

PRIVY COUNCIL OFFICE

AUDIT OF THE DELEGATION OF FINANCIAL AUTHORITIES

AUDIT AND EVALUATION DIVISION

PROJECT 2007-101

EXECUTIVE SUMMARY AND MANAGEMENT RESPONSE AND ACTION PLAN

SEPTEMBER 24, 2008

Executive Summary

Audit Objective

The objective of this audit was to assess the adequacy and effectiveness of the delegation of financial authority instruments and mechanisms in Privy Council Office (PCO).

Audit Scope

The audit examined both the infrastructure of delegated financial authorities at PCO and the exercise of these authorities by testing expenditures recorded for the twelve-month period ending September 30, 2007. Compensation payments were excluded from the audit, except for expenditures for overtime and the exercise of payment authority related to payroll transactions.

Audit Opinion

In my opinion, PCO's framework of management controls and instruments for the delegation and exercise of financial authorities, although complicated by centralized procurement and finance functions, is for the most part adequate and consistent with requirements. Delegated authorities are generally well exercised. However, framework improvements are warranted: (i) to better document and communicate relevant roles, responsibilities, processes and controls in light of centralized functions; (ii) to improve certain aspects of the quality assurance review process as outlined in Treasury Board policy; and (iii) to improve segregation of duties and clarify and strengthen the accountability of responsibility centre managers for the exercise of delegated authorities.

Statement of Assurance

The audit was conducted in accordance with the requirements of the Treasury Board policy, directives and standards on internal audit. In my professional judgment as Chief Audit Executive, sufficient and appropriate audit procedures were conducted and evidence gathered to support the accuracy of the opinion provided to senior management and contained in this report. The opinion is based on a comparison of the conditions as they existed at the time of audit against pre-established audit criteria which were agreed to by management, and is applicable only to the processes and transactions examined in relation to the entity examined.

Summary of Findings

The audit found that the majority of elements that constitute PCO's control framework for the delegation of financial authorities are consistent with legislative and policy requirements, but some improvements are needed. The major findings contained in this report that have resulted in audit recommendations pertain to control improvement opportunities in the areas of departmental policies and procedures, quality assurance over account verification processes, and segregation of duties. Findings which did not result in audit recommendations but which were nonetheless brought to management's attention included matters of budgetary control, lack of certain pre-approvals, and

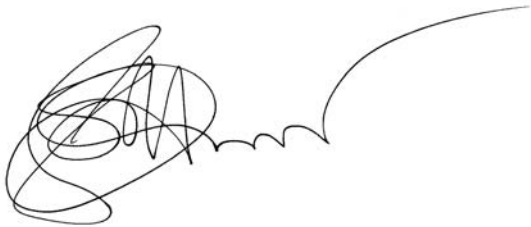
improvements to documentation. Given that PCO was reviewing its Delegation of Financial Authorities chart during the audit, preliminary audit results were communicated to management for their consideration towards finalizing a revised departmental delegation chart.

Summary of Recommendations

The audit recommends that the Assistant Deputy Minister, Corporate Services Branch: (i) modernize and promulgate an updated PCO policy and/or procedures document on delegation of financial authorities and related account verification responsibilities; (ii) improve the FAA 33 quality assurance review process to reflect consideration of risk, to report errors so that corrective action can be taken, and to apprise senior management of the overall quality assurance results; and (iii) adjust key delegations and processes relating to contracting authority and the authority to certify payments for contract performance and price.

Management's Response and Action Plan

Management has accepted the report's findings and recommendations. Management's response and action plan are set out in *Appendix B*.



SIGNATURE OF CHIEF AUDIT EXECUTIVE

JIM HAMER
DIRECTOR, AUDIT AND EVALUATION

APPENDIX B

MANAGEMENT RESPONSE AND ACTION PLAN

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The Assistant Deputy Minister, Corporate Services Branch is responsible for the Action Plan.

Management Response and Action Plan

Management has reviewed the audit report on the financial delegation of authority and is in agreement with the nature of the recommendations contained in the report. The corrective measures will take into account the size of the department and the centralized environment under which it operates.

In fiscal year 2007-2008, the Privy Council Office launched a full review of its departmental financial delegation instrument. The recommendations of the audit report will be reflected in the revised financial delegation instrument.

Recommendation	Actions to be Taken	Responsibility	Target Date
<p><i>Recommendation No. 1 - Departmental policy and/or procedures</i></p> <p>It is recommended that the Assistant Deputy Minister, Corporate Services Branch modernize and promulgate an updated PCO policy and/or procedures document on delegation of financial authorities to provide clear and detailed guidance on roles, responsibilities, accountabilities, and processes for the exercise of delegated financial authorities and related account verification requirements; and provide awareness/training sessions to all persons affected by this document.</p>	<p>We agree with the recommendation.</p> <p>Actions to be taken:</p> <ul style="list-style-type: none"> • Modernize and standardize departmental procedures on delegation of financial authorities; • Develop and provide training sessions on financial delegation of authority to managers and administrative assistants; • Provide electronic access to all PCO employees to the following 	<p>Executive Director, Finance and Corporate Planning Division</p>	<p>Nov 08</p> <p>Jan. 09</p> <p>Nov 08</p>

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	<p>documentation via PCO's intranet web site:</p> <ul style="list-style-type: none"> o financial delegation chart; o equivalency table; o supporting documentation and procedures; o training course packages. 		
<p><i>Recommendation No.2 - Quality assurance review process</i></p> <p>It is recommended that the Assistant Deputy Minister, Corporate Services Branch improve the system of account verification by tailoring the FAA 33 quality assurance review process to reflect the risk level of the transactions being verified; by communicating errors to responsibility centre managers so that appropriate corrective action can be taken; and by recording the overall results of the quality assurance review process for reporting to senior management.</p>	<p>We agree with the recommendation. Actions to be taken:</p> <ul style="list-style-type: none"> • Prepare a cost benefits analysis on the implementation of a quality assurance process based on risk; • Implement a quality assurance process based on risk using a sampling methodology. 	<p>Executive Director, Finance and Corporate Planning Division</p>	<p>April 09</p> <p>April 10</p>
<p><i>Recommendation No.3 - Segregation of duties</i></p> <p>It is recommended that the Assistant Deputy Minister, Corporate Services Branch change existing delegation arrangements to ensure appropriate segregation of duties in accordance with TB policy requirements by:</p> <p>a) delegating contracting</p>	<p>We agree with the recommendation. Actions to be taken:</p> <ul style="list-style-type: none"> • Amend PCO's financial delegation instrument to delegate contracting authority only to purchasing agents. Any exception to that rule will be formally documented 	<p>Executive Director, Finance and Corporate Planning Division</p>	<p>Nov 08</p>

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<p>authority only to purchasing agents in the Procurement and Contracting Services section, to be exercised only when the manager responsible for the budget formally initiates the expenditure;</p> <p>b) distinguishing the differing natures of goods and/or services purchased centrally, reassigning responsibility for their purchase, and realigning the delegated financial authorities accordingly; and</p> <p>c) in the case of the corporate airfare account paid centrally, improving processes and controls to ensure the proper discharge of FAA 34 responsibilities for certification of contract performance and price.</p>	<p>in the document supporting PCO's delegation of financial instrument.</p> <ul style="list-style-type: none"> • Amend PCO's financial delegation instrument to clearly distinguish between section 32(1) and 32(2) of the FAA and realigning financial delegation authority accordingly, • Formally document under what conditions purchasing agents can exercise their functional authority under section 34 of the FAA • Implement additional financial controls align with PCO centralized environment to provide assurance and evidence of proper segregation of duties. • Implement reconciliation process using a statistical sampling methodology to reconcile air fare portion of the travel authorization and expense claims approved by the initiating responsibility centre managers with amount paid centrally. 		<p>Nov 08</p> <p>Nov 08</p> <p>Dec 08</p> <p>April 09</p>
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