministry of Transport, whereas moneys advanced for construction of major harbours will continue to be treated as non-budgetary advances since they are undertaken through Crown corporations; and

-moneys advanced for the construction and operation of Canadian waterways and related facilities illustrate an even greater disparity, in that components of the same system may be treated either as budgetary expenditures or as non-budgetary advances based on whether they are undertaken by a department or a Crown corporation.

Thus, moneys advanced to acquire fixed assets, which are treated as budgetary expenditures if undertaken by a department, are normally treated as non-budgetary advances if so used by a Crown corporation.

Technical Difficulties

3.17 The Study also suggested that it would be technically difficult to include Crown corporations in the accounting entity due to the different accounting practices considered appropriate for them. The problems of differing year-ends and the integration of accrual accounting balances into the governmental cash-based method of accounting appear to have been the major concerns. The Study itself shows the way to overcome them, since the proposals for revolving funds should apply to Crown corporations, or should at least indicate an approach that could be used. The only difference is that the corporations are fully responsible for their accounting and manage their own cash balances, unlike revolving funds, and would therefore have to provide the information needed to enable the Receiver General to make their accounting practices consistent with those the government follows when preparing financial statements for the Government of Canada.

CONCLUSION

3.18 Crown corporations which carry on government-type activity, or are financially dependent on the public purse, should be included in the Government of Canada accounting entity:

- to be consistent with the basic concept of segregating governmental from commercial activities undertaken under the auspices of the government; and

- to provide for more informative disclosure of summary information in the Estimates and in the Public Accounts so that these documents display consistently all government-type activities financed out of the public purse.

IV FORMS OF CORPORATE FINANCING

4.1 Under the proposals in Chapter III, the form of corporate financing adopted would have no impact on the net expenditures reflected in the financial statements of Canada since practices would be consistent whether for an investment, for a loan or for a contribution, and whether made to a department, to a fund of a department, or to a Crown corporation. The accounting treatment would depend only on the use of the funds.

4.2 The form of financing, however, affects the cash flow of corporations. Authorities that lapse at the end of a year or that may be re-used when recoveries are effected, and those that require interest to be paid on them, all have consequences on the cash available to a corporation. The form of financing of Crown corporations also affects their accounting and the costs they disclose on their financial statements. These implications are particularly important from the point of view of visibility and accountability to Parliament. Where Crown corporations carry on activities that are substantially similar to those of departments and derive substantial portions of their funds from parliamentary appropriations, the form of financing must be considered in the context of its effect on parliamentary and government control rather than solely in terms of financial practices normally followed in the private sector.

4.3 Table III of this Appendix shows that the assets of the corporations studied are financed by:

-non-government loans - short-term loans obtained in conjunction with normal business activities;

-equity investment - advances in the form of share capital and contributed assets, as well as accumulated earnings which corporations are allowed to retain; and

-government loans - advances that are usually subject to fixed repayment terms and specified interest rates.

Each of these means is now examined.

NON-GOVERNMENT LOANS

4.4 The Crown corporations studied use external sources of financing infrequently. Some view short-term bank financing as a convenient means of supplementing their working capital requirements on a temporary basis. Others are considering long-term external financing as a means of reducing their cash requirements on the Consolidated Revenue Fund. Although there may be valid business reasons for such action it causes concern since this practice may:

-negate Parliament's ability to limit a corporation's over-all level of expenditure and activity;

-result in a potential understatement of the net debt of the

government; and

-create commitments against the Consolidated Revenue Fund without Parliament's specific approval.

4.5 Crown Corporation loan financing derived from external sources should be restricted and where deemed necessary it should be subject to appropriate parliamentary review through budget submissions.

EQUITY INVESTMENT

4.6 Equity investment by Canada in the corporations studied takes the following forms:

-capital stock - this exists in some corporations due to the requirements of the Canada Business Corporations Act - Eldorado Nuclear Limited and Great Lakes Pilotage Authority; it exists in others due to requirements of the enabling legislation - Farm Credit Corporation and Export Development Corporation, where the share capital is linked to the borrowing ceilings imposed on the corporation.

-contributed assets - some corporations have been given assets for use in their operations. These assets have been transferred to the corporation at their original cost - for example, St. Lawrence Seaway Authority; estimated value at the time of transfer - National Harbours Board; or at a nominal value - Northern Canada Power Commission.

-retained earnings - a few corporations are required to turn over all or a portion of their annual earnings to the Receiver General - Crown Assets Disposal Corporation and the Royal Canadian Mint; but most corporations have few, if any, restrictions on retaining and using accumulated earnings.

4.7 Equity financing is not subject to specific repayment terms or prescribed rates of return. In the private sector, "return on investment" and "earnings per share" are used to measure management's stewardship of these funds. Such indicators are not meaningful within the government sector, at least for the corporations studied, since factors other than economic considerations often determine the extent to which revenues are allowed or are able to match or to exceed the costs of the activities undertaken. Equity types of investment in these corporations obscure the cost of their activities, and therefore, their financial accountability. The impact of using equity financing is illustrated in the following examples:

-Equity financing may provide a hidden subsidy to those who use the services of the corporation. For example, the March 31, 1975, income statement of the Farm Credit Corporation reflects a net operating loss of \$4.3 million for the year whereas the loss would be closer to \$7.5 million if even a nominal interest rate of 6% per annum were computed on capital and included in the operating statements.

-Retained earnings, although normally used to finance working capital and capital asset additions, may also be used to finance deficits in non-revenue producing operations which should be subject to parliamentary review. Corporations do not normally disclose such use in the Capital Budgets, which are tabled in Parliament, or in the Estimates. For example, although Canadian Patents and Development Limited has operated at a loss every year since 1968, it has been able to finance these losses internally for more than eight years due to the availability of previously accumulated retained earnings and share capital.

-Accumulated operating deficits are not subject to automatic parliamentary debate or approval. For example, the National Harbours Board and the St. Lawrence Seaway Authority, with the approval of the Governor in Council, have deferred repayment of loans from Canada so that they can finance operating losses. Consequently, Parliament has no automatic opportunity to examine the reasons.

-Contributed assets are often recorded in the company's accounts at values other than those expected to be recovered from the users of its services. In such cases operating costs, which normally would include depreciation attributable to these assets, may not provide an appropriate indication of corporate performance, for example, the St. Lawrence Seaway Authority and the National Harbours Board.

The use of equity financing by the corporations studied tends to obscure financial accountability by distorting the actual cost of providing a service and by creating opportunities for deferring parliamentary review of activities that are not financially self-sufficient on a current basis.

4.8 The use of equity financing for Crown corporations should be eliminated where practical.

GOVERNMENT LOANS

4.9 Most assets of the corporations studied are financed by government loans, usually in response to specific needs and generally so designated when granted, such as loans to finance working capital, asset acquisitions or advances to third parties.

4.10 Parliamentary authority for loans is obtained by non-budgetary appropriations or by statutory provisions. Subsequent disbursements against an authority are controlled by the government. Non-budgetary appropriations require the organizations concerned to indicate their needs through the Estimates before approval by Parliament. Statutory provisions are generally contained in the establishing legislation, with changes in the limits usually obtained by way of a \$1 item in a subsequent appropriation act. Statutory provisions are continuing whereas non-budgetary appropriations now lapse annually.

4.11 The terms and conditions for loans are usually not provided for in the vote wordings or in other statutory provisions; they are

set by the Governor in Council on the recommendation of the responsible minister and the Minister of Finance. They normally provide for promissory notes which distinguish between loans for working capital purposes and loans for capital asset purposes. They specify interest rates, principal and interest due dates, use of insurance proceeds realized on assets destroyed, and application of proceeds on disposal of capital assets.

4.12 Except where otherwise provided by specific legislation the interest rates for Crown corporation borrowings are based on the rates established by the Minister of Finance, with the authority of the Governor in Council. Computed quarterly, these rates are based on averages of Government of Canada bond yields for terms ranging from one to 20 years, and fixed in the period in which the loan is made. When payment on a loan is deferred, interest normally continues to accrue at the original interest rate specified.

4.13 Terms for repayment of long-term loans vary. They may provide for fixed annual repayments, for repayments equivalent to depreciation charged in the accounts, for lump-sum repayments, and for no payments at all. Working capital loans generally provide for repayment within one year.

4.14 A review of the loans outstanding in respect of the corporations studied disclosed the following deficiencies:

- the amount of the loan may bear little relationship to the ability of the corporation to repay - for example, National Harbours Board, National Capital Commission and St. Lawrence Seaway Authority;

- operating revenues generated from the assets financed by a loan may not cover interest payments on the loans and as a result;

- (i) interest is deferred by Order in Council - National Capital Commission;

- (ii) budgetary appropriations are obtained to make interest payments - St. Lawrence Seaway Authority; or

- (iii) interest is allowed to accrue without any definite prospects of payment - Atomic Energy of Canada;

- some loans are non-interest-bearing thus distorting the operating results and obscuring the financial accountability of the corporation concerned - for example, St. Lawrence Seaway Authority.

Practices of this nature tend to undermine many of the fundamental concepts regarding the borrowing and the repaying of loan funds.

4.15 A review of the procedures involved in granting loans, as described more fully in Chapter VI, leads to the conclusion that the present arrangement is also deficient from two additional points of view:

-in making loans, there is no clear distinction between aspects of a corporation's activities that are to be fully or partially subsidized by government and those the user is expected to bear; and

-there is little apparent need or incentive for a corporation's management to evaluate a proposed project properly in terms of its economic prospects.

Thus, current financing practices cause the financial statements of Crown corporations to be of questionable value in measuring costs.

4.16 The various forms of government financing in the corporations studied appear to have evolved in response to an attempt to model them after their commercial counterparts, thereby establishing a basis on which they could be measured against other commercial entities. However, the non-competitive and governmental nature of the activities of these corporations tends to negate the applicability of financing methods normally used in the private sector and therefore creates a situation where such comparisons are often more misleading than helpful.

4.17 A Crown corporation should be financed so Parliament can assess the performance of its management and measure the over-all cost of providing a specific service to the public. This will ensure that costs are measured objectively and consistently although it will not tell the full story about a corporation's performance, since there are other performance-related factors which cannot be measured in a financial report.

4.18 Since the corporations studied undertake activities that are primarily governmental in nature, the form of financing determines the division of costs between users and the public purse. If the intention is to recover costs, it should be done by advancing funds in the form of a loan. If the intention is to subsidize an operation, it should be done at the outset by clearly treating the advance as a contribution in the corporation's accounts. Advances resulting in claims on parties outside the government should continue to be treated as loans. Advances which have the effect of a contribution but the form of an investment are clearly not desirable since they distort the accountability rendered by the Crown corporation to Parliament and to the government.

4.19 If a distinction among contributions, loans and third-party claims were adopted and adhered to, management's performance and the net cost of the activities could be assessed in relation to what was originally planned by referring to the financial statements. In this manner, a corporation's management could subsequently be held accountable for its success in attaining its own projections and the government's targets concerning the cost of providing a particular service.

4.20 Should subsequent events prevent the corporation from recovering the projected or actual costs of an undertaking, it would be reflected in the operating statements of the corporation for

parliamentary scrutiny and action. Since the corporation would not have alternative sources of financing which might permit it to defer parliamentary review, this method of financing would necessitate positive action shortly after the loss occurred.

4.21 Chapter III suggested that the corporations studied should be accounted for in the financial statements of the Government of Canada in the same way as expenditures of departments and Departmental corporations. This would recognize the governmental nature of their operations.

4.22 Since the corporations studied carry on activities that benefit from being measured by the techniques of the commercial world, where funding methods are more flexible, this chapter proposes a form of financing that allows use of such techniques and provides for better disclosure of costs in their individual financial statements. This would give corporations the flexibility necessary in financing but restrict it where the financial performance results in a greater need for funds than originally planned, since they would then have to obtain additional financial support from Parliament.

4.23 Crown corporations should be financed so as to distinguish clearly between amounts to be recovered from users or resulting in financial claims against nongovernmental parties (i.e. loans) and those to be paid out of the public purse (i.e. contributions). This distinction would be based on the feasibility studies prepared by the corporation and approved by the government.

V PREPARATION AND GOVERNMENTAL REVIEW OF CROWN CORPORATION FINANCIAL PLANS

5.1 Chapter II related how the Crown corporations studied equate more closely to the government than to the private sector of the economy since they are financially dependent on Canada or carry on governmental-type activities. Chapter III proposed including these corporations in the Government of Canada accounting entity for financial reporting purposes.

5.2 This chapter and the next deal with:

- the processes for allocating resources to Crown corporations;
- the information Crown corporations prepare for ministers and central agencies on their resource requirements from the government and their plans for using internal resources; and
- the information submitted to Parliament to support requests for financing.

The two chapters contain specific proposals for aligning the Crown corporation resource allocation process more closely with that used by departments.

5.3 These matters are considered primarily from a parliamentary, central agency and ministry point of view, since internal budgetary matters are also discussed in Chapter IX.

5.4 This chapter is divided into four sections: Description of the Budgetary Cycle, Communication of Government Objectives and Priorities, Communication of Requirements for Budgetary Submissions, and Program Forecast and Estimates Submissions. Chapter VI deals with providing this information to Parliament, and covers the Estimates and the Capital and Operating Budgets prescribed by the Financial Administration Act.

DESCRIPTION OF THE BUDGETARY CYCLE

5.5 Crown corporations now have up to three basic sources of cash inflow:

- revenues from customers;
- budgetary and non-budgetary appropriations in the current year's Estimates; and
- advances under statutory (continuing) loan authorities.

The Program Forecast and Estimates process, as described in detail in my 1975 annual Report, provides the framework for approving Crown corporation appropriations. Corporations not requiring new appropriations from the government or those only requesting advances against continuing loan authorities normally do not prepare Program

Forecast and Estimates submissions.

5.6 Capital and Operating Budgets, when required, are prepared immediately before the beginning of the corporate year. These are intended to disclose over-all corporate plans and all sources of expected funding.

5.7 The main elements and approximate timing of the budgetary process for a Crown corporation requiring appropriations and with a March 31 fiscal year-end are as follows:

Second Fiscal Year Immediately Preceding Government Budget Year

October to December

-Cabinet Committee on Priorities and Planning communicates general governmental priorities.

March

-Appropriate minister reviews Program Forecast submission and submits it to Treasury Board.

Fiscal Year Immediately Preceding Government Budget Year

April and May

-Treasury Board Secretariat analyses Program Forecast submission.

June and July

-Treasury Board recommends for the approval of the Priorities and Planning Committee and of the Cabinet the level of expenditure for the government, including allocations to Crown corporations.

August

-Crown corporations are advised of approved expenditure guidelines for Estimates submissions.

October and November

-Estimates submissions are prepared and then are approved by the appropriate Minister, and submitted to Treasury Board.

December

-Treasury Board, the Cabinet Committee on Priorities and Planning, and the Cabinet consider the Estimates for final government approval of appropriation levels to be sought from Parliament.

February and March

-Operating and Capital Budgets are prepared, and then are reviewed and

approved by ministers. Treasury Board and the Governor in Council also approve Capital Budgets and they are tabled in Parliament.

-The Estimates "Blue Book" is tabled in Parliament and referred to House Committees.

Government Budget Year

June

-Parliament passes Appropriation Acts and votes full supply.

5.8 In general, the process is less rigid for Crown corporations than for departments and it has many exceptions. A major weakness is that in most cases none of the principal documents in the process presents a complete picture of a corporation's plans. Consequently, resource allocation decisions may be based on incomplete information. Moreover, there is no effective means for subsequently comparing corporate results with approved plans.

5.9 Appropriate ministers, the Treasury Board Secretariat and the Department of Finance play the principal roles in reviewing Crown corporation budgetary submissions. The Financial Administration Act sets out the required formal approvals of budgetary submissions. However, we were unable to locate any formal description of the relative responsibilities of each with respect to detailed review procedures. Discussions with selected ministry, Treasury Board Secretariat and Department of Finance personnel provided the following descriptions of their respective roles:

Appropriate Minister - Each Crown corporation reports to Parliament through a minister. Ministers are generally designated so that they are responsible for the Crown corporations carrying out a portion of the minister's mandate - for example, the Canadian Dairy Commission and the Farm Credit Corporation report to Parliament through the Minister of Agriculture. The responsible minister reviews and formally approves Program Forecast and Estimates submissions and Capital and Operating Budgets for consistency with over-all ministry priorities. This procedure often tends to concentrate on the policies reflected in the plans instead of on the validity of the detailed build-up of forecast revenues, expenditures and capital costs. Ministry staff provides assistance to the minister.

Treasury Board Secretariat - reviews submissions within the framework of cabinet priorities for the over-all allocation of the government's resources. The Secretariat makes recommendations to the Treasury Board for allocating resources to departments, agencies and Crown corporations. The Secretariat presents the total expected cash outlays to the Treasury Board and Cabinet, and also reviews Operating and Capital Budgets which must be signed by the President of the Treasury Board.

Department of Finance - acts primarily as a banker and financial adviser consultant to Crown corporations. Section 9 of the Financial

Administration Act gives the Minister of Finance responsibility for managing the Consolidated Revenue Fund. The Department is mainly concerned with large net dollar requirements, the form of financing chosen, the repayment terms of loans and their effect on the fiscal framework. The Department also considers the economic impact of Crown corporation activities. Under the Financial Administration Act, the Minister of Finance is responsible for reviewing and formally approving Capital Budgets. The Department of Finance also reviews requests for non-budgetary appropriations and draw downs from approved statutory loans and frequently has a role in the review of Operating Budgets and requests for budgetary appropriations.

In addition to the formal process there are varying degrees of continuing communication among Crown corporations, ministers and central agencies.

5.10 This division of duties is flexible, has evolved over time and varies among the corporations. Although there appears to be close co-operation, the lack of a formal division of responsibilities among the appropriate minister, the President of the Treasury Board and the Minister of Finance in the review of Crown corporation submissions could result in overlap or oversight.

COMMUNICATION OF GOVERNMENT OBJECTIVES AND PRIORITIES

5.11 As mentioned in Chapter II Crown corporations are created to attain a degree of remoteness from the political process. Each is an instrument of government policy, however, and is owned by the Government of Canada. It therefore follows that corporations must be aware of government priorities. This is especially true for the corporations studied, because of the significant proportion of government financing they receive and the governmental nature of their operations.

5.12 There are several mechanisms whereby Crown corporations may learn of the government's priorities and objectives:

- General priorities are communicated by the Cabinet Committee on Priorities and Planning after discussion of the major issues facing the government and their financial implications for the year concerned. These objectives, however, are stated in broad terms and are usually not ranked in order of importance. A cabinet document providing more specific guidance on spending plans is issued by the Committee approximately 12 months before the budget year begins. The timing of the document does not allow for inclusion in the Program Forecasts, which therefore may not reflect the current priorities and objectives of government.

- Crown corporation presidents have access to cabinet documents concerning their corporations. Cabinet documents, however, are often written in general terms and may not provide a time period for the changes proposed. Cabinet priorities can change during the year and since there is no up-to-date statement of priorities they may not be referred to by the corporation when preparing Program Forecasts.

-Crown corporation presidents carry on informal communication with their designated ministers. Such communication can be an important source of information, but since it is informal, may lead to misinterpretation.

-Separate legislation establishing the corporation, where it exists, often expands on the relationship between it, the appropriate minister and the Governor in Council. The legislation of many corporations also allows for directive powers that require the corporation to comply with any general or special direction given by the minister. Although directive clauses afford considerable power to the Governor in Council and to the minister, they do not appear to have been used to a significant degree.

In concept this system should ensure that the plans and budgets of Crown corporations are closely co-ordinated with those of departments and are consistent with Cabinet and ministry objectives and priorities.

In practice, however, Crown corporations may need to make their own subjective assumptions as to the plans and priorities of the government due to the problems outlined above.

5.13 Governmental objectives and priorities, detailed enough to provide appropriate guidance, should be communicated formally to Crown corporations on a timely basis.

COMMUNICATION OF REQUIREMENTS FOR BUDGETARY SUBMISSIONS

Program Forecast and Estimates Manual

5.14 No separate manual covers the budgetary process for Crown corporations. Where information on the nature and form of submissions is required, corporations must use the instructions contained in the Treasury Board's Program Forecast and Estimates Manual. This Manual contains few references to Crown corporations and does not include specific instructions or information required to recognize differences between corporate and departmental structures. For example it does not:

- require a cash flow forecast to reconcile budgets prepared on the accrual basis of accounting to cash requirements;

- mention the information requirements when portions of their activities do not call for new appropriations, or when they are requesting advances from statutory loans; and

- mention Capital and Operating Budgets or any special requirements for Estimates submissions.

Call Letters

5.15 The Treasury Board Secretariat requests the submission of Program Forecasts in December, approximately 15 months before the budget year begins. The call letter is sent directly to the

corporation concerned, except for those under the Ministry of Transport where it is sent to the Ministry. The same standard call letter is used for departments and Crown corporations. Call letters do not recognize the differences in circumstances of corporations either in general or individually.

5.16 The Treasury Board Secretariat also advises corporations of the approved allocations to be used in their Estimates and requests submission of Capital and Operating Budgets in call letters. These letters also do not provide any additional guidance as to the information required.

Conclusion

5.17 As a result, Crown corporations receive inadequate guidance on the nature and the form of information required in the Program Forecasts and the Estimates, and no formal guidance at all about requirements for Capital and Operating Budgets.

5.18 Since the quality and content of the information contained in budgetary submissions substantially affects the quality of resource allocation decisions, appropriate instructions should be developed. This information should be documented and communicated to Crown corporations to ensure that they understand clearly the nature and form of the information required. The communication of general principles and information requirements for budgetary submissions can be done by incorporating the information in the present Treasury Board manual or by preparing a separate manual for Crown corporations.

5.19 Supplementary information requirements, which recognize the nature of each corporation's operations and specific central agency needs, should also be considered and documented. For example:

- the types of information required from financial intermediaries, such as Farm Credit Corporation, will differ significantly from operating corporations; and

- the type of information required will also differ among the individual corporations. For example, detailed information on projected shipping traffic and its probable effect on revenues and expenditures would be useful when reviewing the submissions of the Pilotage Authorities.

Each corporation's information requirements should be considered separately to ensure that submissions contain only essential data and recognize the nature of the operations it carries on.

5.20 Requirements for Crown corporation budgetary submissions should be included in a Treasury Board manual. Specific information requirements for individual corporations should be agreed among the Treasury Board Secretariat, the appropriate minister and the corporation, and once agreed, these requirements should be documented, updated regularly, and referred to in letters calling for submissions.

PROGRAM FORECAST AND ESTIMATES SUBMISSIONS

5.21 Program Forecasts are prepared by all departments and agencies, and by some Crown corporations. They are submitted to the Treasury Board Secretariat approximately 12 months before the start of the government's budget year. They are intended to provide the basis for determining the optimum allocation of resources among the competing requirements for all programs in the budget year and for providing short and medium-range planning information to central agencies.

5.22 The resource allocation process culminates in the preparation of Appropriation Acts which are approved by Parliament based on information contained in the Estimates. The Estimates provide the basis for financial authority to be requested from Parliament and show the expected level of government funding required by the Crown corporation during the next fiscal year. Supplementary Estimates result from changes in the level of government funding required.

5.23 Program Forecasts cover a three-year time period for operating revenues and expenditures and a five-year time period for capital projects. The preparation of the Program Forecast focuses the attention of management on the planning function by requiring it to review medium-term objectives and policies annually. In addition, the Program Forecasts provide an opportunity for ministers and central agencies to learn of Crown corporation plans and to provide their input to the planning process.

5.24 Program Forecast submissions provide the foundation for appropriations in the Estimates and our comments concerning them should be considered in this context. Because of this relationship many of the weaknesses in Program Forecast submissions are also applicable to submissions supporting the Estimates. Chapter VI concerns deficiencies in the corporation Estimates presented to Parliament. This section discusses procedures leading up to their presentation.

Content and Quality of Submissions

5.25 Crown corporations use Program Forecasts primarily to support requests for appropriations in the Estimates. Corporations which do not require new spending authority normally do not prepare Program Forecast and Estimates submissions.

5.26 Submissions tend to provide only the information essential to support requests for specific appropriations. For example, in its submissions for the Deep Waterway Program, the St. Lawrence Seaway Authority provides financial information only on the Welland Canal section which requires appropriations, but not on the Montreal-Lake Ontario section which does not. Corporations requesting non-budgetary loan appropriations are not required to submit any operating information. Consequently, submissions may cover only a small part of a corporation's activities.

5.21 Draw downs from statutory loans do not require new authority from Parliament and therefore are excluded from both Program Forecast and Estimates submissions. Consequently, such information is often

received orally, at the Program Forecast stage without the concurrence or knowledge of the appropriate minister. For example, Export Development Corporation, which does not submit a Program Forecast, received advances of more than \$300 million in 1975 from its statutory loan limits. Although future commitments are disclosed in this corporation's Capital Budget, no formal Program Forecast is requested to update the information for the over-all government resource allocation planning exercise. Thus the primary challenge of draw downs from statutory loans comes only when Capital Budgets are reviewed.

5.28 In preparing Program Forecast submissions Crown corporations normally use standard forms included in the Treasury Board Program Forecast and Estimates Manual. Within this over-all framework, however, there is a variety of approaches to the presentation of information. For example:

- some use the departmental incremental formula for determining forecast operating expenditure levels;
- some provide lengthy narrative descriptions of specific projects and operations;
- each presents forecast expenditures in varying detail; and
- some complete all of the standard Program Forecast forms, others only a few.

5.29 The form and content of Program Forecasts have evolved independently for each corporation because of the lack of direction through a manual or other formal means. The Treasury Board Secretariat has not used effectively its power to prescribe the information to be included in Crown corporation submissions.

5.30 The quality of the information varies in Crown corporation Program Forecast and Estimates submissions. Prescribing the form and content separately in a resource allocation manual would encourage more informative submissions. However, deficiencies in the quality of the information now being received also require correction.

5.31 Most Crown corporations include brief objectives and descriptions of their operations in submissions. These objectives are often so vague and general that they cannot be meaningfully challenged and as such provide an umbrella that would allow the corporation to carry out almost any function within its field of interest. Descriptions of operations are usually so summarized that they are of limited use. Objectives should be stated in operational terms and should be related to the detailed programs and activities by which they are intended to be achieved. Submissions should also describe how plans comply with the priorities of Cabinet and senior management.

5.32 Many accounting systems are deficient in analyzing revenues and expenses and in allocating them to appropriate activities. As a result, the actual revenues and expenses for various activities may not be evident in budgetary submissions. To make disclosure of plans in

Program Forecast and Estimates submissions more meaningful, Crown corporations should develop appropriate activity structures and improve accounting systems so revenues and expenses are properly allocated.

5.33 Information, supporting requests for the financing of capital projects, is generally weak and is usually limited to a description of major items to be purchased and the expected cost in the budget year and in the four subsequent years. Actual supporting data which would be required for private sector financing is rarely supplied - for example, the results of feasibility studies, the expected impact on operating results, and justification based on such quantitative factors as pay-back period.

5.34 Performance in most corporations in the private sector is measured directly or indirectly by comparing revenue and expenditure. Many Crown corporation activities do not generate any revenues. Where they do, revenues are not always expected to cover the associated costs. Because the private sector measurement system is not entirely appropriate for most corporations studied, alternative measures of performance should also be incorporated into budgetary submissions. Present budgetary submissions lack quantitative data on expected outputs and volumes of activity. Without such information it is difficult to evaluate plans for resource allocation or to measure performance by comparing actual and planned results.

5.35 It is not always specified whether individual submissions are prepared on an accrual, cash or modified cash basis. Financial plans prepared on an accrual basis, with a cash flow statement to reconcile the plan to cash requirements, would ensure that submissions reflect both types of information.

5.36 Since Crown corporations are generally free to spend their revenues, theoretically they have more incentive to review the rates they charge than departments which normally remit all money received directly to the Consolidated Revenue Fund. However, Crown corporations should be required to provide evidence of such reviews in their submissions.

5.31 Efforts should be made to improve the information in Program Forecast and Estimates submissions by:

- requiring more precise and informative corporate objectives and descriptions of operations;

- reassessing the suitability of the present cost classification systems;

- requiring improved support for forecast capital projects;

- promoting the use of procedures that allow financial systems to measure performance in Crown corporations; and

- requiring evidence of an annual review of revenue rates.

Central Agency Review

5.38 In most cases the central agency review of Program Forecast and Estimates submissions appears to be oriented almost solely towards operations financed out of the public purse. At Program Forecast time the involvement of central agencies with activities, or with entire Crown corporations that do not require new appropriations, is usually minimal. In addition, the extent of central agency review of submissions appears to vary in relation to the funds requested for the budget year in question. Submissions requiring significant appropriations are generally reviewed more thoroughly than those requiring lesser amounts.

5.39 Submissions frequently lack the type of information central agencies require to evaluate corporate proposals. After the Program Forecasts have been received, analysts often attempt to obtain further information, such as a cash flow forecast, but corporations are frequently unable to supply it within the relatively tight time frame available for the review. Also, analysts may determine too late what additional information would be useful.

5.40 Although central agencies and Cabinet require information concerning the entire financial plans of Crown corporations as part of the Program Forecast review, they do not receive it. Corporations also do not receive the full benefit from this important planning phase. The major deficiencies in the information can be summarized as follows:

- The piecemeal approach used with Crown corporations provides too little information for effective resource allocation decisions. It is difficult to evaluate proposals for financing part of a corporation's operations without examining the remainder and how they are related. This is particularly true for the corporations studied since they are financially dependent or carry on operations of a governmental nature.

- Due to the lack of information at Program Forecast time, resource allocation decisions involving current appropriations and draw downs from statutory loans are often made close to the start of the corporation's fiscal year, i.e. during the review of Capital and Operating Budgets and Estimates. As a result, corporations may have difficulty reacting quickly enough to carry out decisions in the budget year concerned. Moreover, at the Program Forecast stage, they normally do not receive the advice of ministers which could provide important input to the corporate planning process.

- In a corporation certain activities may be financially supported by others. Since such an activity would then require no new appropriations, it may be excluded from the Program Forecast. Due to the lack of disclosure of revenues and expenses for all activities, resource allocation decisions may be based on a partial rather than an over-all assessment of a corporation's operations.

5.41 In summary, inadequacies in the information provided by Crown corporations in budgetary submissions limit their usefulness as a planning tool for ministers, central agencies and the corporation.

5.42 Ministers and central agencies need to be informed of Crown corporation plans at a stage where both the government and the corporation can best benefit from their review. To accomplish this a financial plan is needed from each corporation at Program Forecast time, whether it requires appropriations or not. This plan should include:

- details of expected revenues and expenses, on an accrual basis, for all programs, activities, services and product lines;
- reconciliations with amounts required to be voted in the Estimates and the draw downs required from statutory loans;
- full disclosure of expected capital expenditures;
- explanations of variances between actual and budget figures for the budget year just completed; and
- multi-year information including projected financial statements.

5.43 As with all Program Forecast submissions Crown corporation financial plans should be prepared centrally by senior management with other levels providing information as required. Although the accuracy of Program Forecasts is important, the detailed costing of plans should be left until budgetary submissions are prepared closer to the beginning of the fiscal year.

Conclusion

5.44 Central agencies and ministers have to be informed of Crown corporation financial plans to discharge their responsibilities effectively under the Financial Administration Act. To accomplish this Treasury Board should prescribe the financial and operating data required to support Program Forecast and Estimates submissions by Crown corporations.

VI PRESENTATION OF FINANCIAL PLANS TO PARLIAMENT

6.1 The nature of the information and the degree of detail contained in the Estimates largely determine Parliament's ability to play an effective role in reviewing the plans of Crown corporations and in controlling the appropriation of public funds. My Office is firmly committed to the need for improved disclosure of financial plans in the Estimates since this will not only allow Parliament to review proposals, but will also provide a basis for subsequent accountability of Crown corporations for expenditures.

6.2 Program Forecast submissions are prepared approximately one year before the budget year begins. The Estimates, and Capital and Operating Budgets are all intended to be prepared just before the beginning of the year. This chapter considers the Estimates and Capital Budgets which form the basis for parliamentary control, and the Operating Budgets which provide additional information to ministers and to central agencies.

6.3 The discussion is divided into three sections: Estimates Presentation, Capital and Operating Budgets, and Suggested Improvements.

ESTIMATES PRESENTATION

6.4 Crown corporations now use the Estimates almost solely to obtain parliamentary appropriations, not to disclose their plans for the fiscal year. As such, appropriations requested through the Estimates may include:

- non-budgetary loans and investments;
- budgetary write-offs of previous loans and investments; and
- budgetary contributions for current expenditures or for deficits previously incurred.

6.5 The information in the Estimates may relate to expenditures for previous or current years, and may cover all or a portion of the corporation's activities. In addition, the Estimates exclude corporations that do not require appropriations and usually disclose only part of the operations of others. For example:

Export Development Corporation receives advances annually from its statutory loan limit but since it does not require additional budgetary or non-budgetary authorities its spending plans do not appear in the Estimates;

-Northern Canada Power Commission was voted an appropriation in excess of \$29 million for capital expenditures during the year ending March 31, 1977. Although it has revenues in excess of \$19 million, the Estimates contained no operating financial information about the Commission; and

-National Harbours Board was voted an appropriation of \$4.2 million to meet its expected deficit in 1976 for operation of the Jacques Cartier Bridge in Montreal Harbour. Although the Board's annual revenues exceed \$50 million, the Estimates included financial information only on the operation of the Jacques Cartier Bridge.

6.6 The Estimates present the requirements of Crown corporations as separate votes under their appropriate ministries. The presentations have many of the same deficiencies as departmental presentations, as outlined in my 1975 annual Report; these include:

-vague and unrestrictive wordings, including vote wordings limited to the term "program expenditures";

-uninformative narrative statements of objectives and program descriptions;

-inadequate presentation of costs and revenues by activities; and

-inadequate details of capital expenditures.

6.7 This year's study, however, identified some additional inadequacies in the presentation of the Estimates which relate to Crown corporations; including:

-Certain types of direct and indirect government financing are not disclosed such as:

(i) interest charges that are deferred;

(ii) principal repayments on loans that are deferred; and

(iii) financing of losses through equity investments.

The financing proposals detailed in Chapter IV would eliminate these deficiencies. Any advances not expected to be repaid would be recognized immediately as budgetary expenditures. When events preclude repayment of principal or interest on non-budgetary loans, budgetary appropriations should be used to eliminate amounts not recoverable. If the inability to pay is expected to be temporary, the amount deferred should be disclosed in the Estimates, together with anticipated payment dates.

-The Estimates do not disclose amounts to be advanced during the budget year under statutory loan authorities. Such amounts often are substantial in relation to the total financing of a corporation and disclosure therefore would assist in understanding its fundamental activities and financial status.

-The Estimates do not inform Parliament of the repayment terms for new loans. They should contain this information since the repayment period is a factor in evaluating a loan proposal.

-Capital expenditure disclosure is inconsistent. Major capital

projects for the Northern Canada Power Commission are listed in detail under each activity heading, whereas capital expenditures for the Canadian Broadcasting Corporation are not broken down. In addition, requirements in future years are shown for the Northern Canada Power Commission, but not for the Canadian Broadcasting Corporation.

-Standard objects of expenditure are shown for some corporations and not for others. The level of detail varies considerably for those that are shown. Standard objects are grouped as one figure for the Canadian Broadcasting Corporation and are shown in detail for the National Capital Commission.

-Fiscal years of many Crown corporations end on March 31, the government's fiscal year-end. Amounts reported for corporations with year-ends other than March 31 cause an inconsistency in the period to which expenditures pertain. The National Harbours Board has a December 31 year-end and receives annual budgetary and non-budgetary appropriations. Since the Estimates are not approved until six months after the start of the corporation's fiscal year, expenditures are incurred for up to three months before the information is submitted to Parliament.

-Gross revenues and expenditures are disclosed for some corporations and not for others. Gross revenues and expenditures are shown for the Canadian Broadcasting Corporation but not for the Deep Waterway Program of the St. Lawrence Seaway Authority, although both receive appropriations to finance operating deficits.

6.8 In summary, deficiencies in the nature of the information and the degree of detail contained in the Estimates weaken the ability of Parliament to play an effective role in reviewing the plans of Crown corporations.

CAPITAL AND OPERATING BUDGETS

6.9 Capital Budgets are intended to display plans for capital expenditures in the coming year and are required by Section 70 (2) of the Financial Administration Act. The Act requires that each Crown corporation, through the appropriate minister, annually lay before Parliament the capital budget for its financial year approved by the Governor in Council on the recommendation of the appropriate Minister, the President of the Treasury Board and the Minister of Finance". Operating Budgets are intended to disclose forecast revenues and expenditures in the coming year and are required by Section 70 (1). The Act requires that each Agency corporation "submit to the appropriate Minister an operating budget for the next following financial year of the corporation for the approval of the appropriate Minister and the President of the Treasury Board". Unlike Capital Budgets, Operating Budgets are not tabled in Parliament.

6.10 Estimates for a Crown corporation requiring new appropriations in the budget year generally deal only with the information pertaining to the appropriation. Capital and Operating Budgets disclose over-all plans and therefore the use of internally

generated funds not now reviewed through the Program Forecast and the Estimates process.

6.11 The form of information to be included in Capital and Operating Budgets and the purposes for which they are prepared are not now discussed in any formal document. The Financial Administration Act gives the Treasury Board the power, on the joint recommendation of the President of the Treasury Board and the appropriate minister, to prescribe the form in which Capital and Operating Budgets are prepared. These powers have seldom been formally exercised and therefore the form and nature of the information in these budgets have evolved on a corporation-by-corporation basis and vary considerably. For example:

- some Operating Budgets consist of a summary statement of income and expenditure; and

- others include projected balance sheets, detailed breakdowns of projected revenues and expenditures and various supporting data.

Similar diversity exists for Capital Budgets.

6.12 Deficiencies in the information that Capital and Operating Budgets contain resemble those in Program Forecast and Estimates submissions. For example, the Capital Budget of the National Harbours Board simply lists the ports and shows one figure for the total capital expenditures for each port. Documentation provided for ministry and central agency review shows brief supplementary details but this information is not submitted with the Capital Budget tabled in Parliament.

6.13 Capital and Operating Budgets may be prepared independently of each other and in the case of Proprietary corporations, Operating Budgets are not required at all. Only Capital Budgets are tabled in Parliament. It is difficult to make an overall assessment of the merit of a capital proposal without knowing its expected impact on operating results.

6.14 Normally Capital and Operating Budgets are prepared for a one-year period and thus do not provide for a full assessment of the long-term implications of plans proposed.

6.15 Capital and Operating Budgets are often submitted to central agencies and tabled in Parliament after the start of a corporation's fiscal year. For example, the Order in Council for the Capital Budget of Export Development Corporation was dated April 20, 1975, for the corporation's fiscal year beginning January 1, 1975, and the Capital Budget of the Freshwater Fish Marketing Corporation, for the year beginning May 1, 1975, was dated December 18, 1975. The approval of budgets after the start of a corporation's fiscal year significantly detracts from the control intended by the approval process and discloses plans when it may be too late to change them.

6.16 The weaknesses and inconsistencies in the form, content and

timing of Capital and Operating Budgets combine to undermine seriously the usefulness of the documents in providing information about future plans. In addition, neither is published in a document providing a ready reference to Crown corporation plans.

6.17 Capital and Operating Budgets should lay the foundation for the accountability of a Crown corporation by permitting the actual financial results of its activities to be measured in relation to plans. However, at present:

- there is no legal requirement for the preparation of revised budgets where approved plans are subsequently altered significantly;

- the form for reporting actual results of operations may differ from the budget form; and

- actual spending is not compared to the original Capital and Operating Budget, and departures from these budgets, although common, are not explained.

6.18 As a result, Capital and Operating Budgets in their present form do not provide an appropriate vehicle for establishing the accountability of Crown corporation management because complete financial plans are not disclosed and there is no follow-up to compare plans with actual results.

SUGGESTED IMPROVEMENTS

6.19 Estimates, Operating Budgets where required, and Capital Budgets each contain a portion of a Crown corporation's plans but none presents a complete picture. The existence of and the inadequacies in the three separate documents lead to fragmented and incomplete disclosure and review of Crown corporation plans by central agencies.

In addition, Parliament, which receives only the Estimates and the Capital Budgets, is provided with even less disclosure concerning the operations and plans of Crown corporations.

6.20 Therefore, the Estimates and the Capital and Operating Budgets do not successfully accomplish the objectives of:

- providing information about corporate plans to allow informed resource allocation and control decisions; and

- establishing accountability for results of operations.

6.21 The Report on the Study of the Accounts of Canada proposes a form for disclosing revolving fund plans in the Estimates. An adaptation of that form should also provide appropriate Estimates disclosure for the corporations studied. It should present clearly the plans of the corporation, including:

- the revenues and expenditures for each activity computed on an accrual basis;

- the non-cash charges included in operating expenses;
- the change in working capital requirements, to adjust operating results computed on an accrual basis to a cash basis;
- anticipated cash requirements for operations, working capital and capital items;
- the amount of capital expenditures, supported by a detailed listing of projects;
- non-budgetary appropriations which result in third party claims;
- the distinction between non-repayable budgetary appropriations for operations and capital purposes, and repayable budgetary advances;
- the continuity of and the amounts outstanding against statutory authorities; and
- interest and repayment terms of new loans and any changes in the terms of existing loans.

6.22 The over-all effect of such disclosure would be to provide the information Parliament requires about a Crown corporation's financial plans and a basis for establishing subsequent accountability for results.

6.23 The Estimates is the document most suited to provide disclosure of Crown corporation plans to Parliament. Therefore, procedures should be amended:

- to consolidate the Estimates and the Capital and Operating Budgets into one comprehensive document; and
- to develop appropriate procedures for remedying the deficiencies in the content of the information now available.

Once the Capital and Operating Budgets are fully integrated with the Estimates, thereby providing detailed supporting information separate Capital Budgets would no longer be required by Parliament.

VII BUDGETARY CONTROL

CENTRAL AGENCY BUDGETARY CONTROL

7.1 No central agency now reviews approved programs to ensure effective management of expenditures and achievement of results in accordance with proposed plans. Efforts to monitor the use of allocated resources are sparse and ad hoc.

7.2 Due to the lack of any formal monitoring procedure extensive authority is delegated to Crown corporations without any effective central means of making them accountable for their actions on a current basis. This delegation of authority does not appear justifiable for the corporations studied since they are financially dependent on the public purse or carry on operations of a governmental nature.

7.3 A central agency should be responsible for monitoring Crown corporation financial results in relation to financial plans disclosed in the Estimates. The agency should:

- require standard financial information from each corporation, supplemented by additional information as required;
- obtain an analysis of significant variances between actual and planned expenditures; and
- prepare a monthly report based on the analysis of approved budgets and expenditures, and variances between them.

CONTROL OF APPROPRIATIONS

7.4 The decentralization of government operations in 1969 transferred responsibility for the administration of Crown corporation appropriations from the Department of Finance to the appropriate minister for each Crown corporation. This reassignment covered responsibility for releasing appropriated funds, obtaining documentary evidence acknowledging the debt, recording loans, and collecting repayments of principal and interest on government loans.

7.5 For most corporations, ministerial authority for the administration of appropriations has been delegated to their respective departments. Payment authority under Section 26 of the Financial Administration Act, however, has in some cases been delegated directly to officials of the Crown corporation which bypasses the pre-audit role of the associated department without any compensating procedure. There is a post-facto procedure undertaken indirectly by these departments in recording loan advances from information provided by the corporations. We do not believe that this procedure effectively satisfies the requirements of the Act.

7.6 The procedures for releasing funds to Crown corporations vary considerably. Some departments require cash forecasts from corporations. Some feel letters of request or informal telephone calls

are sufficient. Others believe they have no authority in this regard and forward the voted funds automatically.

7.7 Verification procedures should be developed and documented to ensure that the terms and conditions approved by Governor in Council are complied with, and that the funds are used for intended purposes. In addition, sufficient documentation should be obtained by departments to maintain adequate loan records.

7.8 Crown corporations should prepare accurate cash forecasts so departmental officials have sufficient information to exercise their delegated authorities under the Financial Administration Act. In all cases, appropriate documentation should accompany requests for funds.

7.9 Interest is charged on loans as soon as funds are released, thereby providing some deterrent to premature draw downs. In fact, however, the timing varies for draw downs requested by the corporations studied. Some obtain funds a full year in advance, others on a quarterly, monthly or bi-weekly basis. Where it is deemed necessary that a Crown corporation maintain its own bank account, appropriated funds should not be released until specifically required. The control of appropriations from the Consolidated Revenue Fund will be improved with proper cash forecasting in the corporation along with the submission of adequate documentary evidence to support requirements.

7.10 The Treasury Board Guide on Financial Administration does not deal with the responsibilities of ministers and departments regarding appropriations to their associated Crown corporations. Central direction is needed to achieve effective governmental control of corporation appropriations.

7.11 Procedures should be established to specify the documentation required to support draw downs from appropriations and to clarify the role of the appropriate minister.

CASH MANAGEMENT

7.12 Crown corporations are responsible for managing all funds, whether derived from operations or from parliamentary appropriations. Since these activities also affect the government's cash balances they are considered in this chapter.

7.13 Section 71 (1) of the Financial Administration Act and their establishing legislation permits most of the corporations studied to operate separate bank accounts outside the Consolidated Revenue Fund. Three are required to use the Consolidated Revenue Fund for banking purposes: the Canadian Dairy Commission, the National Harbours Board and the Royal Canadian Mint.

7.14 Crown corporations generally do not have large unused cash balances in bank accounts. As long as this situation exists there would appear to be few benefits, from a central cash management point of view, in requiring all Crown corporations to use the Consolidated

Revenue Fund. Some corporations, however, do administer sizable investment portfolios. In some cases these funds come from parliamentary appropriations and in others from self-generated sources. With few exceptions, all are invested in government securities or in short-term bank certificates of deposit.

7.15 The Department of Finance monitors the cash balances and short-term investments of Crown corporations on a regular basis through the Government of Canada Accounting Branch of the Department of Supply and Services. The information consists of cash balances in banks and short-term investments at the end of each month. Variations and unusual balances are discussed in an informal manner with corporate officials.

7.16 The monthly information provided to the Department of Finance is deficient in that:

- it is often not timely;
- it does not require the corporation to explain large variations in balances;
- it is obtained by telephone for the most part and not verified; and
- instructions requesting information are made orally or in general terms through correspondence.

7.17 To ensure effective monitoring of Crown corporation cash balances, formal written procedures should be prepared specifying the nature of the information required and the form and timing of reporting. The information reported should be verified periodically.

VIII FINANCIAL REPORTING TO PARLIAMENT

8.1 Adoption of the proposals outlined in Chapter VI would provide Parliament with the information necessary to review and, where necessary, to approve the planned expenditures of the Crown corporations studied. Parliament, however, must also be provided with the financial information required to assess how well corporation managements have executed their planned activities. This chapter concerns that subject.

8.2 The financial results of Crown corporations are presented to Parliament in the Public Accounts and in the annual reports of the individual corporations.

8.3 Volumes I and II of the Public Accounts include the schedules and analyses of Crown corporation information required to support amounts appearing in the financial statements of Canada. Volume III, entitled Financial Statements of Crown corporations, includes the audited financial statements of Agency and Proprietary corporations.

8.4 Section 75 of the Financial Administration Act also requires each Crown corporation to prepare an annual report for submission to Parliament through the appropriate minister.

8.5 This discussion of the financial reporting requirements of Crown corporations is divided into three sections: Corporate Financial Statements, Financial Disclosure in the Public Accounts and Annual Reports.

CORPORATE FINANCIAL STATEMENTS

8.6 The Report on the Study of the Accounts of Canada drew attention to many of the problems concerning the financial statements of Crown corporations. It says that the statements "are intended primarily to ensure accountability to Parliament and to serve as an effective means Of communication to Parliament, the Government and the people of Canada."

8.7 The Study said a review of financial statements revealed four basic problems, namely that they:

- are at variance with generally accepted accounting principles;
- lack consistency in the way they disclose financial information;
- do not always report transactions between the corporation and the government separately; and
- do not always disclose financial information adequately.

8.8 The Study recommended that regulations be issued regarding accounts and financial statements of Crown corporations and their subsidiaries. These regulations would not alter the basic premise

that Crown corporations should continue to prepare their financial statements in accordance with the "generally accepted accounting principles" recommended by the Canadian Institute of Chartered Accountants. Instead they were to supplement these principles to satisfy the needs for additional disclosure to Parliament.

8.9 Our review of the statements of the corporations studied confirmed the four basic problems the Study identified. All four can be directly attributed to the fact that officials of many Crown corporations do not consider that they are required to adhere to generally accepted accounting principles. The following examples from the financial statements of Crown corporations illustrate this conclusion:

- interest on loans from Canada is not always accrued - Atomic Energy of Canada Limited and Canadian Broadcasting Corporation;

- fixed assets are not always capitalized - Crown Assets Disposal Corporation; and in some cases not depreciated - St. Lawrence Seaway Authority;

- employee termination benefits and other material liabilities are not accrued - Farm Credit Corporation; and

- operating grants and contributions from Canada may be accounted for as revenue - Canadian Dairy Commission; as a reduction of expense - Atomic Energy of Canada Limited; or as a reduction of deficit - St. Lawrence Seaway Authority.

This conclusion is also supported by the fact that 10 of the 27 Crown corporations studied received qualified audit opinions on their most recent financial statements from my Office because of non-adherence to generally accepted accounting principles.

8.10 The form and content of the audited financial statements of Crown corporations have been the subject of serious concern within my Office. Although some problems have been eliminated, progress has been limited since Crown corporations have little incentive to adhere to generally accepted accounting principles and to improve financial reporting practices. Moreover, there has been no direction from Treasury Board or any other central agency in this respect. Recent positive steps taken by my Office, if combined with the type of action recommended in the Report on the Study of the Accounts of Canada, should provide the means of eliminating these problems in the near future. My Office is firmly committed to support the efforts by the government in this regard.

8.11 Treasury Board should issue and enforce directives requiring Crown corporations to use generally accepted accounting principles as laid down by the Canadian Institute of Chartered Accountants.

FINANCIAL DISCLOSURE IN THE PUBLIC ACCOUNTS

8.12 My 1975 annual Report expressed serious concerns about

present reporting practices in the Public Accounts. These comments were directed primarily towards departmental information included in the Public Accounts. This section considers these practices primarily from the point of view of Crown corporation disclosure.

8.13 Volumes I and II of the Public Accounts contain the financial information necessary to explain the balances appearing in the financial statements of Canada.

8.14 The financial information for Crown corporations in Volume II is grouped under the appropriate ministry and the disclosure primarily involves listing the appropriations obtained by them. Corporations not requiring appropriations normally do not appear at all and those requiring appropriations are presented in various ways. For example:

- some disclose only the amount of the appropriation requested;
- others disclose the gross expenditures and revenues of the corporation together with the net amount requiring appropriations; and
- a few provide standard object detail of gross expenditures, or else the net expenditures requiring appropriations.

The general lack of detail and the variety of methods available for the presentation of Crown corporation financial data in Volume II of the Public Accounts makes it virtually impossible for the reader to relate the activities of a corporation to the departmental activities explained in that volume.

8.15 Chapter III suggests that most of the corporations studied be included within the Government of Canada accounting entity for financial reporting purposes as a means of improving financial disclosure for the government as a whole. As a result revenues and expenditures of corporations would be included in the financial information presented in the Estimates, since the net amounts advanced out of the Consolidated Revenue Fund would be treated as budgetary expenditures, or revenues where a net recovery is experienced. A comparison could then be made between the Estimates forecasts and the actual results in Volume II of the Public Accounts.

8.16 In the government, as in the private sector, the comparison of budgeted plans with actual results should form a key indicator to measure and to assess managers' performance. Such comparisons are normally not published in the private sector due to competitive considerations. In government, however, publication of budgeted and actual results in the Public Accounts serves as the primary basis for financial accountability to Parliament. We believe that the need for this type of financial disclosure is just as great for the Crown corporations studied as it is for other governmental organizations.

8.17 Volume III of the Public Accounts now contains the individual financial statements of more than 40 Crown corporations. The number would almost double if all government-owned and controlled

corporations were included. These corporations, as illustrated in Table IV, are involved in a wide spectrum of activities, including lending, manufacturing, utilities, insurance, construction and sales.

8.18 It would be difficult, if not impossible, for any reader to assess or to understand the over-all activities of this number of corporations, even if all their financial statements were prepared in accordance with generally accepted accounting principles and contained the supplementary information suggested elsewhere in this report. My 1975 annual Report recognized this problem and proposed that Volume III of the Public Accounts should contain:

- Summary information and explanations on loans and advances and the extent of operating grants to Crown corporations, to complement or to replace the information contained in Volume I, thereby assisting the reader in evaluating the extent of financial assistance provided.

- Narrative statements of significant changes in activities during the year for each corporation, thereby highlighting significant trends and activities which otherwise would not be readily apparent to the reader of the financial statements.

- Summary analyses showing assets, liabilities, revenues, expenditures, net operating results, working capital, and other pertinent financial information by relevant types of classifications - for example, by associated ministry or by the functions, sub-functions and functional programs used for analysing departmental expenditures.

8.19 To assist Parliament in assessing both the individual and the collective activities of Crown corporations:

- Volumes I and II of the Public Accounts should include corporate financial data appropriately integrated with departmental data, and expanded to include on a comparative basis the information proposed for the Estimates; and

- Volume III should contain summary financial information.

ANNUAL REPORTS

8.20 The Financial Administration Act requires each Crown corporation to prepare an annual report. This report is submitted to the responsible minister three months after the corporate year-end and he is required to lay it before Parliament within 15 days of receipt.

8.21 The financial statements included in the annual reports of Crown corporations are the same as those in Volume III of the Public Accounts and contain the same deficiencies. In addition, we also noted that the annual reports normally do not:

- disclose corporate plans, policies and objectives, and the manner in which the corporation intends to further long-term corporate goals and government policy; or

-contain production and output information or related statistics which would aid in assessing financial results for the year.

As a result, the information that the annual reports of Crown corporations contain often is not suitable for assessment of their activities by Parliament.

8.22 A review of the 1974-75 annual reports of the Crown corporations studied indicated that more than one-half were not tabled in Parliament within the time period the Financial Administration Act specifies. Since the corporations, the Office of the Auditor General, and the responsible ministers are all involved at various steps in preparing and tabling these statements, the causes of these delays cannot be readily identified.

8.23 Treasury Board should:

-issue directives to Crown corporations giving guidelines on the form and content of financial and supplementary information to be contained in corporate annual reports; and

-monitor the annual reports of Crown corporations to determine why they are not tabled in Parliament within the time period specified in the Financial Administration Act so that appropriate remedial action can be taken.

IX FINANCIAL MANAGEMENT AND CONTROL CROWN CORPORATIONS

9.1 This chapter provides a general review and an assessment of the significant weaknesses in internal financial management and control identified in the corporations studied, as documented in Appendix D to my 1976 annual Report. Our comments are intended to bring into perspective matters affecting the quality of financial management and control exercised within these corporations.

9.2 The effectiveness of each element of the financial management and control system determines the ability of the system as a whole to play its proper role in the corporate management process. Because of this interrelationship, remedial action tends to be similar when required and therefore is not proposed until the final section of this chapter.

9.3 The elements of financial management and control described in this chapter include: Accounting Systems, Budgetary Control and Management Reporting, Financial Controls, Internal Audit, and Organization and Staffing.

ACCOUNTING SYSTEMS

9.4 Crown corporations assume full responsibility for designing, implementing and operating their own accounting systems to record and accumulate cost and other financial information. Studies of several corporations revealed that this information is adequately classified, properly authorized and processed on an accurate and timely basis. In others, however, the systems and their outputs were not adequate.

9.5 The cost accounting systems of many of the corporations studied do not effectively measure the cost of products or of services. For example:

-Managers in one large corporation have not developed a cost control system to effectively deal with the large scale and technically sophisticated projects undertaken.

-The cost accounting system of another large Crown corporation is based on fully absorbed costing techniques wherein indirect and overhead costs are allocated to products based on corporate-wide standard rates. This system does not recognize that actual divisional and/or area rates may differ significantly from these standard rates. As such, divisional financial statements do not identify controllable vs non-controllable costs and the related variances from budget.

-Another corporation accumulates costs against each specific element of its manufacturing contracts. On completing a contract, however, the system does not provide for these costs to be compiled and compared to the revenue produced so as to effectively identify the related profit margins and net profits.

9.6 Many of the corporations studied, and in particular the larger ones, have acquired significant in-house electronic data processing (EDP) facilities in recent years for accounting purposes. Our studies

disclosed several significant problems in this area. For example:

- In several feasibility studies, comparative analyses and implementation plans received inadequate attention before deciding to install EDP equipment.

- One large corporation, which operates computer facilities in a number of locations, lacks an over-all EDP policy. One of its operating divisions, with little direction from or consultation with head office corporate staff, acquired EDP equipment to suit its own needs. Subsequently, other divisions obtained similar equipment to be compatible with the first. Thus, the over-all needs of the corporation were subordinated to those of one operating division. The committee responsible for co-ordination of EDP served primarily to monitor what divisions did as opposed to providing leadership and direction.

- Responsibility for program developments testing and standards of documentation is often not clearly defined, thus increasing the potential for systems with serious deficiencies in internal controls.

9.7 In the majority of the corporations studied, financial officers have not provided technical guidance through financial manuals. Manuals are usually incomplete and out of date, and do not provide adequate direction to financial staff and to operational staff with financial responsibilities. Well-prepared financial manuals benefit those who prepare and use them by requiring a periodic evaluation of the accounting system's effectiveness and by providing a vehicle for training staff.

BUDGETARY CONTROL AND MANAGEMENT REPORTING

9.8 Our studies of budgetary control systems often identified deficiencies that would substantially diminish their potential benefits for management.

9.9 The corner-stone of any budgetary control process is a detailed budget based on sound assumptions concerning the expected volume of business and the anticipated costs of delivering it. With the exception of one large Crown corporation, which until recently did not prepare an internal operating budget, all corporations studied prepare internal budgets but their usefulness varies widely.

9.10 Significant findings concerning the budgeting practices of the corporations studied are:

- Costs and revenues from identifiable corporate activities are not always budgeted. Thus budgetary responsibility for significant operational costs are not specifically assigned.

- The mechanics of budget preparation, review and challenge are rarely set out clearly for communication to all with budget responsibility. Operating budgets therefore usually receive inadequate scrutiny and challenge from inception to completion, and there is only limited commitment to them by management.

-Most large corporations prepare budgets that are spread over each month of the year to take into account seasonal fluctuations which may affect revenues and costs. A significant number of medium and small-sized corporations, however, prepare only annual budgets, although their seasonal fluctuations are significant. Where this occurs, it is difficult for management to assess the financial results of operations against expectations during the budget year.

9.11 Effective budgetary control requires that variances between actual and planned expenditures be explained in financial and in operational terms. Observations concerning variance analysis in Crown corporations were:

-some do not prepare variance reports;

-others prepare reports containing the mathematical differences between actual and planned results without explaining them, leaving readers to guess what caused the variation; and

-statistical information systems often have not been developed to collect suitable operational information for meaningful variance analysis.

Since variance reports are usually little more than mathematical differences and since management information systems seldom produce compatible operational data, variance analysis as a managerial tool appears to receive low priority in most Crown corporations and therefore little accountability is demanded of their managers.

9.12 The effectiveness of certain phases of the operations of the corporations studied, as is the case with departments, cannot be properly measured with commercial cost accounting and output measurement systems. Accordingly, systems similar to those advocated by the Treasury Board must be adopted to recognize the governmental nature of these activities.

9.13 In summary, financial reports are usually provided to various levels of management. They rarely, however, contain the type and the quality of information necessary to achieve proper budgetary control because of inadequacies in preparing internal budgets and in providing cost and operational data.

FINANCIAL CONTROLS

9.14 Financial systems must include internal checks and accounting controls to ensure the completeness, propriety and accuracy of financial information if the integrity of the financial output is to be maintained.

9.15 Corporations are not subject to guidelines on internal control, such as those for departments contained in the Treasury Board Guide on Financial Administration. The responsibility for establishing effective systems of internal control rests solely with individual

Crown corporation management. Some corporations have achieved effective internal control, but in others internal control reflects only minimum standards with significant weaknesses in specific areas.

9.16 The study identified such internal control weaknesses as:

- Poor segregation of duties among financial staff, particularly in the area of payroll. In the majority of these cases one individual has responsibilities for all phases of payroll and cheque preparation, distribution and reconciliation. The adequacy of such systems therefore depends on the accuracy and integrity of one individual rather than on internal controls.

- Generally weak financial controls over fixed assets in the large corporations studied. One lacked detailed records of fixed assets that could be agreed to amounts reflected in financial statements. In another, records were not up to date and omitted significant assets in the custody of a customer. Few corporations carry out effective physical counts of fixed assets on a regular basis.

- Revenue, credit and collection policies are frequently not documented or otherwise communicated to financial and non-financial staff. Consequently, there are no clear guidelines for setting prices, granting credit and collecting overdue accounts. Financial and operational roles sometimes are not clear, such as in one corporation which undertook a revenue-producing activity without the financial group being aware of it.

Deficiencies of this kind provide opportunities for misuse of the assets entrusted to management, and also affect the quality of output from financial systems.

INTERNAL AUDIT

9.17 Crown corporation internal audit functions have evolved individually since their need has not been centrally prescribed. The effectiveness of the internal audit function varies among the corporations studied.

9.18 Accordingly, some corporations have no internal audit function, although are now establishing an audit group. Others employ the Audit Services Bureau of the Department of Supply and Services or an external auditing firm to perform internal audits or to carry out such assignments as the verification of payments under contracts.

9.19 The major concerns related to internal audit identified in our studies are as follows:

- corporations for the most part are experiencing difficulty in staffing an effective internal audit function;

- some corporations have encountered difficulty in obtaining the expertise necessary to organize and direct the group;

- little training is provided to internal audit staff;
- audit scope, techniques and reporting are limited in breadth and quality;
- some internal audit groups are involved primarily in pre-audit rather than post-audit functions; and
- some internal auditors were given, or have assumed, conflicting responsibility for systems design and implementation, and for processing accounting data.

These weaknesses, where they exist, preclude internal audits from being effective.

ORGANIZATION AND STAFFING

9.20 The formal organizational structure of the finance function was appropriate in most of the corporations. Although well formulated on paper, the financial organizations often did not play an effective role in all aspects of financial management and control. Heads of financial groups tend to concentrate on accounting and reporting functions, rather than on actively exercising budgetary control, ensuring effectiveness of internal systems and controls, and directing staff with financial responsibilities. This situation continues because many senior operating executives place a relatively low priority on financial management, and because the government does not demand full accountability from Crown corporations.

9.21 The following observations substantiate this view:

- finance groups often have a purely consultative rather than a review role in the formulation of budgets;
- often senior financial officers are not involved in all aspects of internal control, particularly where day-to-day control of assets is vested in operational groups; and
- senior financial staff may lack the ability to develop financial personnel and to provide leadership within the organization.

9.22 Most corporations do not recruit their financial staff through the Public Service Commission. Those studied have been able to attract the quantity, and to an acceptable degree, the quality of financial staff needed. This may be because of the limited size of most of the corporations studied, and their flexibility in pay scales and freedom from central restraints.

SUMMARY

9.23 To put the study's over-all findings into perspective it is important to appreciate the environment within which Crown corporation financial management and control systems have evolved. Three key factors have influenced the attitudes of management and consequently

the role of financial management and control within the corporations:

- traditionally the government has demanded very little accountability from Crown corporations in terms of reviewing their financial results or operations against planned results;

- most Crown corporations are not profit-oriented and do not operate in a competitive environment which imposes financial pressures on management; and

- the government has prescribed few rules for Crown corporations in the area of financial management and control.

9.24 Given this background, corporate management has not perceived a strong need to use financial management as an important and integral part of its day-to-day management processes.

9.25 Where financial staff perceives that operating management does not require comprehensive financial information, accounting and management reporting systems are not developed. Where management performance is not assessed, budgeting systems tend to serve only as a means of obtaining funds.

9.26 We have noted, however, that Crown corporations react more quickly than government departments in taking corrective action when their managements decide to do so. No doubt this is because of their relatively small size and their freedom of action.

9.27 The increased emphasis on accountability by Crown corporations to Parliament and to the government as proposed in other sections of this report should have a positive effect on their internal financial management and control. This should result in an incentive for the management of Crown corporations to demand improved accounting and budgetary control systems from their financial staffs.

9.28 Crown corporations are responsible for administering significant public funds. Most corporations studied rely heavily on appropriations and loans to operate. This being the case, there is a strong need to ensure that mechanisms are in place to provide the government with assurance that public moneys are administered with high standards of financial management and control. At present no such mechanisms exist. No direction or standards have been provided to Crown corporations concerning any of the key elements of internal financial management, with the result that the adequacy of the elements of financial management and control varies widely.

9.29 Responsibility for establishing these standards should rest with the same agency which prescribes standards for departments. That agency should also ensure that financial management and control systems are in place and meet these standards.

9.30 Because of the diversity in size and nature of operations of the corporations studied, uniform systems of financial management and control are neither desirable nor practicable. Nevertheless, basic

standards of financial management and control similar to those laid out in the Treasury Board Guide on Financial Administration should be found in all corporations. This would allow the government to discharge its responsibility for ensuring that Crown corporations spend public moneys effectively.

9.31 The studies of individual Crown corporations indicate that the specific weaknesses or deficiencies in systems and methods of financial management and control are not common to all. Where they do occur, however, these weaknesses and deficiencies are significant in themselves. Therefore, even a limited incidence of weaknesses in the key elements of financial management and control should support the need for standards.

9.32 The central agency of government responsible for prescribing the standards of financial management and control in government departments and agencies should prescribe and enforce similar standards for Crown corporations.

X CENTRAL DIRECTION AND MONITORING

10.1 A recommendation in my 1975 annual Report advocates a central agency to supply stronger over-all direction to departments and agencies in order to improve financial management and control systems within the federal government. The Report stated that a comparison of current practices with those at the time of the Glassco study made it apparent that whereas Glassco found financial responsibilities excessively centralized, current deficiencies appeared to result from extensive decentralization without effective central direction.

10.2 Any comparison of departmental with Crown corporation financial practices at the time of Glassco would have indicated widespread differences, since the corporations then escaped most of the central controls on departments to which Glassco took exception. As a result of the extensive devolvment of responsibilities on departments since then, the degree of direction now given to departments and corporations is not markedly different, particularly when it is acknowledged that departments have considerable freedom in following the Treasury Board's policy guidelines. Thus, this report, like last year's, is concerned with examining whether central direction is adequate, not whether there is too much.

10.3 The sections in the Financial Administration Act referring to Crown corporations were written in 1951 when the Act was first drafted. This was at the height of the centralization of financial responsibility in the Department of Finance and its component organizations, the Treasury Board Secretariat and the Comptroller of the Treasury. Crown corporations then provided a safety-valve for certain types of operations that would have been difficult to undertake within the centralized and highly standardized procedures, affecting departments.

10.4 This report has examined the nature of the Crown corporations studied and concluded that:

- a large number carry on operations not substantially different in character from those falling within the responsibility of departments;
- a substantial portion of their finances come from parliamentary appropriations similar to those granted to departments, except for the greater preponderance of non-budgetary loans and advances; and
- most require the same types of budgetary, accounting and financial control systems as departments.

The main differences identified were: central policies and guidelines are not generally extended to cover them; budgetary processes involving central agencies are much less formal; financial systems can be altered much more quickly since they are less involved with central service agencies; and their financial reporting and accountability to Parliament is much less detailed and standardized.

10.5 Last year's Report recommended stronger central direction of the financial control function since it was clear that departments were not receiving effective central direction and that many were not exercising their responsibilities satisfactorily. The failure to establish safeguards where this authority was not exercised effectively created this situation, not the substantially increased authority given to departments in 1969.

10.6 The proposal for stronger central direction in last year's Report did not seek to alter in any significant respect the primary responsibility of departmental management. Similarly, strengthening the central direction to Crown corporation managers need not reduce the independence they cherish. Since many of the problems are the same, it is difficult to make a case for exempting them from the types of central direction proposed for departments last year.

10.7 The same is probably not true for those Crown corporations properly classified as commercial and financially viable, most of which were not included in the study. Here there is every likelihood that the circumstances are sufficiently different to reduce the need for co-ordination by a central agency and to permit their management the type of planning and accountability that the market place imposes on privately-owned organizations. The following sections, proposing central direction similar to that for departments, refer only to corporations that are more governmental than commercial in their decision-making processes, since they are financially dependent on the public purse or carry on operations of a governmental nature.

REVIEW BY PARLIAMENT

10.8 Part VIII of the Financial Administration Act requires Crown corporations to submit Capital Budgets to Parliament after approval of the Governor in Council on the recommendation of the appropriate minister, the President of the Treasury Board and the Minister of Finance. In addition, the Act requires the appropriate minister to lay before Parliament the annual reports, including the auditor's report, of these same corporations. Requests by these corporations for parliamentary appropriations are subject to the same parliamentary processes as all other appropriations, although they have a tendency to provide much less comprehensive justification for their financial requirements.

10.9 The budgets and annual reports of some Crown corporations are also subject to the scrutiny and questioning of a parliamentary committee. Referral to a committee, however, is not automatic and for those studied is the exception rather than the rule. Therefore, there may be little opportunity to supplement through questioning in committee, the relatively meagre financial data that corporations are required to submit to Parliament.

10.10 The Estimates now provide an incomplete picture of a corporation's plans since they deal only with the specific activities being subsidized, or present only sparse support for deficiency appropriations covering the corporation's operations as a whole.

Capital Budgets, as now submitted, also give only a partial story that cannot be adequately assessed without an accompanying operating budget. These deficiencies have been outlined in earlier chapters. While it may be argued that competitive forces would inhibit exposure of more detail, the corporations studied would not be endangered. The Estimates would be much more complete and informative if these corporations were required to explain their operating and capital requirements, as well as the over-all effect of both on their cash flows. This would be particularly true if their present managerial freedoms were perpetuated by continuing to grant them multi-year authority and by allowing them to use revenues earned.^{10.11} Similarly, on the accountability side, it is difficult to justify financial reports that make no comparison with plans and do not provide operational data to indicate the extent to which anticipated results have been achieved. How can Parliament assess how well corporation management exercises its greater freedom in financial matters unless it receives such data?

^{10.12} We are not aware of any convincing reasons why the Crown corporations we have studied should not submit to Parliament much more comprehensive and useful data in support of their Estimates requirements, besides rendering a more detailed accounting of their activities in the Public Accounts. This would facilitate the task of any central agency in giving, on behalf of the government, the type of central direction with which Crown corporations might reasonably be expected to comply.

^{10.13} Estimates containing properly informative budgets would advise Parliament of plans proposed by the corporation and approved by the government. The tabling of annual reports, including the auditor's report, provides Parliament with an accounting for operations in relation to such plans.

CENTRAL AGENCY DIRECTION

^{10.14} Three central agencies are now involved in giving central direction to Crown corporations: the Privy Council, the Department of Finance and the Treasury Board.

^{10.15} Because corporation Capital Budgets require the approval of Governor in Council, all must go before Cabinet or a committee of Cabinet. Treasury Board has recently been designated as the committee of Cabinet for this purpose. Scrutiny tends to be oriented towards policy matters.

^{10.16} A more detailed review takes place in the Department of Finance, where the Economic Program and Government Finance Branch generally examines Crown corporation financial requests. The Government Finance Division in that branch has two units whose main concern is reviewing corporation Capital Budgets as well as providing financial advice on request to corporate officials, to the ministers through whom the corporations report, and to Treasury Board analysts. One unit deals with financial intermediary corporations and the other with operating corporations. While some corporations are asked to

provide financial information on a regular basis, analyses are not formalized and the examinations are normally concerned with specific issues.

10.17 The Department of Finance also obtains a cash report detailing month-end bank and short-term security balances. The Department of Supply and Services gathers this information for monitoring cash balances held with various chartered banks. Finance is concerned only with projecting the cash requirements of Crown corporations having substantial cash needs. Finance also exercises a number of other responsibilities in Crown corporation banking matters.

10.18 The third agency involved in giving central direction to Crown corporations is the Treasury Board. The President of the Treasury Board and the minister through whom the corporation reports have to approve corporation budgets, while the Board exercises its usual resource allocation role whenever appropriations are required from Parliament.

10.19 The Board's organization does not contain a separate unit to deal with Crown corporation matters. The Program Branch, the main one concerned, is organized by functional divisions and Crown corporation matters are allocated to these same functional divisions. The same analysts also assist the President of the Treasury Board in reviewing matters not affecting the Estimates but requiring his approval.

10.20 The program analysts in the Program Branch are primarily concerned with allocation of cash resources. Therefore the emphasis given to the review of a Crown corporation's budget depends on the amount of its appropriation. More emphasis is placed on examining the justification of the financial requirements in the light of government policies than on determining whether they provide an effective and realistic estimate of the corporation's financial needs, and whether the financial plan is sound enough to use in measuring management performance.

10.21 The Financial Administration Branch has almost no involvement with Crown corporations. Treasury Board's responsibility for financial management in the Government of Canada has never been exercised in respect of Crown corporations. This may be justified since the corporations are defined as being outside the accounting entity known as the Government of Canada, and the general authority given to Treasury Board under Section 5 of the Financial Administration Act may therefore not extend to them.

10.22 Thus, there appears to be a sharing of responsibility among these three central agencies. The problem is further complicated by the fact that the departmental staffs of the ministers through whom the Crown corporations report may also play a central review role. This varies depending on the minister's wishes and on the degree to which the corporation is involved in a field which overlaps that of the department. It may be thought of as a co-ordinating responsibility rather than one which involves giving central direction. The main areas of involvement concern review of budgetary

requests, drawings on the Consolidated Revenue Fund, and co-ordinating the preparation of information for Parliament and central agencies.

10.23 In response to my 1975 annual Report the government has announced that it plans to unify most responsibilities for financial management and control within Treasury Board. Certain responsibilities, now resting with the Minister of Finance, are to be assumed by the President of the Treasury Board. At the same time, it would be appropriate to clarify responsibilities of Treasury Board and of the Department of Finance for Crown corporations.

10.24 Chapter II proposed distinguishing between corporations that are financially dependent on appropriations or carry on operations of a governmental nature, and those that meet the test of financial viability and carry on commercial activities. The Treasury Board should be primarily responsible for exercising central agency responsibilities for the former group of corporations, and the Department of Finance for the latter. This would not be essentially different from existing practices but it should be recognized in any legislation establishing the two classes of Crown corporations proposed. Each should consult with the other, Treasury Board being primarily concerned with resource allocation considerations and the Department of Finance with challenging the financial soundness of proposals put forward.

10.25 Neither in last year's Report nor in this one do we propose any change in the Department of Finance's responsibility for management of the Consolidated Revenue Fund. The Department should continue to be responsible for forecasting cash requirements of Crown corporations as an aid to the Minister in anticipating and planning the government's total cash requirements.

10.26 In previous chapters we proposed a much more extensive description in the Estimates of expenditure plans of Crown corporations. This is part of Treasury Board's present responsibilities.

10.27 Under the present wording of the Financial Administration Act the responsibilities of central agencies in respect of Crown corporations are less clear in other areas of financial management and control. It would be appropriate to ensure that the responsibilities, which we identified in last year's Report as necessary for a central agency, should also be exercised in the case of corporations that rely on the public purse for a substantial portion of their financing or that carry on governmental activities. The role of the central agency should be to set standards and to monitor performance. While there may be grounds for making a distinction in the case of Crown corporations which are commercially viable, we see no reason for exempting those we have studied from such central direction.

10.28 Central agency responsibility for financial management and control of the Crown corporations that are financially dependent on appropriations or that carry on operations of a governmental nature should be clarified in the Financial Administration Act. These

responsibilities should include:

- recommending government policies, directives and guidelines in the area of financial management and control, and providing interpretations thereof;

- advising on the form of the Estimates and Public Accounts;

- assessing program and activity structures, and cost and other measurement systems in support of them;

- approving and monitoring budgetary control, financial reporting and financial control systems;

- providing analyses of variances between planned and actual financial performance;

- establishing standards for and monitoring internal audit practices within Crown corporations;

- establishing the accounting practices governing the financial statements of Crown corporations and their presentation in the Public Accounts of Canada; and

- assisting in the selection, training and career development of financial staff.

Classified Corporations for Purposes of the Financial Administration
Act

(Audited the Auditor General of Canal

Agent (Schedule C) Corporations

*	Atomic Energy of Canada Limited	(1)
*	Canadian Arsenal Limited	(1)
	Canadian Commercial Corporation	(1)
*	Canadian Dairy Commission	(1)
*	Canadian Film Development Corporation	(1)
	Canadian Livestock Feed Board	(1)
	Canadian National (West Indies) Steamships Limited	(1)
*	Canadian Patents and Development Limited	(1)
*	Canadian Salt fish Corporation	(1)
	Centennial Commission	(2)
	Company of Young Canadians	(1)
*	Crown Assets Disposal Corporation	(1)
*	Defence Construction (1951) Limited	(1)
*	National Battlefields Commission	(1)
*	National Capital Commission	(1)
*	National Harbours Board	(1)
*	Northern Canada Power Commission	(1)
	Royal Canadian Mint	(1)
	Uranium Canada Limited	(1)

Notes

(1) Financial Statements included in Volume III of the Public Accounts

(2) Financial Statements not included in Public Accounts - corporation
no longer active

Included in the study.

Proprietary (Schedule D) Corporations

(*)	Air Canada	(1)
*	Canada Deposit Insurance Corporation	(1)
*	Canadian Broadcasting Corporation	(1)
	Canadian Overseas Telecommunications Corporation (Teleglobe)	(1)
(*)	Cape Breton Development Corporation	(1)
(*)	Central Mortgage and Housing Corporation	(1)
*	Eldorado Aviation Limited	(1)
*	Eldorado Nuclear Limited	(1)
*	Export Development Corporation	(1)
*	Farm Credit Corporation	(1)

(*) Federal Mortgage Exchange Corporation	(3)
* Freshwater Fish Marketing Corporation	(1)
(*) National Railways	(1)
Northern Transportation Company Limited	(1)
(*) Petro-Canada	(3)
Pilotage Authorities -	
* Atlantic	(1)
* Great Lakes	(1)
* Laurentian	(1)
* Pacific	(1)
(*) Polysar Limited	(4)
* St. Lawrence Seaway Authority	(1)
* Seaway International Bridge Corporation Limited	(1)

Notes

(1) Financial Statements included in Volume III of the Public Accounts

(3) Financial Statements not included in Public Accounts - corporation not yet active

(4) Financial Statements not included in Public Accounts - now subsidiary of non-scheduled corporation

Included in the study.

(*) Not audited by the Auditor General of Canada.

Unclassified Corporations for 5 of the Financial Administration Act

Unlisted as per Volume I of the Public Accounts

(*) Bank of Canada	(1)
Canada Council	(5)
(*) Canadian Wheat Board	(1)
(*) Industrial Development Bank (Federal Business Development Bank)	(1)
International Development Research Centre	(5)
National Arts Centre Corporation	(1)

(*) Referred to in Schedule E of the Statement of Assets and Liabilities of Canada

Telesat Canada	(6)
Canada Development Corporation and subsidiaries	(6)
Canadair Limited	(6)
Canadian Arctic Producers Limited	(6)
Panarctic Oils Limited	(6)
Radio Engineering Products Limited	(6)
The de Havilland Aircraft of Canada	

Limited	(6)
Metropolitan Area Growth Investments Limited	(6)
Newfoundland and Labrador Development Corporation Limited	(6)
New Brunswick Multiplex Corporation Limited	(6)

Notes

(1) Financial Statements included in Volume III of the Public Accounts

(5) Financial Statements included in Volume II of the Public Accounts

(6) Financial Statements not included in Public Accounts - reason not stated

Included in the study.

(*) Not audited by the Auditor General of Canada

Other Corporations (not audited by the Auditor General)

National Health and Welfare -	
Hockey Canada	(6)
National Sport and Recreation Centre Inc.	(6)
Sports Participation Canada	(6)
Industry, Trade and Commerce -	
Fashion Canada	(6)
Canada Book Design Committee Inc. and subsidiaries	(6)
Department of Public Works -	
Toronto Terminal Warehouse Company	(6)
Ministry of Transport, (Bodies Corporate) -	
Belleville Harbour Commission	(6)
Fraser River Harbour Commission	(6)
Hamilton Harbour Commissioners	(6)
Lakehead Harbour Commission	(6)
Nanaimo Harbour Commission	(6)
North Fraser Harbour Commissioners	(6)
Oshawa Harbour Commission	(6)
Port Alberni Harbour Commissioners	(6)
Toronto Harbour Commissioners	(6)
Windsor Harbour Commission	(6)

Note

(6) Financial Statements not included in Public Accounts- reason not stated

TABLE II
1 of 2

Crop Corporations Studied
Source of Revenue
As Reported in the 1975 Public Accounts
(Files in \$000's)

	Non-government Revenue \$	Revenue from Government Entities \$	Budgetary Appropriations \$	Total \$
Schedule C - Studied				
Atomic Energy of Canada Limited	68,738		85,921	154,659
Canadian Arsenals Limited (1)		5,335	1,799	7,134
Canadian Dairy Commission	131,417		251,995	383,412
Canadian Film Development Corp.	865		3,100	3,965
Canadian Patents and Development Ltd.	555			555
Canadian Saltfish Corporation	8,075			8,075
Crown Assets Disposal Corporation (1)		1,597		1,597
Defence Construction (1951) Ltd.			4,093	4,093
National Battlefields Commission	2		619	621
National Capital Commission	5,019		15,590	20,609
National Harbours Board	58,485		1,097	59,582
Northern Canada Power Commission (1)	19,064			19,064
Royal Canadian Mint	4,528	32,687		37,215
	296,748	39,619	364,214	700,581

Crown Corporations Studied
Source of Revenue
As Reported in the 1975 Public Accounts
(Figures in \$000's)

TABLE II

	Non-government Revenue \$	Revenue from Government Entities \$	Budgetary Appropriations \$	Total \$
Schedule D - Studied				
Canada Deposit Insurance Corporation	5,263			5,263
Canadian Broadcasting Corporation(1)	78,408		291,941	370,349
Eldorado Aviation Limited		1,195		1,195
Eldorado Nuclear Limited	34,130			34,130
Export Development Corporation	63,538			63,538
Farm Credit Corporation	103,288		4,310	107,598
Freshwater Fish Marketing Corporation	15,947			15,947
Pilotage Authorities				
Atlantic	2,009		1,252	3,261
Great Lakes	2,563		2,087	4,650
Laurentian	7,430		2,064	9,494
Pacific	4,601		299	4,900
St. Lawrence Seaway Authority	23,590		32,323	55,913
Seaway International Bridge Corp. Ltd.	584			584
	341,351	1,195	334,276	676,822
Unlisted - Studied				
National Arts Centre Corporation	5,633		5,830	11,463
Total of Corporations Studied	643,732	40,814	704,320	1,388,866

(1) Breakdown of revenue by source not provided in financial statements

TABLE III

Crown Corporations Studied
Method of Financing
As Reported in the 1975 Public Accounts
(Figures in \$000's)

Equity Investment

Schedule D - Studied	Capital Stock or Equivalent) \$	Contributed Assets \$	Retained Earnings (Deficit) \$	Government Loans \$	Non-government Loans \$
Atomic Energy of Canada Limited	15,000		16,044	1,001,549	
Canadian Arsenals Limited				3,500	
Canadian Dairy Commission			14,753	32,151	
Canadian Film Development Corporation			2,821		
Canadian Patents and Development Corporation	296		128		
Canadian Saltfish Corporation			1,825	1,221	
Crown Assets Disposal Corporation			300		
Defence Construction (1951) Limited					
National Battlefields Commission			2,233		
National Capital Commission	191,863				70,800
National Harbours Board			96,542	(163,656)	636,589
Northern Canada Power Commission				4,942	119,713
Royal Canadian Mint				1,000	21,142
	207,159		96,542	(119,610)	1,886,665

Crown Corporations Studied
Method of Financing
As Reported in the 1975 Public Accounts
(Figures in \$000's)

Schedule D - Studied	Capital Stock or Equivalent)	Contributed Assets	Retained Earnings (Deficit)	Government Loans	Non-government Loans
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	\$	\$	\$	\$	\$
Canada Deposit Insurance Corporation	10,000		85,717		
Canadian Broadcasting Corporation			26,364	197,880	
Eldorado Aviation Limited	28		257		
Eldorado Nuclear Limited	6,586		35,524	58,337	
Export Development Corporation	53,000		52,236	758,838	34,973
Farm Credit Corporation	63,600		947	1,636,527	
Freshwater Fish Marketing Corporation		387	(1,491)	9,730	1,143
Pilotage Authorities					
Atlantic	88	299		300	
Great Lakes	2	61	16		
Laurentian		169			
Pacific		628	276		
St. Lawrence Seaway Authority		133,615	(121,347)	786,594	
Seaway International Bridge Corporation Limited	8				
	130,312	135,159	78,499	3,448,206	36,116
Unlisted - Studied					
National Arts Centre Corporation			(110)		
Total of Corporations Studied	337,471	231,701	(41,221)	5,334,871	36,116

TABLE IV
1 of 6

Crown Corporations Studied
Operational Characteristics

Operations

Significant

Schedule C - Studied	Budgetary Appropriations (1)	Description (2)	Governmental/ Commercial
Atomic Energy of Canada Limited	X	Nuclear research and development on behalf of Canada and the construction and marketing of reactors and related products	Administers a phase of government's research activities/Constructs sells assets on behalf of Canada
Canadian Arsenals Limited	X	Manufacturer of small arms and ammunition for the Department of Supply and Services for eventual use by DND	Carries on a phase of a departmental activity
Canadian Dairy Commission	X	Distributes subsidies to producers of milk and cream for manufactured products and acts as a marketing agent, in foreign countries, for producers of dairy products	Administers a phase of the government's dairy program/Co-ordinates marketing efforts of producers
Canadian Film Development Corporation	X	Fosters and promotes the development of a feature film industry in Canada	Administers a phase of the government's cultural program
Canadian Patents and Development Limited	X	Makes available to the public industrial and intellectual property which result from publicly funded research	Manages assets on behalf of Canada

Crown Corporations Studied
Operational Characteristics

		Operations	
Schedule C - Studied	Significant Budgetary Appropriations (1)	Description (2)	Governmental/ Commercial
Canadian Saltfish Corporation		Processing and marketing of fish on behalf of producers	Regulates inter- provincial and export trade in saltfish in to improve the earnings of primary producers
Crown Assets Disposal Corporation		Sales agent for all government departments, some foreign governments, certain agencies and Crown corporations in the disposal of surplus assets	Carries on a phase of departmental inventory management
Defence Construction (1951) Limited	X	Administration of contracts for major military construction and maintenance projects required by the Department of National Defence	Carries on a phase of departmental activity
National Battlefields	X	Preserves the historic battlefields in Quebec	Manages assets on behalf of Canada
National Capital Commission	X	Development, conservation and improvement of the National Capital Region	Manages assets on behalf of Canada
National Harbours Board		Responsible for the operation and management of thirteen	Manages assets on behalf of Canada

ports and related facilities

TABLE IV
3 of 6

Crown Corporations Studied
Operational Characteristics

Schedule C - Studied	Significant Budgetary Appropriations (1)	Description (2)	Operations
			Governmental/ Commercial
Northern Canada Power Commission		Provision of electric power and other public utilities to the Northwest Territories and Yukon Territory	Manages assets on behalf of Canada
Royal Canadian Mint		Production of Canadian and limited amounts of foreign coinage	Carries on a phase of departmental activity

TABLE IV
4 of 6

Crown Corporations Studied
Operational Characteristics

Schedule D - Studied	Significant Budgetary Appropriations (1)	Description (2)	Operations
			Governmental/ Commercial
Canada Deposit Insurance		Provision of insurance against the loss of deposits with federal institutions (banks and trust of loan	Financial insurer - federal institutions are required by legislation to use this corporation's

companies) and with approved services
provincial institutions
(trust and loan companies)

Canadian Broadcasting	X	Provides national broadcasting services, both television and radio	Administers a phase of of the government's communications and cultural program/Manages assets on behalf of
Canada			
Eldorado Aviation Limited		Air service in support of Eldorado Nuclear Limited	Wholly-owned subsidiary of Eldorado Nuclear Limited
Eldorado Nuclear Limited		Exploration and mining of uranium and refining of of uranium concentrates for for sale in world markets	Commercial operations (currently financially independent)
Export Development Corporation		Facilitates and develops export trade by the provision of insurance, guarantees, loans and other financial services	Financial intermediary and insurer - services equivalent to those offered by foreign governments

TABLE IV
5 of 6

Crown Corporations Studied
Operational Characteristics

		Operations	
Schedule D - Studied	Significant Budgetary Appropriations (1)	Description (2)	Governmental/ Commercial

Farm Credit Corporation		Provides long-term mortgage credit under suitable terms and conditions to promote the development of a sound and competitive farming industry	Financial intermediary, non-commercial due to government policy on rate setting
Freshwater Fish Marketing Corporation		Processing and marketing of fish on behalf of producers	Regulates inter-provincial and export trade in freshwater fish in order to improve earnings of primary producers
Pilotage Authorities - Atlantic Great Lakes Laurentian Pacific	X	Ensure safe and orderly passage of Canadian and foreign vessels through Canadian territorial waters	Carry on a phase of departmental activity
St. Lawrence Seaway Authority	X	Operation and maintenance of the waterway system between Montreal and Lake Erie	Manages assets of behalf of Canada
Seaway International Bridge Corporation, Limited		Operates international bridge at Cornwall	Manages assets on behalf of Canada

TABLE IV
6 of 6

Crown Corporations Studied Operational Characteristics

		Operations	
Unlisted - Studied	Significant Budgetary Appropriations (1)	Description (2)	Governmental/ Commercial

National Arts Centre Corporation	X	Operates and maintains the National Arts Centre in Ottawa and encourages the development of the performing arts in Canada	Manages assets on behalf of Canada/Administers a phase of the government's cultural program
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Notes:

1.Budgetary appropriations are considered to be significant if they were 25% or more of gross operating expenditures as per Table II.

2.The description of operations comments are not intended to be a comprehensive summary of all activities undertaken by a corporation but rather to highlight the significant activities.

APPENDIX D

FINANCIAL MANAGEMENT AND CONTROL STUDY:

REPORTS TO CROWN CORPORATIONS

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(The review of financial management and control in the Canada Deposit Insurance Corporation and the Canadian Saltfish Corporation did not identify any significant weaknesses).

INTRODUCTION

The 1975-76 phase of the financial management and control study examined 27 Crown corporations. The observations and recommendations reported to each corporation and their responses follow.

The following matters should be noted regarding these summary reports:

- they contain a listing of system deficiencies. Its length

does not give any indication of the relative quality of the systems, but rather reflects the style of reporting of the many different study teams;

- they do not mention those areas where systems are well designed since the object of the study was to identify weaknesses and indicate possible corrective actions;

- matters considered attributable to government-wide systems and procedures are not dealt with extensively;

- the order of presentation does not correspond to that in the main part of the report, since the latter was arrived at after many of the summaries were prepared;

- emphasis is placed on recommendations. Where the recommendations do not explain the problem sufficiently, a separate paragraph precedes them. Replies concern the recommendations only;

- no attempt was made to verify that the actions indicated in the responses were taken or that they will be effective in remedying the shortcoming reported in our observations and recommendations.

These summary reports should be read in the context of the full report.

ATOMIC ENERGY OF CANADA

Observations and Recommendations as at September 1976.

Corporation's Comments as at October 1976.

Our review of financial management and control systems within Atomic Energy of Canada Limited indicates that an urgent need exists to broaden the role of financial management and control in AECL and to implement more effective methods of financial control in the Company.

Our study focused on the problems that we identified in the present organization. However, to put our findings in their proper perspective it is important to review the evolution of the Company in recent years. This background has had a strong impact on the current status of the financial management and control function as we see it in the Company. Even more important is the need to view our findings in the light of the current and future needs of the Company, with particular reference to the changes that must be made in order to ensure that the Company's philosophy, policies, managerial attitudes and procedures as they relate to the financial function are suitable for AECL's current and future requirements.

Atomic Energy of Canada Limited began as a relatively

modest nuclear research and development activity, largely funded by government appropriations. In the mid 1960's, annual expenditures were about \$70 million with principal activities at its primary research site in Chalk River and the construction of a prototype nuclear power station at Douglas Point. During this period, the Company was also successful in marketing radiation therapy units for medical use. The role of financial management in the organization was more straightforward than today, although no less important, and consisted primarily of accumulating and providing financial information to the internal corporate users and to government agencies, as well as controlling the funds appropriated by Parliament. This task was relatively uncomplicated in view of the fact that in-house type research and development activities and other transactions carried out at that time did not involve major financial risks.

As the potential for nuclear power as an energy source in the production of electricity grew so too did the interest of Ontario's major electric utility. Atomic Energy of Canada acting as a nuclear engineering consultant, together with Ontario Hydro as its principal client, worked closely, as they do today, in the design and development of nuclear power plants. From a financial point of view, a policy was established and is still in force that charges for work done for Ontario Hydro would include only costs which could be specifically allocated to these projects, with an allowance for recovery of indirect and overhead costs. The flexibility of these contracts allowed design and development work to be undertaken to a greater degree than had they been fixed price contracts.

This arrangement, which fostered the advancement of technology and development of nuclear power, created an environment in which operational and financial managers were not constrained by normal market pressures. Since cost targets and profitability were not primary concerns, financial planning, budgeting and cost control systems were not given as much attention as they would have been if these had been major concerns. Financial managers continued to concern themselves primarily with the mechanics of accounting, reporting and budget consolidation, and operational managers were not under pressure to place much emphasis on financial matters.

Since that time the Company has greatly increased the scope of its operations with a corresponding increase in capital and operating expenditure which is now over \$400 million annually. Corporate assets have grown from less than \$100 million to over \$1 billion.

This increase in the scope of its operations has resulted primarily from the development of its technology leading to participation in heavy water production, nuclear reactor construction programs and new medical and industrial products. The Company now builds, owns and operates heavy water plants. It also has commitments abroad to supply nuclear power stations which

involve substantial financial risks.

This growth has created an environment in which the Company must now face strong competitive pressures from other nuclear suppliers; must respond profitably to its undertakings overseas; must cope with international contractual and financial complexities; must handle much higher volumes of dollars and act as contractor and financier; must perform technically under warranty provisions; and must expand heavy water and other segments of its business to service its power reactor programs.

These basic changes in the nature of its operations have created both an operating and a financial challenge to the Company and all have exposed AECL to a far greater degree of financial risk than heretofore.

At the same time, external developments in other segments of AECL's business are also becoming evident. Domestic and foreign inflation, procurement problems and a slower rate of increase in government funding of the research program, coupled with constraints on funds available to provincial utilities for nuclear power plants are combining to produce greater financial pressures on all Company activities.

We believe that it is reasonable to expect that these pressures will not substantially diminish in the foreseeable future, particularly as AECL continues to increase its participation in overseas and domestic markets for nuclear power reactors. The role of financial management has not kept pace with the Company's expanded business or with the increased complexity and risks associated with the growth of AECL. The benefits that a strong comprehensive financial management function could provide to the Company have not been fully recognized.

The degree to which this, together with external factors previously discussed, has contributed to existing difficulties cannot be assessed; however, it is clear that the role of financial management and control must be changed if the operations of the Company are to be adequately controlled.

Successfully establishing a broader base for the financial management function involves in part a question of philosophy and attitude on the part of the senior management of AECL.

In two divisions Power Projects and Heavy Water, both of which involve financial management and control of major construction projects, managers have not developed estimating, cost control and planning systems which effectively deal with these projects. This may be due, in part, to the resources allocated for this task and to confusion concerning the respective responsibilities of financial and operating staff in this area.

The Power Projects operating staff have recently

developed, and are still in the process of implementing, project control systems, including financial control systems. These systems are a positive move in terms of establishing more effective project and financial controls. Unfortunately, however, there has been no active involvement of financial staff in the development of these systems although the Treasurer did identify and communicate the need for drastically improving the systems.

It is clear that much of the burden of preparing cost estimates and developing project management systems rests with the operational managers, who have the necessary operating expertise.

Financial managers should not be expected to evaluate technical problems and detailed estimates. However, financial managers do have a significant role to play in respect of estimating by ensuring that the process used to compile estimates results in data which is complete, soundly prepared and presents the financial risks associated with the project in a reasonable manner. They also have a distinct role to play in the determination of cash flow requirements, the financial reporting on projects and the correlation of financial data to physical progress of purchasing and construction activities.

Estimating and project control systems provide the information on which senior management makes decisions to undertake projects and to take whatever corrective actions that may be required. It is essential that this information be as complete and as sound as possible so that management can make decisions on an informed basis and can anticipate the financial effects of their decisions. The present systems in AECL do not provide this type of information.

The need for improved estimating procedures and a more comprehensive system of financial management is underlined by the Company's estimate of over a \$20 million loss on the Argentine reactor sale. In the Heavy Water division the Company anticipates a cost over-run of approximately 73% on its LaPrade heavy water plant which was authorized in 1974 at \$453 million. These figures do not include interest during construction, now estimated at approximately \$300 million.

There is no doubt that inflation, world monetary fluctuations, construction delays, and other factors, which could not have reasonably been fully anticipated and quantified before entering into the projects, have contributed to these situations. This report does not imply that better financial management in estimating and project control would necessarily have resulted in lower actual costs than those currently experienced.

It is clear, however, that management used incomplete and fragmented data in evaluating the financial implications of the Company's projects. As a result, costs and risks involved in the projects were underestimated.

Financial staff do not participate to any significant

extent in pricing and contracting decisions. The lack of involvement of financial personnel in many critical areas clearly indicates that the role of such personnel in the Company is too limited. This points to the need for an overall policy clearly defining what this role should be, with due consideration to the Company's needs and future operations. Without such a policy, it is unlikely that AEC can adequately resolve the major issues raised in our report.

Thus, our observations and recommendations are centered around the actions that should be taken at the executive level of the Company to implement the policies and adopt the organizational framework that will provide the basis for achieving the level of financial management and control which, in our opinion, is required in AECL.

Our major observations and recommendations can be summarized as follows:

- The benefits that a strong comprehensive financial management function could provide to the Company have not been fully recognized. Financial management is primarily limited to obtaining, accounting for and disbursing funds. In view of the size and complexity of the Company's activities, there is a need to broaden this role to include greater responsibilities with respect to the financial management activities in the areas of corporate planning, cost estimating, project control, and pricing. The existence of this larger role, once it has been defined should be communicated throughout the organization.

- In view of the current level and complexity of financial activities the present financial organization cannot provide an adequate level of financial management and control. There is a need to provide for a separate comptrollership function and a redefinition of the role of the Treasurer. In addition, provision should be made for the establishment of a more senior financial position, such as a Vice-President-Finance.

- The number and quality of financial staff should be augmented to allow the financial management function to properly serve the needs of the Company, and strong functional direction should be provided to all personnel with financial responsibilities to ensure that all activities of AECL are managed within consistently applied standards.

Other sections of our report deal with major problems in specific areas. Significant improvements in these areas are required but their success in overcoming these problems will be largely dependent on the taking of the remedial action outlined above. These matters can be summarized as follows:

- at present, financial policies and procedures are not communicated adequately throughout the organization;

- the internal audit function should be strengthened in a

number of important areas to provide management with the full benefits which can be derived from such a function;

- financial reports prepared for certain areas of the Company's activities do not provide the type and quality of information necessary to form a sound basis for decision making;

- the service responsibilities of the head office electronic data processing group should be expanded and redefined to encompass the entire organization. Procedures should be implemented to ensure that electronic data processing services are provided with uniform quality and consistency throughout AECL;

- in the past, systems used for cost estimating and project control have not been effective. Positive efforts are being made in this regard by operational staff, but the systems still require considerable improvement. Financial staff have made virtually no contribution in developing these systems.

- AECL's operations have recently shown rapid growth and diversification, but company-wide long term financial plans have not been developed.

We believe that the rapid growth and diversification of AECL activities has surpassed the ability of the financial group to respond to the Company's needs. This is primarily due to not recognizing the need for a broad role for financial management and control, and therefore not developing a suitable financial organization consistent with the needs of the Company.

CORPORATION'S COMMENTS

The Company is glad to have an outside view of its financial management and control and appreciates the objective and professional approach of those involved in the study. Perhaps very naturally, there are certain observations that we feel miss the mark. For instance, financial management is involved to a much greater extent in budgeting and monitoring of results than would be inferred from the report. Similarly, we think a review of the costs of completed projects will reveal that AECL received value for money and that the relation of cost to original estimates compares favourably with that for other major pioneering projects and indeed any major construction project in this period of unprecedented inflation. Nevertheless, the Company agrees that the entry into a major export business and the entry into the heavy water production business represent major changes in function which put greatly increased demands on financial management. At the present time a firm of management consultants is performing a broader review of the organization and operation of AECL. As this progresses the recommendations of the Auditor General's Office, which are generally of a very constructive nature, will be taken fully into account and it is expected that most of them will be implemented.

CANADIAN ARSENALS LIMITED

Observations and Recommendations as at October 1975.

Company's Comments as at June 1976.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL MANUALS

oThe Company should review and amend its financial manual to ensure that it is accurate and complete with respect to all significant accounting policies. Excessive detail and fragmentation should be eliminated.

CORPORATION'S COMMENTS

Review and amendment of the financial manual is unquestionably desirable. In view of the resources and staff now available the Company will endeavour to complete this project over the next 12 to 18 months.

OBSERVATIONS AND RECOMMENDATIONS

LIABILITIES

oThe following should be done so that the Company complies with generally accepted accounting principles as related to reporting of liabilities.

(a)an estimate of the liability accruing to employees under the termination provisions of the Company's separation pay plan should be prepared and updated on an annual basis;

CORPORATION'S COMMENTS

Agreed, and implemented as at March 31, 1976.

OBSERVATIONS AND RECOMMENDATIONS

(b)the estimated liability referred to above should be recorded in the accounts of the Company and reflected in the financial statements;

CORPORATION'S COMMENTS

Agreed, and implemented as at March 31, 1976.

OBSERVATIONS AND RECOMMENDATIONS

(c)increase in liability to employees during each subsequent year should be charged to the cost of operations.

CORPORATION'S COMMENTS

Agreed, and implemented as at March 31, 1976.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL STATEMENTS - YEAR-END

oTo improve financial statement disclosure and to facilitate analysis of the financial results of the Company's operations the Statement of Income and Expenses should be revised to a format requiring as a minimum the following additional information:

CORPORATION'S COMMENTS

Agreed, and implemented as at March 31, 1976.

OBSERVATIONS AND RECOMMENDATIONS

- gross margin;
- administrative expenses, after determining the gross margin;
- other income after determining profit or loss on operations.

oFurther sales and cost of sales analysis should be provided, together with disclosure of the costs attributable to unused capacity, if material.

CORPORATION'S COMMENTS

Agreed, and implemented as at March 31, 1976.

OBSERVATIONS AND RECOMMENDATIONS

oTo ensure that the Statement of Expenses reflects only those transactions which are operating expenses, the cost of fixed assets should not be included in the Statement of Income and Expenses but rather should be shown in the summary of expense recovery.

COMPANY'S COMMENTS

Agreed, and implemented as at March 31, 1976.

CANADIAN BROADCASTING CORPORATION

Observations and Recommendations as at July 1976.

Corporation's Comments as at August 1976.

OBSERVATIONS AND RECOMMENDATIONS

ROLE OF THE SENIOR FINANCIAL OFFICER

The Vice-President, Finance, does not report to the Chief Executive Officer of the Corporation, and functional lines of authority have not been defined clearly enough.

oThe role and the reporting relationships of the Vice-President, Finance, should be clarified and strengthened so he may execute his responsibilities as Chief Financial Officer in a more effective manner.

CORPORATION'S COMMENTS

The role and reporting relationships of the Vice-President, Finance, will be examined during the current fiscal year.

OBSERVATIONS AND RECOMMENDATIONS

STAFF TRAINING

Although the Vice-President, Finance, actively encourages professional development, the training programs have been oriented toward satisfying the technical needs of the Corporation's financial staff, and not to individual career needs. The Human Resources department recently recognized this aspect of career planning.

oCurrent efforts by the Human Resources department to provide leadership in augmenting existing staff training programs with individual training and career guidance should be encouraged and sustained.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

DATA PROCESSING

The corporate computer systems group has not exercised a strong enough influence on policy development. Consequently, not enough direction has been provided to divisional systems groups and each has tended to follow an independent course of action designed to meet local requirements. In the absence of corporate guidelines and functional direction various types of computer equipment have appeared and computer systems have been developed in an uncoordinated manner.

oA senior executive should be appointed to assume over-all responsibility for the data processing function of the Corporation, and to:

CORPORATION'S COMMENTS

It is recognized that, given the rapidity of Electronic Data

Processing development in the Canadian Broadcasting Corporation, the computer systems group has not been in a position to give the strong leadership required.

OBSERVATIONS AND RECOMMENDATIONS

oensure that the responsibilities and authorities of the systems group are clearly delineated with reference to its role relative to corporate Electronic Data Processing matters as well as its role opposite divisional Electronic Data Processing activities;

oprepare a comprehensive plan covering development and implementation of data processing systems for the Corporation;

oco-ordinate the use of resources available to meet the requirements of Head Office and divisional Electronic Data Processing activity;

oensure that appropriate guidelines and standards are established for systems development, documentation and equipment selection; and

oeliminate unnecessary duplication of systems effort through regular monitoring of systems development work.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL SYSTEMS AND Policy DEVELOPMENT

The Financial Systems Co-ordinating Committee which was formed to coordinate the implementation of financial systems has not been fully successful in promoting a co-operative systems effort. As a consequence financial systems development has remained local in character.

oThe role of the Financial Systems Coordinating Committee should be reaffirmed as the vehicle for promulgating all financial policy and standards and specifications for automation.

CORPORATION'S COMMENTS

The role of the Financial Systems Coordinating Committee will be examined in conjunction with our review of the financial function.

OBSERVATIONS AND RECOMMENDATIONS

oThe documentation of financial systems should be completed in accordance with standards which have been agreed to in principle.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

oAn effort should be made to complete the Accounting Policy Manual as quickly as possible to avoid relying on accounting bulletins and standard practice instructions that are obsolete.

CORPORATION'S COMMENTS

Preparation of the Accounting Policy Manual is now under way.

OBSERVATIONS AND RECOMMENDATIONS

REVENUE - CREDIT AND COLLECTION

Although Head office provides guidance on credit and collection, revised credit policies and guidelines have not been distributed to divisional and regional offices.

oCorporate credit and collection policies should be re-issued and reinforced.

CORPORATION'S COMMENTS

Agreed. The Corporate Credit and Collection Policies are now being re-issued through the Finance Policy Manual.

OBSERVATIONS AND RECOMMENDATIONS

oDivisional and regional credit and collection procedures should be developed, documented and distributed, to:

ospecifically assign the responsibility for credit control; and

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

oensure that collection action is carried out on a basis consistent with corporate policy.

oStatements of account, indicating balances owed to the Canadian Broadcasting Corporation by its customers, should be issued more frequently than once a year in order to improve the collection effort.

CORPORATION'S COMMENTS

The requirement for monthly statement of accounts owing is under study.

OBSERVATIONS AND RECOMMENDATIONS

CUSTOMER BILLINGS AND CONTRACTS

Weaknesses in internal control and delays in billing have resulted because automated systems were introduced without adequate testing.

oManual accounting and control mechanisms should be maintained until such time as new computerized systems are fully tested and operational.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

Breakdowns in policy enforcement for contract procedures have resulted in commercials being aired without completion of contractual arrangements.

oThe present policy and sales agreements in the Corporation's commercial revenue program should be reviewed and amended as required so that the Corporation does not experience customer resistance in obtaining signed agreements before broadcast.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

DELEGATION OF SIGNING AUTHORITY

Corporation proposals for delegation of signing authority for spending and contractual arrangements contain provisions for authority to be re-delegated.

OBSERVATIONS AND RECOMMENDATIONS

oThe proposed revision to the Canadian Broadcasting Corporation's policy for delegating signing authority should more clearly reflect the intent and principles of government guidelines.

CORPORATION'S COMMENTS

The Corporation's policy with respect to the delegation of signing authority is under study.

OBSERVATIONS AND RECOMMENDATIONS

PAYROLL

oA system of document control should be established for payroll "change in status" forms to ensure the integrity of input into the personnel records and central pay master files.

CORPORATION'S COMMENTS

The system is now under review.

OBSERVATIONS AND RECOMMENDATIONS

oDepartment heads and supervisors in a position to originate payroll data should not distribute payroll cheques to employees of the Corporation.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

oPayroll records and personnel files should be compared more frequently to ensure the consistency between data bases and the accuracy of their content. Furthermore, this corroboration should extend beyond regular payrolls to include casual employees and performers.

CORPORATION'S COMMENTS

Agreed. A comparison of payroll and personnel files is a feature being incorporated into the revised payroll system now being designed.

OBSERVATIONS AND RECOMMENDATIONS

oThe Corporation should proceed with its plan to speed up the flow of payroll input with respect to new employees to reduce the number of initial salary payments issued out of local operating funds.

CORPORATION'S COMMENTS

The over-all problem of input data to the payroll system is being reviewed in the current payroll system study.

OBSERVATIONS AND RECOMMENDATIONS

CHEQUE ISSUE

oTo strengthen internal control over the disbursement of corporate funds:

osteps should be taken to enforce the standard practice instruction which requires the presence of two employees at all times during the cheque signing process; and

CORPORATION'S COMMENTS

The procedure will be enforced in accordance with the standard instruction.

OBSERVATIONS AND RECOMMENDATIONS

signed cheques should not be returned to the originating departments for distribution to payees in the Montreal office of French Services Division.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

PURCHASING POLICIES AND PROCEDURES

oThe Purchasing Manual and corporate Agreed. standards for purchasing procedures and practices should be updated and consolidated to improve communication of prescribed corporate policy.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

CONTROL OF PAYMENTS

oTo strengthen internal control, and to Agreed. safeguard the Corporation's assets better, the standard procedure for processing suppliers' invoices should be amended to provide for effective cancellation of all documents in support of payments to ensure that invoices cannot be resubmitted.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

Delays in completing bank reconciliations manually have led to a program of mechanized reconciliations. This program has not been extended to all of the Corporation's series of cheques.

oBank reconciliations should be completed as quickly as possible after the end of the month. Therefore, consideration should be given to completing the process of mechanizing bank reconciliations to improve their timeliness.

CORPORATION'S COMMENTS

The program to mechanize bank reconciliations which was

implemented with respect to the payroll bank account, is continuing.

OBSERVATIONS AND RECOMMENDATIONS

ACCOUNTS RECEIVABLE - TRAVEL ADVANCES

Divisional management has not enforced corporate guidelines with respect to the settlement of travel advances.

CORPORATION'S COMMENTS

This question has been reviewed by the Board of Directors, and direction has been given to remedy this problem.

OBSERVATIONS AND RECOMMENDATIONS

oDivisional management should actively support and ensure compliance with the Corporation's guidelines regarding the settlement of travel funds advanced to employees and others.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

oThe procedure for settling travel advances that are significantly overdue should be enforced.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

INVENTORY OF SUPPLIES

Because of the limited hours during which controlled stores areas are open, supplies are requisitioned in advance for projects or for emergency purposes. These "forward stores" are significant and are loosely controlled.

oA cost/benefit study should be made of longer open periods for "controlled stores".

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

INVENTORY OF PROGRAMS, SCRIPTS AND FILM RIGHTS

Evaluation of program inventories and proposals for write-offs are not communicated to appropriate financial staff as they are identified. As a result, significant write-offs occur at year-end.

oEvaluation procedures for scripts, film rights and programs should be accelerated and reported more promptly to reduce the accumulation of write-offs which traditionally have been made in connection with a financial year-end.

CORPORATION'S COMMENTS

The handling of program inventories, and their treatment in the accounting records, is now under review.

OBSERVATIONS AND RECOMMENDATIONS

CAPITAL ASSETS

oResponsibility for capital assets employed within each region should be strengthened by holding department heads fully accountable for the assets under their control and by having senior regional management vigorously monitor the capital asset policy and related procedures.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

INTERNAL AUDIT

oThe physical verification of employees included in the Corporation's payroll records should be incorporated in the audit program and should be performed regularly, at least on a test basis.

CORPORATION'S COMMENTS

These two recommendations will be incorporated in our audit program and guidelines.

OBSERVATIONS AND RECOMMENDATIONS

oMore specific guidelines for selecting audit samples should be added to the Internal Audit manual, including instructions as to the interpretation, evaluation and financial implications of resulting findings.

CORPORATION'S COMMENTS

See reply above.

OBSERVATIONS AND RECOMMENDATIONS

oConsideration should be given to a system-oriented approach to audits. This could be accomplished by applying analytical auditing techniques which incorporate the use of systems flow charts and internal control questionnaires. Such an approach would enable the Internal Audit department to evaluate accounting systems, applications and controls better.

CORPORATION'S COMMENTS

Agreed. These recommendations will be implemented as quickly as possible.

OBSERVATIONS AND RECOMMENDATIONS

oNow that some divisions of the Corporation are using in-house computers to process accounting and other data, the Electronic Data Processing section of the Internal Audit department should strike an appropriate balance between the audit of systems under development and operational computer systems.

CORPORATION'S COMMENTS

See reply above.

OBSERVATIONS AND RECOMMENDATIONS

oAn audit committee should be established to ensure that the independence and objectivity of the Internal Audit department is preserved.

CORPORATION'S COMMENTS

The Executive Committee at its meeting of June 22, 1975 requested that the Vice-President, Finance, recommend a method of establishing an Audit Committee.

OBSERVATIONS AND RECOMMENDATIONS

COSTING PRACTICES

oThe divisions should re-examine the practice of developing local capacity rates for indirect and overhead television production expenditures in order to improve television production cost reporting by isolating differences resulting from applying national overhead rates.

CORPORATION'S COMMENTS

During 1975-76 local rates were re-established in the Ottawa Area cost reports. The feasibility of extending this procedure to other divisions will be examined.

OBSERVATIONS AND RECOMMENDATIONS

oA study should be undertaken to determine the best method of reflecting television program budgetary changes in the management reporting system on a more timely basis, so as to make comparisons with actual results more meaningful.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

MANAGEMENT REPORTING SYSTEM

oThe financial reporting system should be reviewed, and efforts made to:

ospeed up the preparation of financial results so that they are timely and thus obviate the need for supplementary record keeping which is now prevalent;

CORPORATION'S COMMENTS

It is recognized that the financial reporting system is not as timely as it should be. Delays are caused, in part, by the complexity of costing procedures and by different stages of computerization which exist in divisions and regions of the Corporation. The reporting practices will be examined in conjunction with our review of the finance

oincorporate in summary form much of the key statistical and operational information emanating from the separately developed production reporting systems; and

oincorporate program costs by category on a monthly basis.

FINANCIAL DISCLOSURE

All significant contractual and/or contingent liabilities relative to film rights should be adequately disclosed in the Corporation's annual financial statements, in accordance with generally accepted accounting principles.

CORPORATION'S COMMENTS

During 1975-76 local rates were reestablished in the Ottawa Area cost reports. The feasibility of extending this procedure to other divisions will be examined.

Agreed.

It is recognized that the financial reporting system is not as timely as it should be. Delays are caused, in part, by the complexity of costing procedures and by different stages of

computerization which exist in divisions and regions of the Corporation. The reporting practices will be examined in conjunction with our review of the financial function.

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

SEVERANCE PAY

The liability pursuant to the Corporation's policy on severance pay benefits accruing to employees should be reflected in the financial statements of the Corporation.

CORPORATION'S COMMENTS

The liability pursuant to the Corporation's policy on severance pay benefits accruing to employees was reflected by a note in the Financial Statements of the Corporation for the year ended March 31, 1976.

CANADIAN DAIRY COMMISSION

Observations and Recommendations as at September 1975.
Commission's Comments as at April 1976.

OBSERVATIONS AND RECOMMENDATIONS

ORGANIZATION AND FINANCIAL RESPONSIBILITIES

Dairy Support Program Financial activities, such as the establishment of total subsidy dollars to be requested through Main Estimates and the actual processing and payment of subsidies, are conducted for the Commission by the Department of Agriculture and the Agricultural Stabilization Board respectively. These activities and associated responsibilities have not been documented satisfactorily and hence are not completely understood.

This ambiguity surrounding the over-all financial role of the Commission has been a contributing factor in weakening the position of Treasurer.

Financial responsibilities between the Commission, the Agricultural Stabilization Board and the Department of Agriculture should be more clearly defined to support the development of the financial function within the Commission. Following clarification of the over-all financial responsibilities of the Commission, the function of Treasurer should be modified to allow for effective financial management and control.

CORPORATION'S COMMENTS

Financial responsibilities of the Commission for Dairy Policy and for the program and budget planning are defined in the Canadian Dairy Commission Act of 1966. Financial activities have changed

gradually over the years towards greater self-sufficiency and dependence on the financial staff in the Commission. To meet these increased financial responsibilities, the Finance group is now being strengthened and reorganized. Clarification and documentation of responsibilities and development of procedures and systems are a part of the reorganization.

OBSERVATIONS AND RECOMMENDATIONS

COMMUNICATION OF FINANCIAL REQUIREMENTS

A financial administration manual has not been developed at the Commission. Consequently, financial guidelines and directives are communicated verbally.

oA financial manual outlining the accounting policies and practices of the Commission should be developed and introduced to ensure that:

CORPORATION'S COMMENTS

Upon completion of a review of financial systems at the Commission, it is planned to document the system in a financial administration manual to facilitate financial control.

OBSERVATIONS AND RECOMMENDATIONS

-accounting transactions are properly recorded and reflect approved policy;

-internal controls are understood and practised in principle; and

CORPORATION'S COMMENTS

Management Consulting Services (CDA) has been engaged since October 1975, and the Bureau of Management Consultants (DSS) has been engaged since late 1975 to complete this work in 1976.

OBSERVATIONS AND RECOMMENDATIONS

-a reference document is available as an aid to staff training.

DELEGATION OF SIGNING AUTHORITIES

oThe financial authorities of the Canadian Dairy Commission should be revised in order to delegate spending authority under Section 27 of the Financial Administration Act to responsible functional operating positions, with payment authority under Section 26 being retained by responsible positions in the financial section. A system for maintaining appropriate specimen signature cards should then be considered.

CORPORATION'S COMMENTS

The existing signing authorities are being updated to conform with the requirements of the Act for functional operating positions (Section 27) and for payment authority (Section 26).

OBSERVATIONS AND RECOMMENDATIONS

CONTROL OF REVENUES

The sales value of skim milk powder has historically been less than the corresponding purchase cost incurred by the Commission. As a method of equalizing the sales revenues with the purchased cost the Commission has been authorized to collect levies from dairy producers through their respective provincial marketing agencies.

oAppropriate levy reconciliation procedures should be established and implemented to assure the reasonableness of levy collections from provincial marketing agencies. Although full accounts receivable control practices may be desirable for all levy accounts at a later date, levy remittances, as a minimum, should be compared for reasonableness against independent calculations of levies due on a current basis.

CORPORATION'S COMMENTS

Reconciliation of remittances of levy funds collected by provincial marketing agencies is based on independent calculations of levy due, based on the same shipments of milk and cream which are also recorded for subsidy payment purposes. These reconciliations of provincial cumulative milk shipments and levy collections are undertaken from time to time in the office of the Economic Adviser. The shipments and levy collections are audited by the Audit Services Bureau (DSS). In the future the reconciliation of levy collections will be coordinated by the Director of Finance and will thus become a part of the financial system.

OBSERVATIONS AND RECOMMENDATIONS

SUBSIDY PAYMENTS

Each year the subsidy group within the Canadian Dairy Commission furnishes the Agricultural Stabilization Board with revised subsidy rates and a listing of information requirements necessary to process monthly subsidy payments to Canadian dairy producers. However, responsibility for pre-audit, processing and disbursement controls has not been defined or clearly assigned between the Commission and the Board.

oProcedures for validating and processing dairy subsidy payments should be amended, documented and implemented to:

CORPORATION'S COMMENTS

The Subsidy Processing Service, as part of the Agricultural Stabilization Board, handles the pre-audit, processing and disbursement of direct subsidy payments to producers as a service agency on behalf of the Commission.

OBSERVATIONS AND RECOMMENDATIONS

- formalize the responsibilities the Agricultural Stabilization Board has with respect to these payments;
- introduce a measure of accountability between the Agricultural Stabilization Board and the Commission; and
- strengthen internal control.

CORPORATION'S COMMENTS

The Commission and the Agricultural Stabilization Board are negotiating a formalized agreement on responsibilities that will include agreed measures of accountability, and will lead to greater internal control.

OBSERVATIONS AND RECOMMENDATIONS

ADMINISTRATION AND MARKETING OPERATIONS

The Treasurer and the financial accounting staff are not involved in establishing or in monitoring internal checks and controls over the various operating systems relating to purchasing and inventory.

oInternal controls respecting purchasing and marketing functions should include:

CORPORATION'S COMMENTS

The reorganization now under way will increase existing internal financial control in these areas.

OBSERVATIONS AND RECOMMENDATIONS

- proper matching of supplier invoices with purchase orders and receiving documents within the Accounting department;
- clear evidence that pre-audit steps have been performed on all documentation supporting requests for payment; and
- effective cancellation of all original invoices processed for payment.

OBSERVATIONS AND RECOMMENDATIONS

PAYROLLS

oThe processing of salary input should be divorced from receiving and distributing salary cheques, to achieve appropriate segregation of duties and thus improve internal controls.

CORPORATION'S COMMENTS

Effective April 1976, the distribution of salary cheques has been transferred from Administration into the Treasury Department.

OBSERVATIONS AND RECOMMENDATIONS

STORAGE CONTRACTS

The Commission's inventories of skim milk powder and butter are stored in independent warehouses. Contractual arrangements with the warehouses focus primarily on climatic conditions and labelling practices but normally do not specify storage and handling rates.

oContracts setting out all relevant terms including storage rates and the basis of payment should be obtained from all warehouse locations providing storage services to the Commission.

COMMISSION'S COMMENTS

The Commission's Warehouse policy sets procedures for approving warehouses on the basis of predetermined criteria, for documentary periodic reinspection of warehouses with an Inspection Report, and for following up with the year-end inventory inspection which includes conditions in the warehouse generally and condition of the Commission's own product in particular.

Effective October 1975, the Commission has arranged that all public warehouses will confirm rates and basis of payments semi-annually, one month in advance of the effective date.

OBSERVATIONS AND RECOMMENDATIONS

INVENTORY

Detailed records of the value, quantities and storage locations of the Commission's inventories together with supporting purchase and sales information are maintained by the Marketing section. Purchase and sales dollar amounts are maintained by the Accounting department but no attempt is made to monitor the value of inventory by this group.

oThe Accounting department should establish and maintain dollar value controls over inventories held by the Commission.

CORPORATION'S COMMENTS

The Commission is introducing accounting procedures to monitor the cost of products sold and to monitor the dollar value of inventory

on a monthly basis.

OBSERVATIONS AND RECOMMENDATIONS

A review of the Commission's inventory management practices revealed several weaknesses in internal control. For example, incomplete documentation, lack of evidence of processing and pre-audit steps and missing warehouse shipping documents.

oProper procedures for processing, verifying and recording inventories should be established and implemented in order to safeguard the Commission's principal asset better.

CORPORATION'S COMMENTS

Internal control will be strengthened by reorganization under which the Commission establishes the position of Director of Finance, supported by a Chief of Accounting and a Chief of Program and Budget.

It will be the responsibility of the Chief of Accounting to ensure that the dollar value of inventories is monitored against the total of loans outstanding and that complete documentation of all commercial transactions is on file.

OBSERVATIONS AND RECOMMENDATIONS

INTERNAL AUDIT

Until recently, the scope of the internal audit, contracted to the Audit Services Bureau, was limited to a review of the procedures of the provincial marketing agencies and of the input into manufactured milk production of selected processing plants. In 1975 the scope was extended to include an examination of subsidy, levy and inventory management functions. However, it is not at all clear whether a review is to be made of the financial function and financial controls within the Commission.

oActivities related to the financial function which are not now subject to internal audit should be included in the scope of audit examinations.

CORPORATION'S COMMENTS

Effective January 1976, the Commission has arranged for the audit responsibility to be vested in a Senior Audit Officer of the Financial and Administration Branch of the Department of Agriculture who will liaise with the Commission's Director of Finance on external and internal audit functions.

OBSERVATIONS AND RECOMMENDATIONS

oAn audit committee should be established within the Commission.

CORPORATION'S COMMENTS

The Commissioners, the Director of Finance and the Senior Auditor of Agriculture Canada will form the Commission's Audit Committee.

OBSERVATIONS AND RECOMMENDATIONS

BUDGETARY CONTROL

The Treasurer is primarily responsible for the preparation of the Program Forecasts and Main Estimates within the Commission.

CORPORATION'S COMMENTS

In view of the small staff complement the Operating Managers have been making their input into the Program Forecast and Main Estimates by discussion with the Treasurer or the General Manager, and by memoranda.

OBSERVATIONS AND RECOMMENDATIONS

oSubmission of cost and operating data by responsibility centre managers should be the basis for developing the annual Main Estimates and for controlling and measuring the effectiveness of operating activities.

CORPORATION'S COMMENTS

The proposal to introduce cost and operating data for developing annual Main Estimates and for controlling and measuring the effectiveness of operating activities will be adopted in 1976.

OBSERVATIONS AND RECOMMENDATIONS

Cash forecasts are derived by pro-rating the current year's total cash requirements on the basis of the previous year's actual experience.

oThe practice of developing cash forecasts on the basis of expenditures made in the preceding year should be discontinued. Instead, forecasts should be built on subsidy and inventory data available within the Commission and should be submitted to senior officials of the Commission on a regular basis for review and approval.

CORPORATION'S COMMENTS

Cash forecasts recently have been placed on a model of the demand and supply in the dairy industry which is operated by the Economics Branch in the Department of Agriculture, from which estimates on milk shipments and purchase of product estimates are derived. Sales projections are based on a new comprehensive marketing strategy. Review of this data now occurs weekly.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL REPORTING

The Commission prepares a manual financial summary of activities from the financial information provided by the Department of Supply and Services. This financial summary, however, does not include all activities, is not prepared on an accrual or on a timely basis, and does not attempt to compare actual results to budget.

oSteps should be taken to improve monthly management reports by:

- introducing comparisons between actual and budgetary data with respect to costs and revenues; and

- providing such data to senior management on a timely basis.

CORPORATION'S COMMENTS

The reorganization will lead to the additional manpower required to formalize, and to provide greater depth and coverage in several of the present financial reports, and to produce some more frequently.

OBSERVATIONS AND RECOMMENDATIONS

oReliance should not be placed on the Auditor General's staff to prepare annual financial statements. Rather, the accounts should be prepared by the Commission's accounting staff.

COMMISSION'S COMMENTS

The Commission is preparing the year-end statement for 1975-76 and will prepare quarterly financial statements and the annual financial statements in 1976-77.

CANADIAN FILM DEVELOPMENT CORPORATION

Observations and Recommendations as at March 1976.

Corporation's Comments as at July 1976.

OBSERVATIONS AND RECOMMENDATIONS

COMPOSITION OF BOARD OF DIRECTORS AND IMPORTANCE GIVEN TO FINANCIAL POTENTIAL OF FILMS

In choosing feature film projects in which the Corporation invests, the Board of Directors appears to be giving greater importance to the artistic and cultural quality of the film than to its financial potential in terms of profitability. This fact is reflected in the composition of the Board of Directors, since the majority of the members have a cultural rather than financial

background.

oIn order to more adequately attain the Corporation's objective of financial autonomy, a better balance in the composition of the Board should be ensured between members with a strong cultural and artistic background and those with a strong financial background.

CORPORATION'S COMMENTS

Since the Corporation was founded for the purpose of promoting the creation of an industry, this recommendation seems appropriate to us. However, the Governor in Council is responsible for appointing members.

Recommendations have been made to this effect by the industry and two recent appointments seem to indicate that the Governor in Council took the recommendation into consideration.

OBSERVATIONS AND RECOMMENDATIONS

CONTROL OF EXPENDITURES

The Department of Supply and Services is responsible for issuing cheques for the Corporation. Cheque requisitions are signed in accordance with an established delegation of powers. However, the authority to spend under Section 27 of the Financial Administration Act and the authority to pay under Section. 26 of the same Act are both exercised by the same person for a particular payment.

oThe Corporation should introduce the necessary procedures for delegating authority to sign financial documents so that control of expenditures of public funds is guaranteed by a proper sharing of responsibilities.

CORPORATION'S COMMENTS

Agreed. These procedures have been introduced.

OBSERVATIONS AND RECOMMENDATIONS

When the cheques issued must be returned to the Corporation for special reasons, they are sometimes returned to the employees who originated the request for payment; this constitutes a weakness in internal control.

oThe Corporation should issue strict procedures for cheque distribution, thereby respecting the Guide on Financial Administration with respect to the sharing of responsibilities.

CORPORATION'S COMMENTS

Agreed. These procedures have been introduced.

OBSERVATIONS AND RECOMMENDATIONS

CONTROL OF SALARIES

The Board of Directors approves the list of salaries for Corporation employees annually. In order to preserve the confidential nature of the salaries, the minutes of the Board refer only to the approval of the list of salaries, without attaching it, as the minutes are seen by most Corporation personnel. The list is then forwarded to the Director of Administration so that the necessary action may be taken to carry out Board decisions.

oIn order to improve internal control over salary expenditures, the list should be clearly identified and accordingly signed on behalf of the Board.

CORPORATION'S COMMENTS

Agreed. The list is now signed on behalf of the Board.

OBSERVATIONS AND RECOMMENDATIONS

Pay cheques are issued by the pay service of the Department of Supply and Services from data supplied by the Corporation. Under the present delegation of authority, only one person signs the input or change of status form in accordance with Sections 26 and 27 of the Financial Administration Act.

OBSERVATIONS AND RECOMMENDATIONS

oThe Corporation should establish the necessary procedures for delegating authority to sign documents concerning salary administration in such a way that control of expenditures of public funds is guaranteed by a proper sharing of authority.

CORPORATION'S COMMENTS

Agreed. The personnel authorized to sign under Section 26 is no longer the same as the personnel authorized to sign under Section 27 of the Financial Administration Act.

OBSERVATIONS AND RECOMMENDATIONS

CONTROL OF REVENUE

The Corporation receives from the distributor its share of receipts from films in which it has invested. However, it is very difficult to check the distributor's reports, particularly regarding receipts collected by him and recovery of his direct costs.

oIn order to improve control over its revenue, the Corporation should establish a system whereby the distributor's auditors must

confirm receipts collected by the Distributor.

CORPORATION'S COMMENTS

In its contracts with the distributors, the Corporation reserves the right to audit the distributor's accounts. The Corporation will request such confirmation from the distributors' auditors.

OBSERVATIONS AND RECOMMENDATIONS

oSince it is difficult to check the validity of direct costs claimed by the distributor, the Corporation should, whenever such a clause does not prejudice its interests, negotiate the distributor's share on the basis of the overall percentage of the latter's receipts.

CORPORATION'S COMMENTS

Agreed. The most recent contracts were negotiated on this basis.

OBSERVATIONS AND RECOMMENDATIONS

oWhen it is financially more advantageous to reimburse the distributor for his direct costs and grant him a lesser percentage of the receipts, the Corporation should clearly stipulate in the contract the expenditures acceptable for this purpose.

CORPORATION'S COMMENTS

Agreed. The most recent contracts were negotiated on this basis.

OBSERVATIONS AND RECOMMENDATIONS

RECEIPTS

oAll cheques should be recorded in a register kept for this purpose upon receipt by the Corporation, in order to prevent their being mislaid or lost before deposit.

CORPORATION'S COMMENTS

Agreed. The Corporation has implemented this recommendation.

OBSERVATIONS AND RECOMMENDATIONS

SEVERANCE PAY

oThe Corporation should officially define the severance pay plan that it intends to put into effect. Since the Corporation's accounts are kept on an accrual basis, the liabilities incurred from this plan should be recorded in the books.

CORPORATION'S COMMENTS

Agreed. The Corporation has amended its administrative regulations and liabilities incurred will be recorded in the next financial year.

OBSERVATIONS AND RECOMMENDATIONS

CAPITAL EXPENDITURES ESTIMATES

oAlthough such expenditures are minor at present, the Corporation should adopt the policy of submitting a detailed estimate of capital expenditures to the Board of Directors each year.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

DISCLOSURE IN PUBLIC ACCOUNTS

oThe Corporation should disclose in the Public Accounts of Canada its investments in each film and the name of recipients of financial assistance.

CORPORATION'S COMMENTS

The Corporation does not agree with this recommendation. It feels that, as a financial institution, it should keep all transactions between itself and its clients confidential, like any other financial institution.

CANADIAN PATENTS AND DEVELOPMENT LIMITED

Observations and Recommendations as at May 1976.

Corporation's Comments as at August 1976.

OBSERVATIONS AND RECOMMENDATIONS

THE SENIOR FINANCIAL OFFICER

The reporting relationship of the Treasurer is not clear and the role has not been perceived as an important one in Canadian Patents and Development Limited. There has been a lack of involvement in decisions relating to sources of funding for Canadian Patents and Development Limited.

oThe reporting relationship of the Treasurer should be precisely defined and observed with provision for strong involvement in the preparation of submissions for appropriations.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

CONTROL OF EXPENDITURE AND REVENUES

Recoverable Development Assistance Royalties

The Corporation's policy as outlined in "Principles and Conditions for Financial Assistance..." is inconsistent with its practices concerning requirements for assistance repayment. Moreover, because of a lack of policy for audit of licensees there is no assurance that all contractual provisions are met and that all royalties are reported.

oCanadian Patents and Development Limited should include in development assistance contracts the percentage of assistance proposed and the portion to be repaid.

CORPORATION'S COMMENTS

Agreed. Current policy is to reduce such assistance, but when offered will be made compatible with corporate policies and conditions.

OBSERVATIONS AND RECOMMENDATIONS

oCanadian Patents and Development Limited should make provision for independent audits of licensees' financial returns both as to royalty revenues and as to development assistance.

CORPORATION'S COMMENTS

Agreed. The practise of applying spot audits will be adopted.

OBSERVATIONS AND RECOMMENDATIONS

Disbursement Procedures

Due to a lack of updated procedures and evaluation of existing practices, internal control deficiencies have evolved in handling financial documents and in purchasing goods and services.

oThe Corporation should establish and document policies and procedures covering the purchasing of goods and services and the disbursement of funds to ensure adequate internal check and control.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

Signing Authorities

The type and limits of financial authorities have not been clearly documented resulting in informal exercising of such authority by non-financial officers.

oCanadian Patents and Development Limited should prepare an authorities document, (using the Treasury Board Guide on Financial Administration Sec. 9.18 as a guide) detailing the signing authorities of various positions including type and limits.

CORPORATION'S COMMENTS

Agreed. We will examine the authorities document referred to with a view to adopting applicable procedures.

OBSERVATIONS AND RECOMMENDATIONS

Personnel Costs

The Corporation is not aware of the extent to which all personnel costs have been charged to them by its parent company, for financial reporting and for cost recovery purposes.

oAll personnel costs should be identified and accounted for by the Corporation.

CORPORATION'S COMMENTS

Agreed. This will be investigated, reviewed and necessary changes made.

OBSERVATIONS AND RECOMMENDATIONS

CONTROL OF ASSETS AND LIABILITIES

Cash Control

Although position descriptions provide for adequate division of duties in the handling of cash, posting of records, etc., expedience has higher priority than internal control features.

oThe Corporation should ensure that the procedures requiring separation of duties as to bank reconciliations, posting of records, and daily deposits of cash are followed.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

Accounts Receivable

The Corporation has no credit or collection policy and does not

charge interest on overdue accounts. This is in part attributable to the level of overdue accounts currently held. Moreover, uncollectables are written down by retroactive contract amendments with licensees, and are not recognized as losses.

oThe Corporation should establish and enforce policies and procedures to ensure amounts due the Corporation are collected promptly and should charge interest on overdue accounts.

CORPORATION'S COMMENTS

It is planned to adopt these recommendations.

OBSERVATIONS AND RECOMMENDATIONS

oAll receivables deleted from the records should be shown as write-offs in the period in which authority for contract amendments have been received, and reports on old accounts should be prepared regularly for review by the President and Board of Directors. In addition all journal vouchers affecting the financial records should be approved by the senior financial officer of Canadian Patents and Development Limited.

CORPORATION'S COMMENTS

See reply above.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL REPORTING - INTERNAL

Financial Accounting and Cost System

oThe Corporation maintains manual and electronic financial reporting systems. The latter has been used for several years but is not relied on by the Corporation for its financial requirements because of inaccuracies. Operating management and financial staff have not clarified the type and content of reports necessary for financial management and control.

oThe Corporation should re-evaluate both manual and electronic data processing requirements with a view to eliminating the duplication of record keeping.

CORPORATION'S COMMENTS

The electronic financial reporting system was introduced as an experiment. As in many operations of this kind, during the transition period it was necessary to adopt duplicate procedures. It is agreed that we are now at the stage where a decision must be made as to which one of the systems should be retained.

OBSERVATIONS AND RECOMMENDATIONS

oCanadian Patents and Development Limited should evaluate its accounting systems and reports with a view to arriving at a decision as to the type, content and format of reports required by the executive. To be meaningful, the system should accumulate and present cost data in a manner which clearly shows the direct costs incurred in earning revenues as compared to those incurred for administrative and development purposes.

CORPORATION'S COMMENTS

Agreed.

CROWN ASSETS DISPOSAL CORPORATION

Observations and Recommendations as at February 1976.

Corporation's Comments as at May 1976.

OBSERVATIONS AND RECOMMENDATIONS

ROLE OF THE SENIOR FINANCIAL OFFICER

In the past, senior financial officers have not provided adequate financial leadership and guidance within the Corporation due in part to a lack of financial qualifications required of the position and to its low status. Although a qualified accountant has recently been appointed to this position his role and related responsibilities have not as yet been clearly defined.

oThe duties and responsibilities of the senior financial officer should be defined to elevate the position to the appropriate level within the Corporation, to provide for active participation in the management committee, and to facilitate assessment of financial controls in all areas of corporate activities.

CORPORATION'S COMMENTS

The role and related responsibilities of the senior financial officer are in process of being defined with expected completion date late 1976.

OBSERVATIONS AND RECOMMENDATIONS

DOCUMENTATION OF FINANCIAL REQUIREMENTS

The existing procedures manual is oriented towards documenting policies and procedures for sales on behalf of departments but contains only limited or no reference to other financial procedures and internal controls.

oThe Corporation, in conjunction with the proposed assessment and revision of financial procedures and internal accounting controls, should document the related procedures and policies and distribute them to all financial staff.

CORPORATION'S COMMENTS

In process of being done.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL AUTHORITIES

The Corporation's procedures manual outlines certain signing limits and types (spending, payment, etc.) of authority vested in various financial and administrative officers. In practice these authorities are not complete, are not adhered to, and in some cases are not related to the responsibilities of the officers exercising the authorities.

oThe Corporation should prepare a schedule identifying all positions to which financial signing authority is assigned and the type and limits of each authority. The schedule of authorities should be issued under the signature of the President.

CORPORATION'S COMMENTS

In process of being done.

OBSERVATIONS AND RECOMMENDATIONS

PAYROLL

The Department of Supply and Services provides a payroll cheque preparation service for the Corporation. However, the payroll clerk has complete control over all steps of the payroll cycle performed within the Corporation.

oThe payroll function should be organized to provide for proper segregation of duties and independent confirmations of cheque receipt and issue.

CORPORATION'S COMMENTS

Payroll function has been reorganized to provide for segregation of duties, proper authority for file changes and receipt and distribution of cheques.

OBSERVATIONS AND RECOMMENDATIONS

PURCHASING

Purchasing procedures are not adequately documented and communicated within the Corporation. As a result a number of weaknesses have evolved in the procedures, and personnel involved in the purchasing function are often unsure of their responsibilities and duties.

oPurchasing procedures should be modified to eliminate the existing weaknesses and the resulting responsibilities should be clearly defined and communicated throughout the Corporation.

CORPORATION'S COMMENTS

Purchasing procedures will be redefined in the coming year and written instruction issued to all departments concerned.

OBSERVATIONS AND RECOMMENDATIONS

DISBURSEMENT PROCEDURES

oThe Corporation's accounts payable and cheque issue procedures should be amended to eliminate identified weaknesses in internal control. For example:

CORPORATION'S COMMENTS

Agreed. Procedures have been amended to eliminate identified weaknesses.

OBSERVATIONS AND RECOMMENDATIONS

-liabilities should be recognized only after receipt of goods and services;

-invoices should be maintained in the accounts payable section to be matched with purchase order and receiving documents, and those that must be rerouted because of the nature of the service should be recorded and controlled;

-evidence of account verification and payment procedures should be shown on each invoice; and

-signed cheques should be mailed directly to payees after signature, and supporting documentation should be cancelled before its return to the accounts payable section.

TENDERS FOR SALE OF GOODS

The Corporation has no policy requiring deposits on bids and thus has little recourse against bidders who renege on offers.

oManagement should ensure adherence to the conditions of tender with respect to bidders' responsibilities and penalty provisions.

Exceptions to these conditions should be approved at a responsible level. Deposits should be required for all bids.

CORPORATION'S COMMENTS

Agreed in principle. Implementation deferred until implications of the effects on customers can be evaluated.

OBSERVATIONS AND RECOMMENDATIONS

SALES ORDER FILES

oHead office should regularly request a status report on all open sales files maintained in regional sales offices.

CORPORATION'S COMMENTS

Agreed. Head office will monitor open sales files on a current basis.

OBSERVATIONS AND RECOMMENDATIONS

oThe financial section should review the sales order log used to control sales files, and should investigate records regularly.

CORPORATION'S COMMENTS

Implemented.

OBSERVATIONS AND RECOMMENDATIONS

CASH RECEIPTS

The handling of receipts in head office is not subject to adequate internal control. For example, often only one person is present at mail openings, cheques are returned by the bank to the cashier, and auction sales receipts are not controlled or accounted for.

oProcedures should be established for handling cash receipts to ensure adequate internal control in both head office and the regional offices.

CORPORATION'S COMMENTS

Procedures established.

OBSERVATIONS AND RECOMMENDATIONS

oProceeds from sales by the regional offices should be deposited intact daily instead of being held until the sales file has been completely processed.

CORPORATION'S COMMENTS

Implemented.

OBSERVATIONS AND RECOMMENDATIONS

REVENUE RECOGNITION

Sales orders are posted to the sales and accounts receivable records only after notification has been received from the

relevant department or agency that the purchaser has picked up the assets. Payments, however, are posted to receivables as received.

oSales should be recognized in the period they take place to ensure proper reporting of costs, revenues and accounts receivable.

CORPORATION'S COMMENTS

Implemented.

OBSERVATIONS AND RECOMMENDATIONS

FOREIGN REVENUES

oAgencies selling Crown assets on behalf of the Corporation in foreign countries should be required to provide all pertinent data of the assets together with the bidders, where applicable, or the reasons for not soliciting tenders.

CORPORATION'S COMMENTS

Agreed. Discussion will be undertaken with these Agencies.

OBSERVATIONS AND RECOMMENDATIONS

CASH

Regional bank accounts have been established to facilitate transfer of sales proceeds to Ottawa. These accounts, however, have not been properly monitored and they may not even be needed to make the transfers.

oAlternate procedures should be considered and minimum deposits maintained in branch accounts should be recalled.

CORPORATION'S COMMENTS

Done.

OBSERVATIONS AND RECOMMENDATIONS

oReconciliations for bank accounts should be prepared on a timely basis.

CORPORATION'S COMMENTS

Done.

OBSERVATIONS AND RECOMMENDATIONS

FIXED ASSETS

Fixed assets are charged to expense as acquired. The

responsibility for the control of such assets has not been defined in the Corporation.

oFinancial control of fixed assets should be assigned to the Comptroller and he should ensure that procedures are established for the proper capitalization and amortization of such assets.

CORPORATION'S COMMENTS

Matter is under consideration for implementation in the fiscal year 1976-77.

OBSERVATIONS AND RECOMMENDATIONS

WRITE-OFF OF ACCOUNTS RECEIVABLE

oThe Corporation should establish and document specific requirements and authorities with respect to write-offs of receivables and free issue of surplus assets.

CORPORATION'S COMMENTS

Procedure is under study. Action will be taken in the fiscal year 1976-77.

OBSERVATIONS AND RECOMMENDATIONS

TERMINATION PAY PLAN

The Corporation provides a termination benefit, for its employees on resignation or retirement. This liability is not reflected in the records except to the extent of current year's payments.

oThe Corporation should accrue the liabilities arising from its termination pay plans in its accounting records to provide for proper matching of costs and revenues.

CORPORATION'S COMMENTS

Procedure enforced as at March 31, 1976.

OBSERVATIONS AND RECOMMENDATIONS

OPERATING REPORTS AND BUDGETS

oThe form and content of operating budgets should be improved and they should be integrated with the monthly reports so actual and planned costs can be compared and analysed. Budgets and monthly reports should be distributed to operating managers.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

oAuction and retail sales and their related costs should be accumulated and reported separately in the operating reports.

CORPORATION'S COMMENTS

Procedure will be established in the current fiscal year.

OBSERVATIONS AND RECOMMENDATIONS

oSales returns and allowances should be highlighted in the accounts and operating statements.

CORPORATION'S COMMENTS

Since January, 1976, these adjustments have been reduced to almost nil, therefore the need for such separate analysis no longer exists.

DEFENCE CONSTRUCTION (1951)

Observations and Recommendations as at November 1975.

Company's Comments as at February 1976.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL MANUALS

oA financial manual encompassing general and payroll accounting, commitment accounting, and budgeting and statistical record keeping should be completed as quickly as possible.

CORPORATION'S COMMENTS

Work on these manuals has been proceeding for some time and it will be completed in the fiscal year.

OBSERVATIONS AND RECOMMENDATIONS

PAYMENT AND DELEGATION OF AUTHORITIES FOR DCL/DND CONTRACTS

oAccount verification procedures should be revised to require certification of contract payment documents and requisitions under Section 26 of the Financial Administration Act as the last step in the account verification and payment requisition process.

CORPORATION'S COMMENTS

Agreed. This procedure is now in effect.

OBSERVATIONS AND RECOMMENDATIONS

oIn addition to the existing documentation of delegated signing authorities, the Company should prepare a delegation chart similar to that recommended in the Treasury Board "Guide on Financial Administration".

CORPORATION'S COMMENTS

Administration and Procedure Manual will include this chart.

OBSERVATIONS AND RECOMMENDATIONS

oThe Company should ensure that field representatives clearly understand the specific responsibilities delegated to them under Section 27 of the Financial Administration Act.

COMPANY'S COMMENTS

Certificate signed by Field Representatives spells out the financial responsibility encompassed by Section 27 as does the Administration and Procedure Manual. However, as added insurance, complete wording of this section has been reproduced. and given to field representatives.

OBSERVATIONS AND RECOMMENDATIONS

PAYROLL

oThe initial establishment and calculation of gross pay and payroll deductions for all new employees, or amended payrolls for existing employees, should be verified by another person. Overtime payroll calculations should be checked by another person on a test basis.

CORPORATION'S COMMENTS

Agreed. This procedure is now in effect.

OBSERVATIONS AND RECOMMENDATIONS

GENERAL BANK ACCOUNT DISBURSEMENTS OPERATING COSTS

oTo ensure that cheques are issued only by those properly authorized to do so, the Company should amend its cheque issue procedures so that use of signature plates is monitored by the Treasurer whose name appears on the plates.

CORPORATION'S COMMENTS

Agreed. One of the signatories now monitors the use of signature plates periodically.

OBSERVATIONS AND RECOMMENDATIONS

oThe Company should establish maximum dollar amounts for cheques

signed with signature plates. Payments in excess of these amounts should require signatures of authorized signing officers.

CORPORATION'S COMMENTS

Authorized signing officers will now monitor payments to individuals exceeding \$5,000.

OBSERVATIONS AND RECOMMENDATIONS

oThe individual responsible for operating the cheque signing machine should not be responsible for reconciling the general bank account.

CORPORATION'S COMMENTS

Agreed. Procedure now in effect.

OBSERVATIONS AND RECOMMENDATIONS

DATA PROCESSING SYSTEM

oThe Company should undertake a detailed evaluation of the electronic data processing system it recently contracted to lease. This review should be done after the supplier has completed the initial programming phases and should include, as a minimum, a critical evaluation of internal controls over equipment operating procedures and segregation of duties, as well as over work scheduling, systems expandability and report formats.

COMPANY'S COMMENTS

Programming is now under way and these matters are being considered.

OBSERVATIONS AND RECOMMENDATIONS

CONTRACTORS' SECURITY DEPOSITS

oSecurity deposits pertaining to awarded contracts held by the Company at its premises or with DSS in safekeeping should be recorded in the general ledger control accounts as well as in subsidiary records.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

oGeneral ledger control accounts for security deposits should be posted on a current basis instead of quarterly.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

oThe individual responsible for balancing the general ledger should also be responsible for ensuring that the general ledger control account for security deposits agrees with the subsidiary records.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

ACCOUNTS PAYABLE

oAll purchases should be posted to expense accounts from an invoice or voucher register instead of from the disbursements journal, as now, and the open invoice file should be reconciled to a general ledger accounts payable control account monthly. The Company should consider implementing this recommendation in conjunction with installation of its electronic data processing equipment.

CORPORATION'S COMMENTS

The Company agreed with the final recommendations.

OBSERVATIONS AND RECOMMENDATIONS

ACCRUED LIABILITIES

oThe liability incurred pursuant to the Company's termination pay plan should be computed annually and recorded in the accounts of the Company.

COMPANY'S COMMENTS

Will be implemented at this fiscal year-end.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL PLANNING AND COST CONTROL

oThe Company should monitor branch performance by establishing standards of resource utilization and applying these standards to actual regional workload mixes.

COMPANY'S COMMENTS

The Company has not been able over the years to establish reliable standards in this area largely because resource allocation is

dictated by a complex of factors which frequently vary in their effect. Accordingly, the Company invited the audit team's recommendations and appreciated its contribution. The matter will continue to receive the study it deserves.

ELDORADO NUCLEAR LIMITED AND ITS WHOLLY OWNED SUBSIDIARY ELDORADO AVIATION LIMITED

Observations and Recommendations as at December 1975.

Corporation's Comments as at June 1976.

OBSERVATIONS AND RECOMMENDATIONS

ROLE OF FINANCIAL MANAGEMENT

oIn light of its anticipated growth and the present role of the financial function, the Company should define the role of the personnel in the Treasurer's Office regarding their responsibilities for implementing control systems over assets, the degree of participation in the budgetary control process and their responsibilities vis-a-vis operating division financial staff including that of Eldorado Aviation Limited.

CORPORATION'S COMMENTS

Management had developed its long range growth plans early in 1975. An intrinsic part of the plan was the recognized need for expansion and strengthening of the financial function. The employment of a Vice-President, Finance, on January 1, 1976, flowed from the above plan. Following his initial exposure to the Company's system, the Vice-President, Finance, effected a division of responsibilities within the financial department which included the separation of the Treasurer's functions from the Comptrollership functions. Although his study of the operations is still in progress, his goal is to implement those operational procedures deemed necessary to assure a high degree of financial involvement in all the Company's activities, including those of Eldorado Aviation Limited.

OBSERVATIONS AND RECOMMENDATIONS

oThe Company should review and evaluate operating responsibilities given to the Mine Comptroller to ensure that these do not detract from his primary financial function.

CORPORATION'S COMMENTS

The Mine Comptroller's non-financial operating responsibilities have been reviewed and certain changes have already been initiated. Other duties will be re-assigned as support staff is employed to fill existing vacancies.

OBSERVATIONS AND RECOMMENDATIONS

At present a number of financial staff report directly to the Chief Accountant, the only sub-organization below him being the electronic data processing group.

OBSERVATIONS AND RECOMMENDATIONS

oThe organizational structure of the Chief Accountant's financial group should be further studied to assess the appropriateness of the number of staff reporting directly to him.

CORPORATION'S COMMENTS

A new position, Assistant Chief Accountant, has been created and staffed. This permits a new alignment of reporting responsibilities within the Comptrollership function.

OBSERVATIONS AND RECOMMENDATIONS

FUNCTIONAL DIRECTION AND REPORTING

oA policy with respect to the financial direction to financial staff at operating divisions should be established and communicated to all concerned. As a minimum, this should provide that the senior financial staff maintain regular contact with operating division financial personnel on such matters as establishing priorities and responsibilities, and contribute to selection and performance evaluations of financial staff.

CORPORATION'S COMMENTS

Agreed. Action has already been initiated by the Vice-President, Finance, for a direct communications link with financial representatives at the divisional level. This link will be expanded and strengthened through frequent contact and promulgation of financial policies, detailed accounting procedures and organizational relationships.

OBSERVATIONS AND RECOMMENDATIONS

STAFFING THE FINANCIAL FUNCTION

There are certain weaknesses in internal control and a lack of orientation of electronic data processing and financial staff toward internal controls in an electronic data processing environment.

oTraining on the most appropriate type of internal controls to use in a computer environment should be provided to electronic data processing and financial staff.

CORPORATION'S COMMENTS

Agreed. The Assistant Chief Accountant will be responsible for

reviewing, upgrading, documenting and implementing an improved system of internal control and check.

OBSERVATIONS AND RECOMMENDATIONS

oIn conjunction with the recommendation below existing job descriptions should be revised to include all the responsibilities, duties and qualifications which management considers appropriate for each financial position.

CORPORATION'S COMMENTS

Although detailed job descriptions have recently been completed by each employee, these will be revised to reflect the re-alignment of duties and responsibilities as defined by management.

OBSERVATIONS AND RECOMMENDATIONS

COMMUNICATION OF FINANCIAL POLICIES AND PROCEDURES

o The Company should prepare a financial manual which would describe the various systems and internal controls, as well as the responsibilities, policies and authorities of financial staff and operational staff with financial responsibilities.

CORPORATION'S COMMENTS

Completion of the financial manual has been given high priority on management's list of projects.

OBSERVATIONS AND RECOMMENDATIONS

CASH AND SHORT-TERM INVESTMENTS

oCash flow analyses and projections should be updated periodically at the Company's operating divisions, including Eldorado Aviation Limited, and these should be provided to the corporate cash planning process.

CORPORATION'S COMMENTS

The Treasurer will obtain such cash flow analyses and projections from the operation divisions as required to plan and provide corporate monthly cash needs.

OBSERVATIONS AND RECOMMENDATIONS

oIn order to ensure that internal controls over cash and related records are based on a system of independent checks, the division of duties among employees in these areas and the timing of control procedures should be reviewed and amended.

CORPORATION'S COMMENTS

Agreed. The system of internal control and check will be completely reviewed, upgraded, documented and implemented.

OBSERVATIONS AND RECOMMENDATIONS

INVENTORY

oThe Company should undertake a review of its inventory accounting and control procedures with a view to integrating unit and dollar inventory records.

CORPORATION'S COMMENTS

A computer program is being installed that will control the accountability of the inventory units (i.e. units representing material owned by the Company as well as material owned by the Company's customers), and will also reconcile the accounting dollar value with the units.

OBSERVATIONS AND RECOMMENDATIONS

oThe procedures involved in inventory recording should be documented and evaluated to ensure that they provide adequate safeguards regarding division of duties and authorization of transactions.

CORPORATION'S COMMENTS

Agreed. The documentation will result from the study and implementation of the revised internal control and check procedures.

OBSERVATIONS AND RECOMMENDATIONS

oLoans of inventory should be supported by adequate security and recovery provisions.

CORPORATION'S COMMENTS

Agreed and since 1975 adequate provisions have been stipulated in all offers. In the case of earlier agreements, management was satisfied that the integrity and substance of the customers provided sufficient guarantee.

OBSERVATIONS AND RECOMMENDATIONS

FIXED ASSETS

oDetailed records such as plant ledgers recording the cost, movement and sale of fixed assets should be established. Once established, these records should be balanced to the Company's general ledger control accounts and should be supported by physical checks of the assets. Fixed asset write-offs should then be based on actual historical cost.

CORPORATION'S COMMENTS

Agreed. Unfortunately, the detailed work required to implement this project is very time-consuming. Furthermore, certain other projects which represent potentially greater exposure to the Company have a higher priority for completion. Therefore, though work will be initiated promptly, the project is not expected to be completed before year-end.

OBSERVATIONS AND RECOMMENDATIONS

DEPRECIATION

oIn conjunction with establishing adequate historical cost records over fixed assets, the Company should write off depreciation on fixed assets disposed of at the same rates as depreciation was charged during the asset's service life.

CORPORATION'S COMMENTS

Agreed. Will develop schedule for implementation.

OBSERVATIONS AND RECOMMENDATIONS

ACCOUNTS PAYABLE

oAll input documents used to effect changes in master and current computer files should be properly authorized, and computer operations personnel should not process any information that does not bear evidence of this authorization.

CORPORATION'S COMMENTS

Agreed. Will be included in the study of internal control and check procedures.

OBSERVATIONS AND RECOMMENDATIONS

oCalculations of payable accruals such as commissions should be subject to independent review and approval.

CORPORATION'S COMMENTS

Agreed. Will be implemented.

OBSERVATIONS AND RECOMMENDATIONS

oTo ensure that the Company's records represent the full amount of claims against it, all suppliers' invoices should be set up even in cases where the Company is disputing minor portions of an invoice.

CORPORATION'S COMMENTS

Agreed. Will be implemented.

OBSERVATIONS AND RECOMMENDATIONS

REVENUE RECORDING SYSTEMS

oIn order to ensure that all shipments are billed and recognized as revenue at the appropriate time, the Company should establish a control system, such as an accounting clearing account, to match billings issued against revenues recognized.

CORPORATION'S COMMENTS

The revenue recording system is under study and this recommendation will be given due consideration.

OBSERVATIONS AND RECOMMENDATIONS

EXPENDITURE SYSTEMS

At present there are significant weaknesses in the internal controls of payroll and general expenditure accounting systems.

oA detailed review should be undertaken of the internal controls incorporated into existing systems at all levels and, where necessary, the systems should be amended to include adequate internal controls. This review should focus on the process of authorizing accounting data, evidence of proper approvals, division of duties, cross checking, and integration with electronic data processing systems.

CORPORATION'S COMMENTS

As mentioned above, the Assistant Chief Accountant will conduct a complete review and will recommend changes in procedures to strengthen the internal control system.

OBSERVATIONS AND RECOMMENDATIONS

ELECTRONIC DATA PROCESSING SYSTEMS

oIn conjunction with the previous recommendation, the Company should review internal controls in electronic data processing organization, documentation, operations and input/ output control to eliminate existing inadequacies and to compensate for other weaknesses that are not easily corrected because of the size of the computer installations.

CORPORATION'S COMMENTS

The review mentioned above will extend as well to all phases of electronic data processing.

OBSERVATIONS AND RECOMMENDATIONS

OPERATING BUDGETS

oBudget guidelines should be established and provided to all those involved in budget preparation, clearly describing procedures for approving budget data at various management levels, the budget challenge role, and corporate priorities.

CORPORATION'S COMMENTS

Although not formally documented, budgetary guidelines, together with request and approval procedures, have been established. The existing systems will be upgraded in conjunction with the preparation of the 1977 budget.

OBSERVATIONS AND RECOMMENDATIONS

oTo ensure that operating managers are committed to budgets, revisions should be made within a framework of flexible budgeting which requires revisions to be justified by changes in volume; cost/budget meetings should be held regularly and financial officers should exercise a strong challenge role.

CORPORATION'S COMMENTS

A regular monthly review of budgets has been instituted in the course of which all variances must be explained and any anticipated changes presented for approval. This review, which will be progressively upgraded, includes both the operating and capital budgets.

OBSERVATIONS AND RECOMMENDATIONS

oVariance analyses supported by accurate narratives should be prepared explaining variances in terms of cost/volume relationships. These should be required of all operating divisions.

CORPORATION'S COMMENTS

Several different approaches to the review of variances are being considered and those most appropriate will be selected and implemented.

OBSERVATIONS AND RECOMMENDATIONS

oSales should be budgeted by month, and costs which vary directly or semi-directly with shipment activity should be budgeted for in relation to the forecasted monthly sales volumes.

CORPORATION'S COMMENTS

Budgeted sales and their related costs are now established on a

monthly basis and included on internally-published financial reports.

OBSERVATIONS AND RECOMMENDATIONS

oThe Company should consider the possibility of establishing standard cost systems for certain segments of its operations in any further development of its management information and accounting systems.

CORPORATION'S COMMENTS

Agreed. Will consider.

OBSERVATIONS AND RECOMMENDATIONS

INTERNAL REPORTING

oThe over-all financial reporting system should be reviewed to ensure that it meets the needs of users, and to eliminate duplication and excessive detail.

CORPORATION'S COMMENTS

Several changes to the system have already been established and efforts will be continued to improve the quality of reporting to all levels of management.

OBSERVATIONS AND RECOMMENDATIONS

oNarrative explanations should accompany financial reports.

CORPORATION'S COMMENTS

Reports to the Management and Directors now include narrative explanations.

OBSERVATIONS AND RECOMMENDATIONS

ELDORADO AVIATION LIMITED

ORGANIZATION

oTo ensure that appropriate financial policies, financial reports and accounting systems are in place, the parent company should provide advice and guidance to EAL financial staff and should ensure that there is an adequate amount of time allocated to this function.

CORPORATION'S COMMENTS

The Vice-President, Finance, has visited Eldorado Aviation and established an ongoing communications link. He has made certain monthly reporting changes and set up a priority schedule for

review of existing accounting systems.

OBSERVATIONS AND RECOMMENDATIONS

ASSETS AND LIABILITIES

oBilling and accounts receivable collection policies should be formalized.

CORPORATION'S COMMENTS

Agreed. Although billing and collection policies exist, they have not been documented.

OBSERVATIONS AND RECOMMENDATIONS

oCash flow projections should be prepared and provided to the parent company.

CORPORATION'S COMMENTS

This has been accomplished in conjunction with the above mentioned visit.

OBSERVATIONS AND RECOMMENDATIONS

Accounts receivable, although relatively few in number, are not subject to appropriate accounting control.

oAn open invoice accounts receivable system should be established and maintained.

CORPORATION'S COMMENTS

At present, payment is noted on the receivable copy maintained in numerical sequence. Unmarked copies represent open accounts. Monthly, the open accounts are aged. Further study will be initiated to improve the present system.

OBSERVATIONS AND RECOMMENDATIONS

INVENTORIES

oOne individual should not be responsible for all functions related to inventory. The financial staff should assume some of these functions and participate actively in others such as inventory counts and inventory record balancing.

CORPORATION'S COMMENTS

Agreed. The complete purchasing, inventory control, payable system is under study.

OBSERVATIONS AND RECOMMENDATIONS

oAccess to stores should be restricted.

CORPORATION'S COMMENTS

Agreed. Access to the area has recently been made more secure and additional measures will be investigated.

OBSERVATIONS AND RECOMMENDATIONS

oPerpetual inventory records should contain the cumulative value of the items recorded in each record. These records should then be reconciled monthly with the general ledger control totals.

CORPORATION'S COMMENTS

This is under consideration as part of the inventory system study mentioned above.

OBSERVATIONS AND RECOMMENDATIONS

oThe Company should consider adopting a conventional work order approach to requisitioning and controlling movement of materials and supplies used in aircraft repairs and maintenance.

CORPORATION'S COMMENTS

Agreed. Will be included in inventory system study.

OBSERVATIONS AND RECOMMENDATIONS

FIXED ASSETS

oThe Company should review its aircraft depreciation policy with a view to charging depreciation on a basis consistent with their estimated useful life in the event that it acquires replacement or additional aircraft.

CORPORATION'S COMMENTS

The depreciation policy is consistent with management objectives.

OBSERVATIONS AND RECOMMENDATIONS

ACCOUNTS PAYABLE

oProcedures used in processing suppliers' invoices should be revised to ensure that the financial staff concerned is provided with evidence of receipt of the goods. This information and purchase order copies should be used to check invoices as to prices, quantities and mathematical accuracy.

CORPORATION'S COMMENTS

Agreed. Will be reviewed as part of inventory system study.

OBSERVATIONS AND RECOMMENDATIONS

oSuppliers' invoices should be brought under accounting control at the time of receipt and matched to purchase orders at that time.

CORPORATION'S COMMENTS

Agreed. Will be reviewed as part of the inventory system study.

OBSERVATIONS AND RECOMMENDATIONS

oSuppliers' invoices should be monitored to ensure that discounts are taken when available.

CORPORATION'S COMMENTS

Agreed. However, Company has very few suppliers who offer payment discounts.

OBSERVATIONS AND RECOMMENDATIONS

oFiling procedures should be amended to prevent the possibility of misplacing documents.

CORPORATION'S COMMENTS

Inventory system study will consider filing procedures.

OBSERVATIONS AND RECOMMENDATIONS

REVENUE

oBillings should be prepared on a weekly or per flight basis to improve cash flows, to provide faster billing information to clients and to allow management to evaluate financial results of its operations better.

CORPORATION'S COMMENTS

The billing procedures will be reviewed, due, in part, to the altered relationship with Northern Transportation Company Limited -- the only non-Eldorado customer.

OBSERVATIONS AND RECOMMENDATIONS

Costs are allocated and billed to clients on a monthly basis. This results in services being billed some time after they have been rendered and increases the need for working capital.

oBilling rates should be based on budgeted costs with variances being billed subsequently on a predetermined basis.

CORPORATION'S COMMENTS

Billing rates will be reviewed as part of the billing procedure review mentioned above.

OBSERVATIONS AND RECOMMENDATIONS

BUDGETARY CONTROL

oTo ensure that the operations of Eldorado Aviation Limited are brought under sound budgetary control, financial reports should compare budgeted figures with actual results. Variance analyses should be provided and questioned along with regular budget reviews.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

oBudget submissions should be on a basis consistent with those of the parent company and capital budget submissions should be adequately supported.

CORPORATION'S COMMENTS

Over-all company budget guidelines and targets will be established for the 1977 budget year. The budget for Eldorado Aviation Limited will be developed in line with these guidelines.

OBSERVATIONS AND RECOMMENDATIONS

INTERNAL FINANCIAL STATEMENTS

oThe Company's present financial reports should undergo a comprehensive review to ensure that they present information which meets the needs of users and allows the financial results of operations to be evaluated. The review should include defining users and their needs, eliminating accounting anomalies currently found in financial reports and redundant information, displaying statistical data, including budgetary data, preparing of narrative variance analyses and studying the effectiveness of present methods used to prepare financial reports.

CORPORATION'S COMMENTS

Agreed. Initial discussions have taken place and a number of changes have already been made.

EXPORT DEVELOPMENT CORPORATION

Observations and Recommendations as at January 1976.

Corporation's Comments as at June 1976.

OBSERVATIONS AND RECOMMENDATIONS

ORGANIZATION

The Corporation has undergone a major reorganization since June 1975. Our Study coincided with this period of reorganization which included the formation of a Finance Division and the initial appointment of a Vice-President, Finance. However, there has been to date no appointment of a qualified accountant as Comptroller who would assume responsibility for accounting control and electronic data processing.

oThe vacant comptroller's position should be staffed.

CORPORATION'S COMMENTS

The vacant comptroller's position has now been staffed.

OBSERVATIONS AND RECOMMENDATIONS

PREPARATION AND ORGANIZATION OF FINANCIAL MANUALS

Policy directives issued to date do not appear to be aimed at outlining over-all corporate strategy but rather to have been action to correct a specific need which arose in operations. Current procedures manuals bear little relationship to the current policy directives issued.

CORPORATION'S COMMENTS

While it is agreed that policy and procedures manuals are not yet current, the financial objectives of the Corporation have now been fully documented in a comprehensive financial plan adopted for 1976; and the formulation of corporate strategy is beyond the scope of procedures manuals.

OBSERVATIONS AND RECOMMENDATIONS

oThe Corporation should have comprehensive policy directives and then ensure adequate documentation of the procedures to carry out and to meet its policies aims and objectives.

CORPORATION'S COMMENTS

Existing financial policy directives and related procedures will be documented in a more orderly fashion.

OBSERVATIONS AND RECOMMENDATIONS

EXPORT CREDITS INSURANCE DIVISION

oThe Export Credits Insurance Division should study its approach with respect to premium income recognition and the recording of claims expense.

CORPORATION'S COMMENTS

A study completed in late 1975 resulted in establishing a system of recording premium income in relation to the volume of business for short-term credits and the actual risk exposure for medium-term credits. This study also resulted in claims expense being recorded on an accrual basis. These changes were reflected in the December 31, 1975 year-end financial statements and operating results for the past five years were restated to conform with these changes.

OBSERVATIONS AND RECOMMENDATIONS

In the process of determining premiums the Finance Division does not perform the role of estimating the costs associated with writing and servicing a policy so that management, on an ongoing basis, can assess the adequacy of rates charged.

CORPORATION'S COMMENTS

The Finance Division monitors actual insurance costs on a continuing basis and reports thereon monthly. Rates charged by the Insurance Division have been more than adequate to cover related costs and claims.

OBSERVATIONS AND RECOMMENDATIONS

oExport credits insurance premium rates should be subject to a planned internal budgeting process to assess whether or not all related costs will be recovered.

CORPORATION'S COMMENTS

Effective January 1, 1976, the Corporation implemented a comprehensive financial planning process which will become an integrated part of establishing export credit insurance premium rates on an ongoing basis.

OBSERVATIONS AND RECOMMENDATIONS

oAll export credits insurance premium revenue should be under the control of the Finance Division.

CORPORATION'S COMMENTS

The Finance Division issues and controls all short-term export credits insurance billings; and changes in organization and systems are being made so that similar direct control by the Finance Division will be established over all other insurance premiums.

OBSERVATIONS AND RECOMMENDATIONS

INTERNATIONAL LENDING DIVISION

The basis on which all standard fees are charged has not been documented and these fees are not set up as receivable at the time of billing. This would include extension fees on commitments to lend money, administration fees to the borrower and equalization fees to the exporter.

CORPORATION'S COMMENTS

The Corporation has now defined and documented these criteria. The Corporation is also satisfied that all fees, charges and interest are properly recorded and controlled.

OBSERVATIONS AND RECOMMENDATIONS

oThe Corporation's policy concerning the criteria for charging and the extent of commitment extension fees should be defined and documented to ensure that all exceptions to standard policies are approved.

CORPORATION'S COMMENTS

See preceding comment.

OBSERVATIONS AND RECOMMENDATIONS

oAll fees charged by the International Lending Division should be recorded as receivable at the time of billing and be under the control of the Finance Division.

CORPORATION'S COMMENTS

The accounting for all such fees is now under the control of the Finance Division and they are being recorded as receivable at the time of billing.

OBSERVATIONS AND RECOMMENDATIONS

The Corporation has no stated policy on reviewing loan accounts or creating an appropriate provision for uncollectible loans.

CORPORATION'S COMMENTS

Agreed. The procedure followed for annual review of loan accounts is not documented.

OBSERVATIONS AND RECOMMENDATIONS

oProcedures related to the review of the loans outstanding and interest in arrears should be defined and documented to determine

the need for an allowance for possible uncollectible loans.

CORPORATION'S COMMENTS

These procedures are being developed.

OBSERVATIONS AND RECOMMENDATIONS

FOREIGN INVESTMENT GUARANTEES DIVISION

oPremium rates and handling fees for Foreign Investment Guarantees are at standard levels which have been established without consideration of the host country and type of investment.

CORPORATION'S COMMENTS

Consideration of host country and type of investment are recognized by altering the co-insurance ratio.

OBSERVATIONS AND RECOMMENDATIONS

oA study should be made of the adequacy and purpose of handling fees charged by the Foreign Investment Guarantee Division.

CORPORATION'S COMMENTS

A study of the adequacy of handling fees is now in progress.

OBSERVATIONS AND RECOMMENDATIONS

oThe Foreign Investment Guarantees Division should evaluate the method of premium rate determination taking into consideration the varying degrees of risk associated with different host countries.

CORPORATION'S COMMENTS

The Corporation may in the future wish to review the current standard practice.

OBSERVATIONS AND RECOMMENDATIONS

PAYROLL

All duties of the payroll function are concentrated in a few individuals within the Personnel Department and as a result a number of significant internal control weaknesses were identified in the payroll system.

CORPORATION'S COMMENTS

In September of 1975, certain payroll functions came under the direct control of the Finance Division in order to provide for proper segregation of duties.

OBSERVATIONS AND RECOMMENDATIONS

oThe payroll system should be modified to provide for appropriate segregation of duties and the elimination of identified internal control weaknesses.

CORPORATION'S COMMENTS

Major improvements have been made, and other changes to correct minor weaknesses are under review.

OBSERVATIONS AND RECOMMENDATIONS

OPERATING EXPENDITURES

The Corporation has no properly approved list of managers authorized to approve invoices and vouchers for operating expenditures. The lack of a defined procedure and of a properly approved list of managers to authorize expenditures weakens senior management control over expenditures.

CORPORATION'S COMMENTS

Notwithstanding, approval of expenditures rests with senior management which exercises direct control in this area.

OBSERVATIONS AND RECOMMENDATIONS

oThe President should delegate, in an approved listing the authority to commit operating expenditures by management position within the Corporation.

CORPORATION'S COMMENTS

Agreed. Documentation of current procedures is now being improved.

OBSERVATIONS AND RECOMMENDATIONS

BUDGETING

oOperating budgets should be prepared annually by major business segments within the Corporation and approved by the Executive Committee and Board of Directors.

CORPORATION'S COMMENTS

Effective since January 1, 1976, a financial plan has been in effect which consolidates detailed estimates and results from all activities in the Corporation into a comprehensive plan of corporate financial control. This plan is approved by the Executive Committee and results are reviewed by them each quarter.

OBSERVATIONS AND RECOMMENDATIONS

INTERNAL FINANCIAL REPORTING

The Corporation prepares a monthly profit and loss statement comparing actual results with those of prior years for each section of its business activities and a single balance sheet and statement of changes in cash combining all segments.

oInternal financial statements would be more informative if the current month's operating results were separately disclosed and compared to budget. Variances could then be readily highlighted and explained for each division.

CORPORATION'S COMMENTS

This practice has been in effect since the commencement of 1976, on a quarterly basis.

OBSERVATIONS AND RECOMMENDATIONS

The Corporation has certain financial ceilings under which it must operate. Responsibility for monitoring activity under these ceilings is controlled by the division responsible for the activity concerned without involvement by the Finance Division.

CORPORATION'S COMMENTS

The Finance Division continues to monitor and control activities of both the Loans and Foreign Investment Guarantees Divisions with regard to financial ceilings; and similar controls over the Insurance Division are being developed.

OBSERVATIONS AND RECOMMENDATIONS

oThe financial transactions of the Corporation's operating divisions and their proximity to the annual capital budget and total statutory limits should be under the control of the Finance Division and should be reported in the monthly financial statements.

CORPORATION'S COMMENTS

The proximity of financial transactions to the capital budget and statutory limits is reported regularly, but not always in conjunction with monthly financial reports.

OBSERVATIONS AND RECOMMENDATIONS

oThe Corporation should prepare for the Board at least quarterly a comprehensive report on outstanding and undisbursed loans and on their financing. This report should include:

CORPORATION'S COMMENTS

Most of this information is now being issued to the Board either each month or each quarter. Procedures are being considered to consolidate this reporting and extend it to report all information referred to in the recommendation.

OBSERVATIONS AND RECOMMENDATIONS

- (a) total loans receivable undisbursed and pending;
- (b) weighted average rate of return on loans receivable, undisbursed and pending;
- (c) total loans payable, financing required for commitments; and
- (d) weighted average rate of interest on financing estimates.

OBSERVATIONS AND RECOMMENDATIONS

Such reports would give the Board an opportunity to assess the effect of the decisions they make on an ongoing basis and would provide quantitative background for any policy decisions that need to be reassessed.

FARM CREDIT CORPORATION

Observations and Recommendations as at January 1976.

Corporation's Comments as at July 1976.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL POLICIES

oSenior management and the Minister of Agriculture as necessary should clearly document the financial policy within which the Corporation will function under the provisions of the Farm Credit Act. Once documented these policies should form the basis for development of related financial practices and procedures within the Corporation.

CORPORATION'S COMMENTS

The recommended documentation of financial policy and related procedures will be undertaken by the Corporation as soon as feasible.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL MANUALS

oThe Comptroller/Treasurer function at Head Office is responsible for all major areas of financial management such as budgeting, banking, cash management, loans and financial reporting. The Corporation, however, has no Head o Office accounting procedures manual covering these topics.

CORPORATION'S COMMENTS

Documentation of these procedures will follow the documentation of the financial policy.

OBSERVATIONS AND RECOMMENDATIONS

CAPITAL BUDGETING

The Corporation's capital budget requests authority for new loans on a net basis since regularly scheduled principal payments to Canada are deducted from new loans to be granted to farmers.

oA study should be initiated to determine from a financial and a legal view whether all principal payments by farmers should be repaid to the Consolidated Revenue Fund or reloaned by the Corporation.

CORPORATION'S COMMENTS

Such a study will be carried out in 1976-77 in consultation with officials of the Department of Finance and of the Treasury Board Secretariat.

OBSERVATIONS AND RECOMMENDATIONS

Subject to the availability of funds the Corporation continued to commit loans to farmers in the 1975-76 fiscal year after the borrowing limits approved in the capital budget were reached. As a result the commitment carry out figure at the year-end exceeded \$172 million.

CORPORATION'S COMMENTS

Prior to 1976-77, the Corporation considered that the intent of the Capital Budget was to set a limit solely on the capital paid in as well as borrowings from the Minister of Finance and these limits were never exceeded by the Corporation. This view was acceptable to the Department of Finance.

OBSERVATIONS AND RECOMMENDATIONS

oThe Corporation's commitment carryout limit should be incorporated into its capital budget and should be subject to appropriate approvals, since such amounts are moral commitments on future spending levels of the government.

CORPORATION'S COMMENTS

Beginning in 1976-77, it has been agreed that the capital budget submission of the Corporation will impose a limit on loan commitments at the end of each fiscal year.

OBSERVATIONS AND RECOMMENDATIONS

REVENUE AND EXPENDITURE POLICIES

oAccording to our interpretation of the intent of the Farm Credit Act, the margin on loans granted to farmers should be sufficient to ensure recovery of all associated operating costs. However, due to the time lag between the approval date of the loan (the date on which the farmer's rate is set) and the loan disbursement date (the date the funds are disbursed to or on behalf of the borrower) this margin may be eroded in a period of rising interest rates. Accordingly, the Corporation should review its lending procedures to ascertain whether alternatives could be adopted to preserve the margin established on loans at the time of their approval.

CORPORATION'S COMMENTS

The Corporation has long been aware of this situation and has considered, without success, solutions acceptable to the borrower, the Government and the Corporation. It is agreed that this matter will receive high priority in 1976-77.

OBSERVATIONS AND RECOMMENDATIONS

oServices offered by the Corporation under the Farm Credit Act should be provided on a cost recovery basis or the deficiency should be identified and set out separately in its financial statements.

CORPORATION'S COMMENTS

The services offered to borrowers are considered to be part of the cost of doing business and/or means of protecting the Corporation's investment in mortgage loans. It is agreed that fees levied do not cover costs in totality and a study will be initiated to determine the feasibility of identifying this deficiency separately in the financial statements.

OBSERVATIONS AND RECOMMENDATIONS

EXPENDITURES CONTROLS

Branches issue cheques daily on the main bank account maintained at Head Office for the disbursement of loans. Our review of the related controls over these cheques indicated the need for stronger control in the cheque preparation and signing process in the branches.

oThe internal controls within the payroll function should be strengthened by:

CORPORATION'S COMMENTS

Appropriate action will be taken to further strengthen control in these areas.

OBSERVATIONS AND RECOMMENDATIONS

(i)balancing of output to input by an accounting supervisor not responsible for other payroll functions;

(ii)distribution of cheques by someone other than the payroll clerk; and

(iii)control of unclaimed cheques by someone other than the payroll clerk.

INTERNAL AUDIT

The internal audit function reports 'directly to the Vice Chairman and has been allowed to develop its own priorities and reporting style with little direction from management.

CORPORATION'S COMMENTS

This observation is generally correct. It should however be stated that the original audit program received the approval of management.

OBSERVATIONS AND RECOMMENDATIONS

oThe priorities of the internal audit function should be clearly stated. In addition, internal audit objectives should be continually evaluated, challenged and approved by the Vice Chairman or by an audit committee.

The internal audit reports should draw conclusions and make recommendations in addition to reporting specific findings.

CORPORATION'S COMMENTS

This recommendation will be implemented by the Corporation in 1976-77.

OBSERVATIONS AND RECOMMENDATIONS

oThe internal audit reports should draw conclusions and make recommendations in addition to reporting specific findings.

CORPORATION'S COMMENTS

Appropriate action in this regard will be taken by the Corporation.

OBSERVATIONS AND RECOMMENDATIONS

INTERNAL FINANCIAL REPORTS

Each month the Corporation prepares a lending summary, cash flow summaries, and a statement of operating expenditures compared to budget. In addition, a balance sheet and statement of income and expense are prepared quarterly for all operations. Since these reports are not integrated management does not receive a comprehensive and fully integrated monthly financial reporting package.

oInternal financial statements should be prepared for all facets of operations and, together with supporting schedules and analyses, should form the basis for a monthly financial reporting package for management.

CORPORATION'S COMMENTS

This recommendation will be implemented as soon as feasible.

OBSERVATIONS AND RECOMMENDATIONS

EXTERNAL FINANCIAL REPORTS

The annual financial statements include segmented income and expense statements and a single balance sheet. There is no link between the balance sheet and the statements of income.

oThe Corporation should segregate agency and corporate assets and liabilities as well as disclose the amount of the annual parliamentary appropriation so that the relationship between the balance sheet and the statement of income and expense is clarified.

CORPORATION'S COMMENTS

The format of the financial statements will be further discussed with the Office of the Auditor General with a view to providing such a link between the balance sheet and statement of income and expense.

OBSERVATIONS AND RECOMMENDATIONS

oThe Corporation should establish an allowance for doubtful loans and record all gains or losses as a charge to the statement of

income and expense.

CORPORATION'S COMMENTS

A conflict presently exists between Section 1 § of the Farm Credit Act and generally accepted accounting principles relative to an allowance for doubtful loans. Negotiations with the Government on the subject and possible amendments to existing legislation will be pursued in an attempt to resolve this conflict.

OBSERVATIONS AND RECOMMENDATIONS

oThe Corporation should include a statement of change in financial position as part of its annual financial statements.

CORPORATION'S COMMENTS

Such a statement will be introduced in the annual financial statements in 1976-77.

FRESHWATER FISH MARKETING CORPORATION

Observations and Recommendations as at August 1975.

Corporation's Comments as at May 1976.

OBSERVATIONS AND RECOMMENDATIONS

ORGANIZATION OF THE FINANCE FUNCTION

oThe Corporation's management structure and the responsibilities of its various operational and financial managers should be formally documented and approved by the Board of Directors.

CORPORATION'S COMMENTS

The existing management structure and responsibilities will be documented and approved by the Board of Directors.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL MANUAL

The Corporation has no financial manual, although the general accounting system has been partially documented.

oA financial manual should be developed by the Comptroller and issued under the authority of the President.

CORPORATION'S COMMENTS

All important financial systems have now been documented, assembled and issued to the staff involved. The Corporation believes that a more formal financial manual is not required.

OBSERVATIONS AND RECOMMENDATIONS

oClear and precise direction should be provided to agents in matters related to financial administration undertaken on behalf of the Corporation.

CORPORATION'S COMMENTS

The Corporation's policies with agents is currently being reviewed with the intention of issuing specific instruction to agents for transactions undertaken on behalf of the Corporation.

OBSERVATIONS AND RECOMMENDATIONS

CORPORATE RECORDS

Insufficient attention has been given to maintaining complete corporate records for which a Secretary to the Board of Directors is usually responsible.

oA secretary to the Board of Directors should be appointed to discharge the responsibilities of the Secretary as required by By-law No. 1 of the Corpora

CORPORATION'S COMMENTS

A permanent Secretary to the Board will be appointed by April 30, 1977.

OBSERVATIONS AND RECOMMENDATIONS

ACCOUNTS RECEIVABLE

oAlthough the Corporation has experienced small losses on accounts receivable from customers, the Corporation should formulate, document and obtain Board approval for credit and collection policies and procedures with a view to ensuring adequate internal control over this aspect of the Corporation's operations.

CORPORATION'S COMMENTS

Existing policies and procedures will be formalized.

OBSERVATIONS AND RECOMMENDATIONS

INVENTORY

oWritten instructions and systematic inventory count plans should be developed for physical stocktaking.

CORPORATION'S COMMENTS

Physical stocktaking is now done on a regular systematic basis

with written instructions.

OBSERVATIONS AND RECOMMENDATIONS

FIXED ASSETS

oFixed asset capitalization and disposal policies and procedures should be developed and formally approved by the Board of Directors.

CORPORATION'S COMMENTS

Existing policies and procedures will be formalized.

OBSERVATIONS AND RECOMMENDATIONS

The Corporation is responsible for managing a significant dollar amount of capital assets, however no formal records are maintained.

oThe Corporation should maintain a fixed asset ledger.

CORPORATION'S COMMENTS

The Corporation maintains detailed fixed asset records which it intends to formalize into a fixed asset ledger within two years.

OBSERVATIONS AND RECOMMENDATIONS

LOANS FROM CANADA UNDER SECTION 17 OF THE ACT

oCapital asset loan notes should be drafted in a manner consistent with Privy Council Orders particularly in respect of due dates.

CORPORATION'S COMMENTS

Capital asset loan notes are now being drafted consistent with Privy Council Orders.

OBSERVATIONS AND RECOMMENDATIONS

INTERNAL AUDIT

oAlthough the nature and scale of its financial operations do not warrant a separate and distinct internal audit unit, the Corporation should plan and assign to an individual in the finance function responsibility for verifying the accuracy of records maintained on behalf of the Corporation by outside agents and its own operations outside Transcona.

CORPORATION'S COMMENTS

The Assistant Comptroller verifies the accuracy of Corporation accounting records maintained outside Transcona. Most of the

transactions between the Corporation agents and the fishermen can be reviewed from copies of documents supplied to the Corporation. The desirability of periodic visits to review agent s operations is currently being reviewed.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL PLANNING

oSenior management and the Board of Directors should authorize the development of a long-term planning and budgetary control system based on defining and costing activities contributing to the achievement of corporate objectives.

CORPORATION'S COMMENTS

A detailed operating forecast for the year ending April 30, 1977 has been prepared by management and reviewed with the Board of Directors.

OBSERVATIONS AND RECOMMENDATIONS

oCapital budgets submitted pursuant to Section 70 (2) of the Financial Administration Act should be prepared as accurately as possible based on documented detailed analysis in support of the figures it contains.

CORPORATION'S COMMENTS

The above forecast is the basis for the Capital Budget required under Section 70 (2) of the Financial Administration Act.

OBSERVATIONS AND RECOMMENDATIONS

BUDGETARY CONTROL

oThere should be greater participation by operational managers and an effective challenge and review function in preparation of operating budgets.

CORPORATION'S COMMENTS

Operating managers are now consulted in the preparation of operating forecasts. More active participation is planned for the future.

OBSERVATIONS AND RECOMMENDATIONS

oDirectors and senior management should be presented with a revised forecast whenever events occur that would materially affect projected operating results.

CORPORATION'S COMMENTS

Management and Board of Directors have been continually advised of the projected effect of unforecast events. Forecasts will be formally revised for such events, if material.

OBSERVATIONS AND RECOMMENDATIONS

oThe monthly financial information package should be distributed to all key operational managers, and an effective variance explanation and review system involving these managers should be established.

CORPORATION'S COMMENTS

This was implemented October 1975.

THE NATIONAL ARTS CENTRE CORPORATION

Observations and Recommendations as at June 1976.

Corporation's Comments as at June 1976.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL AUTHORITY

The by-laws, and the policies and procedures manual enunciate the financial authority and execution of documents, and the procedures to be followed within the Corporation.

oUnder no circumstances should an officer or employee of the Corporation circumvent the financial authority and execution of documents and procedures as provided in the by-laws.

CORPORATION'S COMMENTS

The Corporation is taking the necessary steps to ensure that its by-laws are adhered to by all staff members.

OBSERVATIONS AND RECOMMENDATIONS

oAny document of a contractual nature should require the signature of a second officer of the Corporation, preferably the Chief Financial officer, to confirm compliance with financial authorities as set out in the by-laws and in the policies and procedures manual.

CORPORATION'S COMMENTS

The Assistant Director General or his delegate will co-sign all non-program contracts. The practicality of co-signing program" or "performance" contracts will be explored.

OBSERVATIONS AND RECOMMENDATIONS

ROLE OF THE FINANCIAL FUNCTION

Financial administration in general and financial control systems have suffered from a lack of attention since the inception of the National Arts Centre. Consequently, the Finance department has operated in an environment where the financial responsibilities of the Corporation as a whole have not been well defined or accepted.

OBSERVATIONS AND RECOMMENDATIONS

oTo emphasize the importance of the financial function within the Corporation, the name of the Administration Branch should be changed to Finance and Administration Branch. The officer responsible for this branch should be designated as Assistant Director General, Finance and Administration.

CORPORATION'S COMMENTS

Since Personnel is another important function reporting to the Assistant Director General, the Branch will be renamed - "Finance, Personnel and Administration Branch".

OBSERVATIONS AND RECOMMENDATIONS

oThe duties and responsibilities associated with the financial function should be expanded to provide for cost trend analyses and development of cost reduction proposals.

CORPORATION'S COMMENTS

Finance Department will provide trend cost analyses with the monthly financial reports. The responsibility for cost-reduction proposals is a concern of management at all levels, including Finance, Personnel and Administration Branch managers.

OBSERVATIONS AND RECOMMENDATIONS

oThe Chief Financial Officer should have the sole authority and responsibility for approving financial accounting systems. He should also participate in the selection process for any position with financial responsibilities.

CORPORATION'S COMMENTS

Steps are being taken to ensure that the Chief Financial Officer's authority is obtained before implementing any financial-accounting systems. Similarly he would be consulted in the selection and appointment of personnel to positions having financial responsibilities outside Finance, Personnel and Administration Branch.

OBSERVATIONS AND RECOMMENDATIONS

oA study should be made to determine the extent of and any reasons

for duplicating accounting functions. Any duplication should be eliminated.

CORPORATION'S COMMENTS

The Director of Finance has been assigned the responsibility for reviewing all accounting systems with a view towards elimination of unnecessary duplication.

OBSERVATIONS AND RECOMMENDATIONS

oThe co-ordination of the over-all development and application of automated financial and management information systems, including the associated long-term planning, should be carried out on behalf of senior management by the Finance and Administration Branch.

CORPORATION'S COMMENTS

The responsibility for co-ordinating the over-all development and application of automated financial and management information systems is now assigned to the Assistant Director General. Long-term planning in this field is a responsibility of every manager of the Corporation.

OBSERVATIONS AND RECOMMENDATIONS

COMMUNICATIONS OF FINANCIAL REQUIREMENTS

oThe financial portion of the policies and procedures manual should be updated and expanded and should be implemented to ensure that:

CORPORATION'S COMMENTS

A task force under the Director of Finance is currently reviewing the content of the Policy and Procedures manual, dealing with financial matters with a view to updating the material and to ensure its completeness. Training of National Arts Centre staff will be undertaken as new policies, systems and procedures are developed and implemented.

OBSERVATIONS AND RECOMMENDATIONS

oaccounting transactions for revenue and expenditures, and for assets and liabilities are properly recorded, and that they reflect approved policy;

ointernal controls are understood in principle and applied in

practice; and

ostaff is more adequately and quickly trained.

SUBSCRIPTION SALES

The Corporation's pricing policies as they apply to the sale of subscription series and the related promotional material are such that differences exist in the actual prices charged and the discount rates advertised.

oCare should be taken to word advertising material to avoid the possibility of being misleading. In this connection, the Finance department should be consulted before releasing such material.

CORPORATION'S COMMENTS

Finance Department will be consulted during the development of discount prices and before the release of the publicity materials to the public.

OBSERVATIONS AND RECOMMENDATIONS

RESTAURANT OPERATIONS

Since the inception of the Corporation, the Restaurants and Catering division as a whole has accumulated a significant deficit. The losses are due in part to a lack of attention to the performance indicators generally associated with the restaurant industry. Certain procedures and controls need to be implemented to help to correct the financial position of the restaurant operations.

OBSERVATIONS AND RECOMMENDATIONS

oThe Corporation should introduce a system of requisitions and controls for food taken out of stores and issued to the various facilities so management can analyse gross profit from the sale of food in each facility. On the basis of such information, management would be in a position to implement required corrective action.

CORPORATION'S COMMENTS

Management has reviewed the whole system of requisitioning and controls of foods in the Catering division to improve the cost distributions and to facilitate food sales analysis. The system will be completed and in operation by mid-June.

OBSERVATIONS AND RECOMMENDATIONS

oThe Corporation should further analyse its beverage sales and cost of sales by product line to provide better control over revenues.

CORPORATION'S COMMENTS

This recommendation will be implemented by August 1976.

OBSERVATIONS AND RECOMMENDATIONS

oThe Corporation should take immediate steps to reduce the labour costs related to the restaurant operations to obtain reasonable profit levels.

CORPORATION'S COMMENTS

The Corporation management is examining all aspects of its Catering Services.

OBSERVATIONS AND RECOMMENDATIONS

oA deposit should be required for all banquet orders based on a minimum guaranteed number of guests.

CORPORATION'S COMMENTS

Deposits will be required as long as this will not result in the loss of business.

OBSERVATIONS AND RECOMMENDATIONS

oAll banquet orders should be signed by the customer.

CORPORATION'S COMMENTS

This recommendation will be implemented by June 1976.

OBSERVATIONS AND RECOMMENDATIONS

oA prenumbered "change" form to the original banquet order should be introduced. This form, which should be prepared and signed by someone other than the person who prepared the banquet order, could be used to record all amendments to the original order. Changes to the original banquet order should be limited to a reasonable number of days before the date reserved.

CORPORATION'S COMMENTS

This recommendation will be implemented by October 1976.

OBSERVATIONS AND RECOMMENDATIONS

oA copy of the "change order" form should be forwarded to the Finance department for subsequent verification and control.

CORPORATION'S COMMENTS

This recommendation will be implemented by October 1976.

OBSERVATIONS AND RECOMMENDATIONS

RENTAL INCOME

The Corporation receives rent from two lessees on the basis of sales level. However, there is no assurance that all rental revenues to which the Corporation is entitled have been received.

oThe Corporation should insist on certified statements of gross revenues, as provided for by the lease agreements.

CORPORATION'S COMMENTS

Certified statements from public accountants will be obtained.

OBSERVATIONS AND RECOMMENDATIONS

oAlternatively, the Corporation should cause an audit to be made of its lessees business affairs to ascertain that it actually receives all revenues to which it is entitled.

CORPORATION'S COMMENTS

Such audits will be requested before the year-end bookkeeping closing time and interim audits will be made if required.

OBSERVATIONS AND RECOMMENDATIONS

PURCHASING

oThe task force studying the purchasing function within the Corporation should formulate a new policy and procedure for management approval as soon as possible.

CORPORATION'S COMMENTS

The recommendations pertaining to the purchasing functions will be implemented as suggested. The purchase requisition forms and a multi-part purchase order form have been used by a limited number of departments only. The possibility of designating a common receiving area is being studied. Policies and procedures regarding requisition of tenders will be reviewed and updated and it is anticipated that the required changes will be implemented by the fall of 1976.

OBSERVATIONS AND RECOMMENDATIONS

CHEQUE ISSUES

oTo prevent the possibility of an invoice being presented for payment a second time, either in error or by design, the cheque signing officers should ascertain that all original supporting

documents are available before signing a cheque and that all such documents are effectively cancelled after signing.

CORPORATION'S COMMENTS

Implemented in mid-June 1976.

OBSERVATIONS AND RECOMMENDATIONS

oCheques should never be signed in blank form except for payments of a percentage of box office receipts to artists, groups, etc. In such cases, a maximum amount based on capacity attendance should be typed on the cheque and signed by an officer authorized by resolution of the Board. The financial officer on duty should be responsible for filling in the correct amount and applying the second signature after the total box office receipts have been confirmed.

CORPORATION'S COMMENTS

Same as above.

OBSERVATIONS AND RECOMMENDATIONS

oUnder no circumstances should the amounts on signed cheques be altered. If a change is required, the original cheque should be cancelled and a new cheque issued.

CORPORATION'S COMMENTS

Same as above.

OBSERVATIONS AND RECOMMENDATIONS

oSigned cheques to be mailed to suppliers should be given directly to an employee independent of cheque preparation and accounts payable functions.

CORPORATION'S COMMENTS

Same as above.

OBSERVATIONS AND RECOMMENDATIONS

PAYROLL

oThe screening of potential employees, documentation, etc. should be the responsibility of the Personnel department only. Employee records, including personal history cards, attendance records, etc. should be centralized within the Personnel department and the documentation should be the same for all employees.

CORPORATION'S COMMENTS

Existing personnel policies and procedures will be enforced to ensure that complete employee documentation is available in the Personnel department.

OBSERVATIONS AND RECOMMENDATIONS

oThe Corporation should introduce a uniform time reporting system for all salaried employees. The various department heads should verify and approve all time reports.

CORPORATION'S COMMENTS

A study will be undertaken in order to examine the present time reporting system and make recommendations for its improvement. Department heads will be instructed to observe the existing policy of verifying and approving all time reports.

OBSERVATIONS AND RECOMMENDATIONS

oConsideration should be given to the use of a time-clock punch card for purposes of reporting hours worked by all non-salaried employees, including those in the restaurant and no employee should be permitted to punch a card other than his own. A summary time report should then be prepared by personnel and approved by the responsible department head.

CORPORATION'S COMMENTS

The feasibility of using time-clock punch or other time recording methods will be part of the study of the time reporting system.

OBSERVATIONS AND RECOMMENDATIONS

oThe Corporation should designate as paymaster an employee independent of hiring, payroll records, cheque preparation, etc. In addition, employees should be required to present identification cards and to sign the list of cheque~ before receiving theirs. Unclaimed cheques should be recorded in a register, stored in a safe place and cancelled after a period of 60 days. The cancelled cheques should be recorded in a liability account entitled "unpaid salaries and wages".

CORPORATION'S COMMENTS

Implemented since June 6, 1976.

OBSERVATIONS AND RECOMMENDATIONS

ASSETS

oThe investment of short-term surplus funds should be subject to the approval of at least two senior officers of the Corporation. The list of companies in which the Corporation is permitted to invest should be updated and approved on an annual basis.

CORPORATION'S COMMENTS

The Corporation is reviewing the list of companies in which to invest for the approval of the Executive Committee at its next meeting. This list will be updated on an annual basis. The Assistant Director General - Finance, Personnel and Administration will approve all investment transactions in conjunction with the Director of Finance.

OBSERVATIONS AND RECOMMENDATIONS

oIn order to ascertain that all cheques and money orders received by the Corporation are properly recorded and deposited, incoming mail should be opened and recorded in the presence of two employees. This would provide the basis for subsequent comparison with receipted duplicate deposit slips.

CORPORATION'S COMMENTS

Two staff members are in attendance at the opening and the recording of incoming mail in a register since June 14, 1976.

OBSERVATIONS AND RECOMMENDATIONS

oThe need to preserve costumes and stage sets related to past productions and the associated costs should be the subject of a cost benefit analysis.

CORPORATION'S COMMENTS

The periodic reviews currently undertaken will be intensified to determine the feasibility of retaining or disposing of all costumes and stage sets. New policies and procedures on inventories will be issued accordingly by the end of the fiscal year.

OBSERVATIONS AND RECOMMENDATIONS

oThe perpetual inventory records in respect of costumes and stage sets should include original cost figures to provide some basis for determining an adequate amount of insurance coverage.

CORPORATION'S COMMENTS

This task is now in progress.

OBSERVATIONS AND RECOMMENDATIONS

oThe Corporation should introduce a system of requisitions from stores and assign the function of storekeeper to employees who are independent of the purchasing and receiving functions.

CORPORATION'S COMMENTS

A "Requisition for office Supplies" form has been in existence for some time in the Administrative Services department and has been used effectively in that particular department. Its use can be extended to cover technical, maintenance and restaurant supplies.

The Task Force on Purchasing is in the process of making recommendations to senior management on the purchasing, receiving and storing functions within the Centre.

OBSERVATIONS AND RECOMMENDATIONS

oPolicy and procedure number 3.3 in respect of the control of capital assets o should be updated, enunciated throughout the Corporation and strictly adhered to, to protect the present and future significant investment in this type of asset.

CORPORATION'S COMMENTS

A review of the particular policy and procedures is being done and managers will be instructed to adhere to them.

OBSERVATIONS AND RECOMMENDATIONS

oAll capital assets which have not been tagged and recorded in the perpetual inventory records should be counted as soon as possible and recorded accordingly.

CORPORATION'S COMMENTS

By mid-August 1976, the Corporation will undertake a complete inventory of all capital items. Office furniture and equipment inventories will be transferred to a newly developed system which will provide a better access to information. Thereafter the system will be expanded to include tagging and recording of the remaining items.

OBSERVATIONS AND RECOMMENDATIONS

LIABILITIES

oThe liability incurred in respect of the Corporation s severance pay plan should be recorded in the accounts and financial statements.

CORPORATION'S COMMENTS

This new practice will be introduced during the current fiscal year.

OBSERVATIONS AND RECOMMENDATIONS

oThe liability incurred in respect of annual vacation leave for salaried employees should be recorded in the accounts of the Corporation.

CORPORATION'S COMMENTS

Same as above.

OBSERVATIONS AND RECOMMENDATIONS

INTERNAL AUDIT

oThe Corporation should establish an internal audit program with sufficient scope to ensure that all significant areas of its operations are subject to audit over a reasonable period of time.

CORPORATION'S COMMENTS

A new position of Management Review Officer whose main responsibility includes internal audit was created on April 1, 1976. The incumbent was appointed to that position on the same date and he is reporting to the Assistant Director General, Finance, Personnel and Administration. A program of audit is being developed for the approval of senior management in conjunction with the views and requirements of all departmental directors.

OBSERVATIONS AND RECOMMENDATIONS

oThe position of internal auditor should be established or the services of an audit bureau should be procured to carry out the internal audit program.

CORPORATION'S COMMENTS

The position was filled on April 1, 1976. Consideration will be given to using an audit bureau for special or regular audits.

OBSERVATIONS AND RECOMMENDATIONS

oThe internal auditor or audit bureau should report directly to the Executive Committee in order to ensure his or its independence.

CORPORATION'S COMMENTS

The internal auditor is currently reporting to the Assistant Director General, Finance, Personnel and Administration. Audit reports will be submitted to the Executive Committee for review and appropriate action.

OBSERVATIONS AND RECOMMENDATIONS

BUDGETARY CONTROL

oCapital assets should be acquired on the basis of rental-purchase agreements only on an exception basis.

CORPORATION'S COMMENTS

The existing Sub-Committee on Capital Budget will rule on rental-purchase agreements submitted by departments and its recommendation will be forwarded to the Director General for necessary action. Otherwise, the present policy for the acquisition of capital items will be enforced.

OBSERVATIONS AND RECOMMENDATIONS

The monthly financial statements prepared by the Finance department should include detailed analyses of all significant variances from budget.

CORPORATION'S COMMENTS

Effective in 1976-77, Finance Department is introducing a new format and content for financial reports. The main feature will be the detailed analyses of significant variances from budget and forecasting of trends on specific items of expenditure, revenue or programming activities.

THE NATIONAL BATTLEFIELDS COMMISSION

Observations and Recommendations as at March 1976.

Commission's Comments as at August 1976.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL POLICIES

oThe Commission should document and officially adopt its most significant financial policies so that they can be applied uniformly and consistently.

CORPORATION'S COMMENTS

This recommendation will be studied at the next meeting of the Board of Commissioners.

OBSERVATIONS AND RECOMMENDATIONS

CONTROL OF SALARIES

The present procedure does not ensure an adequate division of responsibility for authorizing and distributing salary cheques.

oTo improve internal control, employees should sign their timecards and, occasionally, the administrative officer should distribute the pay cheques.

CORPORATION'S COMMENTS

Agreed. This recommendation has been implemented.

OBSERVATIONS AND RECOMMENDATIONS

CONTROL OF REVENUE

The revenue of the Commission consists primarily of federal grants, to which are added a few thousand dollars from payments of fines, reimbursement for property damage and expenses incurred for organizations which arrange activities on the Commission's land. The administrative officer only keeps memorandum files of the amounts receivable, and the revenue is recorded only after the sums received by the Commission have been deposited.

oThe Commission should include control accounts for the amounts receivable in its ledger accounts, and should record the revenue as soon as an amount is payable to the Commission.

CORPORATION'S COMMENTS

Agreed. This recommendation will be implemented.

OBSERVATIONS AND RECOMMENDATIONS

oThe Commission should centralize the opening of mail and record the cheques received in a register in order to avoid misplacement or loss of the cheques before they are deposited.

CORPORATION'S COMMENTS

This recommendation has been implemented.

OBSERVATIONS AND RECOMMENDATIONS

COLLECTION OF FINES

The National Battlefields Commission Act does not permit the Commission to accept voluntary payment of fines. To collect fines, the Commission must proceed in all cases of violation of the Park by-laws by means of a summons, referable to the Clerk of Sessions of the Peace in the District of Quebec.

oThe Commission should continue its efforts to have its establishing Act amended, so that it can effectively control automobile traffic on its land and collect the fines resulting from violations of the Park by-laws.

CORPORATION'S COMMENTS

Agreed. Steps have already been taken to have the establishing Act amended.

OBSERVATIONS AND RECOMMENDATIONS

CONTROL OF ASSETS

oA physical count of inventory and a verification of the actual existence of fixed assets recorded in the books should be carried out at least once a year, in the presence of a person independent of keeping records and maintaining custody of these assets.

CORPORATION'S COMMENTS

Agreed. This recommendation has been implemented.

OBSERVATIONS AND RECOMMENDATIONS

INSURANCE OF ASSETS

The Commission does not have at present a clear policy on insuring its fixed assets and vehicles and, for no apparent reason, insures only some of them.

oThe Commission should adopt a precise policy on insuring its assets and should carry out this policy in a consistent fashion.

CORPORATION'S COMMENTS

A policy will be established in collaboration with the Treasury Board.

OBSERVATIONS AND RECOMMENDATIONS

TERMINATION BENEFITS

oSince the accounts of the Commission are kept on an accrual basis, the liabilities incurred under the termination benefits plan should be recorded in the accounts.

CORPORATION'S COMMENTS

This recommendation has been implemented.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL REPORTS SUBMITTED TO THE BOARD

oThe Commission's annual budget should be distributed over a monthly basis. To facilitate a rational analysis of variances, the financial reports submitted to the Board of Commissioners should include budgetary data presented and distributed in the same way as expenditures and commitments. The reports submitted should also indicate the amount of expenditures which will be repaid to the Commission as a result of property damage or for expenses incurred for other organizations.

COMMISSION'S COMMENTS

This recommendation will be implemented.

NATIONAL CAPITAL COMMISSION

Observations and Recommendations as at April 1976.

Commission's Comments as at August 1976.

OBSERVATIONS AND RECOMMENDATIONS

ROLE OF FINANCIAL MANAGEMENT

The duties of the Senior Financial Officer are being carried out by the Assistant General Manager, Administration who is also responsible for the Personnel and Administration functions. He does not have a strong financial background and it is unlikely that he has the time to discharge his financial responsibilities effectively along with his other duties.

oThe Commission should establish the position of a Senior Financial officer at the Assistant General Manager level and start recruitment action immediately.

CORPORATION'S COMMENTS

Agreed. Recruitment action commenced.

OBSERVATIONS AND RECOMMENDATIONS

The availability of appropriate financial expertise is required within two of the organizational units of the Commission due to the size, complexity of operations, diversity of financial system requirements and the need to give financial direction and advice to the managers and staff.

oThe Commission should establish a financial officer position in the Development Branch and in the Property Division and start recruitment action immediately.

CORPORATION'S COMMENTS

Agreed. Financial officers will be established in Development and Property as soon as resources are available.

OBSERVATIONS AND RECOMMENDATIONS

The executive and managers of the Commission have not committed themselves to ensuring that an adequate level of effective financial management and control exists throughout the Commission.

oTo ensure that appropriate emphasis is placed by the Management Committee on financial management and control within the Commission more of the Committee's time and effort must be devoted

to this function and its concerns should be clearly communicated to both financial and operating managers.

CORPORATION'S COMMENTS

Agreed Establishment of a Finance Committee by September will play an important role in developing presentations to Management Committee, and thus promote commitment at senior levels.

FUNCTIONAL DIRECTION AND CONTROL

The finance/accounting function is the responsibility of the centralized Finance Division. The Finance Division, however, has not provided effective functional direction or exercised an adequate degree of functional control over other branches and divisions. This has hindered the timely implementation of effective accounting controls, the development of appropriate financial reporting systems, and the assurance that financial management and control responsibilities assigned to staff outside the Finance Division are adequately discharged.

oThe Commission should develop functional direction and reporting relationships for those positions with financial responsibilities. Functional relationships should be reflected in position descriptions, organization charts and the General Services Manual.

CORPORATION'S COMMENTS

Agreed. Working on problems.

OBSERVATIONS AND RECOMMENDATIONS

oThe Senior Financial Officer should participate in the performance appraisals prepared by operational managers on all staff which has financial responsibilities.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

TRAINING WITHIN THE FINANCIAL FUNCTION

Although the Commission uses various Public Service Commission and other courses it has not developed a coordinated professional development and regular in-house training program to help staff members discharge their financial management and control responsibilities effectively.

oA professional development program including a regular in-house training program should be developed, appropriate to the needs of financial staff and other personnel with financial responsibilities, including senior and operational management.

The prime responsibility for these programs should rest with the Senior Financial Officer.

CORPORATION'S COMMENTS

Agree with recommendation but small staff makes implementation difficult. Nevertheless, effort will be made to establish an in-house program to complement P.S.C. courses and other courses.

OBSERVATIONS AND RECOMMENDATIONS

COMMUNICATION OF FINANCIAL RESPONSIBILITIES AND REQUIREMENTS

The communication systems employed by the Commission do not ensure the timely transmission to staff of comprehensive and accurate financial systems and procedures, guidance, instructions and requirements.

oPosition descriptions should be revised to reflect the responsibilities and functional relationship of financial staff and of operational staff with financial responsibilities. Once revised, they should be reviewed and updated on a regular basis.

CORPORATION'S COMMENTS

Agreed. Some improvements have been started. Efforts will be sustained. Return of a financial officer from language training in September 1976 will give impetus to developments.

OBSERVATIONS AND RECOMMENDATIONS

oOrganizational changes should be documented and communicated on a timely basis.

CORPORATION'S COMMENTS

As above.

OBSERVATIONS AND RECOMMENDATIONS

oThe Commission should ensure that the financial content of its General Services Manual is clear, complete, comprehensive and up to date.

COMMISSION'S COMMENTS

As above.

OBSERVATIONS AND RECOMMENDATIONS

COST RECOVERY, REVENUE, ACCOUNTS RECEIVABLE AND CASH

oThe Finance Division should review contractual arrangements, revenue producing activities and cost-sharing agreements to help ensure that adequate consideration is given to the financial aspects.

CORPORATION'S COMMENTS

Agreed. In the case of major contracts, leases and cost-sharing agreements and unusual items but frequency of normal leases precludes detailed review as suggested.

OBSERVATIONS AND RECOMMENDATIONS

oRental and other revenue rates should be reviewed and amended on a regular basis to reflect changes in priorities, operating costs and market rates.

CORPORATION'S COMMENTS

Agreed. Policies and revenues will be subject to Management review and audit by market experts.

OBSERVATIONS AND RECOMMENDATIONS

oThe Senior Financial Officer should ensure that improvements are made in the cost recovery, revenue, accounts receivable and cash accounting systems to provide completeness, authority and accuracy from initiation through processing and reporting. These should include as a minimum:

CORPORATION'S COMMENTS

Agreed. Before year end, staff duty adjustments will be accomplished to meet requirements.

OBSERVATIONS AND RECOMMENDATIONS

-Preparing clear and simple lease agreements with suitable terms of payment.

-Promptly collecting all rentals especially those based upon sales.

-Documenting and enforcing collection policies, procedures and responsibilities.

-Establishing timely accounting control over parking lot revenue.

-Reporting of approved property rental assistance.

-Dividing duties and responsibilities of those employees who are involved in initiating, recording, collecting and reconciling cost

recoveries, revenue, accounts receivable and cash.

OBSERVATIONS AND RECOMMENDATIONS

-Establishing procedures for the timely review of revenue reports and revenue trend analyses.

INVENTORIES

oThe Senior Financial Officer should ensure effective control and accounting for the receipt, inventorying and issuance of stock.

CORPORATION'S COMMENTS

Agreed. Limited staff may require central agency or outside assistance.

OBSERVATIONS AND RECOMMENDATIONS

FIXED ASSETS

oThe adjustment of the fixed asset account balances and the reconciliation and integration of manual and computerized fixed assets records as well as parallel records maintained by separate divisions should be completed as soon as possible.

CORPORATION'S COMMENTS

Agreed. Progress being made; vehicles are covered now as are rental properties.

OBSERVATIONS AND RECOMMENDATIONS

oTo ensure that capital equipment assets are properly recorded and effectively employed, the Commission should strengthen its asset reporting and utilization systems and procedures.

LIABILITIES

Accounting policies of the Commission do not result in financial reports presenting fairly its liabilities in accordance with generally accepted principles.

oThe Commission should improve its year-end accounts payable cutoff procedures by ensuring that these procedures are appropriately documented, communicated and adhered to.

CORPORATION'S COMMENTS

Agreed. Refinements necessary for golf courses, campgrounds and allotment gardens, etc. Program under acceleration now.

OBSERVATIONS AND RECOMMENDATIONS

oDeferred interest payable to the Government of Canada should be recorded in the accounts of the Commission.

CORPORATION'S COMMENTS

Deferred interest on Greenbelt loans recorded in Statements for 1975-76.

OBSERVATIONS AND RECOMMENDATIONS

oThe estimated liability resulting from the Commission's termination pay plan should be computed annually and recorded in the accounts of the Commission.

CORPORATION'S COMMENTS

Termination pay liability recorded in statements for 1975-76.

OBSERVATIONS AND RECOMMENDATIONS

DELEGATION OF FINANCIAL AUTHORITY

oThe Commission should modify its delegation of authorities to provide better understanding of the scope and limits of authorities and to provide easy reference. Once revised, delegations should be reviewed and updated on a regular basis.

CORPORATION'S COMMENTS

Agreed. Under way.

OBSERVATIONS AND RECOMMENDATIONS

oOfficers holding delegated authority in the absence of the incumbent should be at the same or higher level of responsibility in the organization whenever practicable.

CORPORATION'S COMMENTS

This is not often possible in an organization this size; to be considered further.

OBSERVATIONS AND RECOMMENDATIONS

oSpecimen signature cards prepared for each position with delegated authority should be appropriately distributed throughout the Commission.

CORPORATION'S COMMENTS

Agreed. Started in finance; needed in purchasing, supply and contracts areas.

OBSERVATIONS AND RECOMMENDATIONS

ACCOUNT CODING SYSTEM

oThe responsibility to assign, maintain, control and communicate account codes should rest with one unit within the Finance Division and the account coding system should be documented in the General Services Manual.

CORPORATION'S COMMENTS

Agreed. Will be done immediately.

OBSERVATIONS AND RECOMMENDATIONS

CONTROL OF EXPENDITURES

oThe Senior Financial Officer should ensure that appropriate improvements are made in the general and payroll expenditure systems to provide completeness, authority and accuracy from initiation through processing, payment and reporting. These should include:

COMMISSION'S COMMENTS

Agreed. Being done already as time permits.

OBSERVATIONS AND RECOMMENDATIONS

-Establishing procedures for the timely recording of credit notes and returned goods, for cancelling expenditure vouchers and for maintaining error records.

-Further separating responsibilities of those who are involved in initiating, recording, paying and reconciling disbursements.

-Establishing procedures for effective control of personnel terminations.

-Establishing effective input/output control procedures.

-Examining the effectiveness of the Annual Leave and Overtime Sub-system as it relates to the needs of the Commission.

INTERNAL AUDIT

The internal audit function has not been fully recognized as an important management tool within the Commission.

oAn Audit Committee responsible to the General Manager and consisting of members of the Management Committee should be established. Its mandate should include establishing the overall scope of internal audit and reviewing audit observations and corrective action taken.

CORPORATION'S COMMENTS

Agreed. Audit committee will be established in September or October 1976.

OBSERVATIONS AND RECOMMENDATIONS

oThe scope of internal audit should be expanded to encompass all areas of financial administration such as budgeting and budgetary control.

CORPORATION'S COMMENTS

Agreed. Under way.

OBSERVATIONS AND RECOMMENDATIONS

oThe Commission should augment its internal audit staff, as required, by employing the Audit Services Bureau.

COMMISSION'S COMMENTS

Agreed. Have used Audit Services Bureau since January 1976; will use additional resources as needed.

OBSERVATIONS AND RECOMMENDATIONS

oThe Chief of Internal Audit should expand, refine and document the audit standards and techniques employed in the internal audit function.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

PLANNING, BUDGETING AND BUDGETARY CONTROL

oThe Commission should accelerate its efforts to institute a formal and effective planning, budgeting and budgetary control system to aid in determining and establishing activities, projects and priorities and to facilitate the efficient and effective allocation, management and accounting of resources employed in the pursuit of its objectives. These efforts should include:

CORPORATION'S COMMENTS

General agreement in all aspects. Progress made over last nine months will be sustained for longer-term improvements as recommended.

OBSERVATIONS AND RECOMMENDATIONS

- Determining objectives, priorities and alternatives
- Developing mid and long-term plans
- Regular forecasting during the year
- Commitment control
- Budget variance analysis and reporting
- Developing performance measurement indicators
- Establishing reporting relationships of those individuals who have operational and spending responsibilities and those who have budgetary control responsibilities
- Periodically reviewing performance in relation to objectives.

FINANCIAL REPORTING

Internal

The computerized and manual financial and administrative systems do not adequately provide management and staff with the information necessary to manage and control the resources of the Commission effectively.

oThe Director, Systems Development, and the Senior Financial Officer should develop a realistic plan to improve EDP facilities, operations, associated systems and management reports to achieve better financial management and control. The progress of the plan should be monitored by the Management Committee on a regular basis.

CORPORATION'S COMMENTS

Agreed. Implementation needed as soon as possible.

OBSERVATIONS AND RECOMMENDATIONS

oNew systems or changes in present systems that affect financial management or controls in the Commission should be approved by the Senior Financial Officer.

CORPORATION'S COMMENTS

Agreed. essential immediately.

OBSERVATIONS AND RECOMMENDATIONS

oThe Commission should ensure that EDP services are adequately

maintained to meet the needs of Finance and Administration when providing EDP Services to others.

CORPORATION'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

External

oThe Commission should prepare its financial statements in accordance with generally accepted accounting principles and ensure that the form of the financial statements clearly presents the financial results and position of the Commission.

CORPORATION'S COMMENTS

Agreed. Discussion of pro forma statements to take place well prior to year end.

OBSERVATIONS AND RECOMMENDATIONS

oThe Auditor's report and the audited financial statements should be included as an integral part of the Commission's Annual Report.

COMMISSION'S COMMENTS

Agreed. However, June 30 deadline for the Commission's report makes this almost impossible.

OBSERVATIONS AND RECOMMENDATIONS

oThe Commission should relate the Agreed. explanatory information on objectives, activities, projects and results to the financial information contained in the Financial Review section of the Annual Report.

CORPORATION'S COMMENTS

Agreed.

NATIONAL HARBOURS BOARD

Observations and Recommendations as at January 1976.

Board's Comments as at August 1976.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL STRUCTURE

An examination of the annual financial statements raises the question of self-sufficiency and the extent to which port revenues are expected to cover operating costs, depreciation and interest on borrowed funds. These are basic concerns which must be dealt with, and which will determine the basis on which operating results should be evaluated.

oThe Board should enunciate its policy as to rate setting, cost performance and use of assets to develop a realistic financial base from which to measure future results and to provide accountability for assets under its control.

BOARD'S COMMENTS

The Board and the Ministry of Transport are reviewing the organizational and financial structure, emanating from the proposed Ports' Policy, whereby a solution to this problem should follow.

OBSERVATIONS AND RECOMMENDATIONS

ORGANIZATION AND FINANCIAL RESPONSIBILITIES

The direct and functional relationships of the financial organization should be strengthened, clarified and formally documented.

BOARD'S COMMENTS

The new Delegation of Authority Document will reinforce and clarify the responsibilities of each Branch Director. The functional relationship between the Ports and the National Office will be strengthened and will emphasize staff training and development and career planning. The Port planning function is being reassigned to a Director of Policy and Planning; other operational responsibilities will be delegated to the Ports.

OBSERVATIONS AND RECOMMENDATIONS

Some chief port financial officers spend considerable time with operational functions including contract negotiations, tariff discussions and personnel problems. Although it is proper for port financial officers to become involved in such functions, these responsibilities have resulted in delays in performance of their financial duties.

oDue to the degree of responsibility accorded port financial officers over and above their assigned financial duties, the Board should consider strengthening the financial function in the ports.

BOARD'S COMMENTS

Consistent with the new Ports' Policy, the roles and responsibilities will be established and clearly defined.

OBSERVATIONS AND RECOMMENDATIONS

Management committees in the ports generally do not meet regularly but are assembled to deal with specific problems.

oManagement committees in the ports should meet on a regular and formal basis and should include a representative from each of the ports' major business segments.

BOARD'S COMMENTS

This practice

OBSERVATIONS AND RECOMMENDATIONS

The Senior Advisory Committee to the Board spends much of its time dealing with the individual problems brought to light in the port submissions referred to it. The large number of port submissions dealt with seem to indicate that more delegation of authority to
Consistent with the new Ports' Policy, the roles and responsibilities will be established and clearly defined.

BOARD'S COMMENTS

This practice is now being followed in some ports and efforts will be made, where activities and size of the management team warrant it, to initiate in other ports. Continuation of, and improvements in, this practice will be encouraged.

OBSERVATIONS AND RECOMMENDATIONS

oThe Board should develop a co-ordinated approval policy which:

(a)gives each port manager a degree of authority commensurate with his responsibilities; and

(b)permits the Senior Advisory Committee to concern itself more with policy decisions than with concentrating so much of its time and attention on approving port submissions.

BOARD'S COMMENTS

Within the limitations of the present Act, Delegation of Authority Policy is now in draft form. This policy will give port managers more authority and allow the Senior Advisory Committee (SAC) to deal more with policy decisions. A policy development group is being established to assume the responsibilities of SAC in this area.

OBSERVATIONS AND RECOMMENDATIONS

COMMUNICATION OF FINANCIAL REQUIREMENTS

Manuals, preparation guides, letters and other memoranda outlining various procedures to be followed under varying sets of circumstances have not been adequately consolidated. This makes it difficult to ascertain whether specific procedures are the latest and most applicable pronouncements of the Board.

oThe Board should identify the policies and procedures relevant to financial management, ensure that they are comprehensive, and consolidate them in the Policy and Procedure Manual.

BOARD'S COMMENTS

This problem has already been identified by the Board and some progress made in the development of financial policies and procedures. Along with the formation of the policy development group the responsibility for the preparation, distribution and maintenance of a manual will be assigned.

OBSERVATIONS AND RECOMMENDATIONS

PORT PLANNING FUNCTION

The Planning Branch is concerned with long-range planning over the next 25 years rather than with short-term forecasting. Due to the time frame being assessed, extraneous factors such as traffic patterns, vessel size, cargo type and inflationary trends seriously reduce the validity of financial resource requirements.

OBSERVATIONS AND RECOMMENDATIONS

oThe Planning Branch should consider assessing national port development over a shorter time frame, thus being able to coordinate its activities better with those of the Board's Financial Analysis Unit and should set as one of its objectives the assessment, of the use of existing port facilities to accommodate the known needs of water-borne transportation over the next five to 10 years.

BOARD'S COMMENTS

The Planning Branch will continue to deal with long-term planning (10 to 20 year horizon - this time frame is the most suitable for large scale port planning). However, the newly established Program and Evaluation Unit will extend its present horizon to three to five years to ensure continuity.

OBSERVATIONS AND RECOMMENDATIONS

DELEGATION OF FINANCIAL AUTHORITIES

Many schedules of approvals and procurement regulations are in

existence and it becomes difficult to ascertain who has approval authority for different types of transactions. There is also a lack of a co-ordinated approval policy which would give each port manager authority commensurate with his degree of responsibility.

oThe Board should prepare a comprehensive delegation document for inclusion in the Policy and Procedure Manual detailing authority for all expenditures.

BOARD'S COMMENTS

As stated above, a Delegation of Authority Policy is now in final draft; however, a further consolidation appears necessary and appropriate steps will be initiated shortly.

OBSERVATIONS AND RECOMMENDATIONS

CONTROL OF REVENUES

Manifests are summaries of the bills of lading for, goods loaded or unloaded. Under the present system, manifests are priced out by the shipping agents and submitted to the Board, forming the basis for wharfage charges which are billed to the shipping agents. For the most part, ports depend for control on information which might be provided by review of ships' manifests by Customs and Excise, Department of National Revenue.

oAll ports should carry out independent test verification of manifests supporting ships cargoes in a manner similar to that now performed in the Port of Montreal, instead of relying solely on review by Customs and Excise.

The by-laws prevent the ports from negotiating their own tariff rates. This process is handled centrally and the degree of involvement at the port level in tariff setting is insufficient.

BOARD'S COMMENTS

This recommendation has merit and will be considered taking into account the resultant increased administrative and clerical costs.

OBSERVATIONS AND RECOMMENDATIONS

oTariff policies should be established giving greater attention to information provided by the ports but with strong central co-ordination and within a framework of guidelines established by Head Office.

Agreements for month-to-month leases, for which long-term leases were being negotiated, were found to be in effect at some ports. This may result in a loss of revenue for the Board as month-to-month lease arrangements often do not generate as much rental income as a long-term lease agreement.

BOARD'S COMMENTS

The tariff by-laws pertaining to the new Ports' Policy will shortly be reviewed and drafted with the objective of having a national policy which will also provide for some adjustment at the port level as circumstances dictate.

OBSERVATIONS AND RECOMMENDATIONS

oProperty leasing policies should be developed, documented and enforced on lease renewals.

BOARD'S COMMENTS

The Board's policy dealing with Minimum Rental Guidelines was issued in July 1975 and is to be followed on all lease renewals. In addition, the new delegation of authority will give greater flexibility and responsibility at the port level. Exceptions do occur due to special circumstances.

OBSERVATIONS AND RECOMMENDATIONS

FIXED ASSET LEDGERS

Records of fixed assets generally lack sufficient detail to ensure that independent accounting control is maintained over capital assets.

oThe Board should develop and document its policy for recording fixed assets, prepare the relevant procedures and provide the necessary assistance to the ports to ensure that the policy is executed and the procedures followed.

BOARD'S COMMENTS

Audits in this area are planned or presently under way. Appropriate action will be taken subsequent to the issue of the audit reports. With the implementation of the proposed Ports' Policy the development of detailed and accurate fixed asset records will be accelerated.

OBSERVATIONS AND RECOMMENDATIONS

INTERNAL AUDIT

The Internal Audit Section was organized in March 1975 with an establishment of seven professional auditors. To date only four positions have been filled.

oThe Internal Audit Section should make every effort to bring its establishment up to full strength as soon as possible.

The Manager of Internal Audit reports directly to the Director-Financial Policy and Planning. To ensure independence and

objectivity, audit reports should be directed to an audit committee composed of Branch Heads, with the chairman of the committee being someone other than the Director-Financial Policy and Planning.

BOARD'S COMMENTS

With the implementation of the proposed Ports' Policy, organization changes will be made to reassign the responsibility of internal audit to ensure that an effective audit is conducted.

OBSERVATIONS AND RECOMMENDATIONS

oThe Board should establish an audit committee to ensure that audit findings receive adequate and impartial consideration.

Due to staff shortages, the Internal Audit Section has not carried out any operational or management auditing to any great extent. This type of independent, systematic evaluation would improve organizational efficiency and effectiveness and would aid in meeting the objectives of the Board's programs.

BOARD'S COMMENTS

An audit committee will be established.

OBSERVATIONS AND RECOMMENDATIONS

oThe Internal Audit Section should incorporate operational auditing into its programs.

BOARD'S COMMENTS

The role of internal audit has gradually changed, however, in view of the workload in the past this was not attempted. A comprehensive Internal Audit Handbook is being drafted, incorporating "operational auditing", and will be completed by the end of 1976.

BUDGETARY CONTROL

Care must be taken to ensure that port budgetary submissions are prepared in accordance with the new and more sophisticated procedures laid down by Head Office.

oThe Financial Analysis Unit should ensure that communications with officials at the port level are such that the procedures detailed in the Preparation Guide for Capital and Operating Budgets are properly and consistently followed.

BOARD'S COMMENTS

The Finance Branch has recently been reorganized and the responsibility for the capital budget has been assigned to the

Program and Evaluation Unit and the operating budget to the Accounting Unit. Port staff training will continue and certain staff changes may be required to achieve the high standard of budgeting control that the Board requires.

INTERNAL REPORTING

Monthly activity reports developed by the ports do not adequately monitor the extent to which managers adhere to their budgets. Managers' budgets should not be required to absorb charges over which managers do not exercise control.

Production of unnecessary detail would be minimized if the explanations of variances developed for port officials were contained on the same form as the monthly activity report.

Managers in the ports tend to manage on the basis of experience rather than through financial reports and variance analysis.

OBSERVATIONS AND RECOMMENDATIONS

oThe importance of financial reporting systems should be emphasized to port managers. Procedures and training programs should be introduced to indicate how such systems could assist them in management.

BOARD'S COMMENTS

The Board is placing greater emphasis on the reporting of financial results and variances. A "flash" report has been introduced for local Port Management; the Board now considers financial results every month issuing appropriate directives when necessary. The new delegation of authority document imposes a greater degree of accountability on Port Managers. The proposed Ports' Policy gives greater emphasis to this area.

oThe internal financial reports should concentrate more on variances and their explanation and the action required to alleviate deviations during the fiscal period.

BOARD'S COMMENTS

Instructions to ports require the explanations of variances and detailing of action to correct. Enforcement of these procedures will be feasible under the reorganization of the Accounting Unit.

PROJECT REPORTING

Capital projects under construction are not adequately controlled through a project reporting system.

oThe Board should develop a detailed project reporting system that would provide project managers with timely, detailed information concerning budgeted and actual costs on capital projects.

BOARD'S COMMENTS

The Board is in accordance with the observations and recommendations. The Program and Evaluation Unit is in the process of developing a comprehensive project management system which will include project costing.

NORTHERN CANADA POWER COMMISSION

Observations and Recommendations as at September 1975.
Commission's Comments as at January 1976.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL MANUAL

oA head office accounting procedures manual should be developed and, together with the existing authorized procedures manual, should be reviewed for additional topics and updated on a regular basis.

COMMISSION'S COMMENTS

This is in process.

OBSERVATIONS AND RECOMMENDATIONS

INTERNAL CONTROL OVER REVENUES

Geographic considerations, staff turnover, accelerated growth and the lack of communication between the related billing functions have all acted to restrict development and implementation of an effective system of internal control over revenues.

oThe Assistant General Manager of Finance in conjunction with the Assistant General Manager of Operations should:

(i)develop the field procedures necessary to ensure that the billing department has the information required' to bill all accounts on a monthly basis;

COMMISSION'S COMMENTS

(i)Changes in procedure to provide estimated billings, where delay is experienced, are in the course of preparation;

OBSERVATIONS AND RECOMMENDATIONS

(ii)develop and oversee implementation of meaningful credit granting procedures and policies.

COMMISSION'S COMMENTS

(ii) policy is under review and scheduled for early Implementation.

oHead Office billing and computer processing procedures should be revised to provide for:

(i) segregation, definition and documentation of duties;

COMMISSION'S COMMENTS

Suggestions made are under consideration. Limited staff size has restricted development of ideal internal controls;

(ii) implementation of computer processing controls over billing data that is processed.

COMMISSION'S COMMENTS

(ii) computer obsolescence and capacity inhibit full control in existing system. A new computer facility now being planned will enable proper control to be exercised.

TENDERING PROCEDURES

oTendering procedures should be standardized and clearly documented.

COMMISSION'S COMMENTS

New procedures will be in effect January 1, 1976.

OBSERVATIONS AND RECOMMENDATIONS

VERIFICATION OF CONTRACT PAYMENTS

Procedures regarding verification of contract payments have not been effective although recent steps were taken to strengthen control in this area. Certain identified problems still remain unresolved. For example, the handwritten contract registers, maintained by the accounts payable clerks, do not provide the desired safeguard against duplicate payments and overpayments to contractors.

Verification procedures related to contract purchases should continue to be strengthened and co-ordinated with the related accounts payable functions.

COMMISSION'S COMMENTS

Procedures have been modified to remedy the problems identified.

OBSERVATIONS AND RECOMMENDATIONS

COMMITMENT CONTROLS

Commitment control accounts maintained for capital projects do not provide a reliable summary of commitments outstanding at a given time. The primary difficulty appears related to the lack of definitive procedures and of liaison between the operations and accounting functions.

oIf the Accounting Department is to continue to maintain capital commitment records, operating and financial personnel should clearly define their needs, and an effective and clearly documented system must be drawn up to meet these needs.

COMMISSION'S COMMENTS

Procedures implemented in April 1975 have proven satisfactory in all cases where input has been available. Input procedures are now under review to ensure adequacy of the system.

OBSERVATIONS AND RECOMMENDATIONS

IMPREST BANK ACCOUNTS

The use of imprest bank accounts evolved during a period when head office payments procedures were slow and cumbersome. At that time effective internal control procedures over such accounts were normally not considered.

In recent years the number of imprest accounts has been reduced; however, their current activity does not appear to justify the use and dollar amount of some of the remaining accounts. In addition, certain related internal control problems were identified, such as duplication of payments, unauthorized payments, etc.

The need for imprest bank accounts should be reviewed and those deemed necessary made subject to effective internal control procedures.

COMMISSION'S COMMENTS

Recent steps have been made to ensure adherence to required control procedures.

OBSERVATIONS AND RECOMMENDATIONS

FIELD TRANSFER ACCOUNTS

The monthly reconciliation of field transfer bank accounts is considered an integral step in the system of control over field collections and their subsequent remittance to head office. At the time of our study these reconciliations were seriously in arrears.

oField transfer bank accounts should be reconciled on a monthly

basis.

COMMISSION'S COMMENTS

Reconciliations have now been brought up to date.

ACCOUNTS RECEIVABLE

The Commission has had a history of large dollar value past-due accounts receivable (both utility and non-utility). This appears to be largely attributable to the billing problems detailed elsewhere in this report and the current collection procedures of NCPC.

The Accounts Receivable Section has recently placed increased emphasis on collection. Although these efforts have produced some positive results, they appear to be directed primarily toward a short-term catch-up-strategy rather than toward a long-term collections policy.

A long-term accounts receivable collection policy should be developed to facilitate the collection and the prevention of past-due accounts.

COMMISSION'S COMMENTS

Policy is now in effect.

OBSERVATIONS AND RECOMMENDATIONS

INVENTORIES

Policies for the handling of and physical control over inventories should be documented and modified where applicable, in conjunction with the Bureau of Management Consultant's study of inventory procurement and management.

oAccounting control over inventories should be modified in conjunction with the aforementioned study to ensure that appropriate controls are put into place.

COMMISSION'S COMMENTS

Policy development and documentation is in process.

OBSERVATIONS AND RECOMMENDATIONS

CONTROLLABLE CONSTRUCTION EQUIPMENT

oThe Assistant General Manager of Finance in conjunction with the Assistant General Manager responsible for construction projects should develop an effective system of accounting and of physical control over controllable construction equipment.

COMMISSION'S COMMENTS

Suggestions made will be considered as to practicability in the very unusual conditions of NCPC construction. Accounting controls are now in effect.

OBSERVATIONS AND RECOMMENDATIONS

CAPITALIZATION AND DEPRECIATION POLICIES

Within the framework of current activities capitalization and depreciation policies have become cumbersome and arbitrary.

oThese policies should be reviewed and modified where appropriate to provide a more meaningful matching of costs with revenues and a streamlining of related accounting procedures.

COMMISSION'S COMMENTS

Policies are under review.

OBSERVATIONS AND RECOMMENDATIONS

INTERNAL AUDIT

oExperienced audit personnel should staff the internal audit function. Its responsibilities should be clearly defined to include only audit functions.

COMMISSION'S COMMENTS

The suggestion is under review.

OBSERVATIONS AND RECOMMENDATIONS

BUDGET PREPARATION

Budgetary and monthly financial data are not prepared on a consistent basis, e.g.:

-capital budgets are prepared on a cash basis whereas costs incurred against these budgets are assembled on an accrual basis;

-operating budgets are prepared on an annual basis and therefore do not facilitate meaningful comparison with actual monthly results.

oBudgetary and monthly financial data should be prepared so as to facilitate meaningful comparison and monitoring of expenditures and revenues.

COMMISSION'S COMMENTS

Procedures now in effect correct this. Adequate statistical background is in process of being built up to enable meaningful monthly comparisons to be made. 1976-77 budgets are slated for a finer breakdown in light of information now being put together.

OBSERVATIONS AND RECOMMENDATIONS

VARIANCE ANALYSIS

oPlans to incorporate variance analysis into the monthly financial reporting package should proceed as quickly as possible.

COMMISSION'S COMMENTS

This is now in effect. 1975-76 statements show monthly comparisons and variances.

OBSERVATIONS AND RECOMMENDATIONS

BUDGETARY CONTROL

Plant supervisors and regional office managers provide the basic field input for the operating budgets prepared in head office. This input is gathered through various informal means largely dictated by the qualifications of the field staff involved.

The format of operating budgets and monthly financial statements has been designed so as to meet primarily the needs of head office personnel. For example, monthly operating statements are prepared for each plant but do not distinguish between costs directly controllable by the plant (e.g. labour, materials, etc.) and those over which the plant has little direct control (e.g. depreciation, interest, allocated

Accordingly, plant supervisors and probably more importantly, regional managers feel no real sense of commitment to the budgets prepared in head office. In addition, the lack of definition of appropriate responsibility centres creates an environment in which no one has a feeling of any real control over the financial results. In present circumstances the financial statements merely present a score card as to how the Commission as a whole performed instead of identifying specific areas of strength and weakness within the Commission.

oThe duties and responsibilities of the regional and plant supervisors, with respect to operating budget preparation and subsequent monitoring of actual results, should be clarified and clearly documented.

COMMISSION'S COMMENTS

Procedures are in the course of further development to provide:

- responsibility accounts;

-cost centre accounts;

-product accounts;

with related budgets, standards, measures, and controls, in a fully integrated system of budgetary control including quantitative data other than financial.

ATLANTIC PILOTAGE AUTHORITY

Observations and Recommendations as at September 1975. Authority's Comments as at February 1976.

OBSERVATIONS AND RECOMMENDATIONS

RELATIONSHIP WITH MARINE PILOTAGE BRANCH - DEPARTMENT OF TRANSPORT

The Authority appears to be operating without central co-ordination from the Department through which it reports to Parliament.

oThe Authority should seek to formalize its relationship with the Marine Pilot-age Branch of the Department of Transport in the areas of pilotage regulations, budgeting and financial reporting systems, cash flow requirements, and negotiating agreements with foreign governments and employee or contractor pilots.

AUTHORITY'S COMMENTS

It is our understanding that a Memorandum to Cabinet now being prepared will recommend formalization of the Authority's relationship with the Marine Pilotage Branch.

OBSERVATIONS AND RECOMMENDATIONS

Moreover, the underlying principles of financial management, accounting, budgeting and financial reporting for this and other Pilotage Authorities should be developed and documented in a formally organized and uniform manner.

AUTHORITY'S COMMENTS

Refer to our comments concerning relationship with Marine Pilotage Branch and Memorandum to Cabinet.

OBSERVATIONS AND RECOMMENDATIONS

TARIFF SETTING

The Authority has had difficulty instituting tariff increases due to the length of time required for the Canadian Transport Commission to deal with appeals filed by the shipping agents

affected by the increases.

oThe Authority should seek amendment to the Pilotage Act to facilitate collecting tariffs at revised rates pending disposition of objections before the Canadian Transport Commission.

AUTHORITY'S COMMENTS

We hope the Memorandum to Cabinet will also provide for this.

OBSERVATIONS AND RECOMMENDATIONS

ACCRUED TERMINATION BENEFITS

The accrued balances payable under the Authority's termination pay plan are not recorded in the accounts of the Authority.

oThe liability incurred pursuant to the Authority's termination pay plan should be recorded in the accounts of the Authority.

AUTHORITY'S COMMENTS

This will be done in the 1975 Annual Report.

OBSERVATIONS AND RECOMMENDATIONS

VARIANCE ANALYSIS

The quarterly financial statements submitted to the Board of Directors do not contain a comparison of budgeted figures or an analysis of variances.

oThe financial statements submitted to the Board of Directors for their approval should include budgeted figures and an analysis of significant variances, either in tabular or narrative form.

AUTHORITY'S COMMENTS

We agree with the recommendation and all future financial statements submitted to the Board of Directors will contain budgeted figures with an analysis of significant variances.

GREAT LAKES PILOTAGE AUTHORITY, LTD.

Observations and Recommendations as at August 1975.

Authority's Comments as at March 1976.

OBSERVATIONS AND RECOMMENDATIONS

RELATIONSHIP WITH MARINE PILOTAGE
BRANCH - DEPARTMENT OF TRANSPORT

The Authority appears to be operating independently of any central

co-ordination from the Department through which it reports to Parliament.

oThe Authority should seek to formalize its relationship with the Marine Pilotage Branch of the Department of Transport in the areas of pilotage regulations, budgeting and financial reporting systems, cash flow requirements and negotiating agreements with foreign governments and employee or contractor pilots.

In addition, the underlying principles of financial management, accounting budgeting and financial reporting for this and the other Pilotage Authorities should be developed and documented in some formally organized and uniform manner.

AUTHORITY'S COMMENTS

The Pilotage Act does not provide for a formal relationship other than financial, however, although it is not entirely true that the Authority is operating independent of any central co-ordination from the Ministry at present, the suggested relationship appears to be developing and will be beneficial.

OBSERVATIONS AND RECOMMENDATIONS

CORPORATE MINUTES

The Authority's minute book does not comply with various provisions of Canada Corporations Act.

oThe Authority should make the changes in its minute book necessary to comply with the requirements of the Act.

AUTHORITY'S COMMENTS

Changes have been made in order to comply with the Canada Corporations Act.

OBSERVATIONS AND RECOMMENDATIONS

TARIFF SETTING

Financial management and forward planning would be improved if the Authority could put revised tariff rates into effect promptly.

oThe Authority should seek amendment to the Pilotage Act to facilitate collecting tariffs at revised rates pending disposition of objections before the Canadian Transport Commission.

AUTHORITY'S COMMENTS

This will be drawn to the attention of the Marine Administrator, Transport Canada.

OBSERVATIONS AND RECOMMENDATIONS

PURCHASING PROCEDURES

The present purchasing procedures do not provide flexibility in the purchasing process and are inconsistent in several respects.

- oThe Authority should consider amending its By-laws to allow three competitive prices to be obtained for purchases under \$5,000, in lieu of a formal call for tenders.

- oThe Authority should delegate authority permitting certain officers to make purchases below \$5,000 without the approval of the Board of Directors.

AUTHORITY'S COMMENTS

By-Law was amended at Great Lakes Pilotage Authority Board Meeting of February 4, 1976 in accordance with recommendation.

OBSERVATIONS AND RECOMMENDATIONS

ACCRUED TERMINATION BENEFITS

The accrued balances payable under the Authority's termination pay plan are not recorded in the accounts of the Authority.

The liability incurred pursuant to the Authority's termination pay plan should be recorded in the accounts of the Authority.

AUTHORITY'S COMMENTS

Employee termination benefit liability will be recognized in the 1975 Annual Report.

OBSERVATIONS AND RECOMMENDATIONS

BUDGETARY CONTROL

The annual "Budgets and Forecasts document does not provide details of several items of expenditure aggregating approximately 10% of the total budgeted expenditures.

- oThe present budget documentation should be augmented by schedules supporting items in the budget for which schedules are not now provided.

AUTHORITY'S COMMENTS

The suggested schedules will be added to the budget documentation.

OBSERVATIONS AND RECOMMENDATIONS

VARIANCE ANALYSIS

The monthly financial statements should include an analysis of significant variances, either in tabular or narrative form.

AUTHORITY'S COMMENTS

Variance analysis will be provided.

LAURENTIAN PILOTAGE AUTHORITY

Observations and Recommendations as at August 1975.

Authority's Comments as at May 1976.

OBSERVATIONS AND RECOMMENDATIONS

RELATIONSHIP WITH MARINE PILOTAGE
BRANCH - DEPARTMENT OF TRANSPORT

The Authority appears to be operating without any central co-ordination from the Department through which it reports to Parliament.

AUTHORITY'S COMMENTS

Under section 28 of the Pilotage Act, the Authority must annually submit a statement of its activities and finances to the Minister of Transport.

In the area of financial management, the Governor in Council has made regulations establishing uniform financial and reporting procedures. Moreover, the Ministry periodically calls together the chairmen of the Authorities to define over-all policies

OBSERVATIONS AND RECOMMENDATIONS

oThe Authority should seek to formalize its relationship with the Marine Pilot-age Branch of the Department of Transport in the areas of pilotage regulations, budgeting and financial reporting systems, cash flow requirements and negotiation of agreements with foreign governments and employee or contractor pilots.

AUTHORITY'S COMMENTS

The Authority is always prepared to make the necessary efforts to maintain and improve its relations with the Ministry. Regarding pilot age regulations, it should be pointed out that when its regulations were made under section 14 of the Pilotage Act, the Authority informed and discussed the regulations with the Pilotage Branch.

The Authority is in constant contact with the Ministry regarding the systems for preparing program forecasts and the budget, the financial reporting system financial needs and negotiations with

contract and staff pilots.

OBSERVATIONS AND RECOMMENDATIONS

oIn addition, the underlying principles of financial management, accounting, budgeting and financial reporting for this and the other Pilotage Authorities should be developed and documented in a formally organized and uniform

AUTHORITY'S COMMENTS

In the area of management, the Authority's board has prepared an official manual setting out the administrative and financial standards and procedures to meet its needs as well as an automated data processing system.

OBSERVATIONS AND RECOMMENDATIONS

TARIFF SETTING

The Authority has had difficulty in instituting tariff increases due to the length of time that is required for the Canadian Transport Commission to deal with the appeals which are filed by shipping agents affected by the increases.

oThe Authority should seek amendment to the Pilotage Act to facilitate the collection of revised tariff rates pending disposition of objections before the Canadian Transport Commission.

AUTHORITY'S COMMENTS

The Authority is in perfect agreement on this point. The lapse of time between the publication of a tariff and the date it comes into effect upsets its budget, and it is obliged to publish a new short-term tariff.

It would be desirable, however, for amendments to be made to the Pilotage Act with a view to rectifying this situation.

OBSERVATIONS AND RECOMMENDATIONS

ACCRUED TERMINATION BENEFITS

The accrued balances payable under the Authority's termination pay plan are not recorded in the accounts of the Authority.

oThe liability incurred pursuant to the Authority's termination pay plan should be recorded in the accounts of the Authority.

AUTHORITY'S COMMENTS

In 1975 accumulated severance benefits were entered into the accounts, and the accounts in the Authority's general ledger show

these liabilities.

OBSERVATIONS AND RECOMMENDATIONS

VARIANCE ANALYSIS

The quarterly financial statements submitted to the Board of Directors do not contain a comparison to budgeted figures nor an analysis of variances.

The financial statements submitted to the Board of Directors for their approval should include budgeted figures and an analysis of significant variances, either in tabular or narrative form.

AUTHORITY'S COMMENTS

Since September 1975 the financial statements submitted to the Board of Directors have included budgetary data, as well as an analysis of the differences.

PACIFIC PILOTAGE AUTHORITY

Observations and Recommendations as at January 1976.

Authority's Comments as at April 1976.

OBSERVATIONS AND RECOMMENDATIONS

RELATIONSHIP WITH MARINE PILOTAGE BRANCH - DEPARTMENT OF TRANSPORT

The Authority appears to be operating independently of any central co-ordination from the Department through which it reports to Parliament.

AUTHORITY'S COMMENTS

Under the Act the Authority is required to report once a year to Parliament through the Minister on "Activities and Finance". There has been no indication that the reports on Activities do not satisfy the Minister, and the Financial reports are strictly in accordance with procedures laid down by Ottawa and, we believe, followed by all four Authorities.

OBSERVATIONS AND RECOMMENDATIONS

The Authority should formalize its relationship with the Marine Pilotage Branch of the Department of Transport in the areas of pilotage regulations, budgeting and financial reporting systems, cash flow requirements and negotiating agreements with foreign governments and employee or contractor pilots.

AUTHORITY'S COMMENTS

Proposed changes in pilotage regulations are fully discussed and agreed with the Pilotage Branch before gazetting or presenting to Privy Council. Financial matters are handled and reporting is done in accordance with procedures established by Ottawa, which we have assumed are satisfactory to Ottawa. This Authority negotiates no agreements with foreign Governments.

Agreements with Pilots, in the view of this Authority must be conducted at the local level as the picture changes from day to day and at times hour by hour, and immediate decisions are frequently required. It is the policy of this Authority to keep the Pilotage Branch informed of developments. The importance of doing this was stressed by Ottawa this spring and it will be given special attention.

Development and documentation of the principles of financial management, etc., are being studied and appropriate action will be taken.

OBSERVATIONS AND RECOMMENDATIONS

oThe underlying principles of financial management, accounting, budgeting and financial reporting for the Authority should be developed and documented in a formal and uniform manner.

POSITION DESCRIPTION

oThe Authority should proceed with its plans to develop formal position descriptions for its officers and managers.

AUTHORITY'S COMMENTS

This is being done.

OBSERVATIONS AND RECOMMENDATIONS

TARIFF SETTING

Financial management and forward planning would be improved if the Authority could put revised tariff rates into effect promptly.

oThe Authority should seek an amendment to the Pilotage Act to facilitate collecting tariffs at revised rates pending disposition of any objections before the Canadian Transport Commission.

AUTHORITY'S COMMENTS

This Authority has already recommended amendments to the Act which would permit collecting tariffs at revised rates and their segregation in a special fund so that refunds could be made if they were disallowed after a Canadian Transport Commission hearing.

OBSERVATIONS AND RECOMMENDATIONS

MONITORING OF TRAFFIC MOVEMENT

oThe Authority could improve its system of monitoring the movement of marine traffic within pilotage areas by agreeing its records to the record of traffic movement prepared by the Department of Transport.

AUTHORITY'S COMMENTS

This Authority is already working with the local Ministry of Transport office on this, and there will be increased cooperation this year.

OBSERVATIONS AND RECOMMENDATIONS

TENDERING AND PURCHASING PROCEDURES

The Authority should complete the development of formalized tendering and purchasing procedures.

AUTHORITY'S COMMENTS

This is under discussion with a view of setting up formalized tendering and purchasing procedures.

OBSERVATIONS AND RECOMMENDATIONS

ACCRUED TERMINATION BENEFITS

The Authority's termination pay plan entitles each employee to a sum of money payable upon resignation or retirement.

oThe liability incurred pursuant to the Authority's termination pay plan should be recorded in the accounts.

AUTHORITY'S COMMENTS

These are now being shown as a liability.

OBSERVATIONS AND RECOMMENDATIONS

VARIANCE ANALYSIS

The monthly financial statement package submitted to the Board of Directors should include the detailed revenue and expenditure analysis schedules.

AUTHORITY'S COMMENTS

This information will be provided to Board Members at meetings starting within the next month.

THE ROYAL CANADIAN MINT

Observations and Recommendations as at November 1975.

Corporation's Comments as at May 1976.

OBSERVATIONS AND RECOMMENDATIONS

ORGANIZATION

In conjunction with a consultant's report recently prepared on the topic, management is currently assessing and revising the organizational structure of the finance/administration function. This internal assessment, together with the absence of organization charts and current position descriptions, has created a situation which is characterized by a high degree of uncertainty.

oThe organization structure of the finance function should be approved and formally documented as soon as possible.

CORPORATION'S COMMENTS

At the time the study was started, and during which it was conducted, much if not all of this had already been done. As at the end of April, 1976, on a progressive basis, everyone within the Royal Canadian Mint was informed through posters, circulars, policy statements, competitions, seminars, workshops and regular management meetings, of what was going on and what was to happen.

OBSERVATIONS AND RECOMMENDATIONS

oPosition descriptions for all positions having significant financial responsibilities should be developed, documented, maintained and distributed to the staff concerned.

CORPORATION'S COMMENTS

Position descriptions that existed at the time of the study are being updated and those that did not are being developed with expected completion by the end of 1976.

OBSERVATIONS AND RECOMMENDATIONS

CLASSIFICATION, APPRAISALS AND TRAINING

The present classification system is poorly defined and documented. In addition the Mint lacks a procedure for regular appraisals of financial officers and a policy on career planning and training for financial personnel for the entire organization.

oThe Mint's classification system for financial staff should be developed, documented and integrated between locations.

oA policy for regular performance evaluations and appraisals for financial staff should be adopted, documented and implemented.

oThe Mint should develop and implement a policy on career planning and training for financial staff.

CORPORATIONS'S COMMENTS

A classification policy and system for management exclusions has been approved by the Board of Directors and implemented effective January 1, 1976.

A policy for regular performance evaluation and appraisals for all staff has been adopted and is currently being implemented and documented.

Insofar as career planning and training for all staff is concerned, this is currently being practised more or less on an ad hoc basis but the policy has been formulated and it will apply on a regular basis henceforth.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL MANUAL

The Mint has no financial manual and most financial procedures have not been documented.

oA comprehensive financial manual should be developed and issued to positions involved in the financial function.

CORPORATIONS'S COMMENTS

This has been given top priority and much work has already been done with a view to having a comprehensive documented manual before the end of 1976.

OBSERVATIONS AND RECOMMENDATIONS

DATA PROCESSING

Although the Mint makes extensive use of various electronic data processing equipment at each of its locations, management has not developed a policy on organization, on applications and on hardware acquisition.

oFinancial and operating data processing applications should be examined and priorities established by senior management.

CORPORATION'S COMMENTS

Many corrective measures have been applied resulting in considerable savings to the Royal Canadian Mint. Also, an operational and financial audit was conducted and the findings are

in the process of being corrected.

OBSERVATIONS AND RECOMMENDATIONS

RECEIVING FUNCTION

Responsibility for recording receipt of goods at the Ottawa and Hull locations is scattered among many stores areas and individuals. Accordingly, receiving documentation is not standardized and is not distributed within the organization in a consistent and expedient manner.

oThe Ottawa and Hull locations should each establish a central receiving function with responsibility for documenting receipt of goods.

oPre-numbered receiving reports should be prepared and routed directly to Accounts Payable to be matched with the related purchase order and invoice.

CORPORATIONS'S COMMENTS

There is no disagreement with the deficiencies noted; in fact, the auditors were told that this existed. This will be one of the subjects of a forthcoming seminar in June which will cover the total materiel management function. The results of the seminar will be immediately implemented.

See reply above.

OBSERVATIONS AND RECOMMENDATIONS

SIGNING AUTHORITIES

Payment authority under Section 26 of the Financial Administration Act has been delegated to all members of the Board of Directors, including those not actively involved in day-to-day operational activities. However, spending authority under Section 27 of the Financial Administration Act is delegated to only five people which restricts flexibility of signing authority and in some cases removes the authority from the level where it can be appropriately discharged.

Delegation of financial signing authorities to Directors (other than the Master) should be rescinded and the remaining signing authorities updated and maintained by the Financial Division with supporting specimen signatures.

CORPORATION'S COMMENTS

This has already been done and a delegation of authority instrument is in the process of being submitted to the Minister for his approval.

OBSERVATIONS AND RECOMMENDATIONS

oDelegation of signing authorities should be made to positions rather than to individuals.

oConsideration should be given to delegating spending authority under Section 27 of the Financial Administration Act to additional appropriate positions.

CORPORATIONS'S COMMENTS

The delegation of authority meets all the requirements of the Financial Administration Act, and the delegation is to positions and not to individuals. A copy will be sent to the Auditor General as soon as it is approved by the Minister.

The delegation of authority document has been revised according to operational requirements. See also reply above.

OBSERVATIONS AND RECOMMENDATIONS

ACCOUNTS PAYABLE

Officers approving cheque requisitions under Sections 26 and 27 of the Financial Administration Act have no basis on which to certify the propriety of invoices and the receipt of goods, since invoices and receipt documents are not present when this approval is given.

Furthermore, the assignment of requisition numbers after their approval and the subsequent accounting procedures for processing cheque requisitions do not adequately protect the Corporation against possible misappropriation.

oFull documentation supporting payment should accompany all cheque requisitions presented for approval.

CORPORATION'S COMMENTS

Agreed. All recommendations included under accounts payable will be covered in the procedures manual currently being developed.

OBSERVATIONS AND RECOMMENDATIONS

oCheque requisition numbers should be assigned and recorded before requisitions are presented for approval.

CORPORATIONS'S COMMENTS

See reply above.

OBSERVATIONS AND RECOMMENDATIONS

oApproved cheque requisitions should be sent directly to DSS after

approval rather than being routed back through Accounts Payable.

CORPORATIONS'S COMMENTS

See reply above.

OBSERVATIONS AND RECOMMENDATIONS

All invoices should be cancelled after approval of the cheque requisition but before being returned to Accounts Payable.

CORPORATION'S COMMENTS

See reply above.

OBSERVATIONS AND RECOMMENDATIONS

oAn employee independent of the processing and approval of cheque requisitions should verify the authenticity of signatures for spending authority and for payment authority as a final step before submitting cheque requisitions to DSS for processing.

CORPORATIONS'S COMMENTS

See reply above.

OBSERVATIONS AND RECOMMENDATIONS

TAXATION

The Accounts Payable section ascertains the tax status and duty drawbacks on purchases, but the individuals involved have little or no training in this area.

oPurchasing officers should be given sufficient training to cope with the various levels of direct and indirect taxation related to the Mint's operations, and the procedures for coding tax status on purchase orders should be documented.

CORPORATIONS'S COMMENTS

This subject was discussed quite openly by the Director of Administration and Finance with the auditors, and we recognize that it needs to be looked into. Senior personnel have been hired and this matter will be pursued more aggressively.

OBSERVATIONS AND RECOMMENDATIONS

Although we were informed that the Purchasing Division advises Accounts Payable when taxes should be reclaimed Accounts Payable lacks an effective system for following up on such items.

oProcedures should be integrated with the principal accounting system to report liabilities and to identify areas of eligibility

for refunds of taxes and duties.

CORPORATIONS'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

PAYROLL

oThe pay cheque distribution function should be delegated to positions which are not involved with personnel and with payroll data input and control.

CORPORATION'S COMMENTS

As of last January, the payroll distribution has been handled by the Administrative Assistant to the Director of Administration and Finance as this employee has no jurisdiction over the personnel function.

OBSERVATIONS AND RECOMMENDATIONS

FOREIGN CONTRACTS

The letters of agreements used for foreign contracts do not set out all of the relevant terms and conditions of sale. As a result the Mint may not be able to recover specified costs from the customer if the order is cancelled or if the quantities and specifications are significantly altered.

oFormal contracts or comprehensive letters of agreement should be prepared by the Mint for all foreign orders, setting out the terms and conditions of sale and penalty clauses if needed.

CORPORATIONS'S COMMENTS

There is no disagreement on the part of the Royal Canadian Mint with the observations and recommendations made, and now that we have recently recruited a Director of Marketing, together with the Director of Administration, this is a matter of high priority and the situation will be rectified shortly.

OBSERVATIONS AND RECOMMENDATIONS

When bidding on foreign numismatic contracts detailed estimates of production materials, process and associated indirect costs are not prepared. The Mint uses a fixed rate for each type of coin even though the number of processes may vary from contract to contract.

oEstimates and tenders for foreign contracts should be built up from a detailed bill of materials and from individual art, production and distribution operations needed to fulfil the terms

of the contract.

CORPORATIONS'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

INVENTORY - STORES AND SUPPLIES

The Mint controls physical quantities of most of the 8,000 to 10,000 line items in inventory but maintains records for cost accounting purposes based on an ABC inventory valuation system. Although this method of accounting for inventories is valid, certain inconsistencies in the Mint's application of the concept seriously impair the credibility of the system.

OBSERVATIONS AND RECOMMENDATIONS

oProcedures should be established and documented for effective physical and' financial control of stores and supplies inventories. These should include:

- (a) designing and implementing a coding system for inventories of stores and supplies;
- (b) a classification system (ABC) based on the unit of issue;
- (c) accounting for pre-numbered requisitions; and
- (d) recording all inventory issued and subsequently returned to stores.

CORPORATION'S COMMENTS

This topic rates as a top item in the materiel management seminar to be held in June 1976 following which immediate corrective action will be taken.

OBSERVATIONS AND RECOMMENDATIONS

FIXED ASSETS

Annual capital budgets are submitted to the Minister of Supply and Services based on estimates of major capital expenditures. The Mint, however, has neither defined what constitutes a capital expenditure nor developed a means of comparing actual outlays to the original capital budget.

oThe Mint's capitalization policies should be documented and incorporated with capital budget preparation procedures and guidelines. Capital additions should be compared to the capital budget at the end of the fiscal year and appropriate explanations prepared for deviations.

CORPORATIONS'S COMMENTS

Agreed. The financial management manual will incorporate capitalization policies as well as budgetary control procedures.

OBSERVATIONS AND RECOMMENDATIONS

oThe Mint should establish full responsibility and control over all assets in its custody:

(a) through periodic physical counts of fixed assets and reconciliation of such counts to financial records; and

(b) by documentation of procedures for the acquisition and disposal of fixed assets.

CORPORATION'S COMMENTS

The deficiencies highlighted are well known to present management. Corrective measures are being taken and systems and procedures are being documented.

OBSERVATIONS AND RECOMMENDATIONS

The Mint has disposed of some fixed assets which were rented from the Department of Finance and has accounted for the proceeds as miscellaneous revenue.

oProceeds on disposal of assets rented from the Department of Finance should be remitted directly to the Consolidated Revenue Fund on behalf of the Department.

CORPORATIONS'S COMMENTS

This matter is currently under review by the Mint.

OBSERVATIONS AND RECOMMENDATIONS

INTERNAL AUDIT

The recent expansion and decentralization of production operations and the intended decentralization of financial services has created the need for an internal audit function within the Corporation.

oThe Mint should establish an internal audit function, either by staffing internally or by obtaining external assistance.

CORPORATIONS'S COMMENTS

The present deficiencies in the total system are well known to the present management and as repeatedly stated throughout these comments corrective measures are being taken and policies, systems

and procedures are being documented. Once this is done, there will be cause for audit and it is our sincere intention to hire a full-time internal auditor. In the meantime, as the need arises, we are contracting for such services, resulting in a significant economy to the Royal Canadian Mint.

OBSERVATIONS AND RECOMMENDATIONS

BUDGETARY CONTROL

Operating budgets are prepared for each major responsibility centre, but the input by and consultation with the related division heads varies with each location. In addition, budgets must be prepared without the benefit of external forecasts of domestic coin requirements. These budgets have not proved to be a useful base for comparison to actual monthly results since their structure does not take into consideration expected production schedules.

oDetailed instructions should be issued at all levels providing budget input and budget approvals, and changes should be clearly communicated.

CORPORATIONS'S COMMENTS

As a first step in the fall of 1975, detailed instructions had been issued at all levels for the preparation of the 1976 operational and capital budgets and for the first time all levels of management participated in the deliberations resulting in the finalization of these budgets.

OBSERVATIONS AND RECOMMENDATIONS

oThe Mint should request the Department of Finance and/or the Bank of Canada to forecast annual requirements of domestic coin for general circulation as part of a formal budget preparation cycle.

CORPORATIONS'S COMMENTS

Meetings were held and letters were written in November and early December 1975 seeking the co-operation of the Bank of Canada and The Canadian Bankers' Association to obtain a forecast of annual requirements of domestic coinage for general circulation so as to provide the Royal Canadian Mint with a sound base on which to forecast its budgets. As of this date, the Mint has had no results but we are continuing our efforts to get the co-operation of our clients.

OBSERVATIONS AND RECOMMENDATIONS

oBudgets should be phased over the year taking into account the expected activity fluctuations and the behaviour of variable and fixed costs.

CORPORATIONS'S COMMENTS

This is standard practice and it is now being applied effective with the 1976 budgetary control exercise.

OBSERVATIONS AND RECOMMENDATIONS

MONTHLY RESPONSIBILITY CENTRE REPORTS

The present monthly cost centre reports are neither understood nor utilized by many of the intended users since they contain numerous coding errors, do not reflect accrued items and work-in-progress changes, and are compared to budgets which have little credibility within the organization.

oThe content and format of monthly responsibility centre cost reports should be designed in consultation with managers to meet their needs and should be clearly documented and explained to them.

CORPORATION'S COMMENTS

This has to be the subject, with some priority, of a fairly extensive training program for all levels of management as to what is needed at various levels, how to use the information, and when to use it as a useful management tool. A comprehensive seminar on this particular topic was held at the beginning of May involving all levels of management to define exactly these points. This has now been done and the reporting system is being revised accordingly for immediate implementation.

OBSERVATIONS AND RECOMMENDATIONS

COST SYSTEMS DESIGN

The development of useful cost reports has been slow and uncoordinated within the Mint. The Winnipeg location, for example, has designed its own cost accounting system which meets the needs of its production processes. The Ottawa and Hull locations, however, lack a cost accounting system capable of identifying product and contract costs.

oThe cost accounting system of the Mint should be redesigned to identify and to control contributions from specific contracts as well as contributions from sales of each denomination of domestic coin.

CORPORATIONS'S COMMENTS

Same comments as indicated under "responsibility centre reports" apply as this was also a subject of the seminar.

OBSERVATIONS AND RECOMMENDATIONS

CODING OF COSTS

Errors in coding purchases are occurring because the Purchasing Divisions, rather than the manager ordering the goods, is indicating the expense accounts to be charged.

oCost allocations should be applied to all purchase requisitions at the time they are originated by the responsibility centre, either by coding or by written description.

CORPORATION'S COMMENTS

Same comments as under "responsibility centre reports" apply with the exception that the purchasing function will be further clarified at the forthcoming seminar on materiel management scheduled for June 1976

OBSERVATIONS AND RECOMMENDATIONS

DISCLOSURE IN FINANCIAL STATEMENTS

The published financial statements analyse coin sales by type of customer but do not identify the related direct production costs.

In its financial statements, the Mint should distinguish, between contributions from sales to Canada and sales to other entities.

CORPORATION'S COMMENTS

We agree to distinguish between contributions from Canadian domestic currency sales and contributions from all other sales in our financial statements. It is understood that information relative to contributions from all other sales will not be detailed in such a manner as to become detrimental to our market position.

ST. LAWRENCE SEAWAY AUTHORITY AND SEAWAY INTERNATIONAL BRIDGE CORPORATION LIMITED

Observations and Recommendations as at May 1976.

Authority's Comments as at July 1976.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL ORGANIZATION

oA Senior Financial officer with strong financial qualifications and experience should be appointed, should report to the President, and should be a member of the senior management committee.

AUTHORITY'S COMMENTS

The desirability of having a member of the Authority qualified and experienced in financial matters is recognized. From the time the Seaway was incorporated, at least one member of the Authority has always been so qualified.

OBSERVATIONS AND RECOMMENDATIONS

oRegional financial officers should be assigned broader responsibilities in order to provide direction and leadership in financial matters.

AUTHORITY'S COMMENTS

The objective of recent changes in the finance and accounting sections has been to remedy this situation and further changes will be made to improve present conditions.

OBSERVATIONS AND RECOMMENDATIONS

COMMUNICATION OF FINANCIAL REQUIREMENTS

There is no financial manual detailing the requirements and procedures of the financial administration system.

oA comprehensive manual should be developed and issued to positions involved in the financial function.

AUTHORITY'S COMMENTS

A financial manual will be developed and issued as soon as the present procedures have been amended, a revision that is now taking place. Meanwhile, the present Management Guidelines will continue to fill this requirement.

OBSERVATIONS AND RECOMMENDATIONS

DELEGATION OF FINANCIAL AUTHORITIES

Delegated authority for incurring expenditures is contained, in part, in the corporate by-laws, Management Guidelines and submissions approved by the Authority.

oA delegation document should be prepared for inclusion in the financial manual summarizing existing authorities and detailing responsibility for all expenditures. Specimen signature cards should be prepared.

AUTHORITY'S COMMENTS

Delegation of financial authorities will be a part of the financial manual to be developed.

OBSERVATIONS AND RECOMMENDATIONS

CAPITAL ASSETS AND DEPRECIATION

The cost of the majority of the Authority's capital assets is not systematically allocated to expense over the useful economic life of the assets.

oThe Authority should develop a depreciation policy that would include classification of assets as depreciable and non-depreciable, estimate the useful life of assets, and establish rates of depreciation for each class.

AUTHORITY'S COMMENTS

As part of the revision of the Authority's financial structure currently being examined by the Government, a depreciation policy will likely be developed which should prove more adequate than the present one.

OBSERVATIONS AND RECOMMENDATIONS

TERMINATION BENEFITS

The liability resulting from the Authority's termination pay plans is not recorded in the accounts.

oThe liability accruing to employees for termination benefits should be estimated and recorded in the Authority's financial statements.

AUTHORITY'S COMMENTS

The liability resulting from the termination of employment benefits is acknowledged in the 1975-76 dual Report in a note stating its approximate amount. The revision of the financial structure may allow the Authority to record this liability in its accounts in the future.

OBSERVATIONS AND RECOMMENDATIONS

ESTIMATES PRESENTATION

Financial plans for the Montreal-Lake Ontario section are not disclosed in the Estimates even though a large interest charge is being deferred. For the Welland section, there is no separate disclosure of the revenues generated and of the interest costs.

oIn conjunction with Treasury Board, the Authority should study the presentation of its Estimates with the objective of providing better disclosure of facts to Parliament.

AUTHORITY'S COMMENTS

The Authority would not have any objection to disclosing its financial plans in more detail, including those for the Montreal-Lake Ontario section that do not require any funding. We can only assume that such disclosure has not been requested in the Government's annual Estimates for the sake of brevity.

OBSERVATIONS AND RECOMMENDATIONS

PERFORMANCE MEASUREMENT AND MONITORING OF BUDGETS

Several cost centres comprise each present budgetary unit. Budgets are prepared on an annual basis which does not facilitate meaningful comparison with actual results.

oThe budgetary unit should be of an appropriate size to identify performance objectives adequately and then to allow for assessment of performance in accordance with the budget.

AUTHORITY'S COMMENTS

The present budgetary data represents an interim position between what was, and what is to be. It will eventually be prepared for units of the size appropriate to assess performance more adequately. Variances between budget and actual results are explained directly to the Authority, on a regular basis, by the directors and managers, and will eventually become part of the budget report.

OBSERVATIONS AND RECOMMENDATIONS

oBudgetary and monthly financial data should be prepared on a consistent basis to facilitate comparing and monitoring revenues and expenditures. Variances between budget and actual results should be explained.

INTERNAL REPORTING

Operating and lockage statistics are reported separately from the basic monthly financial statements.

oThe internal financial statements should be modified and expanded to include non-financial data in addition to financial data.

AUTHORITY'S COMMENTS

We do not believe that the monthly financial statements should contain operating and lockage statistics. The utilization level of our facilities is monitored by an Operations Branch located in Cornwall. Relevant reports are issued by this central branch and it would not serve any useful purpose to include this information

in the financial statements.

OBSERVATIONS AND RECOMMENDATIONS

INTEGRATION OF MANAGEMENT INFORMATION SYSTEMS

Employees' time sheets form the basis of three independently prepared reports.

oThe Authority should attempt to integrate its management information systems to the extent feasible so that management reports will provide a timely and relevant base for management decision.

AUTHORITY'S COMMENTS

Integration of the management information systems has been the subject of a report recently submitted by consultants, and a decision is to be taken shortly on their recommendations. It is readily recognized that the present procedures are inadequate.

OBSERVATIONS AND RECOMMENDATIONS

THE SEAWAY INTERNATIONAL BRIDGE CORPORATION, LTD.

oPayroll cheques should be distributed by an employee independent of payroll preparation.

AUTHORITY'S COMMENTS

The Bridge Company is a small firm employing less than 15 people. The payroll list and the cheques will be handled somewhat differently in future to obviate the present possible risk.

OBSERVATIONS AND RECOMMENDATIONS

oSubsidiary fixed asset records should be reconciled and balanced to the general ledger control account.

AUTHORITY'S COMMENTS

The fixed assets of this subsidiary of the Seaway have been reconciled and balanced with the general ledger control account.

APPENDIX E

FINANCIAL MANAGEMENT AND CONTROL STUDY:

REPORTS TO DEPARTMENTS AND AGENCIES

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INTRODUCTION	

The 1975-76 phase of the financial management and control study examined seven departments and agencies. The observations and recommendations reported to each entity and their responses follow.

The following matters should be noted regarding these summary reports:

- they contain a listing of system deficiencies. Its length does not give any indication of the relative quality of the systems, but rather reflects the style of reporting of the many different study teams;
- they do not mention those areas where systems are well designed since the object of the study was to identify weaknesses and indicate possible corrective actions;
- matters considered attributable to government-wide systems and procedures are not dealt with extensively;
- the order of presentation does not correspond to that in the main part of the report, since the latter was arrived at after many of the summaries were prepared;
- emphasis is placed on recommendations. Where the recommendations do not explain the problem sufficiently, a separate paragraph precedes them. Replies concern the recommendations only;

-no attempt was made to verify that the actions indicated in the responses were taken or that they will be effective in remedying the shortcomings reported in our observations and recommendations.

These summary reports should be read in the context of the full report.

DEPARTMENT OF INDIAN AFFAIRS AND NORTHERN DEVELOPMENT

Observations and Recommendations as at January 1976.

Departmental Comments as at August 1976.

OBSERVATIONS AND RECOMMENDATIONS

SENIOR DEPARTMENTAL FINANCIAL OFFICER

oThe deputy head should formally designate a senior officer reporting to him to be responsible for departmental systems of financial administration. This individual should have the qualifications and financial experience needed to discharge the responsibilities of the finance function within the Department effectively.

oThe senior financial officer's duties should include responsibility and authority for giving functional direction to responsibility centre managers and their subordinate financial staff and to ensure proper exercise of financial responsibility at all levels of the Department.

DEPARTMENTAL COMMENTS

The Department has a review in process. A Senior Departmental Financial Officer will be designated with terms of reference and responsibilities clearly defined.

OBSERVATIONS AND RECOMMENDATIONS

RELATIONSHIP BETWEEN AND DEPARTMENTAL AND PROGRAM FINANCIAL SERVICES

Since strong functional relationships have not developed within the financial administration function, operating programs have developed their own independent financial systems. Also, in the operating programs, communication between headquarters and regional and field offices is primarily oral or by memorandum. General meetings and field visits by financial staff are infrequent.

oThe Department should define functional responsibility for financial administration throughout all levels of the organization.

DEPARTMENTAL COMMENTS

Agreed. This definition will be prepared in concert with Program Financial Advisers and included in the Department's Financial Manual.

OBSERVATIONS AND RECOMMENDATIONS

This should include giving the Senior Financial Officer the authority and responsibility for ensuring that the quality of financial administration throughout the Department is maintained at an acceptable level. More frequent meetings should be held between departmental financial officers to improve communications between and within the various organizational units of the Department.

DEPARTMENTAL COMMENTS

This will be included in the review referred to under "Senior Departmental Financial Officer". Meetings will be increased in frequency to reinforce the financial administration role within the Department.

OBSERVATIONS AND RECOMMENDATIONS

STAFFING IN FINANCIAL AREA

Staffing of the financial function has been done on a program, instead of on a departmental basis.

DEPARTMENTAL COMMENTS

This is to facilitate the highly decentralized nature of the Department.

OBSERVATIONS AND RECOMMENDATIONS

oThe Department should ensure consistency in the allocation of financial staff to programs and the adequacy of staffing within each financial unit.

DEPARTMENTAL COMMENTS

Staff allocation will be reviewed. This will be further reinforced through a revised Manpower Plan and Inventory covering the financial community within the Department.

OBSERVATIONS AND RECOMMENDATIONS

IN-HOUSE TRAINING AND ORIENTATION

The Department lacks a coordinated departmental program to identify and meet the training needs of persons performing financial functions.

A comprehensive in-house training program should be implemented for financial staff and other persons performing financial functions.

DEPARTMENTAL COMMENTS

This item will be included in the Manpower Plan and Inventory, now under revision.

OBSERVATIONS AND RECOMMENDATIONS

MANUAL

The Departmental Financial Management Manual is incomplete and not up to date. It was designed and written in headquarters with the sections on procedures and control systems written by each program. In addition, financial instructions are sometimes issued as memos or letters which are not numbered or controlled.

DEPARTMENTAL COMMENTS

Although not yet complete, substantial progress has been made in this area in recent years. The Manual, while formally written and issued from Headquarters requires input from and consultation with regions, districts and field locations.

OBSERVATIONS AND RECOMMENDATIONS

oThe Department should revise, update and consolidate directives in the Departmental Financial Management Manual with the participation of program personnel including those in regional and field offices.

DEPARTMENTAL COMMENTS

Agreed. This is in progress.

OBSERVATIONS AND RECOMMENDATIONS

oThe Manual should be written on a Department-wide basis except where organizational units have unique considerations that would preclude their complying with the departmental procedure. In such cases procedures should be prepared by the unit affected and incorporated in the departmental manual. Distribution should be limited to the units concerned.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

STANDARDIZATION OF FINANCIAL ORGANIZATION AND PROCEDURES

The financial systems and organizations vary throughout the Department. Although some differences may be required, the present situation unnecessarily complicates the system of financial administration.

Where practical the financial organizational arrangements and procedures of the Department should be standardized to facilitate the administration of financial systems within the Department.

DEPARTMENTAL COMMENTS

Agreed. The key consideration here is "where practical". The organization and procedural requirements of our three operating Programs are, however, substantially different. Within this limitation the Department will seek the fullest degree of standardization.

OBSERVATIONS AND RECOMMENDATIONS

CONTRIBUTIONS TO INDIAN BANDS

The Department contributes approximately \$100 million annually to Indian Bands to administer programs that would otherwise be administered within the Department. As one of the conditions of these contributions the

Department retains authority to withdraw the administration of a program when a Band fails to manage the funds properly.

Our review indicated that, in many cases, these funds have not been managed or accounted for by these groups in conformity with the terms and conditions prescribed by the Department, as evidenced by a review of the 1973-74 audit reports submitted. Accordingly, the continued delegation of authority for the administration of these funds to those Bands not complying with applicable terms and conditions should be reconsidered since the current policy represents a failure by the Department to accept responsibility for funds allocated by Parliament.

DEPARTMENTAL COMMENTS

Policy objectives are to place the fullest amount of local management in the hands of Band staff. Increased numbers of Band Financial Advisers have been engaged to work with Band-employed personnel. The Department continues to assist in development of varying means of fund management as the financial management capability of respective Bands increase.

OBSERVATIONS AND RECOMMENDATIONS

oIf the Department continues its recent trend of having Departmental officers carry out the annual financial audits of Band expenditures, detailed audit programs and procedures for reviewing working papers and financial statements should be developed and implemented.

DEPARTMENTAL COMMENTS

Agreed. The Department intends to limit audits by Departmental officers to circumstances where distance and the size of contributions make the engagement of Public Accountants impractical.

OBSERVATIONS AND RECOMMENDATIONS

oThe Minister and Deputy Minister have not delegated specific signing authorities for approving Band council resolutions, which are usually the agreement by which the money is transferred to the Bands. In addition, these agreements are not standardized and normally give only a general indication of how funds are to be spent.

DEPARTMENTAL COMMENTS

Corrective action has been taken. Regional Directors General have been delegated full authority to transfer operating funds to Band Councils and for Capital Funds, up to \$250,000. This authority is contained in the Program's revised Delegation of Financial Authorities.

OBSERVATIONS AND RECOMMENDATIONS

PRE-AUDIT

The pre-audit function within the Department is highly decentralized, procedures are not documented in the Financial Management Manual for all programs and there is often little evidence on documents of the work performed by the pre-audit clerks.

oPre-audit procedures should be changed to identify clearly the responsibility of the employee performing the function. The revised procedure should be established on a Department-wide basis and documented in the Manual. This may be accomplished by using a pre-audit stamp which would serve as a checklist of the work to be performed.

DEPARTMENTAL COMMENTS

Agreed. Departmental policy has been established and documented in the Manual.

OBSERVATIONS AND RECOMMENDATIONS

DELEGATION OF AUTHORITY

oThe delegation of authority documents in the Financial Management Manual are not up to date and do not impose dollar limits for signing authorities under Sections 25, 26 and 27 of the Financial Administration Act. In addition, payment authority was granted and often exercised by clerical staff, where financial officers were available.

DEPARTMENTAL COMMENTS

Corrective action has been taken.

OBSERVATIONS AND RECOMMENDATIONS

oSpecimen signature cards particularly in field offices do not always state all of the types and limitations of authority granted and in some cases they were not up to date.

DEPARTMENTAL COMMENTS

Departmental policy does cover this item. Field procedures will be reviewed to ensure adherence to this direction.

OBSERVATIONS AND RECOMMENDATIONS

oThere is no mention in the delegation of authorities documents that one officer cannot sign for both Sections 26 and 27 of the Financial Administration Act for any one payment.

DEPARTMENTAL COMMENTS

Departmental directive does cover this item and has been provided for in the majority of Program delegation documents. Deficient documents are being corrected.

OBSERVATIONS AND RECOMMENDATIONS

REVENUE RATE STRUCTURE

oThe Department has no specific procedures requiring a periodic review of revenue rate structures. Such reviews should be conducted by the Senior Financial Officer and recommendations should be supported by data showing current fees being charged, recommended fees and all applicable costs.

DEPARTMENTAL COMMENTS

Steps will be taken to ensure financial participation in rate studies, where appropriate. In the principal areas in question, however, full cost recovery is not an objective. Parks fees, for example, represent

only approximately 8% of Parks Canada Operating and Capital Budgets. In consequence, revenue rates are generally determined by policy judgement, rather than accounting factors.

OBSERVATIONS AND RECOMMENDATIONS

SMALL BUSINESS LOANS

The Northern Affairs Program has two small business loan accounts, one for the Northwest Territories and one for the Yukon Territory. Responsibility for issuing, administering and collecting the loans lies with the Territorial Commissioners and committees established by them. The Department has no control over the loans and our review indicated that many appeared to be seriously in arrears.

DEPARTMENTAL COMMENTS

This program provides financial assistance to entrepreneurs who have a higher risk factor than would be acceptable to regular lending institutes. It is the Department's view that the Territorial government, who have officers on location to carry out reviews and assessments, are in a much better position to carry out the granting and control of these loans.

OBSERVATIONS AND RECOMMENDATIONS

The Regulations should be changed to give the Minister greater control over the loans, or the funds should be turned over to the territorial governments in order to provide them with greater incentive to control these loans.

DEPARTMENTAL COMMENTS

The alternative of turning the funds over to the Territories is now being explored with the objective of a decision in the near future.

OBSERVATIONS AND RECOMMENDATIONS

INDIAN ECONOMIC DEVELOPMENT ACCOUNT

The Indian Economic Development Account had a balance outstanding of \$33.2 million as at March 31, 1975. The current system related to these loans is not administered by the finance group and does not provide adequate information to officers responsible for administering the account.

DEPARTMENTAL COMMENTS

The administration of the Fund is undergoing an intensive series of studies. The role of the financial group in total fund administration

will be clearly defined and upgraded.

OBSERVATIONS AND RECOMMENDATIONS

oUnder the direction of the finance function within the Department, a system should be developed for Indian Economic Development loans which would include appropriate monitoring, reporting and following up on them.

DEPARTMENTAL COMMENTS

The finance group is currently engaged in the development of a computerized accounting system which will provide the current financial status of each loan. A later phase of this system will include Guaranteed Loans.

OBSERVATIONS AND RECOMMENDATIONS

FURNITURE AND EQUIPMENT

The additions to furniture and equipment, as recorded in Departmental systems used for controlling furniture and equipment, are not reconciled to purchases of furniture and equipment in the principal departmental accounting system. As a result no control exists to ensure that all fixed assets purchased are inventoried. In addition, physical inventories are not always taken as required by the Materiel Management Manual.

DEPARTMENTAL COMMENTS

The Department has concentrated on establishing physical inventory control over its assets. Initial provision for control is made by recording acquisition cost of major equipment in the Department's Equipment Management Information System and in the automated Distribution Accounting System.

OBSERVATIONS AND RECOMMENDATIONS

oThe Department should establish financial control of moveable equipment and attractive items by reconciling annual additions to the fixed asset ledgers and the corresponding objects of expenditures.

DEPARTMENTAL COMMENTS

A new distribution accounting system is being tested during 1976-77 which if proven successful will be adopted universally throughout the Department.

OBSERVATIONS AND RECOMMENDATIONS

DEPARTMENTAL COMMENTS

oThe Department should ensure that periodic physical counts are taken of fixed assets, in accordance with the Materiel Management Manual, and that these counts are agreed to the related fixed asset ledgers.

DEPARTMENTAL COMMENTS

The Department is initiating studies to integrate the physical inventory control with the principal accounting system to ensure ability to reconcile additions.

The Departmental Internal Audit Division has been specifically instructed to check that physical counts of distribution account equipment are being conducted in accordance with departmental instructions and record incidences of non-compliance as observations in their reports. Follow-up action by Program directors on audit reports request that these counts be carried out and proper adjustment action instituted.

OBSERVATIONS AND RECOMMENDATIONS

IMPREST/TRUST ACCOUNTS

The Indian and Eskimo Affairs Program has bank accounts which hold funds in trust for Indians as well as being used as imprest bank accounts for departmental purposes. These accounts are not authorized by the Receiver General and they are reconciled by the office that issued the cheques.

oThe Department should obtain authorization from the Receiver General for all bank accounts. Departmental imprest accounts should only be requested where they are needed because of being in a remote location. Funds held in trust should be kept in separate bank accounts to ensure that trust funds are not utilized for other purposes.

DEPARTMENTAL COMMENTS

This is now a general directive from Treasury Board, to which this Department has complied.

Separation of Imprest Accounts into bank accounts separate from Trust Funds is currently being implemented.

OBSERVATIONS AND RECOMMENDATIONS

oBank reconciliations for the Departmental Imprest Account should be prepared by someone other than the issuing officer as required in the Authorities Manual.

DEPARTMENTAL COMMENTS

Agreed, the reconciliation function should be separate from the cheque issue and deposit function. This process is now in place.

OBSERVATIONS AND RECOMMENDATIONS

INTERNAL AUDIT

The Department's internal audit work is conducted under contract by the Audit Services Bureau. The internal audit group of the Department co-ordinates and determines the subject matter and timing of each examination but is not adequately involved in the actual audit, the review of the Audit Services Bureau files, or the follow-up of the audit comments. In addition, the group reports to the Director, Departmental Financial Services Branch.

DEPARTMENTAL COMMENTS

The Internal Audit Division of the Department determines the scope and frequency of the over-all audit program. Since the Department relies on the professional expertise of Audit Services Bureau the Audit Division does not directly participate in the performance of each audit or review all of the Audit Services Bureau files. The Internal Audit Division reviews all audit reports and, in concert with the Audit Services Bureau, reviews relevant files deemed necessary by the Internal Audit Division.

OBSERVATIONS AND RECOMMENDATIONS

oThe Department's internal audit group should exercise its responsibility for reviewing financial control systems and performance of internal audits through greater co-ordination of their efforts with the Audit Services Bureau and elimination of the identified gaps in existing procedures.

DEPARTMENTAL COMMENTS

It is the Department's intention to expand the role and scope of Internal Audit through more in-depth "operational audit" type of reviews. The Departmental Internal Audit Division will, of necessity, take the lead role in the new style of audit, with continued professional assistance from the Audit Services Bureau.

OBSERVATIONS AND RECOMMENDATIONS

oThe internal audit group should report to a senior officer other than the chief financial officer, preferably the chairman of an audit committee.

DEPARTMENTAL COMMENTS

The role, organization and reporting relationship of the Departmental

Internal Audit are currently under review.

OBSERVATIONS AND
RECOMMENDATIONS

PROGRAM FORECASTS

Program Forecasts are prepared at all levels of the Department with little central direction concerning priorities or the method of preparation.

oThe Department should prepare the Program Forecasts centrally with input from field operations. Preparation of detailed Program Forecasts in the field offices should be avoided.

DEPARTMENTAL COMMENTS

Agreed. This is included in our revised planning for Program Forecast preparation with the Department.

OBSERVATIONS AND
RECOMMENDATIONS

oThe Department should improve communication with field offices on reasons for priorities and changes in project requirements related to Program Forecasts.

DEPARTMENTAL COMMENTS

Agreed. This will be emphasized in subsequent years.

OBSERVATIONS AND
RECOMMENDATIONS

ESTIMATES

oThe Department should develop procedures for preparing the Estimates submission to be used in all programs. These procedures should provide for:

DEPARTMENTAL COMMENTS

Agreed.

-detailed costing of activities in relation to desired output; and

-an opportunity for the responsibility centre managers to defend their submissions to the senior officers of

OBSERVATIONS AND
RECOMMENDATIONS

oRevisions to submissions should be explained to the managers to ensure their continued commitment to the budgets for their

responsibility centres.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

oThe Department should establish a series of training sessions to explain its Department-wide budgetary control system so staff at all levels understand the purpose and the significance of its submissions.

DEPARTMENTAL COMMENTS

This will be included in the comprehensive training package referred to under "in-house training and orientation".

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL REPORTS

Management depends on timely, accurate and relevant financial information to make informed decisions. The Department's information lacks this quality, severely inhibiting the ability of managers to make informed decisions.

oThe Department should improve its existing reporting system so that the information generated is timely and meets the needs of the relevant managers.

DEPARTMENTAL COMMENTS

Agreed. Reviews are currently under way in consultation with the Department of Supply and Services and Treasury Board.

OBSERVATIONS AND RECOMMENDATIONS

VARIANCE REPORTING

Due to the three week turn-around, from the time that input to the reports is cut off until the monthly financial statements are received, responsibility centres have little time to complete variance reports and therefore often do not prepare a proper analysis. Reasons for variances are not explained in terms of output or level of services and in many cases variances are explained, however small. These explanations therefore are of little use for management purposes.

OBSERVATIONS AND RECOMMENDATIONS

oVariances between budget and actual expenditures should be explained in terms of the level of activity on a year-to-date basis as well as that projected for the year-end. Only significant variances should be analyzed.

DEPARTMENTAL COMMENTS

Agreed. Greater emphasis will be placed on the expanded analysis of variance impact.

OBSERVATIONS AND RECOMMENDATIONS

oThe "Milestone System" for capital projects should be co-ordinated with the Department of Supply and Services system so that one report is established including both financial and performance data.

DEPARTMENTAL COMMENTS

Agreed. This is one of the major objectives of the current review of the Capital Management Reporting System.

OBSERVATIONS AND RECOMMENDATIONS

GRANTS AND CONTRIBUTIONS - VOTE WORDING

oGrants and contributions, excluding those applicable to programs managed by Indian Bands which would otherwise be administered by the Department, should form part of a separate vote.

DEPARTMENTAL COMMENTS

These recommendations will be reviewed in consultation with Treasury Board Staff.

OBSERVATIONS AND RECOMMENDATIONS

oThe contributions for capital programs managed by Indian Bands should be included in the supplementary listing of the contributions in the Estimates and Public Accounts.

oThe Department should obtain Treasury Board's approval for including contributions for capital expenditures in the capital expenditures vote.

oThe operating expenditure and the capital vote wording should be changed to reflect more accurately the nature of the expenditures.

NET-VOTING

Net-voting should be applied in flexible budgeting situations where

expenditures incurred in providing a service vary directly with the revenues arising from the service. In the national parks the

Net-voting concept does not provide the incentive to maximize revenues and produces year-end cash management problems for the Department.

oIn the Parks Canada Program, operating vote funds should be allocated on a gross basis with all revenues being credited to revenue accounts in the Consolidated Revenue Fund rather than being segregated for net-voting purposes.

DEPARTMENTAL COMMENTS

Recommendations for the discontinuance of net-voting are contained in the recently completed Study of the Accounts of Canada. Responsibility for decisions on this matter lies outside this Department.

DEPARTMENT OF JUSTICE

Observations and Recommendations as at June 1976.

Departmental Comments as at August 1976.

OBSERVATIONS AND RECOMMENDATIONS

ORGANIZATIONAL ASPECTS

The Deputy Minister has authorized the Assistant Deputy Minister, Administration, and the Director, Finance and Administration, to exercise on his behalf all of the administrative and financial powers, functions and duties for the Department.

oThe Deputy Minister should designate in writing a single senior officer to be responsible for departmental systems of financial administration.

DEPARTMENTAL COMMENTS

These recommendations are under consideration and a decision will be made in the near future.

OBSERVATIONS AND RECOMMENDATIONS

oThe Senior Financial Officer should have strong financial qualifications.

oThe Senior Financial Officer should attend all meetings of the departmental "Senior Staff" Committee.

FUNCTIONAL RESPONSIBILITIES

oThe responsibility of the Senior Financial Officer for giving functional direction in financial matters should be defined and documented as a departmental directive.

DEPARTMENTAL COMMENTS

Agreed. The functional relationships will be defined and documented.

OBSERVATIONS AND RECOMMENDATIONS

oAs financial responsibilities become decentralized, Finance and Administration Directorate financial officers should hold regular meetings with program and regional financial and administrative officers.

DEPARTMENTAL COMMENTS

Agreed. A program of regular meetings has commenced.

OBSERVATIONS AND RECOMMENDATIONS

PERFORMANCE EVALUATION

The senior financial officers of the Finance and Administration Directorate neither contribute to, nor review the performance appraisals of financial and administrative officers with financial responsibilities within the programs and regional offices.

oThe functional direction senior financial officers in the Finance and Administration Directorate give to program and regional financial and administrative officers should be strengthened by requiring the former to have input into the performance appraisals of the latter.

DEPARTMENTAL COMMENTS

This recommendation is under consideration.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL TRAINING

There is no co-ordinated departmental program to identify and meet the training needs of persons performing financial functions throughout the Department.

oAs financial responsibilities become decentralized, a training program should be established and implemented for Financial Services Division staff, besides financial officers and administrative officers with financial responsibilities within the programs and regional offices.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

oTraining sessions on departmental financial policies and procedures should be conducted for responsibility centre managers.

DEPARTMENTAL COMMENTS

Agreed. Seminars will be conducted in the near future.

FINANCIAL MANUALS

The Department has no financial management manual, although work recently began on this.

OBSERVATIONS AND RECOMMENDATIONS

oA specific time-table should be developed for completing the departmental financial management manual as soon as possible. The manual should meet the requirements outlined in the Treasury Board Guide on Financial Administration.

DEPARTMENTAL COMMENTS

The Department has begun a program of writing financial procedures; it is anticipated that the manual will be completed in 1977-78.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL CONTROLS OVER PAYROLL SYSTEMS

Salaries and wages represent more than 60% of total departmental expenditures. The Judges Administration Directorate is responsible for the development of Judges' pay data and the Personnel Administration Directorate for other pay data. Until recently the Finance and Administration Directorate had little involvement in developing, reviewing and evaluating payroll accounting procedures and internal controls. The Directorate recently issued a directive about receiving and distributing all pay cheques except those for Judges.

oPayroll procedures should include controls over Judges' payroll systems.

DEPARTMENTAL COMMENTS

The directive now covers Judges' pay cheques.

OBSERVATIONS AND
RECOMMENDATIONS

oThe Senior Financial Officer should exercise functional responsibility for financial controls over the Department's payroll systems.

DEPARTMENTAL COMMENTS

This recommendation is under consideration.

OBSERVATIONS AND
RECOMMENDATIONS

ACCOUNTING CONTROL OVER
EXPENDITURES

Cheque requisitions for submission to the Department of Supply and Services should be batched before approval is given under Section 26 of the Financial Administration Act.

DEPARTMENTAL COMMENTS

This recommendation is being implemented.

OBSERVATIONS AND
RECOMMENDATIONS

PRE-AUDIT PROCEDURES

Our review indicated that several pre-audit procedures are not being followed.

oDepartmental policy and procedures for pre-audit should be documented and included in the proposed financial manual.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND
RECOMMENDATIONS

oThe pre-audit procedures should incorporate controls to ensure that:

DEPARTMENTAL COMMENTS

These recommendations have been implemented.

OBSERVATIONS AND
RECOMMENDATIONS

(a) all supporting documents are available;

(b) evidence is recorded on originals of source documents to show that key pre-audit tests have been carried out;

(c) errors corrected are recorded; and

(d) documents are cancelled to prevent re-use.

DELEGATION OF AUTHORITIES

The document delegating financial signing authorities under Sections 26 and 27 of the Financial Administration Act shows no dollar limits on their exercise, and there is none on requisition authority (Section 25 of the Act).

oDollar limits appropriate to various levels of responsibility should be established, at least on the exercise of Section 25 authorities.

DEPARTMENTAL COMMENTS

This recommendation has been implemented.

OBSERVATIONS AND RECOMMENDATIONS

FIXED ASSETS

Our review indicated a number of weaknesses in control over fixed assets, particularly those outside headquarters.

oThe Senior Financial Officer should complete the development of financial policies and ensure implementation of systems that provide proper control over and define custodial responsibility for all fixed assets.

DEPARTMENTAL COMMENTS

This recommendation is being implemented.

OBSERVATIONS AND RECOMMENDATIONS

INTERNAL AUDIT

oInternal audit should report scope of work and significant findings to a member of senior management other than the Senior Financial Officer or any of his subordinates, or to an audit committee comprising several members of senior management.

DEPARTMENTAL COMMENTS

This recommendation is under consideration.

OBSERVATIONS AND RECOMMENDATIONS

oThe Department should develop follow-up procedures to ensure corrective action with regard to audit observations.

DEPARTMENTAL COMMENTS

Follow-up procedures are in effect.

OBSERVATIONS AND RECOMMENDATIONS

oThe schedule of internal audits should be changed to meet the coverage suggested in the Treasury Board Guide on Financial Administration.

DEPARTMENTAL COMMENTS

This recommendation has been implemented.

OBSERVATIONS AND RECOMMENDATIONS

LONG-RANGE PLANS

The Department recently formulated its long-range plans and priorities; however, these had not previously been formally reviewed or updated for several years.

Departmental long-range plans, objectives and priorities should be reviewed and updated regularly.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

Departmental priorities have not been documented for the benefit of responsibility centre managers.

oResponsibility centre managers should be made formally aware of senior management's objectives before the preparation of Program Forecasts.

DEPARTMENTAL COMMENTS

Agreed to the extent that departmental objectives and priorities affect individual responsibility centre managers in the preparation of Program Forecasts.

OBSERVATIONS AND RECOMMENDATIONS

EVALUATION OF CONTINUING PROGRAMS

The "A" budget element of the Program Forecast for continuing programs is prepared on an incremental basis, except for capital and some grants and contributions. As a result, major portions of continuing programs are not automatically subjected to a regular review.

oThe Department should develop a plan whereby all continuing programs are evaluated regularly.

DEPARTMENTAL COMMENTS

Evaluation procedures, including an evaluation unit for particular programs, will be established.

OBSERVATIONS AND RECOMMENDATIONS

CONTROLS OVER BUDGETARY SUBMISSIONS

The Department has no formal policies concerning the various levels of approval and verification of the mechanical accuracy of Program Forecasts and Main Estimates submissions and their supporting documents.

oFormalized policies concerning the nature and documentation of the review, challenge and approval procedures and the independent verification of the mechanical accuracy of budgetary submissions to Treasury Board and their supporting documents should be issued as a directive to be included in the departmental financial manual.

DEPARTMENTAL COMMENTS

Policies will be developed and implemented.

OBSERVATIONS AND RECOMMENDATIONS

ADDITIONAL FINANCIAL PLANNING AND FORECASTING STAFF

The Financial Planning and Forecasting section of the Finance and Administration Directorate consists of one officer, an FI-4. Responsibility centre managers and their administrative personnel rely heavily on his budgetary expertise since their financial knowledge is limited.

oThe Finance and Administration Directorate should be provided with adequate resources to ensure that Financial Planning and Forecasting has the staff needed to perform its functions.

DEPARTMENTAL COMMENTS

The staff of the Financial Planning and Forecasting Unit is being enlarged to provide the staff required.

OBSERVATIONS AND RECOMMENDATIONS

BUDGETS AND VARIANCE ANALYSIS

The Finance and Administration Directorate prepares annual budgets for responsibility centre managers.

oResponsibility centre managers should have sufficient input into the preparation of their budgets to ensure their commitment to them.

DEPARTMENTAL COMMENTS

Agreed. The input by responsibility managers will be expanded when budgets are next prepared.

OBSERVATIONS AND RECOMMENDATIONS

Responsibility centre managers have not received any training concerning the preparation of budgets and the analysis of variances.

oAdequate training should be provided to responsibility centre managers to enable them to carry out their budgetary control duties effectively.

DEPARTMENTAL COMMENTS

Agreed. Additional training sessions will be conducted.

OBSERVATIONS AND RECOMMENDATIONS

BUDGETARY CYCLE PROCEDURES

There are no detailed documented procedures on the budgetary cycle, such as the Department's policy and procedures on long-range planning, Program Forecasts, Main Estimates and operational plans.

oAll budgetary cycle policy and procedures should be documented. These should be distributed as departmental directives to responsibility centre managers.

DEPARTMENTAL COMMENTS

Agreed. These directives will be incorporated in the Financial Management Manual.

OBSERVATIONS AND RECOMMENDATIONS

COMMITMENT CONTROL

A draft directive has been prepared describing the procedures for recording and controlling commitments.

oThe Department should distribute the commitment accounting directive as soon as possible and ensure that its procedures are effectively implemented.

DEPARTMENTAL COMMENTS

The directive has been distributed.

OBSERVATIONS AND RECOMMENDATIONS

PROGRAM-ACTIVITY STRUCTURE

Departmental programs are not subdivided below the activity level. The Department is currently reviewing the activity structure of the Administration of Justice Program.

oThe activity structure of the Administration of Justice Program should be reviewed to consider providing more meaningful information to those both inside and outside the Department.

DEPARTMENTAL COMMENTS

The activity structure review will be completed prior to 1977/78.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL REPORTING

The departmental financial management reporting system suffers from a number of problems including:

- (a) financial management reports are not prepared on a regular basis;
- (b) supervisory managers' reports are not prepared for all departmental managers who supervise one or more responsibility centre managers; and
- (c) financial data are not reported by program activities.

oThe Department should ensure that the financial management reporting system serves as a tool to make financial information visible and to make managers accountable for effective use of their resources.

DEPARTMENTAL COMMENTS

The financial management reports which have been restructured for

1976/77 will provide managers with the reports they require. Also, increased emphasis is being placed on responsibility centre managers' accountability.

DEPARTMENT OF NATIONAL HEALTH AND WELFARE

Observations and Recommendations as at March 1976.

Departmental Comments as at August 1976.

The Financial Administration Directorate of the Administration Branch of National Health and Welfare provides functional direction to the branches of both the Health and Welfare sectors of the Department.

Consequently, our recommendations are presented in three parts: those common to both sectors, those that apply to Health sector branches and those that apply to Welfare sector branches.

INTRODUCTION

The Department obtains more than one-quarter of the Government's total budgetary resources, over 10 billion dollars for the fiscal year 1976-77. In addition, the Department determines substantial amounts, in excess of one billion dollars per annum, payable to the Province of Quebec pursuant to the Established Programs (Interim Arrangements) Act, covering Hospital Insurance and Canada Assistance Plan programs.

Notwithstanding that many of its programs are based on statutory payments to individuals and transfer payments to the provinces, the Department must ensure accurate computation and valid entitlement.

Overall, the financial function does not play an adequate role in the management of the Department, considering that the Department's expenditures represent such vast sums of money. This is evidenced by the fact that those officers delegated the direct responsibility for financial control and financial administration are accorded neither the authority required within the organizational reporting structure, nor full membership and active participation on their applicable executive or management committees.

Further, the Financial Administration Directorate has had little involvement in reviewing and evaluating the financial controls relating to the statutory and voted contribution programs of the Department. Such programs constitute more than 95% of the Department's budgetary expenditure.

Financial management systems are an important tool in the planning and controlling of decentralized operations. In general, we have found that the Department has designed a financial system responsive to the role of financial management and which, with certain exceptions, is capable of providing adequate accountability and visibility in the utilization of financial resources.

However, we also found that the effective application of the system by a number of branches has been less than satisfactory.

Neither the Financial Administration Directorate nor the branch financial organizations monitor the application of financial systems and procedures to the extent necessary.

During our study, we noted a lack of perception of the functional authority and responsibility of the full time Senior Financial Officer. We believe that this, coupled with an absence of monitoring, has resulted in the inadequate pre-audit of expenditures and inadequate financial controls, particularly over cash receipts, accounts receivable, inventories and fixed assets.

Key areas that require attention in the Department are the reporting relationships of the Senior Financial Officer and branch financial advisers, the functional direction provided by these officers and the staffing of the financial function. Recommendations relating to these areas are made in all sections of this precis to provide specific details for the benefit of the branches.

The development of a centrally coordinated training program for financial officers and administrative officers with financial responsibilities has been hampered by a lack of adequate resources.

The internal audit function is woefully short staffed and cannot fulfil its assigned review and evaluation responsibilities in anywhere close to the three year cycle recommended in the Treasury Board Guide on Financial Administration.

OBSERVATIONS AND RECOMMENDATIONS

COMMON TO BOTH THE HEALTH AND WELFARE SECTORS

ORGANIZATION

The Assistant Deputy Minister, Administration is currently designated as the principal adviser to the Deputy Ministers within the total context of administration, including Financial Administration. Other areas of administration for which he serves this role include:

- Personnel Administration
- Information
- Internal Audit
- Departmental Support Services
- Management Consulting Services
- Official Languages

The departmental financial function is organized under the Director General, Financial Administration Directorate, who reports to the Assistant Deputy Minister, Administration. The Director General, Financial Administration Directorate, is not a member of the departmental executive committees.

oThe Department should appoint a Senior Financial Officer whose primary responsibility is finance. He should report directly to the

Deputy Ministers and should be a member of the departmental executive committees.

DEPARTMENTAL COMMENTS

The observations and recommendations advanced by the Auditor General will be considered.

OBSERVATIONS AND RECOMMENDATIONS

We found that it was not clearly understood throughout the Department just who is currently the Senior Financial Officer.

oWhen the Senior Financial Officer is appointed, his responsibilities and how they are to be exercised should be clarified in writing throughout the Department. This directive should be included in the Financial Management Manual.

DEPARTMENTAL COMMENTS

The recommendations advanced by the Auditor General will be considered.

OBSERVATIONS AND RECOMMENDATIONS

FUNCTIONAL DIRECTION

oThe functional direction given by the Senior Financial Officer to the Branch Financial Advisers should be strengthened and clarified by:

(a)having the Deputy Ministers emphasize that the Senior Financial Officer is responsible for the system of financial administration in the Department and that he must therefore prescribe on behalf of the Deputy Ministers, after appropriate consultation with the Branches, what shall be done in the area of financial administration;

DEPARTMENTAL COMMENTS

This will be taken into account when considering the observations and recommendations concerning Organization.

OBSERVATIONS AND RECOMMENDATIONS

(b)redefining and documenting the respective roles of the Financial Administration Directorate and Branch Financial Advisers in line with the Treasury Board Guide on Financial Administration; and

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

(c) seeking adequate resources to staff and implement a monitoring function to ensure compliance with departmental financial policies.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL CONTROLS IN PROGRAMS FOR STATUTORY AND VOTED CONTRIBUTIONS

Statutory and voted contribution programs account for more than 95% of the Department's expenditures.

The Director General, Financial Administration Directorate, and his Directorate have had little involvement in reviewing and evaluating financial controls associated with these major programs.

The responsibilities of the Senior Financial Officer should include reviewing and approving financial controls over statutory and voted contributions programs.

DEPARTMENTAL COMMENTS

The responsibility for the policy formulation with respect to program conditions, quantum and timing of statutory and voted contributions including the specialized financial administration of the Acts, is the direct responsibility of the appropriate Assistant Deputy Minister. The responsibility for review and approval of those financial controls which are common to all departmental expenditures including the review of financial procedures respecting statutory and voted contribution programs developed by the branches, will be undertaken forthwith. The final assignment of this responsibility will be taken into account when considering the observations and recommendations concerning Organization.

DEPARTMENTAL COMMENTS

OBSERVATIONS AND RECOMMENDATIONS

STAFFING AND TRAINING OF THE FINANCIAL FUNCTION

To fulfil future needs for qualified financial administrators, the Department has recently established the FI Development Program. Treasury Board has reacted very favourably to this program. Adequate financial training is also necessary for existing finance officers and responsibility centre managers.

DEPARTMENTAL COMMENTS

Financial training for existing financial officers and responsibility centre managers has already been implemented. Application, however, has been limited due to inadequate resources.

OBSERVATIONS AND RECOMMENDATIONS

oThe Financial Administration Directorate should:

(a)continue the FI Development Program; and

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

(b)extend its departmental training program to cover a greater number of responsibility centre managers and financial officers.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

PERFORMANCE APPRAISALS

The Director General, Financial Administration Directorate, does not have input into the performance appraisals of the Branch Financial Advisers.

oThe Functional direction given by the Senior Financial officer to the Branch Financial Advisers should be strengthened by requiring the Senior Financial Officer to participate in their performance appraisals.

DEPARTMENTAL COMMENTS

This will be taken into account when considering the observations and recommendations concerning Organization.

OBSERVATIONS AND RECOMMENDATIONS

MANUALS

The departmental Financial Management Manual does not include procedures for certain key areas of financial management such as Long-Range Planning, Variance Reporting, Grants and Contributions. Also,

the procedures for financial controls over payroll systems are not documented in the Personnel Management Manual.

oAll key areas of the departmental Financial Management Manual should be in the implementation plan and should be completed as soon as possible.

DEPARTMENTAL COMMENTS

These procedures will be issued, except those for long-range planning which we do not believe should be exclusively identified with financial management. However, reference to long-range planning will be made in other appropriate sections of the Departmental Financial Management Manual.

OBSERVATIONS AND RECOMMENDATIONS

oBranch supplements, where required should also be completed as soon as possible.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

oThe Personnel Management Manual should incorporate the financial controls over payroll systems and should be completed and issued as soon as possible. Efforts should be directed at keeping it up to date thereafter.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL CONTROLS OVER PAYROLL SYSTEMS

oThe Department should implement revised payroll distribution procedures as soon as possible to ensure appropriate segregation of duties.

DEPARTMENTAL COMMENTS

Now being implemented.

OBSERVATIONS AND RECOMMENDATIONS

oThe Senior Financial Officer should exercise functional responsibility for financial controls over the Department's payroll systems.

DEPARTMENTAL COMMENTS

We agree that departmental Financial Authorities should be involved with development, review and evaluation of payroll accounting procedures and internal controls relating to the commitment and control of payroll funds, and should concur with the system of control employed. The final assignment of this responsibility will be taken into account when considering the observations and recommendations concerning Organization.

OBSERVATIONS AND RECOMMENDATIONS

ACCOUNTING CONTROL OF EXPENDITURES

oDepartmental policy and procedures as stated in the Financial Management Manual should be revised to incorporate controls, as a precaution against fraud and error, whereby:

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

(a)document and dollar controls are established before a financial officer exercises payment authority; and

(b)approved payment documents are forwarded directly to the Department of Supply and Services without being returned to the clerk maintaining batch control.

PRE-AUDIT PROCEDURES

The Financial Management Manual includes a pre-audit verification directive; however, the procedures described are fairly general and do not provide specific direction on methods of pre-audit.

oDepartmental policy and procedures for pre-audit as stated in the Financial Management Manual should incorporate more formalized controls to ensure that:

DEPARTMENTAL COMMENTS:

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

- (a)all supporting documents are available;
- b)key pre-audit tests are individually identified and signed off on the documents;
- (c)a record is maintained for errors corrected;
- (d)documents are cancelled to prevent re-use;and
- (e)only original invoices are processed.

COMMITMENT ACCOUNTING

Commitment accounting and reporting practices are not consistent across the Department. Some branches recognize legal obligations as commitments, while other branches commit both legal and managerial intentions to spend.

oIn order to have all branches on a uniform commitment system, the Department should issue its revised commitment accounting directive as soon as possible. Branches not currently complying with the policy should be required to commit themselves to an early implementation schedule and their progress should be monitored by the Financial Administration Directorate.

DEPARTMENTAL COMMENTS

We agree that for departmental control, there should be a consistent definition. However, individual managers, for their own cash forecasting purposes, may need to incorporate their intentions to spend.

OBSERVATIONS AND RECOMMENDATIONS

RECORDING OF CASH RECEIPTS

The Financial Administration Directorate processes centrally all departmental cash receipts input documents for entry into the Department of Supply and Services accounting system. As a result, the control accounts for receivables maintained by various Branch accounting offices are overstated at each month-end by the amount of cash receipts not processed by the end of the month.

oBranch accounting offices should input their cash receipts data directly to the Department of Supply and Services for entry to the central accounting system.

DEPARTMENTAL COMMENTS

Implemented.

OBSERVATIONS AND RECOMMENDATIONS

ACCOUNTS RECEIVABLE

The departmental Financial Management Manual outlines appropriate policy and procedures relating to accounts receivable. However, these are not being followed in all instances.

oThe Financial Administration Directorate should monitor branch accounts receivable systems to ensure that they reach the standards established as departmental policy.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

FIXED ASSETS

oThe Department should establish and enforce adequate controls over fixed assets, taking into account the nature of the various categories of such assets.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

INTERNAL AUDIT

Since its inception, Internal Audit has not had sufficient resources to carry out comprehensive annual audits of the Department's major statutory and benefit payment programs or to cover each responsibility centre at least every three years as recommended by the Treasury Board Guide on Financial Administration.

The audit coverage of responsibility centres is currently on a seven year cycle.

oThe internal audit staff should be increased so that adequate resources are available to carry out an adequate internal audit program for the Department.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

PROGRAM FORECASTS/MAIN

ESTIMATES PROCEDURES

oThe Financial Administration Directorate should document and promulgate the specific responsibilities of branch and central financial staff with respect to Program Forecast and Main Estimates submissions. These should outline the procedures to be followed, the nature and extent of the guidance which the Financial Administration Directorate would be expected to provide to branches, and the degree of participation by the Financial Administration Directorate in the review function.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

oThe Financial Administration Directorate should finalize its draft procedures on Program Forecasts and Main Estimates and issue these for inclusion in the departmental Financial Management Manual as soon as possible. Where appropriate, branch directives should also be documented and included in branch financial manuals.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

EVALUATION OF CONTINUING PROGRAMS

The "A" Budget element of the Program Forecast for continuing programs is prepared on an incremental basis, except for the capital and the grants and contributions portions.

oThe Department should develop a plan whereby all continuing programs are reviewed, using a budgeting approach such as zero-based budgeting. Branches should conduct the reviews with appropriate support from the Financial Administration Directorate.

DEPARTMENTAL COMMENTS

It has always been the general practice to review all existing programs at the time of 'A' Budget preparation. We will continue to improve our methods, although Treasury Board has not promulgated a government decision to the effect that a special technique must be employed, such as zero-based budgeting.

OBSERVATIONS AND RECOMMENDATIONS

VARIANCE REPORTING/MONITORING

OF DEPARTMENTAL BUDGET

A system of monthly "Flash" reports for completion by the branches is in operation in the Department; however, variances are not always explained in terms of costs and outputs.

DEPARTMENTAL COMMENTS

We are not aware of any instances where senior management has not been satisfied with explanations of variances.

OBSERVATIONS AND RECOMMENDATIONS

More elaborate quarterly variance reports for completion by the branches are also being prepared. The Financial Administration Directorate reviews, analyses, interprets and consolidates these for reporting to the Deputy Ministers and their executive committees. This process, which used to take approximately two months, has recently been reduced to one month consisting of two weeks for reports and two weeks for analysis and consolidation.

oThe requirements for the preparation and distribution of quarterly variance reports should be reviewed to improve their timeliness further.

DEPARTMENTAL COMMENTS

Means of improving these reports are constantly being sought.

OBSERVATIONS AND RECOMMENDATIONS

oA standardized variance report should be designed to satisfy the needs of the Deputy Ministers, the branches and the Financial Administration Directorate. Variations between planned and actual results should be highlighted.

DEPARTMENTAL COMMENTS

In our opinion, the present variance reporting system is adequate to meet the needs of Deputy Ministers and their senior managers. Further sophistications will be developed as part of the normal evolutionary process.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL REPORTS

In order to improve the turn-around of data at the regions, the Financial Administration Directorate has requested annually for the past few years that financial reports be printed at the Department of Supply and Services, Regional Services Offices. However, the

Department of Supply and Services system currently lacks this capability although it is being considered.

DEPARTMENTAL COMMENTS

We believe this is a matter which would be more appropriate to take up directly with the Department of Supply and Services.

OBSERVATIONS AND RECOMMENDATIONS

oIn reviewing deficiencies in the reporting system, the Financial Administration Directorate should continue its efforts to provide more timely and accurate information.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

Some operating managers have difficulty in understanding how the financial reporting systems can best serve their needs.

oExplanations of the uses of the financial reporting systems should be provided to operating managers by means of adequate training and reference material.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

Not all accounting offices agree the total of their input to the total of the management information reports produced by the Department of Supply and Services.

oThe Financial Administration Directorate should monitor branches to make sure that documented procedures that ensure the continuing accuracy of financial reports are available to, and used by, local accounting offices.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

PUBLIC ACCOUNTS

In its Public Accounts statements, the Department is meeting the disclosure norms promulgated by the Receiver General.

However, the Public Accounts do not show:

(a) significant unrecorded liabilities for statutory payment programs (Hospital Insurance and Diagnostic Services, Medical Care and Social Services Programs);

(b) major inventories held by branches;

(c) major payments to the Province of Quebec under the Established Programs (Interim Arrangements) Act which result from statutory payment programs (Hospital Insurance and Diagnostic Services, Canada Assistance Plan; and

(d) that the breakdown of amounts for Guaranteed Income Supplements and Old Age Security is estimated.

o Consideration should be given to disclosing these matters.

DEPARTMENTAL COMMENTS

We have always provided all information requested by DSS for Public Accounts. We have no objection to disclosing additional information. In the circumstances it is suggested that the observations and recommendations should be brought to the attention of DSS.

OBSERVATIONS AND RECOMMENDATIONS

o The Financial Administration Directorate should include a statement in the Financial Management Manual on disclosure standards for Public Accounts. Branches submissions should then be reviewed for adherence to these standards.

APPLICABLE TO THE HEALTH SECTOR

ORGANIZATION OF THE FINANCIAL FUNCTION

Applicable to:

Fitness and Amateur Sport Branch
Non-Medical Use of Drugs Directorate
Regional offices of Medical Services Branch

The heads of financial organizations at these programs and field levels generally report through an administrative officer to the senior line officer they support and are not members of their organizations' management committees.

The head financial officers should report directly to the senior line officers they support and functionally to the senior departmental financial officer. They should also be members of the management committees of their respective organizational units.

DEPARTMENTAL COMMENTS

This will be taken into account when considering the observations and recommendations concerning Organization common to both the Health and Welfare Sectors.

OBSERVATIONS AND RECOMMENDATIONS

FUNCTIONAL DIRECTION

Applicable to:
Medical Services Branch
Health Protection Branch

oThe Branch Financial Adviser in decentralized branches should strengthen functional direction by:

DEPARTMENTAL COMMENTS

The four points are built into the objectives and goals of the Branch Financial Advisers. However, application will be emphasized.

OBSERVATIONS AND RECOMMENDATIONS

(a)issuing directives on branch financial procedures and controls to supplement and interpret the departmental financial manual;

(b)making regional visits or bringing regional financial officers to headquarters on a regular basis;

(c)participating in the annual performance evaluations of regional financial officers; and

(d)seeking resources to develop and implement career and training programs for branch financial officers and administrative officers with financial responsibilities to complement departmental programs.

STAFFING OF THE FINANCIAL FUNCTION

Applicable to:
Medical Services Branch Health Protection Branch
Fitness and Amateur Sport Branch

Several Branches have experienced difficulty in hiring and retaining, at headquarters in regions, adequately trained financial staff.

Every effort should be made to ensure that adequately trained financial staff fill vacancies in these branches.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

PROJECT ACCOUNTING

Applicable to:
Health Protection Branch

A project accounting and reporting system is being developed but does not yet meet the needs of all managers, nor is it formally documented.

oThe project accounting and reporting system should be refined to include complete budgetary and cost data to ensure that it meets the needs of the managers concerned.

DEPARTMENTAL COMMENTS

This project accounting and reporting system was initially developed to meet special needs and is an additional tool over and above the branches' budgetary control which is on an activity and responsibility centre basis. Efforts to improve its usefulness will be continued.

OBSERVATIONS AND RECOMMENDATIONS

ACCOUNTING AND CONTROL OF GRANTS AND CONTRIBUTIONS

Applicable to:
Medical Services Branch Health Protection Branch
Fitness and Amateur Sport Branch

Policies and procedures for the grants and contributions programs in several branches have not been formally documented and certain control weaknesses exist.

oBranches should document their procedures and policies relating to formal agreements with recipients, to audits, and to delegated authority for their grants and contributions programs.

DEPARTMENTAL COMMENTS

Agreed. Already implemented in Medical Services.

OBSERVATIONS AND RECOMMENDATIONS

RECEIPT AND DEPOSIT OF CASH

Applicable to:
Fitness and Amateur Sport Branch Health Protection Branch

Departmental policy and procedures for the receipt and deposit of moneys are well documented in the Financial Management Manual, but are not being followed in all branches.

oBranches should ensure that all moneys received are subject to adequate internal control procedures as provided for in the Department's Financial Management Manual. Specifically procedures relating to mail opening and the listing and depositing of cash receipts should be followed.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

INVENTORIES

Applicable to:

Medical Service Branch Health Protection Branch Fitness and Amateur Sport Branch

These Branches have significant inventories of consumable materials and supplies which are controlled by systems designed and operated by materiel management personnel.

oFor inventories involving significant amounts, Branch Financial Advisers should ensure that effective systems of control are documented, applied and, wherever feasible, integrated with the central accounting system.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

BUDGETARY CYCLE RESPONSIBILITIES

Applicable to:

Health Protection Branch

oThe budgetary cycle responsibilities should be clarified within the Health Protection Branch to allow for the continuous involvement of Branch Finance. The Branch should consider the formation of a budget sub-committee with documented authority to request essential supporting data.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND
RECOMMENDATIONS

DETAILED BUDGET ADJUSTMENTS

Applicable to:
Medical Services Branch

oBranch policy and procedures for budget reallocations should be formalized and documented in the branch financial manual.

DEPARTMENTAL COMMENTS

Being implemented.

OBSERVATIONS AND
RECOMMENDATIONS

APPLICABLE TO THE WELFARE SECTOR

ORGANIZATION OF THE FINANCIAL
FUNCTION

Applicable to:
Policy Research and Planning Branch
Special Adviser Policy Development Branch
Welfare Information Systems Branch
Canada Pension Plan Branch

The heads of the financial organizations at these branches report through an administrative officer to the branch heads they support and are not members of their organizations' management committees.

oThe branch financial advisers should report directly to the senior line officers they support and functionally to the departmental senior financial officer. They should also be members of the branch management committees.

DEPARTMENTAL COMMENTS

This will be taken into account when considering the observations and recommendations concerning Organization common to both the Health and Welfare Sectors.

OBSERVATIONS AND
RECOMMENDATIONS

FUNCTIONAL DIRECTION

Applicable to:
Income Maintenance Branch

oFunctional direction within this decentralized Branch should be strengthened by having the Branch Financial Adviser:

DEPARTMENTAL COMMENTS

These four points are built into the objectives and goals of the Branch Financial Advisers. However, application will be emphasized.

OBSERVATIONS AND RECOMMENDATIONS

(a)ensure that there is no delay in issuing directives on branch financial procedures and controls to supplement or interpret the departmental financial manual;

(b)adhere to the plan to review regional finance on an annual basis;

(c)participate in the annual performance evaluations of regional financial officers; and

(d)develop and implement career and training programs for branch financial officers and administrative officers with financial responsibilities to complement departmental programs.

FINANCIAL CONTROLS IN PROGRAMS WITH STATUTORY PAYMENTS

Applicable to:

Income Maintenance Branch

Canada Pension Plan Branch

In the Canada Pension Plan Branch and in the Regional offices of Income Maintenance the financial function has limited involvement in the financial management and control of statutory payments under the two programs.

The regional financial officers of Income Maintenance and the branch financial officers of Canada Pension Plan should be responsible for ensuring that there are adequate financial controls covering all operations in the Branches.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

CO-ORDINATION OF THE FINANCIAL FUNCTION

Applicable to:

Social Services Programs Branch

(Social Services and Allowances sector)

The branch financial function responsible for Statutory Payments is

organized into two divisions.

oFinancial responsibilities of each financial division should be documented and issued as a branch directive.

DEPARTMENTAL COMMENTS

Being implemented.

OBSERVATIONS AND RECOMMENDATIONS

There is no line or functional reporting between these two financial bodies nor do they report to a common senior financial officer.

oThe branch financial function should be co-ordinated through regular liaison between the two financial divisions.

DEPARTMENTAL COMMENTS

Being implemented.

OBSERVATIONS AND RECOMMENDATIONS

STAFFING OF THE FINANCIAL FUNCTION

Applicable to:
Income Maintenance Branch
Social Services Programs Branch
(Developmental Programs sector)

The branches at both headquarters and the regions have experienced difficulty in hiring and retaining adequately trained financial staff.

oEvery effort should be made to ensure that adequately trained financial staff is available to fill vacancies in these branches.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

INVENTORIES

Applicable to:
International and Emergency Welfare Branch

The branch inventory system does not:

-provide control accounts in dollars integrated with the Department of Supply and Services reporting system;

- provide for elimination of obsolete items; and
- require periodic independent physical counts.

oThe Branch Financial Adviser should ensure that effective systems of control are documented and applied for the International and Emergency Welfare inventory.

DEPARTMENTAL COMMENTS

Being implemented.

OBSERVATIONS AND RECOMMENDATIONS

RESPONSIBILITY ACCOUNTING

Applicable to:
Income Maintenance Branch

In the 1975-76 fiscal year the Branch delegated authorities to program managers and established them as responsibility centre managers. However, some do not exercise spending authority and are held accountable only to the extent of cost centre managers.

The designation, responsibility centres, should be reviewed to ensure that program managers' financial responsibilities are commensurate with their delegated authorities as responsibility centre managers.

DEPARTMENTAL COMMENTS

Agreed.

DEPARTMENT OF REGIONAL ECONOMIC EXPANSION

Observations and Recommendations as at May 1975.

Departmental Comments as at March 1976.

The study included programs reporting to the Deputy Minister of Regional Economic Expansion whose financial systems are integrated with those of the Department and exclude the following:

Cape Breton Development Corporation Atlantic Development Council
Canadian Council on Rural Development

OBSERVATIONS AND RECOMMENDATIONS

RESPONSIBILITY AND RELATIONSHIPS

oThe new decentralized organization of the Department incorporates three main structural levels: headquarters, regional and provincial

offices. The division of authority and responsibility among and within these levels should be resolved and defined for the financial administration functions. The Department should identify a senior officer to be responsible for the functional direction of financial administration systems and should provide for this within the decentralized organization.

DEPARTMENTAL COMMENTS

The division of authority and responsibility within the structural levels of the organization has been defined. A senior officer responsible for the functional direction of financial administration has been identified.

OBSERVATIONS AND RECOMMENDATIONS

MANUALS AND REFERENCE SOURCES

oThe Department should allocate the responsibility and resources to consolidate and to maintain the Departmental financial manuals. The three organization levels and the Prairie Farm Rehabilitation Administration should participate in preparing the revised manual which should include references to systems unique to each unit's operations.

DEPARTMENTAL COMMENTS

Resources have been allocated and departmental financial manuals are being consolidated. Appropriate organizational levels will be involved in this process as necessary.

OBSERVATIONS AND RECOMMENDATIONS

ACCOUNTS RECEIVABLE

oTo improve control of accounts receivable, the Department should introduce control accounts. For this record to be complete, the Department should record the estimate established by an Audit Services Bureau interim report on a project in instances where the existence of a claim has been established but the amount ultimately recoverable is not definite.

DEPARTMENTAL COMMENTS

This observation applies to miscellaneous accounts receivable only. The development of an appropriate control mechanism for these accounts is under way. Provision is being made to include overpayment amounts established as a result of Audit Services Bureau's interim reports even though the amount ultimately recoverable is not definite.

OBSERVATIONS AND RECOMMENDATIONS

STATUS OF INTERNAL AUDIT

oThe internal audit function is the process of reviewing an organization's own financial systems and controls. The Department should develop an effective financial audit group reporting to a senior officer independent of the financial function.

DEPARTMENTAL COMMENTS

The internal audit program is now operational. The reporting relationship is being changed and the internal audit group will be more clearly independent of the financial function for all parts of the organization located outside of Ottawa. For internal audit of the Ottawa headquarters we have engaged the Audit Services Bureau who will report to the Senior Assistant Deputy Minister.

OBSERVATIONS AND RECOMMENDATIONS

DEPARTMENTAL OBJECTIVES

oThe Department's objectives expressed in the Estimates should recognize the Prairie Farm Rehabilitation Administration so as to reflect its distinctive operational role and significance in the Department.

DEPARTMENTAL COMMENTS

The Prairie Farm Rehabilitation Administration is fully integrated within the departmental organization and operations. The Programs administered by PFRA are part of the over-all efforts made by the department to carry out its mandate. Recognition of the operational role of PFRA is demonstrated annually to Parliament by the fact that separate meetings of the Parliamentary Committee on Regional Development are usually scheduled for the specific purpose of discussing PFRA operations.

OBSERVATIONS AND RECOMMENDATIONS

STANDARDIZATION OF FINANCIAL CLAUSES IN AGREEMENTS

oThe Department should provide a standard financial clause to officers negotiating agreements with the provinces and should provide interpretations of the key terminology. If circumstances dictate revision of the financial clause, such revision should not be made without careful evaluation and approval.

DEPARTMENTAL COMMENTS

In general, standard financial clauses are used in developing new agreements and in revising existing agreements. Interpretations of

key terminology have also been provided. Financial clauses are not revised without careful evaluation and approval. The departmental financial manuals now being consolidated will include recommended clause for officers drafting and negotiating agreements.

OBSERVATIONS AND RECOMMENDATIONS

PAYROLL

oTo improve internal control the Department should modify its payroll procedures to provide for a division of duties and responsibilities.

DEPARTMENTAL COMMENTS

The Department is modifying its procedures to provide for a suitable division of duties and responsibilities.

OBSERVATIONS AND RECOMMENDATIONS

DELEGATION OF SIGNING AUTHORITY

oThe delegation of authority to commit, spend and pay departmental funds, referred to in Sections 25, 26 and 27 of the Financial Administration Act, to officers of the Department should be changed to impose limits on the amounts an officer can authorize commensurate with the responsibility of his position. For such a system to be effective, the Department must maintain an up-to-date record of the signatures of these employees, their positions and the expenditure limits.

DEPARTMENTAL COMMENTS

The delegation of authority to commit, spend and pay departmental funds referred to in Section 25, 26 and 27 of the Financial Administration Act, together with the Authorities Verification and Acting Appointment form imposes adequate control on an officer's signing authority commensurate with the responsibilities of his position. The financial signing authorities and the Authorities Verification and Acting Appointment forms are maintained on an up-to-date basis.

OBSERVATIONS AND RECOMMENDATIONS

CONTRACT AUDITS

oThe Department should revise its systems to establish an over-all control of the contract audits performed on its behalf by the Audit Services Bureau to ensure that all projects are audited and that there is a complete record of funds due the Department.

DEPARTMENTAL COMMENTS

Under decentralization, the responsibility and authority for the control of audit assignments performed by the Audit Services Bureau has been given to the Regional ADM's. Headquarters has retained the responsibility for audit policy guidelines and criteria to be included in the regional auditing programs and also carries out the necessary internal audit to ensure compliance. In view of the large number of projects to be audited the Department and the ASB are examining a policy of statistical sampling in this area.

OBSERVATIONS AND RECOMMENDATIONS

COST RECOVERY FOR LEASES

oThe Department should obtain Treasury Board approval of its policies and rates relating to leases of its property.

DEPARTMENTAL COMMENTS

This observation refers to Prairie Farm Rehabilitation Administration surface leases. The necessary Treasury Board approval of policies relating to leases has been obtained. Orders in Council authorize PFRA to establish rates comparable to those charged by provincial governments for leases to oil and gas companies and for certain agricultural leases. A Treasury Board submission seeking approval for other leases will be prepared.

OBSERVATIONS AND RECOMMENDATIONS

ESTIMATES

oPresentation to Parliament of the Department's Estimates is characterized by a lack of significant information such as disclosure of continuing multi-year commitments which at March 31, 1975, amounted to approximately \$900 million or almost twice the Department's current appropriation. In addition, Parliament has been asked to approve a spending limit of \$513 million for 1974-75 and again for 1975-76. Actual expenditures for 1974-75 were approximately \$443 million. As a result, it approved a 16% increase in the activities of the Department while believing that no growth was authorized.

DEPARTMENTAL COMMENTS

The format of the Main Estimates presentation to Parliament is not determined by this department. The Main Estimates presentation seeking approval of \$513 million for 1975-76 included a forecast of \$445 million for 1974-75.

OBSERVATIONS AND RECOMMENDATIONS

DEPARTMENTAL FINANCIAL REPORTING

oMonthly financial management reports should include significant accruals to provide information that is more accurate and up-to-date. These would include the accrual of project costs in the Prairie Farm Rehabilitation Administration and salary costs in most of the Department.

DEPARTMENTAL COMMENTS

The Department is of the opinion that, as cash disbursements are not significantly different from cost for the major part of its expenditure, there is little to be gained by including accrual information in its management statements. The Prairie Farm Rehabilitation Administration maintains a detailed project control system which provides accurate and timely financial information. With the exception of the PFRA hourly payroll, salary payrolls on an accrual basis are reflected in the Departmental management statements.

OBSERVATIONS AND RECOMMENDATIONS

oBudgets of the responsibility centres should be revised as required to provide appropriate spending constraints for effective financial management.

DEPARTMENTAL COMMENTS

Responsibility centre budgets are revised as necessary.

OBSERVATIONS AND RECOMMENDATIONS

PERFORMANCE MEASUREMENT SYSTEMS

oThe Department should continue to develop and to implement formal performance measurement reporting systems appropriate to its programs and projects as a means of evaluating the effectiveness of its activities.

DEPARTMENTAL COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

oPerformance measurement systems should be included in new agreements, with the definition of the respective responsibilities of the Department and the province for the data collection and reporting system to be used.

DEPARTMENTAL COMMENTS

Virtually all agreements with provincial governments now provide for a regular evaluation of progress. The Department will continue to examine ways and means of improving data collection and reporting systems.

DEPARTMENT OF THE SECRETARY OF STATE OF CANADA

Observations and Recommendations as at May 1976.

Departmental Comments as at July 1976.

OBSERVATIONS AND RECOMMENDATIONS

SENIOR FINANCIAL OFFICER

The Director, Financial Management, who is the senior full time financial officer, reports to the Director General, Planning, Systems and Services, who in turn reports to the Assistant Under Secretary - Corporate Management. The Director is not a member of the Senior Management Committee and he is invited to attend meetings of that Committee only when his financial advice is sought.

oThe senior officer responsible for financial management and control should report directly to the Deputy Head and be a member of the departmental management committee. He should have the training and experience to act as the Deputy Head's adviser on all aspects of financial management and control and to provide the necessary leadership to all financial staff in the Department.

DEPARTMENTAL COMMENTS

The suggested reporting relationship will be given consideration and reviewed with Treasury Board in the general context of the principles of Government organization for Finance, Personnel, Audit, Information and other specialized services, and taking into account the current studies on decentralization within the Department.

OBSERVATIONS AND RECOMMENDATIONS

oThe Department should be informed in writing by the Under Secretary as to who is the Senior officer responsible for financial management and control and how his responsibilities are to be carried out.

DEPARTMENTAL COMMENTS

This will be clarified in the new version of the Department's position paper on financial management.

OBSERVATIONS AND RECOMMENDATIONS

FUNCTIONAL DIRECTION

A) AUTHORITIES AND RESPONSIBILITIES

The extent and the form of the functional direction provided by the Director, Financial Management, to administrative officers with financial responsibilities and to responsibility centre and cost centre managers has not been fully defined and communicated.

The financial role of responsibility centre managers and administrative officers with financial responsibilities has not been formally documented within the Department.

oFunctional direction should be strengthened and clarified by:

(a) having the Under Secretary of State emphasize that the Director, Financial Management, is responsible for the system of financial administration in the Department and that he has the authority to prescribe policies and procedures in the area of financial administration;

DEPARTMENTAL COMMENTS

This will be clarified in the new version of the Department's position paper on financial management.

OBSERVATIONS AND RECOMMENDATIONS

(b)defining and documenting in detail the respective roles and authorities of responsibility centre and cost centre managers as they relate to those of the Financial Management Directorate; and

DEPARTMENTAL COMMENTS

This will be done in a number of ways, including clarification in the new version of the Department's position paper on financial management, inclusion in the financial manual and inclusion in the course on financial administration to be given to all departmental managers.

OBSERVATIONS AND RECOMMENDATIONS

(c)ensuring that the Financial Management Directorate approves the design and undertakes the implementation of all departmental systems of financial administration in concert with the Organization and Methods Directorate.

DEPARTMENTAL COMMENTS

This will be clarified in the new version of the Department's position paper on financial management.

OBSERVATIONS AND

RECOMMENDATIONS

B) QUALITY OF COMMUNICATION OF FINANCIAL REQUIREMENTS

oHigh priority should be given to completing the Financial Management Manual. A specific timetable should be developed for completing financial policy documentation within the manual in the format recommended by the Treasury Board Guide on Financial

DEPARTMENTAL COMMENTS

High priority is being given to the preparation of the manual; 10 of approximately 65 sections were issued as of the end of July; a detailed workplan has been issued; completion is targeted for January 1977.

OBSERVATIONS AND RECOMMENDATIONS

oThe Department's Position Paper on Financial Management should be updated before its inclusion in the Financial Management Manual.

DEPARTMENTAL COMMENTS

This will be completed by January 1977.

OBSERVATIONS AND RECOMMENDATIONS

oThe Department should ensure that the financial controls over the payroll system are documented and incorporated in a manual.

DEPARTMENTAL COMMENTS

This requirement will be met.

OBSERVATIONS AND RECOMMENDATIONS

C) STAFFING OF THE FINANCIAL FUNCTION

Due to financial staff vacancies, language training requirements and turnover, adequate staff have not been available to provide all the required financial services. Work on the Financial Management Manual and the financial reporting system has been delayed.

oThe Department should ensure that its vacant positions for financial officers are filled as soon as possible.

DEPARTMENTAL COMMENTS

All positions are now filled.

OBSERVATIONS AND
RECOMMENDATIONS

oTo ensure full recognition of the variety and complexity of financial officers' responsibilities, their position descriptions should refer specifically, where applicable, to the responsibilities assigned to them in the Treasury Board Guide on Financial Administration.

DEPARTMENTAL COMMENTS

This is being implemented.

OBSERVATIONS AND
RECOMMENDATIONS

oThe Department should ensure adequate resources to meet the training plan approved for the professional development of its financial officers and responsibility centre managers.

DEPARTMENTAL COMMENTS

A course on financial management is being given to all department managers. Individual financial officers are each being given adequate opportunities for development.

OBSERVATIONS AND
RECOMMENDATIONS

D) FINANCIAL CONTROLS OVER
PAYROLL SYSTEMS

The Personnel Administration Branch is responsible for the input of pay data to the central pay system.

oThe Director, Financial Management, should exercise functional authority for financial controls over the Department's payroll systems. He should ensure specifically that adequate internal controls exist and are followed in the pay units.

DEPARTMENTAL COMMENTS

These matters are under review in consultation with Personnel Administration and Financial and Operational Audit.

OBSERVATIONS AND
RECOMMENDATIONS

E) FINANCIAL CONTROLS OVER
CONTRACTS OF TRANSLATION
BUREAU

The Financial Management Directorate has not reviewed or evaluated the systems and financial controls covering the contracting or certification of contract performance of certain Translation Bureau

contracts.

oThe Director, Financial Management, should exercise functional authority for the financial controls over professional services contracts of the Translation Bureau.

DEPARTMENTAL COMMENTS

This matter will be reviewed with the Superintendent of the Bureau.

OBSERVATIONS AND RECOMMENDATIONS

APPROPRIATION CONTROL

A) CASH CONTROL

The Financial Management Directorate maintains a mechanized subsidiary system to determine the status of free balances by controlled allotments.

This system duplicates information from the Financial Reporting Services of the Department of Supply and Services. The system does not prevent processing commitments in excess of free cash balances.

oThe Financial Management Directorate should discontinue its subsidiary system for cash control once a proven commitment accounting system has been implemented.

DEPARTMENTAL COMMENTS

The detailed mechanized subsidiary system has been discontinued with the closing of last fiscal year's transactions. A summary of batch control data is currently used to reflect the allotment cash control position.

OBSERVATIONS AND RECOMMENDATIONS

B) COMMITMENT ACCOUNTING

oThe Financial Management Directorate should closely monitor implementation of the recently designed commitment processing system.

It should develop appropriate financial procedures for commitment control and reporting to ensure that no managerial spending action will be processed which would reduce the balance in a responsibility centre budget so that it would not be sufficient to meet all commitments charged against it.

DEPARTMENTAL COMMENTS

In progress.

OBSERVATIONS AND

RECOMMENDATIONS

oThe Financial Management Directorate should establish data control at the level spending authority is exercised to avoid duplication of effort and to ensure the completeness and accuracy of all commitment transactions entered into the accounting system.

DEPARTMENTAL COMMENTS

This recommendation is under review as there are several alternative methods of achieving control at the level spending authority is exercised.

OBSERVATIONS AND RECOMMENDATIONS

DELEGATION OF PAYMENT AUTHORITY

Financial officers exercising delegated payment authority are completely independent of the pre-audit process.

oThe Section 26 payment responsibilities of the Financial Resources Division should be documented to ensure that these officers have procedures permitting them to certify that the departmental systems for verifying accounts and for enforcing financial controls have been followed.

DEPARTMENTAL COMMENTS

This recommendation will be implemented shortly.

OBSERVATIONS AND RECOMMENDATIONS

ACCOUNT VERIFICATION AND THE PRE-AUDIT FUNCTION

Account verification responsibilities and procedures have recently been defined for responsibility centres. The pre-audit test procedures to be performed by financial officers have not been completely documented.

oTo ensure an effective system account verification and pre-audit test, the Financial Management Directorate should:

(a)document financial policy and responsibilities for account verification and pre-audit;

DEPARTMENTAL COMMENTS

Will be included in the financial manual.

OBSERVATIONS AND

RECOMMENDATIONS

(b)complete the development of desk procedures manuals for the pre-audit of travel and removal claims and accounts payable;

DEPARTMENTAL COMMENTS

In progress.

OBSERVATIONS AND RECOMMENDATIONS

(c)require that source documents indicate the performance of specific account verification and pre-audit procedures; and

DEPARTMENTAL COMMENTS

Will be included in the procedures issued under (a) and (b) above.

OBSERVATIONS AND RECOMMENDATIONS

(d)require pre-audit groups to maintain a register of the errors discovered by the manual pre-audit or the electronic edit checks to document system weaknesses and corrective action.

DEPARTMENTAL COMMENTS

The register will be reinstated.

OBSERVATIONS AND RECOMMENDATIONS

BATCH CONTROL

oAs a precaution against fraud and error, the Financial Management Directorate should establish the following accounting controls over the payment process:

(a)establishment of batch controls over documents and dollars before a financial officer exercises payment authority; and

DEPARTMENTAL COMMENTS

This recommendation will be implemented.

OBSERVATIONS AND RECOMMENDATIONS

(b)prohibition on the return of approved payment requisitions to the person maintaining batch control before forwarding to the Department of Supply and Services Payment Services Branch.

DEPARTMENTAL COMMENTS

This recommendation will be implemented.

OBSERVATIONS AND
RECOMMENDATIONS

GRANTS AND CONTRIBUTIONS

A) TRANSFER PAYMENTS TO THE PROVINCES

Both the Education Support and Language Programs Branches operate subsidiary systems to calculate and account for federal-provincial cost-shared programs. The Financial Management Directorate has not been involved in developing, reviewing and evaluating the financial controls incorporated in these subsidiary systems.

oThe Financial Management Directorate should approve the design of, and should review and evaluate all subsidiary systems of a financial, accounting or control nature for the transfer payments to the provinces.

DEPARTMENTAL COMMENTS

This recommendation will be implemented.

OBSERVATIONS AND
RECOMMENDATIONS

B) ACCOUNTING AND CONTROL OF GRANTS AND CONTRIBUTIONS

The Department lists the detail of individual grants and contributions payments in the Public Accounts of Canada only if the recipient was identified in the Estimates for that year.

oIn order to achieve greater visibility, the details of individual grants and contributions in excess of a specified limit should be disclosed in the Public Accounts of Canada.

DEPARTMENTAL COMMENTS

This recommendation is under consideration.

OBSERVATIONS AND
RECOMMENDATIONS

oThe Financial Management Manual should document departmental policy for the approval, accounting and control of grants and contributions payments. The Financial Management Directorate should approve and monitor program grant and contribution procedures to ensure compliance with the departmental requirements.

DEPARTMENTAL COMMENTS

This recommendation will be implemented in consultation with the

programs.

OBSERVATIONS AND RECOMMENDATIONS

FIXED ASSETS (ARTICLES IN USE)

oThe Financial Management Directorate should ensure that appropriate procedures are implemented and maintained in the Department to ensure physical control and to assign custodial responsibilities for fixed assets.

DEPARTMENTAL COMMENTS

This recommendation will be implemented jointly by the Financial Management Directorate and Administrative Services.

OBSERVATIONS AND RECOMMENDATIONS

ACCOUNTING AND CONTROL OF ACCOUNTS RECEIVABLE AND REVENUE

Departmental procedures for receiving, recording and depositing public money are not documented, except for Citizenship Courts.

Departmental systems for recording, billing and collecting accounts receivable have not been fully developed.

oThe Financial Management Directorate should ensure that policy and systems documentation is completed as soon as possible for the proper accounting of, and control over, accounts receivable and revenue.

DEPARTMENTAL COMMENTS

This will be included in the financial manual.

OBSERVATIONS AND RECOMMENDATIONS

oThe Financial Management Directorate should ensure that appropriate procedures are implemented and maintained, including independently maintained control accounts, to ensure the billing, collecting and depositing of all departmental revenue.

DEPARTMENTAL COMMENTS

This will be included in the financial manual.

OBSERVATIONS AND RECOMMENDATIONS

PROCEDURES FOR CLEARING TERMINATING EMPLOYEES

oThe Department should introduce a policy and procedures for the clearance of terminating employees prior to releasing their final pay cheques to ensure that they are held accountable for repaying outstanding advances and returning of departmental property.

DEPARTMENTAL COMMENTS

This recommendation will be implemented jointly by the Financial Management Directorate, Security, Administrative Services, and Personnel Administration.

OBSERVATIONS AND RECOMMENDATIONS

INTERNAL AUDIT

An Audit Committee was formed to review the internal audit, annual audit plan and audit findings and to follow up on implementing the recommendations in the internal audit reports. The Committee met during 1975 and was to reconvene under a new chairman in early 1976. It has yet to reconvene. In the interim, the Assistant Under Secretary of State - Corporate Management has acted as a one man Audit Committee.

Delays in reconvening the Audit Committee have resulted in the postponement of developing and adopting a formal follow-up procedure to ensure implementation of the audit recommendations to date.

oThe Audit Committee should be reconvened as soon as possible to review the audit plan and findings and to organize follow-up procedure to monitor the implementation of audit recommendations.

DEPARTMENTAL COMMENTS

This recommendation will be implemented shortly.

OBSERVATIONS AND RECOMMENDATIONS

Because of the lengthy hiring process and language training requirements in the public service, the Financial and Operational Audit Directorate has been operating at an effective strength of three to four man-years below its authorized strength of 10 man-years. Professional staff of Audit Services Bureau of DSS have been used to supplement internal audit activity.

The Financial and operational Audit Directorate should ensure that sufficient resources are available to carry out an adequate internal audit for the Department.

DEPARTMENTAL COMMENTS

The unit is now operating at almost full strength.

OBSERVATIONS AND RECOMMENDATIONS

LONG-RANGE PLANNING AND THE BUDGETARY CYCLE

Like several departments, the Department has not yet achieved a continuous integrated budgetary cycle linking the departmental long-range planning process to the processes for acquiring resources and for evaluating various departmental expenditures.

Discussions do take place between senior managers on defining departmental priorities among alternatives to achieve the Department's objectives; however no formal document of departmental priorities has been prepared.

oDepartmental long-range plans, objectives and priorities should be formally communicated to the program managers before their Program Forecasts are prepared.

DEPARTMENTAL COMMENTS

This recommendation is under review.

OBSERVATIONS AND RECOMMENDATIONS

oThe Financial Management Directorate should be involved in the costing, review and evaluation of departmental priorities to ensure that financial implications are given appropriate consideration.

DEPARTMENTAL COMMENTS

This involvement will be reemphasized.

OBSERVATIONS AND RECOMMENDATIONS

PROGRAM FORECAST RESPONSIBILITIES

The Financial Management Directorate appears to have been limited to a clerical function in preparing the Program Forecasts. During the preparation of the 1977-78 Program Forecast, it was involved in extending costs for the requests for additional resources from the various sectors.

The Director, Financial Management, should ensure that he and his Directorate are closely involved in reviewing and analysing all proposals for the Program Forecast submission.

DEPARTMENTAL COMMENTS

This involvement will be reemphasized.

OBSERVATIONS AND RECOMMENDATIONS

The Personnel Administration Branch was not significantly involved in reviewing and challenging staffing expectations of managers in their Program Forecast proposals.

oThe Personnel Administration Branch should be formally involved in the Program Forecast exercise. Requests for manpower resources should reflect limitations imposed by the availability of personnel with the required skills.

DEPARTMENTAL COMMENTS

This will be implemented as required.

OBSERVATIONS AND RECOMMENDATIONS

VARIANCE ANALYSIS AND REPORTING

The Department lacks an effective variance analysis procedure at all levels of management. This lessens the incentive of managers to remain committed to their operating budgets.

oThe Department should give high priority to designing, implementing, monitoring and maintaining a variance analysis reporting system so that appropriate explanations of variances are provided to senior management and corrective action is stimulated.

DEPARTMENTAL COMMENTS

The Department supports the principle of variance reporting. These recommendations will be considered when the present financial reporting system is revised for the next fiscal year.

OBSERVATIONS AND RECOMMENDATIONS

INFORMATION FOR FINANCIAL MANAGEMENT AND CONTROL

Departmental financial reports have not gained acceptance by some managers as an effective tool for managing subordinates and resources.

The design of departmental financial reports requires managers to refer to several statements to obtain information by activity element, by responsibility centre and by reporting objects.

oThe Financial Management Directorate should ensure that management reports present summarized financial and output data in a manner sufficiently clear and concise to assist managers in managing resources and subordinates effectively.

DEPARTMENTAL COMMENTS

The reports have been redesigned for 1976-77 in an attempt to meet this recommendation.

OBSERVATIONS AND RECOMMENDATIONS

PUBLIC ACCOUNTS

The Department meets the disclosure norms of the Department of Supply and Services for Public Accounts reporting. However, these general standards do not consider specific aspects of this Department since significant liabilities have not been identified in the footnote disclosure in Public Accounts statements.

oThe Financial Management Directorate should state departmental policy on disclosure standards for Public Accounts and should ensure that the departmental Public Accounts submission conform forms to the policy.

DEPARTMENTAL COMMENTS

This recommendation is under consideration.

NATIONAL FILM BOARD

Observations and Recommendations as at June 1976.

Board's Comments as at July 1976.

OBSERVATIONS AND RECOMMENDATIONS

ROLE OF THE FINANCIAL FUNCTION

The role that the financial function should be playing within the Board has not been fully recognized and accepted. Consequently, over-all financial control and reporting have suffered. Financial officers and unit administrators within the operations branches perform duties and responsibilities related to financial management and control but report directly to non-financial managers, restricting the flow of financial information required for sound over-all reporting and control.

oThe role and functional authority of the Finance department should be more clearly defined to ensure a proper flow of financial information within the Board and thus provide the basis for an adequate system of reporting and control.

BOARD'S COMMENTS

Agreed. This will be reviewed and clarified where it is felt improvements can be made.

OBSERVATIONS AND
RECOMMENDATIONS

oA central group should be formed to coordinate the over-all development and application of automated financial and management information systems, including the related long-term planning.

BOARD'S COMMENTS

Agreed. This will be done in the current fiscal year.

OBSERVATIONS AND
RECOMMENDATIONS

oA study should be undertaken to determine the extent and reasons, if any, for duplication of computerized reports, and duplication should be eliminated.

BOARD'S COMMENTS

Agreed. This is under way and will be completed in the current fiscal year.

OBSERVATIONS AND
RECOMMENDATIONS

COMMUNICATIONS OF FINANCIAL
REQUIREMENTS

oThe Board should endeavour to complete its financial administration manual as soon as possible and should place a higher priority on this task.

BOARD'S COMMENTS

A comprehensive financial administration manual is being developed. Some sections have been issued and the remainder is expected to be completed during the current fiscal year.

OBSERVATIONS AND
RECOMMENDATIONS

INVOICING

oTo strengthen controls over revenues, the Board should consider centralizing the billing function in Montreal. Moreover, the Board's invoices should indicate that remittances be made to the Montreal office only.

BOARD'S COMMENTS

This recommendation is being reviewed.

OBSERVATIONS AND

RECOMMENDATIONS

PRIVATE DISTRIBUTORS

The Board enters into contracts with private distributors for the distribution of its films in theatres throughout Canada and for most commercial distribution abroad. Among other things, these contracts provide for timely submission of distribution reports to the Board and the breakdown of revenues between the Board and the distributor.

oThe Finance department should introduce a system that would ensure that all distribution reports for films under contract with private distributors are submitted when due.

BOARD'S COMMENTS

A system is being developed and will be implemented by the end of the fiscal year.

OBSERVATIONS AND RECOMMENDATIONS

oAll private distribution reports should be reviewed and signed by a responsible official within the Distribution branch to indicate his acceptance of the information they contain.

BOARD'S COMMENTS

This recommendation will be implemented immediately.

OBSERVATIONS AND RECOMMENDATIONS

FREELANCER AND CASUAL EMPLOYEE CONTRACTS

oThe Board should introduce the use of standard contracts for the employment of freelancers and casual employees.

BOARD'S COMMENTS

This recommendation is being implemented.

OBSERVATIONS AND RECOMMENDATIONS

PURCHASING

oThe Board should adopt comprehensive written policies and procedures for "price quotations" to be obtained from suppliers and for the issuance of purchase orders.

BOARD'S COMMENTS

Written procedures on this are being refined and expanded and will be issued by October, 1976.

OBSERVATIONS AND RECOMMENDATIONS

REGULAR CHEQUE ISSUES

oThe Board should insist on strict adherence to its policy and procedures for the issue of regular cheques to ensure a proper division of duties between the requisition for and distribution of such cheques.

BOARD'S COMMENTS

Detailed procedures covering this have recently been adopted. Degree of conformance to the procedures will be watched more closely.

OBSERVATIONS AND RECOMMENDATIONS

PAYROLL CHEQUE ISSUES

The Department of Supply and Services prepares and issues payroll cheques on the basis of source documentation the Board provides. Under the present system, the same employee may sign the payroll source documentation and employee status change forms under Sections 26 and 27 of the Financial Administration Act. Moreover, only one employee signs the list which is submitted to the Department of Supply and Services for purposes of overtime payroll cheques to be issued.

The Board should ensure that the delegation of signing authorities, as it applies to source documentation in respect of payroll preparation, provides for a proper division of duties as set out in the Financial Administration Act.

BOARD'S COMMENTS

See reply under regular cheque issues.

OBSERVATIONS AND RECOMMENDATIONS

DISTRIBUTION OF PAYROLL CHEQUES TO CASUAL EMPLOYEES

oThe distribution of payroll cheques to casual employees should be performed by someone independent of the authorization for payment and request for payment functions.

BOARD'S COMMENTS

See reply under regular cheque issues.

OBSERVATIONS AND
RECOMMENDATIONS

CONTROL OF PAYROLL

oIn order to strengthen control over its payroll expenditures, the Board should compare on a regular basis the lists of payroll cheques issued as provided by the Department of Supply and Services with the computerized establishment lists and the attendance records approved by departmental managers.

BOARD'S COMMENTS

See reply under regular cheque issues.

OBSERVATIONS AND
RECOMMENDATIONS

RECEIPT OF CHEQUES

oIncoming mail should be opened in the presence of two employees. All cheques received should be listed and subsequently compared to receipted deposit slips.

BOARD'S COMMENTS

Current procedures call for opening of non-designated mail in the presence of two persons. Implicit in the second part of the recommendation is the requirement that all mail be opened before delivery to branches or individuals to ensure that cheques or other forms of payment are immediately recorded. While there is agreement in principle with this, the problems attendant on opening of all mail are well known. Nevertheless further consideration will be given to the recommendation.

OBSERVATIONS AND
RECOMMENDATIONS

oProcedures should be written and enunciated throughout the Board to ensure that cheques received other than by mail, including reimbursement of travel advances, be remitted directly to a secretary in the Administrative Services department, independent of the Travel Section, who will be responsible for listing such cheques for subsequent comparison to receipted deposit slips.

BOARD'S COMMENTS

Agreed. This recommendation has now been implemented.

OBSERVATIONS AND
RECOMMENDATIONS

EMPLOYEE TRAVEL ADVANCES

oIn order to ensure recovery of all travel advance reimbursements due from freelancers and casual employees or both, the Board should introduce procedures that would prohibit the payment of the last instalment due under contracts before the travel account is settled.

BOARD'S COMMENTS

A system to ensure accountability for advances to contract and other temporary employees is in place, but weaknesses are known to exist, and corrective action will be taken during the current fiscal year.

OBSERVATIONS AND RECOMMENDATIONS

oThe policy and procedures relative to travel advances and expense reports should be enunciated throughout the Board. Senior management should adopt measures that will ensure these are strictly adhered to.

BOARD'S COMMENTS

Existing directives will be reviewed and, where required, updated and reinforced. Implementation will be completed by October, 1976.

OBSERVATIONS AND RECOMMENDATIONS

CONTROL OF PROPS

oThe Board should review its policy and procedures relative to props. The authority for retaining and disposing of props should be delegated to a responsible official of the Board.

BOARD'S COMMENTS

Existing control procedures will be reviewed and strengthened during the current fiscal year.

OBSERVATIONS AND RECOMMENDATIONS

CONTROL OF RAW STOCK

oIn establishing improved control over raw stock, the Board should ensure that controls are implemented over both its issue and its use.

BOARD'S COMMENTS

Agreed. Need for an improved system of control had been recognized and new methods of control are being developed. It is expected that these will be implemented by October, 1976.

OBSERVATIONS AND RECOMMENDATIONS

PHYSICAL CONTROL OF CAPITAL ASSETS

oThe Board should amend its procedures regarding physical verification of capital assets and should concentrate more on those items of an attractive nature which are more difficult to control.

BOARD'S COMMENTS

Agreed. A method for implementation of this recommendation will be considered at the next meeting of the equipment control committee.

OBSERVATIONS AND RECOMMENDATIONS

ANNUAL LEAVE AND SEVERANCE PAY

oSince the Board uses the accrual method of accounting, the liability incurred in respect of annual leave and severance pay should be recorded in the accounts.

BOARD'S COMMENTS

Agreed. This has been done for the 1975-76 financial statements.

OBSERVATIONS AND RECOMMENDATIONS

INTERNAL AUDIT

oThe Board should establish an internal audit program with sufficient scope to ensure that all significant areas of its operations are subject to audit over a reasonable period of time.

BOARD'S COMMENTS

Agreed. This will be done during the current fiscal year.

OBSERVATIONS AND RECOMMENDATIONS

oConsideration should be given to procuring the services of outside auditors to carry out the financial audit under the supervision of the internal auditor leaving the latter free to perform management audits.

BOARD'S COMMENTS

Agreed.

OBSERVATIONS AND RECOMMENDATIONS

oTo ensure his independence, the internal auditor should report

directly to the Board of Governors or a Board committee.

BOARD'S COMMENTS

This will be considered at the next Board of Governor's meeting.

OBSERVATIONS AND RECOMMENDATIONS

BUDGETARY CONTROL FILMS PRODUCED

oThe Board should consider amending its film production cost system to reflect more accurately the cost incurred.

BOARD'S COMMENTS

This is understood to mean the introduction of charges for (1) cost of liaison services incurred in connection with sponsored film production, (2) depreciation on equipment and (3) services provided without charge by other departments.

No. 1 has occasionally been considered, and will be the subject of further study. It is not seen how Nos. 2 and 3 could practically be implemented in the light of the capital provisions contained in the National Film Act and the confusion that would result in Film Board reporting and Estimates presentation by charging for services that have been paid for in votes of other departments.

Estimates presentation by charging for services that have been paid for in votes of other departments.

OBSERVATIONS AND RECOMMENDATIONS

oA study should be undertaken with a view to improving the quality of reports comparing the cost of individual films produced with budget. Appropriate reports should be submitted that would enable senior management to evaluate the situation and to implement corrective action, if required.

BOARD'S COMMENTS

Agreed. A study is underway and an improved reporting system is expected to be implemented during the current fiscal year.

OBSERVATIONS AND RECOMMENDATIONS

oAnticipated budget overruns in excess of the established guidelines should be reported immediately to the Deputy Film Commissioner so he may take appropriate action.

BOARD'S COMMENTS

Agreed. This will be done during the current fiscal year.

OBSERVATIONS AND
RECOMMENDATIONS

BUDGETARY CONTROL - INTERNAL
COST ALLOCATIONS

In previous years, the under-absorbed fixed costs of the Technical Services branch were allocated to the production departments at the year-end only. This procedure complicated the budgetary system. Beginning with the 1976-77 fiscal year, the production departments have agreed to absorb the fixed costs of this department on the basis of use as determined from past experience.

The purpose of this fixed cost allocation system is to ensure a maximum and rational use of the Board's internal resources and to strengthen budgetary control. It is our view however, that the different approach adopted by the English and French production departments vis-à-vis this system will defeat the purpose intended.

oSenior management in conjunction with the Finance department, should issue explicit instructions to the production departments to ensure strict adherence to the intent and purpose of the fixed cost allocation system.

BOARD'S COMMENTS

Agreed. An intensive evaluation is being carried out in this area and corrective action will be taken immediately.

OBSERVATIONS AND
RECOMMENDATIONS

BUDGETARY CONTROL
VARIANCE ANALYSIS

oThe Board's total operating budget should be allocated on a monthly basis and the financial statements prepared by the Finance department should include detailed analyses of all significant variances from budget.

BOARD'S COMMENTS

The advantages of monthly budgets, including detailed variance analyses, will be studied and implemented where considered appropriate.

OBSERVATIONS AND
RECOMMENDATIONS

INTERNAL FINANCIAL STATEMENTS

oA study should be undertaken to evaluate the present financial reporting system and steps should be taken to improve it to provide management with the necessary tools in the decision-making process and to appraise managers of the performance of those responsible to them.

BOARD'S COMMENTS

The financial reporting system is presently being evaluated and recommendations for improvement' will be implemented on an on-going basis.

OBSERVATIONS AND RECOMMENDATIONS

oConsideration should be given to allocating services provided without charge to the activities to which they relate so as to disclose more accurately the actual cost of each activity.

BOARD'S COMMENTS

This will be considered for purposes of financial statement presentation.

OBSERVATIONS AND RECOMMENDATIONS

oThe Board's accounting system should be amended to ensure that all expenses are recorded in the proper period so that the monthly financial statements reflect the results of operations more accurately.

BOARD'S COMMENTS

A more satisfactory system of commitment recording is being developed and will be implemented during the current fiscal year.

STATISTICS CANADA

Observations and Recommendations as at April 1976.

Agency Comments as at August 1976.

OBSERVATIONS AND RECOMMENDATIONS

ORGANIZATION OF THE FINANCIAL ACCOUNTING FUNCTION

FUNCTIONAL RELATIONSHIPS

Outside of the Finance and Administration Branch there are positions with financial responsibilities that do not have a direct reporting relationship with the Senior Financial Officer.

oStatistics Canada should clearly document and communicate functional reporting relationships with the Senior Financial officer for all financial positions that are not under his immediate supervision, so that the necessary leadership and guidance can be given to the financial function.

AGENCY COMMENTS

While financial positions exist in Census and Field Division which report directly to the related line managers, the functional reporting relationship of these positions to the Chief Financial officer is known and accepted by the senior line management involved. However it is agreed that this relationship could be more visibly articulated and communicated so that all management and staff clearly understand and observe the relationship.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL MANUAL

Statistics Canada at present lacks a comprehensive manual covering financial administrative matters Individual manuals exist within some organizational units. A financial manual has been in preparation for some time.

oPriority should be given to completing and issuing a comprehensive financial administrative manual, into which all existing manuals should be integrated, for use throughout Statistics Canada. Where other specialized instructions or guides related to financial administration are considered essential, the Senior Financial Officer should review them for compatibility and acceptability with the agency manual. Such other special instructions or guides should be included in the agency manual where appropriate.

AGENCY COMMENTS

The need for a comprehensive financial manual was identified as a prime requirement many months ago. Limitations of resources and a pressing operational workload are factors accounting for the delay in producing it. The manual is now with the printers and will be distributed by September 1, 1976. Its content will govern all subsidiary or complementary instruction or systems of a more local application.

OBSERVATIONS AND RECOMMENDATIONS

JOB DESCRIPTIONS

Job descriptions are not reviewed on a cyclical basis. They do not always accurately reflect financial responsibilities and duties or any changes in them.

oJob descriptions for positions with financial responsibilities should be kept up to date and reviewed systematically to ensure that they reflect the duties and responsibilities currently assigned to the positions concerned.

AGENCY COMMENTS

Further to a program started during the last year, all departmental job descriptions are currently subjected on a sample basis to a review of coincidence of work performed with the text. A separate sample check has also been instituted to ensure that job descriptions have been reviewed within the last two years. To ensure that the starting base for this sample audit program is factual, all financial and administrative positions will be reviewed when the incumbent's performance comes up for review during the next year.

OBSERVATIONS AND RECOMMENDATIONS

EXPENDITURE AND REVENUE

PROCUREMENT

Procurement documents do not provide a space for the authorizing officer to sign under Section 25(1) of the Financial Administration Act. Therefore, the responsibility for certifying the availability of funds is not clearly identified.

oStatistics Canada should revise procurement documents to provide a space for certification under Section 25(1) of the Financial Administration Act.

AGENCY COMMENTS

All procurement documents were properly signed under Section 25(1). However, the recommendation that space for certification be provided on procurement documents to make more explicit the requirement for certifying the availability of funds is accepted and will be implemented.

OBSERVATIONS AND RECOMMENDATIONS

PRE-AUDIT

A stamp is not used to provide evidence that pre-audit work has been properly completed and to identify those responsible for the pre-audit steps undertaken.

oA pre-audit stamp should be designed and circulated to all offices responsible for pre-audit of payments so that staff can provide evidence that all required steps have been carried out.

AGENCY COMMENTS

A pre-audit stamp will be designed and effective procedures implemented.

OBSERVATIONS AND RECOMMENDATIONS

REVENUE, ACCOUNTS RECEIVABLE AND CASH RECEIPTS

There are a number of weaknesses in the division of duties and in the procedures governing cash receipts.

oResponsibilities for the receipt of cash should be changed to provide better segregation of duties, and certain control procedures relating to the receipt, recording and disposition of funds should be improved.

AGENCY COMMENTS

A review of the responsibilities of all positions involved in the receipt of cash will be initiated to attain the desired degree of segregation. Control procedures will also be improved.

OBSERVATIONS AND RECOMMENDATIONS

The last price structure for Data Dissemination Division's services was prepared in 1973 and charges for these services are not reviewed annually.

oProcedures should be established to review price structures annually for the Data Dissemination Services to ensure that they reflect current costs.

AGENCY COMMENTS

Procedures will be developed to review price structures annually for the services of Data Dissemination Division to ensure that they reflect current costs.

OBSERVATIONS AND RECOMMENDATIONS

DELEGATION OF AUTHORITY

The delegation of authorities instrument does not always impose restrictions on the dollar limit of authority granted, so that certain of the more junior positions in the Agency have the ability to sign for unlimited amounts.

oThe delegation of authorities instrument should include dollar limits on the authority granted to specific positions. Dollar limits on authority should be imposed commensurate with the level of the positions concerned.

AGENCY COMMENTS

Agree that delegation of authority instrument should include dollar limits for specific positions.

OBSERVATIONS AND RECOMMENDATIONS

The delegation of financial authorities is not reviewed on a regular basis to determine whether it is still applicable and appropriate. The authorities instrument has not been signed by the present Minister.

oThe delegation of financial authorities should be reviewed on a regular basis, particularly when there is a change in Ministers,

AGENCY COMMENTS

Agree that delegation instrument should be reviewed regularly and must be reviewed whenever there is a change in Ministers.

OBSERVATIONS AND RECOMMENDATIONS

At headquarters, clerks are exercising payment authority when financial 'officers are available to do so.

oTo meet Treasury Board requirements, payment authority should only be delegated to positions classified at or above the Financial Administration Two (FI-2) or equivalent level.

AGENCY COMMENTS

This guideline is known and accepted. Payment authority will be delegated to the appropriate level of responsibility as recommended provided additional positions can be obtained to perform this function

OBSERVATIONS AND RECOMMENDATIONS

Specimen signature cards are not up to date and are not always properly completed.

oTo ensure proper exercising of signing authorities, specimen signature cards should be kept up to date and reviewed annually. They should also be approved by authorized officers,

AGENCY COMMENTS

The necessary action will be taken. All specimen signature cards will be reviewed in the near future and annually thereafter. They will be approved by authorized officers.

OBSERVATIONS AND
RECOMMENDATIONS

ASSETS AND LIABILITIES
ADVANCES

There is no evidence at headquarters to demonstrate that a reconciliation was made between outstanding advances to employees and the principal accounting system.

oProper documentary evidence should be maintained to indicate that outstanding advances have been reconciled to the principal accounting system.

AGENCY COMMENTS

It is agreed that recording documentary evidence of the monthly reconciliation of advances would provide worthwhile confirmation of this control step.

OBSERVATIONS AND
RECOMMENDATIONS

Advances out of the Working Capital Advance Account are not reassessed twice a year as required by the Treasury Board.

oAdvances out of the Working Capital Advance Account should be reviewed twice a year to ensure that they are still required for operational and financial purposes.

AGENCY COMMENTS

As we issue standing advances to staff of the regional offices only, and as their function requires them to travel through-out the year, an annual review was deemed to be sufficient. However, in the light of the recommendation we will review these twice a year.

OBSERVATIONS AND
RECOMMENDATIONS

MATERIAL MANAGEMENT

There are no control procedures to ensure that all purchases of fixed assets are recorded in subsidiary inventory records.

oTo ensure that all fixed assets have been inventoried, additions to inventory records should be reconciled at least annually to the expenditures for the corresponding period in the related objects of expenditure, as recorded in the principal accounting system.

AGENCY COMMENTS

Recommendation that additions to inventory records should be periodically reconciled to the expenditures recorded for related

objects of expenditure in the accounts to ensure that assets purchased have been inventoried is accepted.

OBSERVATIONS AND RECOMMENDATIONS

REVOLVING FUND

The progress and final billings for Revolving Fund projects are not centrally controlled through pre-numbering. A letter used for billing customers is not in a proper invoicing form.

oA suitable pre-numbered invoice should be used as the billing mechanism.

AGENCY COMMENTS

The feasibility of using an invoice for billing purposes will be investigated.

OBSERVATIONS AND RECOMMENDATIONS

There is no control account for Revolving Fund billings to ensure that all invoices and payments are accounted for.

oAn accounting control should be established over the Revolving Fund's total accounts receivable to improve internal control.

AGENCY COMMENTS

While it is considered that adequate controls now exist a further control register will be initiated.

OBSERVATIONS AND RECOMMENDATIONS

There are no formal requirements to obtain customer approval where a Revolving Fund project is expected to exceed the original cost estimate.

oA directive should be issued requiring approval of a customer in all cases where the original cost estimate for a Revolving Fund project is expected to be exceeded. Where this overrun will be material a revised contract should be processed.

AGENCY COMMENTS

It is agreed that a revised Cost, Acceptance and Approval form should be raised when it becomes obvious that a significant overrun is going to be encountered. However, in signing the form the customer agrees that "the final charge will be the actual costs incurred".

OBSERVATIONS AND

RECOMMENDATIONS

Some Revolving Fund projects have been undertaken without advance payments from the customer and some projects are insufficiently funded.

oTo comply with the prerequisites for Revolving Fund services, projects should not be undertaken unless a duly signed Estimate of Cost, Acceptance and Approval form and the requested advance payments have been received.

AGENCY COMMENTS

This statement is one of the basic rules of the Fund's operation and is the subject of an annual directive from the Chief Statistician.

OBSERVATIONS AND RECOMMENDATIONS

BUDGETARY CONTROL

FINANCIAL RESPONSIBILITY AND ACCOUNTABILITY OF MANAGERS

The natural relationship between financial accountability and operational responsibility does not exist in Statistics Canada due to the organizational distinction between the main activities categorized as subject-matter and functional services areas. Operational responsibility for projects (lowest level activity) is shared by organizational divisions, whereas according to the Main Estimates the subject-matter areas are financially responsible. At present there are no suitable methods available for allocating responsibility for budgetary control over projects between the two areas so that accountability for budgetary results can be readily determined.

AGENCY COMMENTS

Due to the very nature of statistical projects various organizations are involved. However, each project has a sponsoring division and a project manager. Space does not permit a full reply but each organization has a direct budget for which the senior manager is fully responsible. In most cases he also has an indirect budget which represents services he is to receive. This indirect budget makes up, to a large extent, the direct budget of the service organization. The services to be performed are agreed upon by both parties and costed during the preparation of Main Estimates. As no two managers can exercise direct control over the same resource the subject-matter manager must achieve his assigned objectives by controlling his direct budget and monitoring the quality and timeliness of the services that he has negotiated. At times deficiencies have arisen due to estimation, allocation and reporting concerning the relative responsibility and accountability for projects and activities. These problems are not unusual given the functional framework and the nature of many of the activities of Statistics Canada.

OBSERVATIONS AND RECOMMENDATIONS

oStatistics Canada should formally delineate the internal financial responsibility and accountability of managers involved in its main activities. Appropriate methods should be devised to allocate responsibility for budgetary control between them as a means of achieving effective and coordinated financial management.

AGENCY COMMENTS

The organization is currently conducting an in-depth review of its broad internal management systems and the related question of accountability for activities and projects.

OBSERVATIONS AND RECOMMENDATIONS

THE BUDGETARY CYCLE AND DETAILED BUDGETS

Due to the lengthy time interval between the preparation of Program Forecasts, Main Estimates and detailed operating budgets, budgetary control plans may no longer contain realistic cost data for which managers can be held accountable.

oConsideration should be given to adjusting detailed operating budgets with a view to producing realistic and current budgetary control data based on anticipated actual costs and program activities of the immediate fiscal year.

AGENCY COMMENTS

In preparing detailed operating budgets which are the derivative of Main Estimates, adjustments are consciously made with a view to producing realistic and current budgetary control frameworks. We agree in principle that operating budgets should be adjusted to reflect anticipated actual costs. Efforts will be made to better apply the principle given resource and time constraints.

OBSERVATIONS AND RECOMMENDATIONS

METHODS OF PREPARING DETAILED OPERATING BUDGETS

A variety of techniques are being used to prepare time-phased budgets for the purpose of control. Appropriate methods and techniques have not been decided on by those in authority, so that they can be consistently applied in preparing detailed budgets.

oTo achieve more effective budgetary control, Statistics Canada should review alternative methods and techniques of preparing detailed

budgetary control plans. This review should assess the appropriateness of their application to the various elements of responsibility centre budgets after giving due consideration to the timing and nature of budgetary charges and to the accounting systems and procedures presently available or readily designed that will support the methods and techniques applied.

AGENCY COMMENTS

During the past few years Statistics Canada personnel have been devoting considerable effort in this area. The procedures referred to are understood and have been the subject of training sessions and consultation. Action will be taken to further refine and document procedures.

OBSERVATIONS AND RECOMMENDATIONS

Formal and complete instructions are not issued to those responsible for preparing detailed operating budgets as a means of identifying the methods and techniques to be applied.

oTo ensure the consistent application of proper methods and techniques in preparing budgetary control plans, Finance and Administration should issue formal and complete instructions to those responsible.

AGENCY COMMENTS

See item above.

OBSERVATIONS AND RECOMMENDATIONS

Budgetary control plans are not reviewed before the fiscal year begins to assess their appropriateness in terms of the Agency's over-all priorities and operational plans.

oThe Executive Committee and the Senior Financial officer should review budgetary control plans to assess their appropriateness in terms of current priorities and plans of the Agency.

AGENCY COMMENTS

At the present time senior managers are responsible for their respective budgetary control plans. The feasibility of an over-all review will be studied.

OBSERVATIONS AND RECOMMENDATIONS

VARIANCE ANALYSIS

Comprehensive analysis of variance 'data as reported between year-to-ate budgets and year-to-ate expenditures is not undertaken as a means

of informing higher level management of changing situations that may require corrective action.

oTo keep management informed and to improve budgetary control, material variances reported between budgeted and actual expenditures should be comprehensively analysed. The results should be documented in a consistent and concise form so as to reveal the effect of changes in quality and price of resource inputs. The results of variance analysis, along with proposals for corrective action, should be reported to higher levels of management.

AGENCY COMMENTS

Analysis of variances is effectively carried out on an aggregate basis at field and departmental levels and involves a systematic, documented approach. Improvements in the quality and coverage of these analyses along the lines recommended will be investigated.

OBSERVATIONS AND RECOMMENDATIONS

Yardsticks have not been established to measure operational outputs so that full budgetary control can be attained by comparing budgeted and actual costs with budgeted and actual results.

oStatistics Canada should actively pursue The design and application of performance measurement systems that can effectively measure outputs so that the effect of changes in volumes of output can be determined and taken into account in the total variance analysis process.

AGENCY COMMENTS

The benefits of having performance measurement systems that can effectively and reliably measure output wherever possible are known and the design and application of these systems will be actively pursued.

OBSERVATIONS AND RECOMMENDATIONS

INTERNAL AUDIT

A central financial audit is not carried out at headquarters of Statistics Canada to appraise independently and systematically the system of financial administration and internal control.

oStatistics Canada should ensure that internal audits encompass headquarters as well as regional offices, with regular reports being submitted to the Deputy Head.

AGENCY COMMENTS

Resource shortages have not permitted the establishment to date of an

internal audit office, particularly because of the growing pressures on the financial operating staff under conditions of more austere budgets. It is planned to establish a small unit within the next few months, resources permitting. Should this not be possible the services of the Audit Services Bureau will be engaged for this purpose.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL REPORTING

Financial reporting systems have not been fully integrated and there is no central co-ordination and evaluation of these systems.

Management Statements, as produced by the principal accounting system, and reports generated by the Progress Reporting and Cost Accounting System (PRACAS), do not receive widespread use as management tools. Further, there are no standard manually-prepared internal reports that summarize significant financial information produced by the various management information and accounting systems.

Present computerized financial reports tend to be too detailed and voluminous. They do not highlight significant information and contain unnecessary detail which does not add to the reader's understanding.

oTo improve the usefulness of financial reports in the financial management process, Statistics Canada should:

AGENCY COMMENTS

Statistics Canada has already established a senior committee to investigate the consolidation of all financial information systems. The development of an internal users guide summary, integrated financial reports and simplified reports will be the subject of further study once the necessary consolidation has been achieved.

OBSERVATIONS AND RECOMMENDATIONS

-establish central integration, evaluation and co-ordination of all existing and proposed financial information systems under the direction of the Senior Financial Officer;

-provide an "internal user guide" on all financial reporting systems to assist and guide users as to the appropriate use and limitation of financial reports;

-develop summary integrated financial reports in standard format, on a comparative basis where appropriate, that will combine significant financial information regarding projects, responsibility centre budgets and man-year utilization; and

AGENCY COMMENTS

The usefulness of preparing integrated summary financial reports in standard format is accepted and development of this report will be given high priority.

OBSERVATIONS AND
RECOMMENDATIONS

-simplify the presentation format of computerized financial reports wherever possible to make them more readable and usable by highlighting clearly significant information.

AGENCY COMMENTS

See items above.

APPENDIX F

RECOMMENDATIONS OF THE STANDING COMMITTEE

ON PUBLIC ACCOUNTS TO THE HOUSE OF COMMONS

RECOMMENDATIONS OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS TO THE HOUSE OF COMMONS

The Public Accounts Committee has completed its examination of the 1974 Report of the Auditor General and part of the 1975 Report. The Committee also completed its review of the Report on the Study of the Accounts of Canada. The following is a summary of the observations and recommendations included in the Committee's reports to the House of Commons.

FOURTH REPORT TO THE HOUSE, DECEMBER 18, 1975

Subsidization of local transportation by the Post Office Department. The Committee recommended that the Post Office Department should not depart from the system of open tender contracts for mail carrying and in this regard should adhere to Section 61(1) (c) of the Financial Administration Act which states that appropriations should be applied only in a manner authorized by Parliament.

Improper charge to 1973-74 Appropriation. The Committee concluded that the acceptance of and payment for vehicles after April 1, 1974, by the Post Office Department was clearly illegal.

The Committee reported that it believes that all departments should know that, under the provisions of the Financial Administration Act, Parliament has a serious mandate to control public expenditures, to insist that funds are applied for the purpose authorized by Parliament, and to ensure that payments for goods received or services rendered before the end of the fiscal year are charged to the appropriate accounts for that fiscal year.

Loss of public property at international philatelic exhibition. The Committee strongly endorsed the recommendations of the Post Office Department that no legal action be taken by the Canadian authorities against the Exhibition Management or the German postal authorities, that legal action regarding audio-visual equipment be continued, and that management clearly define the role and responsibilities of the various branches associated with international exhibitions. The Committee also stressed the importance of sending only competent, trained and experienced staff to these exhibitions.

Post Office retail activities. The Committee concluded that the Post Office Department has been acting illegally in selling various non-postal items to the public without the necessary authorization by Parliament, and recommended that it obtain such authority to continue.

Increased costs due to delay in awarding contract. The

Committee recommended that the Post Office Department accelerate its procedures for approving contracts and keep its lists of potential suppliers up-to-date so that it knows which firms have the capacity to meet its contract requirements. The Committee also noted that delays in seeking Treasury Board approval under the tender system can result in increased costs.

Cancellation of debts arising from overpayments of allowances. In accordance with a written opinion of the Department of Justice, the War Veterans Allowance Board cancelled the balances of overpayment accounts to veterans totalling \$790,000. After a question from the Auditor General, however, the Board received a subsequent and contrary opinion from the Department of Justice stating that the debts remain outstanding.

The Committee recommended that the Department of Justice be more careful in issuing opinions.

Suspension of recovery of war veterans allowance overpayments. The Committee expressed concern that there was a lack of authority for suspending recovery attempts and recommended that authority be established before any such action is taken.

Delay in issuing assessments and inadequate liaison between divisions of the Department of National Revenue (taxation) resulting in loss of revenue to the Crown. The Committee recommended that the Department take immediate action to revise procedures to eliminate such occurrences and, if necessary, that the Minister of Finance act swiftly to introduce legislation.

The Committee also recommended that in appropriate cases full disclosure of the names and facts of cases written off be made public.

Ex gratia payments to members of the Canadian Forces. The Department of National Defence paid \$139,500 in ex gratia payments on the authority of Article 210.05 "Compensation in Special Cases" of the Queen's Regulations and Orders. The Auditor General maintained, however, that authority to make ex gratia payments is vested in the Governor in Council and may not be delegated.

The Committee recommended that the Auditor General seek outside legal counsel on this problem and report back to the Committee.

Canadian Forces Base Summerside, P.E.I. The Auditor General maintained that the additional costs of keeping the base open far exceed the costs necessary for fulfilling the defence function in the area. He also observed that the appropriations were being applied for a purpose not authorized by Parliament, but he agreed that there were other votes in Parliament that could have accommodated the sum.

The Committee agreed entirely with the principle that any appropriation authorized by Parliament must be spent for the purposes

authorized, and recommended that proper authority be sought for future expenditures of this sort.

Excess fees paid to retired public servants and members of the Canadian Forces employed by the Department of National Defence under personal service contracts. The Committee expressed concern that this practice is widespread and expanding. It recommended that Treasury Board consider conducting a study of the use of personal service contracts and that a directive be developed for the guidance of all departments employing retired employees under contract.

The Committee further recommended that recovery action be taken in cases of overpayment.

Cost of vacant accommodation following closure of Canadian Forces Base, Gimli, Manitoba. The Committee concluded that although the closing of bases and the shifting of personnel may be inevitable, tighter administrative control over leasing arrangements by the Department of National Defence is needed to avoid such unproductive expenditures.

Overdrawal of rations. The Committee noted that the Department of National Defence has discontinued the practice of issuing free meals to other contingents.

Additional expense incurred because of error in specifications of winter caps purchased for Canadian Forces. The Committee recommended that the Department of National Defence exercise greater control in its contracting procedures and specifications.

Local Initiatives Program. The Committee reviewed the progress of the Local Initiatives Program in correcting some of its shortcomings.

The Committee expressed the opinion that the officials of the Department of Manpower and Immigration must ensure that: the Program guidelines are properly observed, simplified but adequate accounting records are maintained for all grants, proper audit procedures are followed, control measures are adopted to avoid duplicating funds for the same project, and tighter controls are enforced in projects involving improvements and benefits to private property.

Irregular charge to Canadian Livestock Feed Board Account. During 1973-74 the Canadian Livestock Feed Board authorized special price assistance payments totalling \$822,000 to offset increased costs of livestock feeders who were forced to purchase feed grains at higher prices because a series of railway strikes in British Columbia cut off their regular source of supply.

The Committee concluded that the Canadian Livestock Feed Board had no authority under the Livestock Feed Assistance Act to make such payments and therefore acted improperly in using public funds for purchases not intended by Parliament.

Errors in Public Service Superannuation Account pension calculations. The Committee recommended that the Treasury Board Secretariat review the provisions in the Public Service Superannuation Act and its accompanying Regulations that relate to the reporting requirements of superannuation by the employer and establish standard reporting procedures to which all government departments and agencies conform.

Cost of unused accommodation. The Committee expressed concern about recurring cases of government departments paying rent for unused accommodation and referred to the recommendation in previous reports that these rental expenses should be a charge on the department occupying the space and not on the Department of Public Works. Departments would then be more careful to avoid these non-productive payments.

Overpayments of adjustment assistance to Ugandan refugees. The Committee expressed the opinion that the Department of Manpower and Immigration should press the recovery procedure more vigorously.

Imported Oil and Petroleum Products Compensation Prod. The Committee noted that the Auditor General obtained the services of a public accounting firm to assist in monitoring this program and decided to await the Auditor General's next report on this vast and expensive program to discover how effective the control measures have been.

The establishment of a Special Audits/Inquiries Branch Financial Management and Control. The Committee heard a progress report from the Auditor General and his associates on how the Interchange Canada Program is assisting in carrying out a comprehensive evaluation of financial management and control systems throughout government departments, agencies and Crown corporations for which the Auditor General has audit responsibility.

In all, a total of 34 senior members of 16 major firms of chartered accountants joined the Office of the Auditor General under the Interchange Canada Program. Fourteen study teams were formed, each consisting of a partner and manager from a participating firm and a senior auditor from the Audit Office.

The results of the studies are reported to the deputy head under the headings of background, analysis, and recommendations, plus observations of the study teams with respect to any weaknesses in the system of financial management and control within his department. The Report of the Auditor General informs Parliament of the results.

The Committee reported its endorsement of this wide-ranging program.

Concluding remarks. The Committee concluded its review of the 1974 Auditor General's Report and noted that a formal response on the matters raised in the Report is anticipated from the Secretary of

the Treasury Board within six months.

The Committee noted that the Public Accounts of Canada for the year ended March 31, 1974, had not been referred to it by the House and recommended that consideration be given to changing the Standing Orders of the House of Commons to provide that the Public Accounts of Canada and the Annual Report of the Auditor General be referred to the Committee automatically.

FIFTH REPORT TO THE HOUSE, MARCH 9, 1976

The Committee reviewed in detail the Report on the Study of the Accounts of Canada and concluded that implementation of its recommendations would correct many of the anomalies in accounting and inconsistencies in reporting which have made the Estimates and Accounts of Canada difficult for parliamentarians and others to understand.

The Committee endorsed the 41 recommendations contained in the Report and recommended that the Treasury Board implement them as soon as it is technically possible to do so.

The Committee also recommended that when the recommendations are implemented the accounting principles and practices contained in the Study be formally enunciated in the introductory notes of Volume I of the Public Accounts of Canada, thereby incorporating the recommendations in the notes as an integral part of the summary financial statements of the Government of Canada.

The Committee, however, was not satisfied that sufficient attention had been paid to certain specific areas and suggested that further study is required by the appropriate authorities in the following areas:

- the accounting of current and future loans to other governments;
- the accounting of current and future loans to government-controlled organizations whose financing is unrealistic and who therefore may not be in a position to repay such loans;
- the classification of Crown corporations under Schedules C and D of the Financial Administration Act in accordance with the principles outlined in the Study; and
- the use of improper or unacceptable accounting principles by Crown corporations.

The Committee also recommended that the Auditor General clearly identify in his Annual Report all cases where recorded expenditures exceed appropriation authority.

The Committee recommended that the Treasury Board consider the advisability of authorizing the publication of the Report on the Study of the Accounts of Canada on a cost recovery basis so that all

governments, academic institutions, professional institutes and other interested groups and citizens could take advantage of this significant body of knowledge.

The Committee stated that it would be pleased to receive regular progress reports from the Treasury Board Secretariat on implementation of the Study's recommendations.

SIXTH REPORT TO THE HOUSE, JUNE 30, 1976

Financial Management and Control Study. The Committee, after reviewing the subject areas of each Chapter of the Financial Management and Control Study and examining various witnesses, reported that it became evident that the conclusion reached by the Auditor General was well substantiated:

"the present state of the financial management and control systems of departments and agencies of the Government of Canada is significantly below acceptable standards of quality and effectiveness."

The Committee reported that it unanimously endorsed the 34 significant recommendations proposed by the Auditor General.

The Committee requested that the Auditor General follow up and monitor the actions taken at government-wide and at departmental levels. It also noted:

(1) that the Auditor General gave full assurance that he will report on any matters where action to remedy reported deficiencies and weaknesses in financial control has been inadequate or is not functioning satisfactorily.

(2) that the Secretary of the Treasury Board gave full assurance that periodic progress reports on implementing the various measures would be furnished to the Committee.

Weakening of parliamentary control. The Committee reported that in its view the effectiveness of Parliament's control over government expenditure has been seriously reduced as a result of changes in the form and content of the Estimates over the last 10 years. The reduction in the number of votes, the broadening of the vote wording, and the standardization of the Estimates have generally resulted in a significant loss of information that is necessary for Parliament to be well informed before authorizing expenditures.

The Committee reported that, as a result of its deliberations, the Treasury Board will undertake a comprehensive study of the form of the Estimates.

The Committee endorsed the preparation of a booklet by the Treasury Board, the Auditor General and the Research Officer of the Committee to assist parliamentarians in understanding the process and form of the Estimates.

Irregularities in departmental transaction After reviewing numerous cases of waste, weak financial management and non-compliance with the Financial Administration Act, and other examples of irregularities, the Committee noted that it had been assured by the Treasury Board Secretariat and the departments and agencies concerned that measures were being taken, where necessary, to ensure strengthening of the financial procedures in these areas and also noted that the Auditor General would monitor these areas.

The Committee expressed particular concern about the National Energy Board arranging to have \$90,000 of its costs charged to the Energy Supplies Allocation Board. The Committee recommended that the Minister take disciplinary action.

The Committee expressed strong disapproval of any action which has the effect of circumventing the financial controls established by Parliament and recommended that the Treasury Board take the action necessary to ensure that the authority of Parliament is recognized.

The Committee expressed its appreciation for the efforts and co-operation of the accounting profession in Canada.

APPENDIX G

REPORT OF THE TREASURY BOARD SECRETARIAT

TO THE STANDING COMMITTEE ON PUBLIC
ACCOUNTS, MARCH 10, 1976

Our File: 9122-9-4

March 10, 1976

Mr. Lloyd R. Crouse, M.P.,
Chairman of the Standing Committee
on Public Accounts,
House of Commons,
Ottawa, Ontario.
K1A 0A6

Dear Mr. Crouse:

The purpose of this letter is to advise you of the actions reported to Treasury Board by departments on some of the matters raised in the 1975 Report of the Auditor General. This is to facilitate the work of your Committee in its review of that Report.

I am pleased to advise that actions have been instigated to resolve matters raised in 31 of the paragraphs contained in the main Report. Appendix I explains the nature of the problems and briefly outlines the departmental actions. In this tabulation we have included paragraphs where the action instigated by the departments is not necessarily complete, but where it should be possible for the Auditor General during fiscal year 1976/77 to confirm that the problems have been resolved.

Appendix II identifies 8 paragraphs where the problems listed were considered faring the Study of the Accounts of Canada which was recently completed by the Treasury Board, the Department of Finance and the Department of Supply and Services. Following your Committee's review of the Study Report, it is now anticipated that we will be able to satisfactorily resolve these matters.

There are 12 paragraphs where it will not be possible at this time to determine whether the action which has been initiated has resolved the problems or where the action required is not readily discernible. We will continue our work with the objective of taking remedial action where necessary.

In Part X of the 1975 main Report, the Auditor General refers to a number of recommendations concerning financial management and controls on a government-wide basis contained in Chapters I to X inclusive of the Supplement to the Annual Report. These recommendations have a significant bearing on the manner in which the financial administrative function of the Federal Government is organized and on the procedures and practices followed. I have not

covered these recommendations in this letter since I would prefer to discuss them during my appearances as a witness before the Public Accounts Committee.

The remaining paragraphs in the main Report are introductory or general comments where no action appears to be required.

We have forwarded a copy of this letter with appendices to the Auditor General and have requested his confirmation that the matters dealt with in his Report have been summarized adequately in the appendices. He has so confirmed.

I trust that this information will be useful to you and your Committee in reviewing the 1975 Report of the Auditor General.

Yours sincerely,

G.F. Osbaldeston

Appendix I

1975 REPORT OF THE AUDITOR GENERAL PARAGRAPHS WHERE CORRECTIVE ACTION HAS BEEN INSTIGATED

PARAGRAPH NUMBER AND PROBLEM

5.10(A) -Memorandum Accounts Receivable - Department of National Defence

The Auditor General notes that certain accounts were not invoiced and that receipts in April 1975, from other government departments which had charged the payment to 1974/75 appropriations, were not recorded as revenue by the Department of National Defence in 1974/75.

He comments on long outstanding accounts receivable from the United Nations and from some provincial governments and mentions controls over the accounts of the National Defence Medical Centre, contract refunds and overdue accounts.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

The unbilled accounts have now been invoiced. A government-wide system for settling interdepartmental accounts has been implemented and will prevent a recurrence of this problem. Due to financial difficulties experienced by the United Nations accounts receivable for peacekeeping operations recorded before April 1/74 will be shown separately in any report or statement with a suitable note of explanation.

The long outstanding accounts receivable are reviewed periodically and efforts to collect them are made as circumstances permit. Adequate controls have been established or reviews are being carried out to overcome the deficiencies in internal control practices.

PARAGRAPH NUMBER AND PROBLEM

5.10(b) -Memorandum Accounts Receivable - Department of Energy, Mines and Resources

The Auditor General notes deficiencies in internal controls and points out that the system, which has been under review since 1972, is not adequate for controlling accounts receivable.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

New procedures for accounts receivable, which will resolve the problems raised by the Auditor General, will be fully implemented by March 31, 1977.

PARAGRAPH NUMBER AND PROBLEM

6.7 -National Capital Commission Capital Assists Recorded at Values Greater than Amounts to be Realized on Disposal

The Auditor General notes that certain properties to be disposed of at substantially less than cost are not recorded on the balance sheet at estimated realizable value.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

It is anticipated that the necessary valuation work to record the assets at realizable value will be completed within two years.

PARAGRAPH NUMBER AND PROBLEM

6.9 -The St. Lawrence Seaway Authority - Non-Compliance with the a Provisions of the St. Lawrence Seaway Authority Act

It is extremely unlikely tat the Authority will be able to repay its capital indebtedness in accordance with Section 17 of the Act.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

The financial structure has been reviewed and it is planned to put it on a reasonable financial basis in relation to expected future revenues.

PARAGRAPH NUMBER AND PROBLEM

7.1 -Overexpenditure in one Appropriation Charged to Another

The National Energy Board having exhausted its appropriation (Vote 50), arranged to charge about \$90,000 in expenses tot he appropriation (Vote 51b) of the Energy Supplies Allocation Board.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

Steps have been taken to ensure that this will not reoccur.

PARAGRAPH NUMBER AND PROBLEM

7.2 -Irregular Charges to an Appropriation

Certain loans and advances were charged to an appropriation of the Department of National Defence, contrary to the Accountable Advances Regulations.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

Arrangements are in progress to establish a departmental working capital advance effective April 1, 1976 which will provide for these loans and advances.

PARAGRAPH NUMBER AND PROBLEM

7.3(a) -Working Capital Advances exceeded

A Post Office Vote 541 authorized a working capital advance account. The balance of account was \$1.7 million at March 31, 1975 which was \$200,000 in excess of the authorized limit.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

Steps have been taken to minimize the advance requirements and authority will be sought to establish the limit at an appropriate level.

PARAGRAPH NUMBER AND PROBLEM

7.3(b) -Working capital Advances Exceeded

Advances to the Canadian Government Photo Centre revolving fund exceeded the authorized limit of \$450,000 at various times during the fiscal year and at the year end.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

A capital loan has now been authorized to finance the revolving fund for equipment with a value of \$137,185 that had been charged to the fund at its inception. Supplementary Estimates approved for 1975/76 include an amount of \$73,605 to write off the accumulated deficit in the fund to March 31, 1975. Intensive studies are also underway to identify means of eliminating deficits, and a number of changes have been made to this end. A submission has also been made to Treasury Board to have the authorized maximum of the revolving fund increased.

PARAGRAPH NUMBER AND PROBLEM

7.3(c) -Working Capital Advances Exceeded

The Public Service Commission revolving fund limit was exceeded. Fund

records were not maintained up-to-date and there was a lack of prompt collection action on amounts owing from government departments.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

Corrective action has been initiated to correct the deficiencies noted and to ensure that working capital advance limits are not exceeded. Revised control systems will be operative by April 1, 1976.

PARAGRAPH NUMBER AND PROBLEM

7.5 -Acceptance of Forged Cheques for Postage Stamps

As a result of fraudulent representations by unknown persons, postal employees were deceived into accepting two forged certified cheques in payment for postage stamps. Losses amounting to \$40, 000 and \$48,000 occurred on December 7 and 10, 1974 at two separate locations.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

Accountability for the losses has been established and partial recovery is being made from employees. the remainder is being charged to the Post Office Guarantee Fund.

PARAGRAPH NUMBER AND PROBLEM

8.1 -Increased Cost due to Delay in Accepting Offer

Delays in accepting offer resulted in the payment of \$9,000 more than the original offer by the vendor.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

The original offer was accepted within the time limit, however, the vendor refused to sell at the agreed price. A legal opinion indicated that the vendor could not be held to the original price agreed upon. the department will continue to negotiate in good faith to obtain the best possible contract arrangements on behalf of the government.

PARAGRAPH NUMBER AND PROBLEM

8.2 -Departmental Audit of Missions Abroad

Since 1964 the Auditor General has been pointing out the need for improvements in financial control at Department of External Affairs' missions abroad, including the strengthening of the internal audit of these missions.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

The department is carrying out a review with a view to improving financial management. This review will include consideration of an expanded internal audit to reduce or replace the present system of performing a detailed audit on all transactions at posts.

PARAGRAPH NUMBER AND PROBLEM

8.3 -Payments for United Language Training

Statistics Canada paid \$36,000 for language training under contract guarantee for which no services were received as the attendance was below the guaranteed minimum.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

In negotiating the contract the department had to provide a guarantee in order to obtain a low unit rate. After allowing for the payments made to meet the minimum the overall cost was still lower than could be obtained through other means.

PARAGRAPH NUMBER AND PROBLEM

8.4 -Improper Charge to 1974-75 Appropriations

United Way Campaign costs of \$59,000 were charged to a Statistics Canada appropriation whereas the Estimates showed that the Department of Supply and Services was responsible for the Public Service United Way Campaign.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

The program description in the 1976/77 Main Estimates will be changed to read that Supply and Services is responsible for "certain" instead of "all" aspects of the Public Service United Way Appeal.

PARAGRAPH NUMBER AND PROBLEM

8.5 -Irregularities in Advertising expenditures

The Auditor General notes that recruiting advertising payments exceeded the total approved by Treasury Board and that there were a number of irregularities in the financial control procedures over advertising expenditures.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

The Department has reviewed the financial accounting procedures for the control of advertising expenditures and will implement changes to the systems which should prevent future irregularities.

PARAGRAPH NUMBER AND PROBLEM

8.6 -Revenue Improperly Credited to 1974-75 Appropriation

The Auditor General questions the crediting to appropriations of repayment of helicopter development contributions and of the employer's share of provincial health insurance plans in those provinces where costs were not paid by direct premiums.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

The Department now agrees that the revenue should not have been credited to departmental appropriations and will in future credit such recoveries to the Consolidated Revenue Fund.

PARAGRAPH NUMBER AND PROBLEM

8.7 -Failure to Adhere to Accountable Advance Regulations

The Auditor General notes that travel advances exceeding \$500 were made from public funds imprest and advance accounts and that accountable advances were not settled within specified time limits contrary to the Accountable Advances Regulations.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

The department is to submit to Treasury Board a justification for easement of the \$500 limit specified in the regulations and has taken steps to ensure advances are settled within the specified time frame.

PARAGRAPH NUMBER AND PROBLEM

8.8 -Shortfall in Interest Earnings of the Canada Pension Plan Account

The Auditor General notes that the Canada Pension Plan does not allow for retroactive adjustments of interest paid by the Minister of Finance to the Canada Pension Plan Account when the actual contributions are ascertained.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

Necessary revisions to the Canada Pension Plan Act will be studied.

PARAGRAPH NUMBER AND PROBLEM

8.9 -Overpurchase of Tobacco Stamps

The Auditor General notes that as a result of deficiencies in commitment control records \$112,000 of stamps were purchased in excess of the contract amount and that the overpurchase proved to be in excess of departmental requirements in as much as \$197,000 of stamps were subsequently destroyed.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

8.10 -Surplus Inventory of Spirit Age Labels

The Auditor General notes that the cost of surplus inventory which was purchased because of over estimates by the distilleries had not been recovered.

PARAGRAPH NUMBER AND PROBLEM

Commencing with the 1976/77 fiscal year the selling price will be increased to provide for the recovery of these costs.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

8.11 -Irregular Contracting and Payment Procedures

The Auditor General noted irregularities in administrative and financial practices relating to payments made to a contractor for removal and storage of furniture.

PARAGRAPH NUMBER AND PROBLEM

Steps have now been taken to ensure that requirements for movement and storage of furniture will be requisitioned from the Department of Public Works.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

8.12 -Increasing Rental Accommodation Costs

The Auditor General reaffirms his opinion expressed in 1972 that rental costs are higher than necessary because Public Works must absorb rental costs out of its own appropriations, while the choice of accommodation rests with client departments.

PARAGRAPH NUMBER AND PROBLEM

A privy Council/Treasury Board Secretariat Study is evaluating cost recovery for services. The study is not as yet complete.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

8.14(a) -Cost of Unused Accommodation - Winnipeg-Canadian Grain Commission

Rent amounting to \$272,000 was paid for united accommodation in 1973/74 and 1974/75.

PARAGRAPH NUMBER AND PROBLEM

The lease was cancelled effective November 30, 1974.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

8.14(b) -Cost of United Accommodation - Fort Simpson-Department of Public Works

Because of changes in projected population growth leased suites were no longer required.

PARAGRAPH NUMBER AND PROBLEM

By August 1975 all the leased suites were occupied.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

8.14(c) -Cost of United Accommodation - Halifax-Dartmouth-National Defence

The Auditor General notes that the vacancy rate for Crown owned quarters far exceeded the average vacancy rate in the area and that this was due in part to the need for renovation.

PARAGRAPH NUMBER AND PROBLEM

Negotiations are underway to reduce the number of units leased from apartment owners and to provide necessary renovations.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

8.16 -Defence Production Revolving Fund - Overstatement of Inventory Value

Oil inventory is reflected in the financial statements of the Defence Production Revolving Fund at a value which is estimated at \$3.1 million in excess of realizable value.

PARAGRAPH NUMBER AND PROBLEM

Total disposal of the fuel oil inventory is planned for the current fiscal year and will be reflected in their accounts of the Defence Production Revolving Fund prior to March 31, 1976.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

11.4 -Wheat Inventory Reduction and Grassland Incentive Overpayments

The Auditor General notes the balance of outstanding overpayments resulting from Wheat Inventory Reduction and Grassland Incentive Programs.

PARAGRAPH NUMBER AND PROBLEM

The department is continuing its efforts to collect the outstanding amounts.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

11.5 -Inadequate Accounting and Financial Control Practices, District Offices

The Auditor General points out inadequacies in internal financial controls at the Department of Indian Affairs and Northern Development district Offices.

PARAGRAPH NUMBER AND PROBLEM

Because of the difficulty in recruiting qualified staff, particularly at the more remote locations, and the diverse nature and complexity of the Department's operations. permanent solutions are not expected immediately.

The department has taken or is in the process of taking a number of measures, including those to which the Auditor General refers. It should be emphasized that the Audit Services Bureau performs the internal audit function under the direction of the Department of Indian Affairs and Northern Development. This audit service is also part of the continuing effort that the Department is making to identify and remedy the problems.

PARAGRAPH NUMBER AND PROBLEM

11.6 -Inadequate Accounting for Appropriation and Indian Band Funds

Evidence of weaknesses in financial controls over Indian Band Funds is indicated by qualifications to band audit reports.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

The government's policy of transferring responsibility to Indian bands for managing funds is part of a long range plan which provides for appropriate training of band staff. The department has issued guidelines to assist the bands and financial advisers have been engaged to work with the bands in order for them to develop accounting skills.

PARAGRAPH NUMBER AND PROBLEM

11.7 -Acquisition of Radio Engineering Products Limited As Satisfaction for Debts Due the Crown

The Auditor General notes that the Crown acquired Radio Engineering Products Ltd. as satisfaction for debts of \$4.5 million due to the Crown, that the Company has not been sold, and is insolvent to the extent of \$5.6 million.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

The department has been authorized to place. Radio Engineering Products Ltd. into bankruptcy. The department is presently making arrangements to do so.

PARAGRAPH NUMBER AND PROBLEM

11.8 -Taxation of Recaptured Capital Cost Allowance with Respect to Vessels Sold

The Auditor General drew attention to \$306,000 on deposit with Industry, Trade and Commerce on March 31, 1974, pending an anticipated

revision to the legislation and notes that the terms of their disposition were amended on February 27, 1975, and that by June 30, 1975 all deposits had been refunded or transferred to the Consolidated Revenue Fund.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

By June 30, 1975 all amounts were appropriately refunded or transferred to the Consolidated Revenue Fund.

PARAGRAPH NUMBER AND PROBLEM

11.10 -Overpayments of Adjustment Assistance to Ugandan Refugees

Deficiencies in the granting of adjustment assistance to ugandan refugees resulted in overpayments of \$164,500 of which \$142,700 was deemed to be recoverable.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

The estimated \$142,700 in recoverable payments has, upon further examination, been reduced to \$134,410 of which \$119,200 remained outstanding at the beginning of January 1976. Vigorous collection action is being pursued.

PARAGRAPH NUMBER AND PROBLEM

11.11 -Overdrawal of Rations

The Auditor General comments on the use, for the Contingent in Cypress, of a ration scale designed for extremely cold climate conditions; the department's inability to produce written authorization for a \$3 daily limit per ration; and the non-recovery from the United Nations for rations consumed by kitchen staff.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

The department has authorized the Contingent to draw rations for civilian cooks and kitchen helpers, has revised the ration scale and has implemented new procedures which are operating satisfactorily.

PARAGRAPH NUMBER AND PROBLEM

11.12 -Subsidization of Dental Services Provided to Dependents

The Auditor General notes that the fees charged for dental services provided to dependents of servicemen were other than provincial schedule fees, as required by Regulations approved by the Governor in Council; and that the commanding office did not have authority to amend the fee schedule. The Director General, Dental Services was delegated the necessary authority on June 12, 1975 and instructions have been issued to submit new fee schedules.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

The senior dental officer has been authorized to determine the fees to be charged in accordance with the Civilian Dental Treatment Regulations and has approved new schedules of fees to be charged.

PARAGRAPH NUMBER AND PROBLEM

11.13 -Overpayment of Interest to the Army Benevolent Fund

As a result of using month en balances rather than minimum monthly balances overpayments of interest to the Army Benevolent Fund for the period April 1971 to April 1973 are estimated at \$51,000. Interest is being recalculated and any adjustment will be made in 1975/76.

CORRECTIVE ACTION TAKEN AND/OR BEING TAKEN TO RESOLVE THE PROBLEMS

The Army Benevolent Fund been requested to provide the monthly minimum balances for the period April 1971 to April 1, 1973. Any adjustments required as the result of a recalculation will be made during the 1975/76 fiscal year.

Appendix II

1975 REPORT OF THE AUDITOR GENERAL PARAGRAPHS WHICH ARE THE SUBJECT OF THE STUDY OF THE ACCOUNTS OF CANADA

PARAGRAPH

5.1 -Summary of Revenue by Main Classification and Department -
General Comment

OBSERVATION

The Auditor General points out the effect on the statement "Summary of Revenue by main Classification and Department" of netting certain revenues against expenditures and of crediting certain revenues to surplus Crown Assets and Replacement of Material Accounts of the Department of National Defence.

PARAGRAPH

5.3 -Statement of Expenditures and Revenue - General Comment

OBSERVATION

The Auditor General points out the effect on the Statement of Expenditures of netting certain revenues and expenditures, and of crediting certain revenue to: Surplus Crown Assets and Replacement of Material Accounts of the Department of National Defence.

PARAGRAPH

5.4 -Summary of Appropriations, Expenditures and Unexpended Balances

by Departments - General Comment

OBSERVATION

The Auditor General points out the effect on the summary of appropriations of:

- crediting revenue to appropriations under authority of Appropriation Acts;

- making expenditures from postal revenue;

- charging expenditures to surplus Crown Assets and Replacement o Materiel Accounts of the Department of National Defence; and

- meeting excess expenditures from special accounts.

PARAGRAPH

5.5 -Summary of Appropriations, Expenditures and Unexpended Balances by Departments - Unexpended amounts carried forwarded

OBSERVATION

The Auditor General notes that spending authority is available in 1975-76, which does not require further reference to Parliament because of special vote wording.

PARAGRAPH

5.6 -Statement of Assets and Liabilities - General Comment

OBSERVATION

The Auditor General observes that, while the practices for preparation of the Statement of Assets and Liabilities have been followed in a consistent manner, they tend to reflect the administrative requirements of the underlying legislation but are not always appropriate. He indicates the recording of certain expenditures as assets is questionable.

PARAGRAPH

5.7 -Statement of Assets and Liabilities - Recording of questionable assets

OBSERVATION

The Auditor General notes that the recording of assets on the Statement of Assets and Liabilities of Canada which are not fully realizable or income earning, reduces the reported net debt.

He observes that the reserve for losses on realization of assets totalling \$546 million has remained unchanged since 1957, and does not

appear to be related to specific assets.

He also notes the inconsistency in the treatment of capital assets financed through loans to revolving funds in that they are recorded as assets on the Statement of Assets and Liabilities whereas assets acquired through budgetary appropriation are charged to expenditures.

PARAGRAPH

5.8 -Statement of Assets and Liabilities - Undisbursed balances of appropriations to special accounts

OBSERVATION

The Auditor General indicates that undisbursed balances of appropriations, which are credited to special accounts do not represent liabilities and the practice of recording them in this manner results in an overstatement of liabilities and net debt.

PARAGRAPH

5.9 -Statement of Assets and Liabilities - Unrecorded surpluses or deficits of revolving funds.

OBSERVATION

The Auditor General comments that the financial statements of Canada do not reflect deficits incurred nor surpluses earned which are retained in the revolving fund accounts.

Failure of certain appropriations to establish a limit on the surplus which can be retained by a revolving fund reduces the control of Parliament over the activities of the fund since accumulated surpluses provide a cushion against which losses or expenditures may be offset.

APPENDIX H

REPORT OF THE TREASURY BOARD SECRETARIAT
TO STANDING COMMITTEE ON PUBLIC ACCOUNTS,

JUNE 21, 1976

Secretary of The Treasury Board Le Secrétaire du Conseil du Trésor

June 21, 1976

Mr. Lloyd R. Crouse, M.P.
Chairman of the Standing Committee
on Public Accounts
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Mr. Crouse:

The purpose of this letter is to advise you of the Treasury Board response to each of the 34 recommendations arising from the Financial Management and Control Study which are contained in Part X of the Auditor General's 1975 Report. These recommendations and our responses have already been discussed with your Committee during March and April, 1976.

Appendix I is a listing of the recommendations and the response to each of them.

Appendix II is a listing of detailed recommendations which have been developed by the Auditor General from material contained in the Supplement to his Annual Report. For the most part, these recommendations suggest a course of action which could be followed in implementing the recommendations contained in his Report. They will be taken into consideration in carrying out the actions referred to in the response. It should also be noted that 79 of the additional 224 recommendations are reiterations of existing Treasury Board Policy. The Financial Administration Branch has been and will continue to monitor departmental compliance with these and other policy requirements.

I trust that this information will be useful to you and your Committee in completing your review of the 1975 Report of the Auditor General.

Yours sincerely,

G.F. Osbaldeston

Ottawa, Ontario
K1A 0R5

Appendix I

1975 REPORT OF THE AUDITOR GENERAL
PART X - FINANCIAL MANAGEMENT AND CONTROL STUDY
SUMMARY OF RECOMMENDATIONS AND ACTIONS TAKEN

PARAGRAPH NUMBER AND RECOMMENDATIONS

Resource Allocation, Budgetary Control, The Estimates and Public Accounts

10.6A comprehensive study of the form of the Estimates, and the information submitted by each department and agency in support of appropriation requests, is required to determine changes needed to achieve better disclosure, as well as better control by Parliament and by the government of departmental spending in relation to the appropriations granted. (2.35)

RESPONSE

The President of the Treasury board has agreed to study the form and content of the Estimates, the main purpose being to determine what should be done to improve the information flow to members of Parliament.

PARAGRAPH NUMBER AND RECOMMENDATIONS

Resource Allocation, Budgetary Control, The Estimates and Public Accounts

10.7 A single central agency should be responsible for the form of the Estimates and Public Accounts so that a more adequate and consistent accounting can be rendered to Parliament. (2.46)

RESPONSE

Responsibility for the form of the Public Accounts and, ultimately, the Estimates will vest in the Financial Administration Branch, Treasury Board Secretariat. The relevant sections of the Financial Administration Act will be amended by replacing references to the Minister of Finance with references to the President of the Treasury Board. Responsibility for the form of the Public Accounts will vest in the Treasury Board Secretariat where responsibility for the form of the Estimates is already vested.

PARAGRAPH NUMBER AND RECOMMENDATIONS

Resource Allocation, Budgetary Control, The Estimates and Public Accounts

10.9 There is a need for governmental and departmental objectives, and program priorities, detailed enough to provide effective guidance to be communicated formally and on a timely basis to managers responsible for the various aspects of financial planning. (3.18)

RESPONSE

(a) Governmental objectives and program priorities are formally communicated in the speech from the Throne white papers and cabinet decisions all of which are available to the deputy ministers concerned.

(b) The communication of departmental objectives and policies is the subject of policy statements contained in the Program Forecast and Estimates Manual and the Guide on Financial Administration. Departmental compliance with this policy is the subject of continuing evaluation.

PARAGRAPH NUMBER AND RECOMMENDATIONS

Resource Allocation, Budgetary Control, The Estimates and Public Accounts

10.10 Senior management of departments and agencies should prepare Program Forecasts centrally with other levels of management providing information for planning, primarily through continuous dialogue with headquarters. (3.36)

RESPONSE

This recommendation is consistent with existing Treasury Board policy. This policy will be reaffirmed and departmental compliance is the subject of continuing evaluation.

PARAGRAPH NUMBER AND RECOMMENDATIONS

Resource Allocation, Budgetary Control, The Estimates and Public Accounts

10.11 Program Forecast information requirements should be studied to make certain that they contain only essential detail and specify requirements which recognize the fundamentally different natures of the various departments and agencies and the diversified programs they administer. (3.40)

RESPONSE

It is the policy of the Treasury Board Secretariat to continually review the data required to be submitted in Program Forecasts and to delete material not required for the assessment of specific program proposals. The differing natures of departments and agencies are recognized.

PARAGRAPH NUMBER AND RECOMMENDATIONS

Resource Allocation, Budgetary Control, The Estimates and Public Accounts

10.12 All programs should be reviewed in detail on a cyclical basis. Reviews should be conducted by departments, with appropriate central agency participation to provide an adequate basis for them to perform their resource allocating and budget monitoring responsibilities. (3.46)

RESPONSE

Departments have been instructed to develop and operate systems which disclose program efficiency and effectiveness. Treasury Board has assisted departments and will evaluate these systems to ensure that data produced may be reliably used in the resource allocation and budgetary processes.

PARAGRAPH NUMBER AND RECOMMENDATIONS

Resource Allocation, Budgetary Control, The Estimates and Public Accounts

10.13 Departmental personnel divisions should participate in the review of Program Forecasts. In addition, the Personnel Policy Branch of the Treasury Board Secretariat and the Public Service Commission should be consulted on the personnel implications of Program Forecasts before Treasury Board approval of budget levels. (3.48)

RESPONSE

We agree that departmental personnel divisions should participate in the review of Program Forecasts. The Personnel Policy Branch of Treasury Board is consulted on the personnel implications of departmental proposals and with this Branch in turn consults with the Public Service Commission on manpower requirements.

PARAGRAPH NUMBER AND RECOMMENDATIONS

Resource Allocation, Budgetary Control, The Estimates and Public Accounts

10.14 Action needs to be taken to improve the quality of the data contained in Program Forecasts and Estimates submissions by:

- reassessing the suitability of the present structure of departmental programs and activities;

- promoting the use of procedures to extend the capability of financial systems to measure performance;
- reviewing in greater detail data submitted by departments;
- following-up on actual expenditures as a means of assessing the quality of budgetary data;
- establishing centrally the basis for amounts included to cover inflation;
- reviewing the effect of changes in inventory levels; and
- following-up on future-year projections included in Program Forecasts. (3.64)

RESPONSE

The Treasury Board position with regard to each of the specific recommendations is as follows:

- Departmental planning units and the Program Branch of Treasury Board are continually reviewing Program Activity structures. The Financial Administration Branch will consult and liaise with the Program Branch to ensure adequate disclosure.
- Treasury Board fully agrees with the need to promote systems to measure performance. The Planning Branch is overseeing the development of systems to meet the requirements of existing policy.
- Data submitted by departments is reviewed in conjunction with other data obtained by program analysts.
- In most cases the quality of budgetary data is considered adequate. Where a recurrent error is identified, corrective steps are taken.
- The basis of increases to cover inflation is established centrally. However, price increases normally have to be established individually and are usually allowed for in the Main Estimates.
- Treasury Board agrees entirely with the need to review the effect of changes in inventory levels. The Policy on Financial Administration contains specific guidelines in this area.
- Departments are required, for their own planning and management purposes, to forecast future year requirements. However, given the gap that develops between Program Forecast demand and Estimates reality it is pointless for the Treasury Board to spend time checking Program Forecasts against final expenditures.

PARAGRAPH NUMBER AND RECOMMENDATIONS

Resource Allocation, Budgetary Control, The Estimates and Public Accounts

10.15 A comprehensive resource allocation manual should be prepared containing a consolidated, updated version of appropriate sections of Treasury Board manuals, guides and circulars which deal with the resource allocation process. These should be supplemented by annual letters to each department suggesting improvements in the quality, content and presentation of the past year's submissions. Departments should reply formally stating plans for improvement. (3.71)

RESPONSE

Communication on resource allocation and control consists of the Planning, Programming and Budgeting Guide, the Program Forecast and Estimates Manual and circulars on four specific topics. The flexibility provided by communicating through circular letters facilitates Treasury Board's ability to keep current.

PARAGRAPH NUMBER AND RECOMMENDATIONS

Resource Allocation, Budgetary Control, The Estimates and Public Accounts

10.16The Treasury Board Secretariat should study the reasons for the high rate of turnover of program analysts and take steps to remedy the problem. (3.75)

RESPONSE

The reasons for the comparatively rapid rate of turn-over of analysts in the Program Branch of the Treasury Board Secretariat are known, and indirectly are the product of a conscious staffing policy to recruit highly qualified and experienced personnel with demonstrated career potential. Operating departments seek to recruit Treasury Board analysts because of these factors and also because of the recognized value of the experience that analysts gain in their every day work. Continuity is achieved by some promotions from within by good documentation, and by a central Estimates Division of the Branch who monitor procedures. Through its staffing policy, the Branch balances the need for continuity with the advantages of a never-renewed stream of active fresh minds.

PARAGRAPH NUMBER AND RECOMMENDATIONS

Resource Allocation, Budgetary Control, The Estimates and Public Accounts

10.17The Program Branch ought to develop standard internal checklists, questionnaires and methods for documentation of decisions. (3.77)

RESPONSE

The Program Branch will develop better written directions and guidance for program analysts.

PARAGRAPH NUMBER AND RECOMMENDATIONS

Resource Allocation, Budgetary Control, The Estimates and Public Accounts

10.18An intensive training course covering all appropriate aspects of the resource allocation process should be developed and made compulsory for all officials primarily involved in the planning and budgeting functions in each department and agency. (3.80)

RESPONSE

A Professional Development Division is being established within the Financial Administration Branch of the Treasury Board Secretariat, to review and monitor, on a government-wide basis, the training of financial administrators. An intensive and comprehensive training program for public administrators will be developed by the Secretariat. The course will cover all aspects of the resource allocation process and will provide the recommended training for officers in the planning and budgeting functions.

PARAGRAPH NUMBER AND RECOMMENDATIONS

Resource Allocation, Budgetary Control, The Estimates and Public Accounts

10.19Departments should be required to assess services to the public annually within guidelines given to them by Treasury Board and to submit recommendations for continuing revenue policies or for increasing or reducing fees charged because of changes in the services offered or in the cost of providing them. Treasury Board should in turn be required to submit annual recommendations on revenue policies to the Governor in Council for consideration under the provisions of Section 13 of the Financial Administration Act. (3.86)

RESPONSE

The recommendation is consistent with existing recommended practice contained in the Guide on Financial Administration. However, it is agreed that this could be given more emphasis and will therefore be incorporated into the policy as a Guideline.

PARAGRAPH NUMBER AND RECOMMENDATIONS

Resource Allocation, Budgetary Control, The Estimates and Public Accounts

10.20 Treasury Board should give more consideration to establishing separate allotments where significant amounts of funds are provided for purposes that are discretionary and therefore controllable by management. (4.12)

RESPONSE

The Board now makes extensive use of separate allotments for grants and contributions, major capital expenditures not covered by a separate vote, and provisions for salary money. The additional use of allotments would result in the imposition of rigid controls which would reduce the ability of public service managers to manage effectively and result in a substantial increase in the requests to Treasury Board to adjust allotments to meet changing operating conditions. The Treasury Board does not agree with this recommendation and has no plans to make greater use of allotment control.

PARAGRAPH NUMBER AND RECOMMENDATIONS

Resource Allocation, Budgetary Control, The Estimates and Public Accounts

10.21 Departments with appropriate systems of budgetary control and financial reporting should be required to record commitments only as necessary towards the end of the year. (4.17)

RESPONSE

We believe that a system of commitment control is essential in maintaining parliamentary control and therefore cannot agree with this recommendation although we do agree that commitments need only be reported periodically, usually more to the end of the fiscal year.

PARAGRAPH NUMBER AND RECOMMENDATIONS

Resource Allocation, Budgetary Control, The Estimates and Public Accounts

10.22 Departmental budgetary control and reporting systems need as a minimum:

- properly defined cost components and cost information so managers can be held accountable for performance;
- detailed budgets by time period in accordance with the assignment of managerial responsibility;
- consistency between budgeting and accounting;
- timely preparation and distribution of periodic financial reports; and
- analysis of variances between planned and actual results. (4.29)

RESPONSE

This recommendation reiterates existing Treasury Board policy which was adopted in 1973. The new Financial Administration Branch through its Financial Policy Development Division will review and approve all proposals for

systems development and, in conjunction with the Financial Policy Evaluation Division will ensure compliance with the policy.

PARAGRAPH NUMBER AND RECOMMENDATIONS

Resource Allocation, Budgetary Control, The Estimates and Public Accounts

10.23 Performance indicators are needed as an integral part of departmental budgetary control and financial reporting systems in all areas that can be effectively measured. (4.35)

RESPONSE

The need for performance indicators is agreed and departments are working towards implementation of the Treasury Board policy requirements in this area.

PARAGRAPH NUMBER AND RECOMMENDATIONS

Resource Allocation, Budgetary Control, The Estimates and Public Accounts

10.24 A central agency should approve and periodically reassess departmental budgetary control and financial reporting systems to ensure their adequacy for purposes of satisfying the needs of Parliament and of the government, as well as of departments. (4.38)

RESPONSE

The Financial Administration Branch now has the responsibility to review and approve all departmental budgetary control and financial reporting systems as well as the responsibility to continually monitor them to ensure their adequacy.

PARAGRAPH NUMBER AND RECOMMENDATIONS

Resource Allocation, Budgetary Control, The Estimates and Public Accounts

10.25A monthly report, based on analysis of department budgets and expenditures and variances between them, should be prepared so that Treasury Board can take action to control overspending or to freeze excessive resources. (4.46)

RESPONSE

Whilst it is agreed and confirmed that the Treasury Board has access to any expenditure information that it may require in order to fulfil its central management function, it must be recognized that the responsibility and accountability of departments and agencies cannot be diluted by any attempt to assume, during the program implementation phase, the control of resources appropriated by Parliament for departmental programs and activities. Instead, further emphasis must be given to the accountability of departments for such resources. The Treasury Board Secretariat is actively considering the manner in which this accountability concept may be strengthened.

Accounting Systems, Financial Controls
and Internal Audit

10.26 A study should be undertaken to determine the most appropriate method of achieving timely and accurate financial reports for departments and agencies. (5.24)

RESPONSE

The Financial Administration Branch will conduct such a study in conjunction with the Information Systems Division, Treasury Board Secretariat and the Department of Supply and Services.

10.27A study should be undertaken to determine how departments could better prepare and control payroll documentation up to the point of submission to a central or regional pay office of the Department of Supply and Services, these offices being responsible only for cheque preparation and for the systems and procedures necessary to process the payroll, to make the required withholdings, and to provide essential information to central agencies. (5.38)

RESPONSE

The Personnel Policy Branch, Treasury Board Secretariat initiated a study of the pay system in June, 1975 in conjunction with the Financial Administration Branch and the Department of Supply and Services.

10.28In all financial systems, duties should be carefully segregated so that, without unnecessary duplication of effort, one staff member or one element of a system maintains an effective independent control upon the integrity and accuracy of another. In particular there should be an adequate segregation of spending authority from payment authority for all expenditure transactions and also of such duties as verifying accounts for payment, preparing documentation, requisitioning and distributing cheques, and receiving and depositing money. Control should be established as early as practicable and maintained through all stages of manual, mechanical and electronic processing. In particular:

- managers should exercise delegated authority only where they have the information to do so;
- controls on all significant data should be established at the originating level before processing and be confirmed by the same level after processing;
- controls over expenditures should be established before spending and payment authorities are granted; and
- there should be clearly documented evidence of performance of all control functions and this evidence should be regularly reviewed by managers. (6.22)

RESPONSE

This recommendation reiterates existing Treasury Board policy which was adopted in 1973. The Financial Policy Evaluation Division will be continually monitoring departmental compliance.

10.29Financial staff should be responsible for ensuring that there are controls within payroll systems just as in all other administrative systems giving rise to financial transactions. (6.27)

RESPONSE

This is entirely consistent with Treasury board policy which recognizes the responsibility of departmental senior financial officers for financial controls within the pay system. The Financial Administration Branch is involved in the study of the pay system referred to under paragraph 10.27 to ensure that there will be adequate financial controls.

10.30All revenues, accounts receivable and significant inventories should be under effective systems of control, generally an independent accounting control. (6.37)

RESPONSE

This recommendation reiterates existing Treasury Board policy. The Financial Policy Evaluation Division is continuously monitoring departmental implementation of these requirements.

10.31 Departmental systems should be reviewed and approved by a central agency to ensure that they comply with Treasury Board regulations and such other instructions as are required to ensure adequate control of expenditures, revenues and assets. (6.42)

RESPONSE

The Financial Administration Branch through its Financial Policy Development Division will review and approve all new departmental systems to ensure compliance with Treasury Board policy. Existing systems are subject to evaluation by the Financial Policy Evaluation Division.

10.32 The central agency of the government responsible for prescribing the standards, scope and coverage of departmental financial audits should give greater emphasis to monitoring departmental internal audits so as to encourage greater adherence to the standards. (7.12)

RESPONSE

The Financial Administration Branch will provide advice and leadership in internal financial audit and will carry out in-depth evaluations of internal audit activities in departments as well as prescribe the standards, scope and coverage of such audit.

Financial Staff

10.33 A comprehensive study of personnel systems related specifically to financial administrators should be undertaken to consider the advisability of establishing a professional government accounting group commensurate with the current and future needs of government for financial management and control. (8.13)

RESPONSE

Although we agree that it would be an improvement to establish a separate professional government accounting group we do not consider it advisable at this time since it could further aggravate the shortage of financial administrators referred to in 10.34. A similar recommendation was made in 1973 by a committee of financial administrators and rejected for the same reasons.

10.34 A comprehensive review is required to establish the need in government for financial administration personnel by type and level and to develop a program to alleviate the present shortage and excessive turnover. (8.21)

RESPONSE

As reported by Mr. J.J. Carson, Chairman of the Public Service Commission to the Public Accounts Committee on April 8, 1976 the shortage of financial administrators has been substantially reduced and the present vacancy rate is considered normal. The Director, Professional Development, Financial Administration Branch in cooperation with the Public Service Commission will continue to monitor recruitment and manpower utilization schemes.

10.35 Responsibility for assisting the Public Service Commission in matters relating to the training of staff in the financial area, overseeing their career development, and advising on their qualifications for advancement should be assigned to a central agency of the government having the knowledge needed to carry out this role of ensuring that departments are staffed by capable financial personnel. (8.30)

RESPONSE

The Financial Administration Branch will assume complete responsibility for this function.

10.36 The senior departmental officer responsible for financial management and control should report directly to the deputy head and be a member of the departmental management committee. He should always have the training and experience to act as the deputy head's adviser on all aspects of financial management and control, and to provide the necessary leadership to all financial staff in the department. (9.12)

RESPONSE

This recommendation is consistent in part with existing Treasury Board Policy and the financial organizations of all departments have been evaluated by the Financial Administration Branch. Implementation of recommended improvements is being monitored.

10.37 Senior departmental financial officers ought to give greater direction or guidance to staff performing financial management and control duties within departments. This should include as a minimum:

- comprehensive departmental financial manuals;
- personal contacts with financial and other officers to whom they give technical direction, including formal meetings and periodic field visits; and
- participation in the selection, training and evaluation of financial staff, even where they are not directly under their supervision. (9.19)

RESPONSE

This recommendation reiterates existing Treasury Board policy and its implementation is being monitored in all departments by the Financial Administration Branch.

10.38 Senior departmental financial officers ought to be given responsibility for:

- providing budgetary, accounting
and financial reporting services;
- ensuring that adequate financial controls exist over all assets and financial transactions;
- advising and supporting deputy heads and their staff in all matters pertaining to financial management and control;
- developing, monitoring and controlling budgetary allocations through analysis of financial reports and ensuring the adequacy of the systems used in their preparation; and
- furnishing technical direction and guidance to all personnel within departments responsible for these duties. (9.29)

RESPONSE

This recommendation also reiterates existing Treasury Board policy and the Financial Administration Branch is monitoring departmental implementation.

10.39 The Public Service Commission ought to appoint senior departmental financial officers only after consultation with appropriate central agencies to ensure that recognition is given to the qualifications and performance of the persons recommended by deputy heads. Appointments of

other financial officers ought to be made within departments only after similar consultation with senior departmental financial officers. (9.35)

RESPONSE

The Deputy Secretary, Financial Administration Branch and the Director, Professional Development in the Branch will be directly involved in the selection of all senior financial officers in departments and agencies. Treasury Board policy already requires senior departmental financial officers to be involved in the staffing of other financial officer positions.

Need for Stronger Central Direction

10.40 All the recommendations in this report have as their objective the improvement of financial controls. The more significant ones, either specifically or by implication, recognize the need for a central agency to supply overall direction. It is clear that if controls are to be co-ordinated and are to operate effectively, responsibility for the following activities should be clarified and unified wherever possible:

- recommending government policies, directives and guidelines in the area of financial management and control, and providing interpretations thereof;
 - advising on the form of the Estimates and Public Accounts;
 - assessing departmental program and activity structures, and cost and other measurement systems in support of them;
 - approving and monitoring departmental budgetary control, financial reporting and financial control systems;
 - providing analyses of variances between planned and actual financial performance;
 - establishing standards for and monitoring internal audit practices within departments and agencies;
 - establishing the accounting practices governing the financial statements and Public Accounts of Canada; and
 - assisting the Public Service Commission in the selection, training and career development of financial staff.
- (10,36)

RESPONSE

The Financial Administration Branch, Treasury Board Secretariat has been created to provide, in one organizational entity, the central leadership and guidance of the financial administration function. Minor changes to the relevant sections of the Financial Administration Act will eliminate anomalies by devolving all financial administration responsibilities on the President of the Treasury Board.

Appendix II

1975 REPORT OF THE AUDITOR GENERAL TO THE HOUSE OF COMMONS PART X - FINANCIAL MANAGEMENT AND CONTROL STUDY

PARAGRAPH NUMBER, RECOMMENDATION AND LISTING OF Detailed SUPPORTING RECOMMENDATIONS DEVELOPED FROM THE SUPPLEMENT TO THE ANNUAL REPORT

Supplement
Paragraph

THE ESTIMATES AND PUBLIC ACCOUNTS

The Estimates

10.6 A comprehensive study of the form of the Estimates, and of the information submitted by each department and agency in support of appropriation requests, is required to determine changes needed to achieve better disclosure, as well as better control by Parliament and by the Government of departmental spending in relation to the appropriations granted.	2.35	
(a) The wording of appropriation acts should be more restrictive.		2.5
(b) Steps should be taken to improve the form and content of the Estimates, such as:		
(i) Reduce the extent of standardization where this results in a significant loss of useful information.	2.23	
(ii) Research each individual program to develop better forms of activity presentation.	2.21 2.22	2.25
(iii) Introduce a further breakdown of larger programs and eliminate detail for some smaller ones.		2.26
(iv) Introduce specific and more descriptive objects of expenditure where this would significantly improve the usefulness of information.		2.26
(v) Segregate costs arising from specifically legislated responsibilities		2.26
(vi) Identify and explain changes in costs and presentation from the prior year	2.26	
(vii) Explain special accounting practices	2.26	
(viii) State objectives in operational terms	2.26	
(ix) Describe activities in terms of quantitative results expected		2.26
(ix) Identify capital expenditures and grants and contributions as separate activities where operational activities are not clearly appropriate		2.26

(xi) Allocate notional costs more specifically to disclose the cost of each activity	2.26
(xii) Consider the value of further changes to the vote structure	2.27
(xiii) Include a brief summary of major changes in legislation or general economic conditions not provided for	2.28 2.29
(xiv) State the important underlying cost assumptions	2.30
(xv) Identify all appropriation authorities which do not lapse if unused at year end.	2.30
c) The responsibility for the form of the Estimates should be assigned in the way which is most likely to ensure that sufficient emphasis is given to accountability and control.	2.31
(d) Any proposed major change in the form of the information in respect either of a particular vote or of the government as a whole, should be brought to the attention of the Auditor General and the appropriate Committee of the House of Commons.	2.33

THE PUBLIC ACCOUNTS

10.7 A single central agency should be responsible for the form of Estimates and the Public accounts so that a more adequate and coexistent accounting can be rendered to Parliament.	2.40
(a) There should be a statement of changes in financial position or a statement of transactions included in the summary financial statements of Canada.	2.40
(b) Volumes I and II of the Public accounts should be restructured and simplified and include more useful detail	
(i) Volume I should emphasize the summary statements of the Government of Canada and should be comparable in style and readability to the "Budget in Brief".	2.41
(ii) Volume II should contain Departmental details in a form which parallels the Estimates but providing more complete financial and narrative information.	2.41
(c) Volume III should include financial	2.41

statements of all Crown-owned corporations.

(d) Volume III should include selected summary information on Crown-owned corporations and narrative explanations of major changes during the year.

(e) The timing and content of departmental annual reports should be integrated with the Public Accounts.

2.42

(f) The Public Accounts should reflect the Estimates in all respects.

2.43

ALLOCATION OF RESOURCES

COMMUNICATION OF GOVERNMENT OBJECTIVES

10.9 There is a need for governmental and departmental objectives and priorities detailed enough to provide effective guidance, to be communicated formally and on a timely basis to managers responsible for the various aspects of financial planning.

3.18

(a) Objectives, for the public service as a whole, should be stated before departments prepare Program Forecasts.

3.7

3.13

(b) Objectives for the public service as a whole, to the extent practicable, should be stated in specific terms and be given an indication of their ranking in order of importance.

3.7

3.14

(c) Departmental objectives and priorities should be communicated before the initial preparation of Program Forecasts.

3.13

3.17

ASSIGNMENT OF RESPONSIBILITY FOR PROGRAM FORECASTS

10.10 Senior management of departments and agencies should prepare Program Forecasts centrally with other levels of management providing information for planning. primarily through continuous dialogue with headquarters.

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3.36

CONTENT OF PROGRAM FORECAST SUBMISSIONS

10.11 Program Forecast information requirements should be studied to make certain that they contain only essential detail and specify requirements which recognize the fundamentally different natures of the various departments and agencies and the

3.40

diversified programs they administer.

(a) Unnecessary detail now included in program forecasts should be eliminated. 3.38

(b) For certain relatively static or predictable programs, forecasts should be prepared centrally with virtually no department participation. 3.38

(c) There should be a more flexible attitude to changes between Program Forecasts and Main Estimates. 3.39

EVALUATION OF CONTINUING PROGRAMS

10.12 All programs should be reviewed in detail on a cyclical basis. Reviews should be conducted by departments, with appropriate central agency participation to provide an adequate basis for them to perform their resource allocating and budget monitoring responsibilities. 3.40

(a) Major portions of continuing programs should be subjected to a regular program review by departments, by Treasury Board and by Cabinet. This involves a review of the basis for, and the operations of, the detailed activities, sub-activities, projects and processes carried on within programs and an assessment of the results attained relative to costs incurred. 3.41

(b) Appropriate consideration should be given to the possibility that programs may contain low priority items which ought to be discontinued. 3.42

(c) Departments should justify, on a cyclical basis, all continuing programs and activities. 3.45

REVIEW OF PERSONNEL REQUIREMENTS

10.13 Departmental personnel divisions should participate in the review of Program Forecasts. In addition, the Personnel Policy Branch of the Treasury Board Secretariat and the Public Service Commission should be consulted on the personnel implications of Program Forecasts before Treasury Board approval of budget levels. 3.48

QUALITY OF INFORMATION

10.14 Action needs to be taken to improve the quality of the data contained in Program Forecast and Estimates submissions by: 3.64

-reassessing the suitability of the present structure of departmental programs and

activities;

-promoting the use of procedures to extend the capability of financial systems to measure performance;

-reviewing in greater detail data submitted by departments;

-following up on actual expenditures as a means of assessing the quality of budgetary data;

-establishing centrally the basis of amounts included to cover inflation;

-reviewing the effect of changes in inventory levels; and

-following up on future-year projections included in Program Forecasts.

(a) Program costs should reflect program objectives, results, and activities in a useful manner and provide a basis for questioning the efficiency or effectiveness of what is being done within each organizational unit.	3.52	3.50
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(b) The Treasury Board staff should suggest improvements in the presentation of departmental programs and activities. For this, they should have:

(i) an intimate knowledge of a department's work,

(ii) a thorough understanding of accounting and program budgeting practices, and

(iii) the time and training to insist that departments develop proper cost classification systems.

(c) The Treasury Board should emphasize the need for accurate and valid performance measurement data.

(d) Program Forecasts, should fully recognize the correcting effects of actual experience.	3.56
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(i) Actual expenditures should be analyzed on a detailed basis to determine the implications for future resource allocation.	3.55
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(ii) Departments should not overstate the projected expenditures for the last three months of the year. 3.56

(e) Departments should attempt to prepare accurate Program Forecast, for the two years following the forecast year and should be subsequently held accountable for these forecasts by the Treasury board Secretariat. 3.57

(f) Productivity changes and inflation should be specifically provided for in Program Forecasts and Estimates.

COMMUNICATION OF PROCEDURES AND DECISIONS

10.15 A comprehensive resource allocation manual should be prepared containing a consolidated, updated version of appropriate sections of Treasury Board manuals, guides and circulars which deal with the resource allocation process. These should be supplemented by annual letters to each department costing improvements in the quality, content and presentation of the past year's submission. Departments should formally reply stating plans for improvement.

(a) Any authorized change or interpretation of the manual should be reflected in a system of controlled amendments rather than budget circulars or other forms of correspondence. 3.66

(b) The manual should consolidate information in other manuals and should project a cohesive set of rules and philosophies. 3.66
3.68

(c) The conceptual material contained in the PPB Guide should be broadened. 3.67

(d) The manual should include instructions to ensure the efficient processing of submissions and the maximum integrity and usefulness of information included therein. 3.68

(e) The Treasury Board Secretariat should comment to the departments in writing concerning the nature and quality of the information included in submissions with suggestions for eliminating the deficiencies in future years. 3.69

PROGRAM ANALYSTS

10.16 The Treasury Board Secretariat should study the reasons for the high rate of turnover of program 3.75

analysts and take steps to remedy the problem.

DOCUMENTATION OF PROCEDURES

10.17 The Program Branch ought to develop standard internal checklists, questionnaires and methods for documentation of decisions. 3.77

TRAINING IN PROCEDURES

10.18 An intensive training course covering all appropriate sections of the resource allocation process should be developed and made compulsory for all officials primarily involved with the planning and budgeting functions in each department and agency. 3.80

NON-TAX REVENUES

10.19 Departments should be required to assess services to the public annually within guidelines given to them by Treasury Board and to submit recommendations for continuing revenue policies or for increasing or reducing fees charged because of changes in the services offered or in the cost of providing them. Treasury Board should in turn be required to submit annual recommendations on revenue policies to the Governor in Council for consideration under the provision of Section 13 of the Financial Administration Act. 3.86

BUDGETARY CONTROL

USE OF ALLOTMENTS

10.20 Treasury Board should give more consideration to establishing separate allotments where significant amounts of funds are provided for purposes that are discretionary and therefore controllable by management. 4.12

NEED FOR COMMITMENT ACCOUNTING

10.21 Departments with appropriate systems of budgetary control and financial reporting should be required to record commitments only as necessary towards the end of the year. 4.17

CONTROL THROUGH PERIODIC FINANCIAL REPORTING

10.22 Departmental budgetary control and Reporting systems need as a minimum: 4.29

-properly defined cost components and cost information so managers can be held accountable for performance;

-detailed budgets by time period in accordance with the assignment of managerial responsibility;

-consistency between budgeting and accounting;

-timely preparation and distribution of periodic financial reports; and

-analysis of variances between planned and actual results.

(a) Detailed activity structures of departments should be defined on a basis which best meets the purposes of budgetary control and financial reporting.	4.19
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(b) Departments should make a sincere effort to determine the costs of services for which they are responsible.	4.19
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(c) Where individual operations, services or projects are planned and costed for managerial purposes, the information should become an integral part of the budgetary control and financial reporting system.	4.19
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(d) Costs and results should be accumulated so as to disclose the relationship between money expended and value produced.	4.20
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(e) Where employees are involved in more than one activity, there should be a means of correctly allocating costs to the activities.	4.21
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(f) Operating budgets prepared for departmental managers should be realistic:	4.22
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(i) They should not be prepared as part of the Program Forecast exercise.

(ii) They should not be automatically fixed at the levels provided for in the Estimates (although controls must be maintained to ensure that totals do not exceed the Estimates).

(iii) They should reflect changes in prices, economic conditions, operating plans and the availability of staff if these differ from original amounts approved.

(g) The detailed operating budgets should always be a realistic month-by-month estimate of anticipated costs and performance against which managers can be held accountable:

4.23

(i) Where plans change after preparing the detailed operating budgets, they should be amended and controls maintained to ensure that allotments are not exceeded.

(ii) Budget amendments should go through the same process as the original budgets to ensure that changes are approved by, and communicated to, the appropriate level of authority.

(h) Variance analysis technique can be used to maintain the full accountability of managers. To simplify application of these techniques, consider:

(i) deleting from detailed operating budgets costs and performance data related to unfilled positions until these are filled;

(ii) reviewing detailed operating budgets and adjusting them for significant price variations occurring following their preparation to ensure that the budgets reflect current costs and that Managers are held accountable only for deviations within their control;

(iii) introducing flexible budgeting techniques for internal management purposes where costs vary in accordance with a required volume and level of service.

4.23

(j) Operating budgets should normally be prepared on a cost not a cash basis.

4.24

(k) The systems of budgetary control in departments should be based on an appropriate matching of budgeted and actual results.

4.26

(i) Departments should have systems with the facility to produce accurate costs.

(ii) Variances must be capable of analysis in relation to data measuring results so as to reveal the effect of changes: in volume of output, in quantity of resources used, and in prices of such resources.

(l) The instructions in the Treasury Board Guide on Financial Administration should be mandatory.

USE OF NON-FINANCIAL DATA

10.23 Performance indicators are needed as an integral part of departmental budgetary control and financial reporting systems in all areas that can be effectively measured. 4.35

(a) Departments should systematically measure performance. 4.32

(b) Departments should develop reliable unit cost information. 4.32

(c) Performance and unit-cost data should be integrated with departmental financial systems. 4.32

(d) Efforts to implement performance measurement should be given more priority.

(e) Performance measurements should be based on quantitative data measuring outputs and where this is not possible they should be based on qualitative data measuring progress towards assigned objectives. 4.33

(f) Performance indicators should be developed from standards and on challenging, yet attainable, levels of performance. 4.34

CENTRAL APPROVAL OF SYSTEMS

10.24 A central agency should approve and periodically reassess departmental budgetary control and financial reporting systems to ensure their adequacy for purposes of satisfying the needs of Parliament and of the government, as well as of departments. 4.38

CENTRAL BUDGETARY CONTROL

10.25 A monthly report, based on analysis of departmental budgets and expenditures and variances between them, should be prepared so that Treasury Board can take action to control overspending or to freeze excessive resources. 4.46

(a) Treasury Board Secretariat should assume its statutory responsibility for the general monitoring of the expenditures of departments. 4.43

(b) The Financial Administration Branch: 4.45

(i) should be responsible for the detailed monitoring of departmental expenditures in relation to information supporting their approved Estimates;

(ii) should require certain standard financial information from each department, supplemented by copies of financial reports the department gives its own deputy head; 4.45

(iii) should investigate significant variances between actual and planned results;

(iv) should inform the Program Branch of variances which may be significant from a resource allocation perspective.

ACCOUNTING SYSTEMS

GENERAL ACCOUNTING SYSTEM OF DSS

10.26 A study should be undertaken to determine the most appropriate method of achieving timely and accurate financial reports for departments and agencies. 5.24

(a) Where departments have separate reporting systems steps should be taken: 5.7 5.8

(i) to avoid duplication of input

(ii) to reduce the processing procedures and reports prepared by DSS for departments;

(iii) to ensure that departments reconcile their recorded cash transactions with those of DSS;

(iv) to eliminate sources of discrepancies between departmental systems and DSS systems particularly those attributable to salary costs, corrections and journal entries.

(b) Liaison between departments and DSS should be strengthened: 5.10

(i) the turnover of liaison officers in DSS should be reduced; 5.10

(ii) changes requested in systems should not be made without adequate testing;

(iii) the DSS system should be documented and

assembled into an easily understood package;

(iv) requests from client departments for special reports should be effectively evaluated as to costs and benefits.

(c) The handling of input and output and the electronic processing routines should be improved: 5.10

(i) Key financial data should be summarized for departments during the month as well as at month end.

(ii) Report distribution to departments should be improved and all departments should utilize the direct mailing service of DSS.

(iii) Steps should be taken to encourage departments to spread the frequency of input to DSS.

(iv) Coding blocks on input documents should be reduced and standardized.

(v) Computer routines should be used to detect coding errors at the source of input.

(vi) The computer file storage and maintenance routines should be run regularly rather than waiting for month-end.

(viii) Standardized cut-off dates, normally the month-end date, should be established for all data in the system.

(ix) The Central Agency Information System statements should provide information comparative with annual Estimates.

(d) Full consideration should be given to the benefits, costs and economies of alternative, decentralized approaches for the preparation of financial reports including: 5.16

(i) departments with the capability could prepare their own financial information keeping DSS involvement to a minimum;

(ii) cheque issue responsibilities of the Receiver General could be delegated to departments with satisfactory control systems;

(iii) greater use could be made of regional services offices of DSS in preparing financial information.

PAYROLL SYSTEMS

10.27 A study should be undertaken to determine how departments could better prepare and control payroll documentation up to the point of submission to a central or regional pay office of the Department of Supply and Services, these offices being responsible only for cheque preparation and for the systems and procedures necessary to process the payroll, to make the required withholdings and to provide essential information to central agencies. 5.38

(a) The time delays in the processing cycle should be reduced. Consideration should be given to: 5.35

(i) direct deposits to employee bank accounts;

(ii) cheque preparation closer to the employee's location;

(iii) direct input electronically from an employee's location to cheque processing units;

(iv) reducing delays in effecting payroll adjustments, particularly new and terminating employees.

(b) There should be a change in the present responsibilities for payroll, so that: 5.36

(i) Departments should control payroll from the standpoint of validity, accuracy and timeliness.

(ii) DSS should be limited to processing and disseminating the cheques and providing reports based on the information given to them.

(c) The payroll system should be restructured so that: 5.37

(i) excessive clerical functions performed within DSS are eliminated;

(ii) input forms separate personnel statistical data from pay data;

(iii) procedures are standardized and clearly documented in a way which is understandable by clerical staff in departments;

(iv) departments have a practical and reliable

means of controlling payroll the standpoint of validity, accuracy and timeliness;

(v)DSS is only responsible for accurate processing.

FINANCIAL CONTROLS

CONTROLS OVER EXPENDITURES

10.28 In all financial systems, duties should be carefully segregated so that, without unnecessary duplication of effort, one staff member or one element of a system maintains an effective independent control upon the integrity and accuracy of another. In particular there should be an adequate segregation of spending authority from payment authority for all expenditure transactions, and also of such duties as verifying accounts for payment, preparing documentation, requisitioning and distributing cheques, and receiving and depositing money. Control should be established as early as practicable and maintained through all stages of manual, mechanical and electronic processing. In particular:

-managers should exercise delegated authority only where they have the information to do so;

-controls on all significant data should be established at the originating level before processing. and be confirmed by the same level after processing;

- controls over expenditures should be established before spending and payment authorities are granted; and

-there should be a clearly documented evidence of performance of all control functions and this evidence should be regularly reviewed by managers.

(a) Clerical effort aimed at specific aspects of financial control should be more adequately directed and coordinated within departments and between departments and common service agencies. 6.8

(b) Departments should follow the standard practices established in the Treasury Board Guide on Financial Administration. 6.9

(c) There should be controls to ensure that: 6.10

(i)all transactions are processed in the appropriate accounting period;

(ii) only properly authorized transactions are processed; and

(iii) all systems and systems amendments are appropriately authorized.

(d) Effective controls should be the result of selection and integration of techniques related to such factors as:

(i) the allocation of financial responsibilities at all levels in the organization;

(ii) physical controls, such as the sequential control of numbered documents or the safekeeping of assets or records; and

(iii) accounting controls, such as double-entry bookkeeping and control accounts over independent or subsidiary accounting systems.

(e) The techniques of financial control should be established in departments by financial officers as an essential element of their responsibilities without any need for directions from central agencies. 6.12

(f) The need for good systems of financial control should be given a higher priority in filling or classifying financial positions. 6.13

(g) Funds required for financial controls at the operating level should be reviewed centrally to ensure that standards have not been compromised in competition with other administrative or operating aspects which often receive higher priority. 6.13

(h) Lines of responsibility should be so established that financial officers have unrestricted authority to ensure adequate financial controls. 6.13

(j) Persons performing financial duties in departments should have the training to give them an awareness, appreciation or understanding of financial control principles and the techniques of implementing them. 6.13

(k) There should be a clear understanding as to the extent of responsibilities of departments versus those of the Receiver General and DSS. 6.13

(l) The service and control responsibilities 6.13

of DSS should be clearly segregated from a departmental viewpoint.

(m) In the delegation of authorities by ministers and deputy ministers: 6.15

(i) delegation documents should be signed by the current incumbents;

(ii) documents should be up to date with respect to additions of new employees, deletions of departed employees and amendments to reflect promotions and changes in responsibilities;

(iii) authorities widely delegated to employees throughout the department should place effective limits on their scope and dollar amounts;

(iv) authorities should clearly distinguish among types of transactions, such as payroll, travel, supplies, professional services, capital, contracts, grants or contributions, so that authorities are appropriate to the nature of the person's responsibilities;

(v) employees with delegated authority should not on their own responsibility be able to initiate, verify and authorize a complete transaction for payment; and

(vi) document should cover all authorities under the Financial Administration Act as well as financial responsibilities specifically assigned to deputy heads by Treasury Board, such as the authority to authorize certain types of travel.

(n) DSS should verify that the payment is within any limits imposed on the authority of persons and should verify any signatures that may be provided. 6.16

(o) Those performing account verification within departments should confirm that delegated authorities are being adhered to. 6.16

(p) All departments and agencies should act on their own initiative to implement Treasury Board policies on delegation of authorities prior to evaluation by Treasury Board staff. 6.18

(q) Within the total expenditure cycle: 6.19

(i) requisitions for goods or services should be under physical or other controls to prevent their unauthorized use;

(ii) spending authority should only be exercised with the concurrence of the manager to whom the expenditure will be charged;

(iii) commitment certification should not be omitted, and should be exercised only by persons who have reliable financial information;

(iv) outstanding requisitions should be under numerical, physical or other accounting controls that would ensure the completeness of commitment information within departments;

(v) specialists within departments should process orders only after verifying the signatures and delegated authority limits of the persons who initiated them;

(vi) managers verifying accounts under Section 27 of the Financial Administration Act, should be presented with clear evidence of clerical responsibility for performing all the required checks critical to the account verification process;

(vii) payment authority under Section 26 of the Financial Administration Act should be exercised in such a way that there may be no loss of the degree of independence intended in Treasury Board instructions;

(viii) conversely, where regional or national headquarters exercise payment authority centrally, the authorized officers must have the necessary knowledge, supporting documentation, signature records of persons with spending authority, and information as to the uncommitted balance available in an appropriation or allotment;

(ix) centralized pre-audit procedures should be carried out by departmental or regional offices before payment authority is granted, and by employees who have the supporting information to make the checks effective and reliable;

(x) the basis for determining samples for

detailed repetitive testing should be documented and there should be a procedure, when errors are identified, for expanding the sample for taking appropriate corrective action or for notifying, the supervisor of a person who processed an error;

(xi)	dollar amounts should be recorded on cheque requisitions both in digits and fully written out to prevent subsequent alterations;	6.19
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(xii) effective physical or accounting controls should be established on transactions before the granting of spending authority to prevent their alteration after spending is authorized;

(xiii) cheques should not be returned by DSS to the persons involved in establishing and maintaining the controls;

(xiv) departmental managers should maintain close enough controls on their financial reports to identify significant errors or omissions;

(xv) for many types of expenditures, the specialized detailed accounting records required for control and financial disclosure purposes should be formally maintained, regularly reconciled to, or effectively integrated with the principal accounting system.

CONTROLS OVER PAYROLLS

10.29 Financial staff should be responsible for ensuring that there are controls within payroll systems just as in all other administrative systems giving rise to financial transactions.	6.27
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(a) Treasury Board should issue a set of comprehensive instructions directed specifically at the standards of financial control to be maintained over payroll systems.	6.27
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(b) Payroll systems should be subject to the same standards of financial controls as other expenditures. More specifically:	6.25
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(i) for each payroll adjustment or

transaction, payroll clerks should be required to obtain spending authority from managers;

(ii) during the process where data on documents are manually transcribed by DSS on other documents suitable for keypunching, effective physical and accounting controls should be maintained;

(iii) payroll cheques sent to departments and agencies should not be sent or accessible to the same personnel who prepared the original documents;

(iv) there should be control information on paylists, such as the total normal standard salary costs excluding special pay adjustments, and payroll officers should regularly verify the accuracy of the control information with their records;

(vi) there should be an annual listing for each responsible manager of all employees with their classifications, rates of pay, standard deductions, and accounting codes so that pay actions initiated by personnel officers may be checked.

(c) The payroll systems should ensure that accounting controls are established on significant variable data before source documents are given spending authority.	6.26
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(d) Payroll adjustments and transactions affecting the amount of or accounting for gross payroll costs should be authorized by the responsible manager.	6.26
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(e) Officers authorizing pay adjustments should not have access to accounting controls, and the persons who establish accounting controls should not have access to the source documents after they have been authorized.	6.26
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(f) Payment authority should be segregated from spending authority.	6.26
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(g) Controls on standing data and variable data should be confirmed after payroll processing.	6.26
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CONTROLS OVER REVENUES, RECEIVABLES AND INVENTORIES

10.30 All revenues, accounts receivable and	6.37
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significant inventories should be under effective systems of control, generally an independent accounting control.

(a) Departments should implement the Treasury Board instructions regarding revenues and accounts receivable. In particular, there should be an adequate segregation of duties in systems of internal control over the billing, accounting for, collecting and depositing revenues.	6.31	6.30
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(b) Treasury Board policy statements establishing basic procedures for the administration of materiel should include or cross-refer to comprehensive guidelines on financial controls and to techniques for physical control, accurate record-keeping, independent check, financial reporting and budgetary control of inventories.	6.30
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(c) Significant inventories should be under independent accounting controls in accordance with Treasury Board Guidelines.	6.33	6.34
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(d) Reports on inventory levels, turnover and obsolete items, should be prepared in financial terms and should be included in the financial reports of departments.	6.34
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(e) Where working capital advances are used as a means of maintaining an independent accounting control over inventories these accounts should provide an independent control over the persons responsible for the physical control and utilization of the inventories.	6.35
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RESPONSIBILITY FOR IMPROVING FINANCIAL CONTROLS

10.31 Departmental systems should be reviewed and approved by a central agency to ensure that they comply with Treasury Board regulations and such other instructions as are required to ensure adequate control of expenditures, revenues and assets.	6.42
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(a) It is preferable to develop and operate efficient and effective financial controls within departments in accordance with the particular circumstances of each application, subject only to government-wide standards. Persons responsible for maintaining financial controls in departments must have sufficient authority and guidance to perform this task effectively. Responsibilities must be	6.39
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clarified between departments and central agencies, and between organizations within departments.

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| (b) The Financial Administration Branch should propose for Treasury Board approval the necessary directions and instructions and then regularly review all systems of financial control. Based on these reviews, it should approve, in writing, those systems which in its opinion are adequate. It should advise the Treasury Board when systems, or elements of systems, are inadequate. | 6.41 |
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INTERNAL AUDIT

EFFECTIVENESS OF INTERNAL AUDIT

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| 10.32 The central agency of the government responsible for prescribing the standards, scope and coverage of departmental financial audits, should give greater emphasis to monitoring departmental internal audits so as to encourage greater adherence to the standards. | 7.12 |
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| (a) All departments should have an internal audit. | 7.9 |
| (b) Internal auditors should not be extensively involved in systems design and implementation. | 7.9 |
| (c) The scope of internal financial audit coverage should be comprehensive. | 7.9 |
| (d) Reporting relationships of internal audit within departments must be such that its effectiveness is not impaired. | 7.9 |
| (e) Internal auditors should all have received, or be receiving, formal training programs. | 7.9 |
| (f) Internal auditors should be familiar with the requirements of the Treasury Board. | 7.9 |
| (g) The Financial Administration Branch should have the responsibility for co-ordinating the development of better mechanisms for internal audit and should | 7.11 |
| (i) set minimum standards in regard to the scope and coverage of internal audits within departments and agencies; | 7.11 |
| (ii) receive reports from departmental | |

internal auditors reporting the degree of adherence to executive financial directives; and

(iii) arrange for reviews of the effectiveness of the internal audit function within departments and agencies.

FINANCIAL STAFF

FINANCIAL COMMUNITY IN GOVERNMENT

10.33 A comprehensive study of personnel systems related specifically to financial administrators should be undertaken to consider the advisability of establishing a professional government accounting group commensurate with the current and future needs of government for financial management and control. 8.13

(a) Persons with significant financial administration functions should be identifiable as a distinct group. 8.2

(b) The classification standards should satisfy the federal government's present requirements for financial management and control: 8.4

(i) They should clearly differentiate between officers with university or professional training in subjects directly pertaining to financial management and control from those without formal training in these subjects. 8.5
8.8

(ii) They should give appropriate emphasis to qualifications and experience in the design, implementation and operation of information systems and cost analysis and forecasting techniques. 8.7

(iii) They should fully recognize the need in financial administration positions for an above-average degree of professional integrity. 8.10

STAFFING THE FINANCIAL FUNCTION

10.34 A comprehensive review should be undertaken to establish the need in government for financial administration personnel by type and level and to develop a program to alleviate the present shortage. 8.21

FINANCIAL COMMUNITY LEADERSHIP

10.35 Responsibility for assisting the Public Service Commission in matters related to the training of staff in the financial area, overseeing their career development, and advising on their qualifications for advancement should be assigned to a central agency of the government having the knowledge needed to carry out this role of ensuring that departments are staffed by capable financial personnel. 8.30

(a) The Financial Administration Branch should provide guidance and leadership to financial officers and should have the ability to influence their careers and development. It should: 8.23

(i) give deputy heads and subordinate managers adequate information on the performance of their financial staff; 8.25

(ii) should be actively concerned with appointments and transfers relating to certain positions in each department; 8.26

(iii) initiate the rotation of financial officers in departments and Treasury Board Secretariat; 8.26

(iv) together with departments, have the general responsibility for identifying and developing promising financial officers in the middle ranks; 8.26

(v) ensure that departments attach proper importance to the development and use of financial staff; 8.26

(vi) together with departments, find new opportunities for able financial administrators caught in isolation or uncongenial positions. 8.26

RESPONSIBILITY FOR FINANCIAL MANAGEMENT AND CONTROL WITHIN DEPARTMENTS

DEPARTMENTAL ORGANIZATIONAL ARRANGEMENTS

10.36 The senior departmental officer responsible for financial management and control should report directly to the deputy head and be a member of the departmental management committee. He should always have the training and experience to act as the deputy head's adviser on all aspects of financial management and control, and to pretend the necessary 9.12

leadership to all financial staff in the department.

Where finance is combined with other administrative functions under a senior officer responsible to the deputy head, the senior officer for the combined operation must have the qualifications to ensure adequate systems of financial management and control and to provide competent advice to the deputy head and his senior staff.

(i) He should have a significant degree of specialized accounting knowledge.

(ii) He should have a broad knowledge of government programs, budgetary procedures, and of the procedures of central agencies.

INTERNAL DIRECTION AND GUIDANCE

10.37 Senior Departmental financial officers ought to give greater direction or guidance to staff performing financial management and control duties within departments. 9.19
This should include as a minimum:

- comprehensive departmental financial manuals;
- personal contacts with financial and other officers to whom they give technical direction, including formal meetings, and periodic field visits; and
- participation in the selection, training and evaluation of financial staff, even where they are not directly under their supervision.

SCOPE OF RESPONSIBILITIES OF FINANCIAL STAFF

10.38 Senior departmental financial officers ought to be given responsibility for: 9.29

- providing budgetary, accounting and financial reporting services;
- ensuring that adequate financial controls exist on all assets and financial transactions;
- advising and supporting deputy heads and their staff in all matters pertaining to financial management and control;
- developing, monitoring and controlling budgetary allocations through analysis

of financial reports and ensuring the adequacy of the systems used in their preparation; and

- furnishing technical direction and guidance to all personnel within departments responsible for these duties.

(a) senior financial officers should see their role as encompassing the internal control aspects of other administration areas and should not be denied involvement in them. 9.23

(b) Deputy heads and other senior personnel should look to senior financial officers to ensure that operating budgets of managers provide an effective basis for budgetary control and that financial reports disclose variances that are significant for purposes of management action. 9.25

(c) The responsibilities of senior departmental financial officers should be designed to reflect the objective of having them serve as: 9.29

- the senior financial adviser to the deputy head and senior program managers;

- the senior officer responsible for departmental systems of financial administration; and

-an independent monitor of what is done by other departmental personnel, to ensure financial probity and the accurate disclosure of information on financial plans and results.

(d) The senior departmental financial officer should have responsibility for signing departmental budgetary submissions and financial statements to indicate that he is satisfied the submissions and statements are accurately and fairly presented. 9.27

(e) Other responsibilities that should be carried out by financial officers are: 9.28

Operations

(i) designing and operating accounting and financial reporting systems;

(ii) designing and keeping up to date the departmental classification of

accounts;

(iii) forecasting cash requirements; and

(iv) co-ordinating and consolidating information for Program Forecasts, Estimates and Public Accounts.

Advice

(v) advising the deputy head and program managers on their needs in the area of financial administration and on the financial implications of their plans and decisions;

(vi) supporting the deputy head in meetings with outside agencies, such as the Treasury Board and the Public Accounts Committee;

(vii) interpreting legislative, regulatory, and other financial requirements of Parliament and the central agencies; and

(viii) co-ordinating and assembling financial data for use in preparing budgets.

Control

(ix) reviewing budgetary submissions to verify costs and adherence to instructions;

(x) developing appropriate output and performance measures;

(xi) analyzing variances between budgeted and actual figures in relation to revenues, expenditures and measures of performance;

(xii) maintaining records to ensure appropriations and allotments are not exceeded;

(xiii) ensuring that the department's system of financial control provides for adequate division of duties and covers all departmental revenues, expenditures and assets;

(xiv) directly exercising Payment authority under Section 26 of the Financial Administration Act; and

(xv) advising on the scope, coverage and

results of financial audits.

Direction

- (xvi) giving technical direction on financial matters to financial officers and to administrative officers carrying out financial responsibilities in program headquarters and field offices;
- (xvii) providing guidance on the organization, staffing, training and evaluation of financial officers providing services to operating managers at all levels of the department;
- (xviii) ensuring that departmental financial manuals are complete and up to date and are distributed to all staff needing them; and
- (xix) developing instructions for budget preparation, including forms, time tables and cost data.

APPOINTMENT OF FINANCIAL OFFICERS

10.39 The Public Service Commission ought to appoint senior departmental financial officers only after consultation with appropriate central agencies to ensure that recognition is given to the qualifications and performances of the persons recommended by deputy heads. Appointments of other financial officers ought to be made within departments only after similar consultation with senior departmental financial officers.

9.35

(a) The Treasury Board should be consulted in the appointment and participate in the development of the careers of the senior financial officers of each department and agency.

(b) Senior financial officers in departments should have the sense that their future career rests primarily - though not exclusively - on the assessment of their performance by the staff of the Treasury Board, rather than on their ability to please the heads of their departments.

NEED FOR STRONGER CENTRAL DIRECTION CONSOLIDATION OF CENTRAL RESPONSIBILITIES

10.40 All the recommendations in the report

10.36

have as their objective the improvement of financial controls. The more significant ones, either specifically or by implication, recognize the need for a central agency to supply overall direction. It is clear that if controls are to be coordinated and are to operate effectively, responsibility for the following activities should be clarified and unified wherever possible:

- recommending government policies directives and guidelines in the area of financial management and control, and providing interpretations thereof;

- advising on the form of the Estimates and Public Accounts;

- assessing departmental program and activity structures, and cost and other measurement systems in support of them;

- approving and monitoring departmental budgetary control, financial reporting and financial control systems;

- providing analyses of variances between planned and actual financial performance;

- establishing standards for and monitoring internal audit practices within departments and agencies;

- establishing the accounting practices governing the financial statements and Public Accounts of Canada; and

- assisting the Public Service Commission in the selection, training and career development of financial staff.

(a) The Financial Administration Branch should recommend to Treasury Board policies, directives and guidelines, in all areas of financial management and control, provide interpretations thereof to departments, evaluate departmental financial control systems, and provide leadership to financial staff throughout the government. This includes:

10.15

- (i)advising on the content of the Estimates from the viewpoint of budgetary control and financial reporting;

(ii)co-ordinating the content of the Public Accounts so that consistency between the Estimates and Public Accounts is achieved;

(iii) advising on the accounting practices authorized by appropriations, and other legislation and which must be followed in preparing the financial statements of Canada;

(iv)approving and monitoring departmental budgetary control, financial reporting and cost measurement systems;

(v)preparing government-wide analysis of significant variances between planned and actual financial performance;

(vi)prescribing central requirements for accounting information and assessing the structure of accounts used by departments in budgetary and financial reports;

(vii) setting standards for and monitoring performance of internal audits of financial compliance and operational efficiency; and

(viii) advising the Public Service Commission on qualifications of financial staff, and co-operating in their training and career development.

(b) Three Branches of the Treasury Board Secretariat now share responsibility for giving central direction in matters of financial management and control. Responsibility should be unified at some point other than the Secretary himself. Within the Treasury Board Secretariat, either: 10.19

(i)Consolidate, within a new branch, responsibilities now shared by the Program, Planning and Administrative Policy branches, or

(ii)Appoint a senior officer to coordinate the activities of the three branches.

(c) Responsibility for budgetary control should be assigned to staff other than those who review departmental requests in the first place. 10.23

(d) The responsibility for accounting and reporting practices now assigned to the Department of Finance should be assigned to 10.24

the Financial Administration Branch.

(e) Financial officers should work with program analysts in: 10.26

(i) verifying Estimates data,

(ii) reviewing monthly financial statements,

(iii) preparing such analyses as are required.

(f) Some strengthening is required of those now evaluating departmental systems or working in the policy area. 10.26

(g) Whatever organizational arrangement is adopted, the senior officer responsible for financial management and control in the Government of Canada should have a status which makes it appropriate: 10.31

(i) for him to have direct access to deputy heads;

(ii) for deputy heads to consult him without fear of offending their financial advisers;

(iii) for him to give technical direction to senior financial officers of departments on matters affecting the government as a whole.

(h) The senior financial officer should have the experience and knowledge necessary to be able to influence deputies and their staffs. He should: 10.32

(i) have exercised both operating and financial responsibilities during his earlier career;

(ii) be recognized as a leader within the financial community;

(iii) have demonstrated wisdom to counsel on policy matters,

(j) The incumbent to the position of senior financial officer: 10.33

(i) should not regard the position as a stepping stone to other jobs;

(ii) must be able to review departmental systems and performance without concern for any adverse

affect this may have on his future;

(iii) should be at the pinnacle of his career.

(k) Financial Administration Branch's first duty should be to attract and train staff with the necessary qualifications and then to improve the overall quality of financial services in departments and agencies through a program of career development for financial officers in the government as a whole.	10.35
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APPENDIX I

REPORT OF THE TREASURY BOARD SECRETARIAT
TO THE STANDING COMMITTEE ON PUBLIC
ACCOUNTS, JULY 27, 1976

REPORT OF THE TREASURY BOARD SECRETARIAT
TO THE STANDING COMMITTEE ON PUBLIC ACCOUNTS, JULY 27, 1976
(circulated to members - but not tabled in PAC)

July 27, 1976

Mr. Lloyd R. Crouse, M.P.
Chairman of the Standing
Committee on Public Accounts
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Mr. Crouse:

On February 20, 1975 I reported to you on the actions reported to Treasury Board by departments on the matters raised in the 1974 report of the Auditor General. At that time I reported that there were 13 paragraphs where it would not be possible during 1975/76 to determine whether the action required was not readily discernible.

I am pleased to report that these outstanding issues have now been resolved and action has been either completed or is in process. It should be possible for the Auditor General during fiscal year 1976/77 to confirm that the problems have been resolved.

The appendix attached to this letter explains the nature of the problems and briefly outlines the actions taken.

I have forwarded a copy of this letter and the appendix to the Auditor General and have requested his confirmation that the matters dealt with in his Report have been summarized adequately. He has so confirmed.

I trust that this information will be useful to you and your committee.

Yours sincerely,

G.F. Osbaldeston

Attachment

FOLLOW-UP TO THE PROBLEMS RAISED
IN THE 1974 REPORT OF THE AUDITOR GENERAL
PARAGRAPHS WHERE SATISFACTORY CORRECTIVE ACTION IS BEING TAKEN

36, 79-Improper Retention of Public Money

The Canadian Commercial Corporation retained funds from sale of aircraft to foreign countries and applied the proceeds towards acquisition of other aircraft and related materials required by DND, rather than depositing these funds in the Consolidated Revenue Fund.

Action

The Board of Directors of the Canadian Commercial Corporation will approve a minute which will prohibit the Corporation from retaining funds derived from the sale of Federal Government goods and materials and then using these funds to contract directly via the Corporation for the supply of other equipment or materials for use by Government Departments.

37-Reduction of Contract Cost Over-Run by Application of Revenue

The Auditor General notes that substantial revenue has been applied by the Canadian Commercial Corporation to reduce cost over-run on a ceiling price contract for aircraft instead of being paid into the Consolidated Revenue Fund.

Action

In the future only revenues directly attributable to costs charged to a project will be applied to that project within the overall time base of the project.

41-Unauthorized Charge to National Museums Special Account

The Auditor General maintains that payments made to a publisher to cover deficits on publications were actually grants and therefore required parliamentary approval.

Action

A new contract was designed, to effect the same type of arrangements with the publisher, which clarifies the intent of the contract.

43-Royal Canadian Mint Inventories

The Auditor General points out that delay in reconciling physical inventory counts to balance sheet figure resulted in qualification in his report but that reconciliation was later completed satisfactorily.

Action

The annual physical stocktaking of inventory was delayed because it would have resulted in lost production at a time of unprecedented demand for Canadian coinage. The physical inventory was taken in March 1974 and the reconciliation done at that time.

45-Canadian Forces Base Summerside, P.E.I.

As base is kept open for economic considerations, any costs in addition to those necessary for the DND function are not a proper charge against appropriations provided by Parliament for Defence purposes.

Action

The Department's estimates include the cost of operating Canadian Forces Base Summerside. Once the estimates have been approved by Parliament, the Department's appropriations are applied to an authorized purpose. No further action on this matter is required.

46-Subsidization of Local Transportation by the Post Office Department

The Auditor General states that a transportation saving was not realized because of an adverse effect on transportation services for a community. He states that the unrealized saving represents a subsidy to public transportation which is not within the authority of the Post Office Act.

Action

The contract with the transportation company was terminated on May 12, 1975.

51-Ex gratia Payments to Members of the Canadian Forces

The Auditor General questions the legality of the Governor in Council's delegation of authority to make ex gratia payments.

Action

A revised ex gratia payments order has been issued which defines the limits and circumstances of delegated authority for making ex gratia payments.

54-Taxation of Recaptured Capital Cost Allowance with Respect to Vessels Sold

The Auditor General questions if tax concessions stimulate ship construction or conversion when only a portion of funds in escrow accrue to benefit of persons having vessels constructed or converted.

Action

The program has assisted Canadian shipyards to obtain a considerable amount of new building and conversion work since its introduction in 1959. However, it was less cost effective than direct subsidies and the program was terminated on June 30, 1975.

55-Local initiatives Program

The Auditor General points out deficiencies in project records and weaknesses in administration of the program including approval of

projects which do not comply with established objectives and criteria and lack of follow-up of audit reports.

Action

The department has taken significant steps for improvement.

The Auditor General in his 1975 report indicated substantial improvement has taken place in this program and stated that he would continue to monitor the program to assess the effectiveness of the changes in correcting the weaknesses.

57-Cost of Vacant Accommodation Following Closure of Canadian Forces Base, Gimli, Manitoba

The Auditor General points out the costs associated with the termination of a long-term agreement for rental accommodation.

Action

Following closure of the Gimli base an arrangement was made to terminate rental agreements for accommodation and no further action is required.

64-Cost of Unused Accommodation

The Auditor General points out that rental was paid for accommodation not used.

Action

The cost of unused accommodation is raised in the 1975 Report of the Auditor General. It is a problem which is receiving continuing attention by the Department of Public Works in an attempt to ensure that unused space is kept to a minimum.

76-Inadequate Control Over Supply Items

The Auditor General comments on the extent of supply items in excess of requirements and the need to identify and dispose of excess holdings.

Action

A number of steps have been taken to obtain significant improvements in this area. The Auditor General's office has indicated that they are satisfied positive steps are being taken to resolve this matter and are monitoring progress.