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Secrétariat du Conseil du Trésor
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Canada

Horizontal Internal Audit of Compliance with the Common Services Policy

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Office of the Comptroller General of Canada

Contents

Executive Summary

The objective of this audit was to determine whether common service organizations (CSOs) and the Treasury Board of Canada Secretariat (the Secretariat), in its role as a central agency, are fulfilling the requirements of the *Common Services Policy*.

Why This Is Important

The objective of the *Common Services Policy* is to ensure that departments and agencies can acquire responsive and cost-effective support for their program delivery. It establishes the role of CSOs within the Government of Canada in creating a more streamlined, efficient and responsive public service.

In addition, the Government of Canada is currently examining the economy and efficiency of the delivery of common services with a view to providing an outlook on how services could be shared or otherwise improved. [1] This audit will provide insight into areas where more clarity or support is required.

Key Findings

The Secretariat is responsible for periodically evaluating the *Common Services Policy* to ensure that policy requirements are relevant and in line with current government priorities. The Secretariat has not conducted an evaluation of the *Common Services Policy*;however, a draft directive was developed but not issued pending the results of key government initiatives such as administrative services review that may impact the policy. As a result, the policy has not been updated to reflect the current environment.

CSOs are responsible for developing a management control framework over their services to help set the future direction of these services. CSOs are delivering their services in consideration of government priorities, are offering services within their mandate, and have, for the most part, effective performance information for decision making. However, some CSOs would benefit from stronger planning practices to ensure that their services address clients' needs.

In managing the fees set for common services, CSOs are responsible for having costing practices in place to support rates charged to other departments and are responsible for regularly measuring cost-effectiveness. CSOs have sufficient financial information to operate within the provisions of the *Common Services Policy*. However, policies need to be revised to ensure that rate-setting requirements related to the various service delivery models reflect the current government environment. In addition, most CSOs have not yet developed practices to measure the cost-effectiveness of their services in order to ensure that their services are providing value for money.

Lastly, CSOs are responsible for managing the quality of their service delivery. CSOs have developed some practices for managing their service quality, but there are some areas for improvement. Most CSOs do not have consistent service standards that are linked to measures of performance and are outlined in service agreements. This limits their ability to hold their managers accountable for service standards and make informed service improvements. In addition, the Secretariat's guidance has not been finalized in this area.

Conclusion

CSOs, for the most part, are fulfilling their responsibilities under the *Common Services Policy*. Improvements are required in measuring cost-effectiveness of services and developing service agreements with client departments. The Secretariat has not evaluated the policy to ensure that it is up-to-date and relevant. In addition, the Secretariat needs to review policies to ensure that rate-setting requirements related to the various service delivery models reflect the current government environment.

Conformance With Professional Standards

The conduct of this engagement was done in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.[2]

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Background

Within the Government of Canada, several departments are designated common service organizations (CSOs). These organizations are central suppliers of services to other government departments. Common services include but are not limited to legal, environmental, procurement, educational and statistical services. The government uses common services to take advantage of economies of scale and the benefits of pooling specialized expertise.

Common services are either mandatory or optional. Mandatory services are designated when a government-wide interest or consideration prevails over or coincides with the interests of individual departments and agencies. Mandatory services are designated either in legislation or in policy, and all departments are required to use them. Optional services are used by departments only when it makes sense to do so.

Common services are funded through revolving funds, net-voting authorities, appropriation, or, in limited cases, variations of these three funding models. Mandatory services are typically funded through an appropriated funding model, whereas optional services are typically funded through a revolving fund or a net-voting authority model.

Revolving funds must recover the full costs of the CSO in order to break even at the level of the overall operation over a reasonable period of time. Rates for a specific optional service, however, may be set by the CSO at competitive market rates.

Under a net-voting authority, CSOs are authorized to recover revenues from client departments to offset directly related costs. Any costs that CSOs do not recover from client departments are funded through other sources.

In an appropriated funding model, CSOs are fully funded for the cost of the delivery of a service through legislation, with no cost recovery from client departments.

Common services within the Government of Canada are governed by the Treasury Board *Common Services Policy*. The policy's objective is to ensure that CSOs offer services to client departments that support timely, effective and economical delivery of programs to the public. In addition, the policy outlines a strategy to make optional as many common services as possible and maintain mandatory services only when there is an overriding reason. This strategy is intended to ensure that CSOs focus on customer service, providing quality goods and services on time, and pricing competitively. As well, this strategy provides greater control and flexibility to departments over the costs for services received and promotes financial accountability.

In supporting the objectives and strategy, the policy outlines specific responsibilities. CSOs are responsible for establishing effective planning processes for their services, developing effective and transparent costing practices and rate-setting mechanisms, and putting practices and systems in place to manage the quality of their services. The Secretariat in turn is responsible for supporting CSOs through periodic reviews of the policy, reviewing and advising on fees charged, monitoring CSO compliance with the policy, and effectively communicating with departments to ensure that the requirements of the policy are well understood. CSOs and the Secretariat are jointly responsible for periodic reviews of mandatory services in order to determine whether a mandatory service should become optional.

In addition to the policy, departments are guided by the *Guide to Costing* (Office of the Comptroller General, Treasury Board of Canada Secretariat, 2008), which outlines the generally accepted management accounting principles that should be followed when conducting a costing exercise.

Audit Objectives and Scope

The objective of this audit was to determine whether CSOs and the Secretariat, in its role as a central agency, are complying with the requirements of the *Common Services Policy*.

The scope of this audit included an examination of the systems and practices of CSOs and the Secretariat in delivering common services as of March 2011. Detailed audit criteria can be found in Appendix A.

A sample of five CSOs that offer six services was selected for this audit. A detailed list of CSOs and services examined in this audit can be found in Appendix B.

Detailed Findings and Recommendations

Finding 1: Common Services Policy

The *Common Services Policy* has not been evaluated.

We examined whether the Secretariat is evaluating the policy on a periodic basis to ensure that it remains relevant with the needs of CSOs, the Secretariat and client departments. We also examined whether the Secretariat is monitoring departments for compliance with the policy requirements.

Policy requirements need to be useful, relevant and robust in order to provide appropriate direction for the delivery and use of common services. Monitoring helps the Secretariat understand whether policy requirements are being met and where additional guidance or direction may be needed.

The *Common Services Policy* has not been evaluated

The Secretariat has conducted reviews and developed a draft directive to update and clarify elements of the *Common Services Policy* but has not carried out an evaluation as required by the policy. Although no time frame is specified in the policy for an evaluation, the Secretariat is accountable for evaluating the policy. This should include an evaluation of the policy's integrity, the logic and practicality of policy requirements, the effectiveness of the policy in achieving its stated objective, and the appropriateness of the policy in the context of the government's overall direction.

The Secretariat has not evaluated the policy principally because it is waiting for further direction from three current government initiatives: the Service Strategy,[3] the Administrative Service Review[4] and the initiative on service delivery between line departments.[5] All three of these initiatives were ongoing at the end of the conduct phase of this audit.

As a result of not having conducted an evaluation, the current policy requirements do not reflect the present government environment. Specifically, the policy includes a list of mandatory services but it has not been updated recently. For example, since January 1, 2006, under the *Policy on Learning, Training, and Development*, the Canada School of Public Service was given the responsibility as the service provider for required training courses that are not subject to the mandatory provisions of the *Common Services Policy.* On the other hand, the policy lists Public Works and Government Services Canada's computer-assisted system for the selection of architectural and engineering firms as a mandatory service. However, the policy does not recognize that this system can be used only for consulting and construction contracts up to a specific dollar amount; otherwise, it may be contrary to international trade agreements. These inconsistencies result in confusion for CSOs and users on the roles and responsibilities related to certain services.

In addition, without an evaluation of the policy, the Secretariat cannot ensure that the current policy strategy is being met or that it continues to be appropriate. The current policy outlines a strategy that the government will make optional as many common services as possible, maintaining mandatory services only where there is an overriding reason. This strategy requires the Secretariat and CSOs to conduct a review of mandatory services on a periodic basis in order to determine whether a mandatory service should become optional. There was no evidence that the Secretariat or CSOs have undertaken any reviews of mandatory services since the policy's inception. The Secretariat has not deemed such reviews as necessary given that concrete issues or problems have not been presented to it.

The Secretariat is not monitoring departments for compliance with *Common Services Policy* requirements

Based on the current *Common Services Policy,* the Secretariat is required to monitor CSOs and policy requirements to ensure that the policy is being applied correctly and to inform future policy changes. There is no evidence that the Secretariat is monitoring CSOs to assess the extent to which they are complying with the requirements of the policy. Most policies that have recently been updated have gone through the Treasury Board's process of Policy Suite Renewal[6] and consequently follow the new strategy for Treasury Board policies, which is principles-based, less focused on compliance, and shifts most of the responsibility for monitoring compliance to the deputy heads of departments and agencies.

Recommendation

The Secretariat should evaluate and update the policy in line with the Policy Suite Renewal Initiative.

Finding 2: Management Control Framework within Common Service Organizations

CSOs have developed effective management control structures.

We examined whether CSOs are taking into consideration federal government priorities when setting their service objectives. We also examined whether CSOs have appropriate planning processes from which to determine their services offerings, including identifying objectives for all key areas and internal and external environmental scans. We looked at how CSOs are focusing the provision of their services to other federal departments. Finally, we examined whether CSOs had relevant and transparent performance information from which to make decisions about the future of their services.

Common services are generally used to support broader government objectives such as concentration of expertise or technology in government, consistency and integrity of approach, or government-wide efficiency. These objectives should be considered when developing service-specific objectives. In addition, CSOs need comprehensive business planning to be assured that their service offerings are in line with their clients' needs. The delivery of services to crown corporations and non-federal organizations should not interfere with CSOs' primary responsibility of delivering services to federal departments. Lastly, timely information about the overall performance of CSOs' services allows managers to continuously improve and demonstrate accountability.

CSOs are delivering services in consideration of government priorities

Under the *Common Services Policy*, CSOs are responsible for supporting the achievement of government-wide social, economic and environmental objectives in acquiring or delivering goods and services. All CSOs in this audit show consideration of government-wide priorities within their business plans. This includes how their individual service objectives support the federal government's priorities and goals.

CSOs have varying degrees of planning processes with which to set their future direction

Half of the common services examined in this audit have planning processes that meet the expectations of the *Common Services Policy*. Some CSOs are not conducting regular environmental scans to inform service offerings. Some CSOs do not have objectives for all key business lines, and some CSOs have no service plans. Reasons for the lack of planning in CSOs vary from a lack of capacity to a low priority placed on planning for less significant services. Without strong planning processes, some CSOs may be offering services that do not reflect their clients' needs.

CSOs are offering services within their approved mandate

CSOs primarily offer services to federal departments. When offering services to crown corporations or non-federal organizations, they require ministerial approval, they must ensure that these services do not interfere with their primary role of delivering services to federal departments, and they must set rates charged to recover up to, but not exceed, the full costs of the services provided. All services we examined are meeting these requirements.

Most CSOs are using performance information to improve policy and decision making

CSOs are accountable under the policy for monitoring business volumes, levels of performance, resource use, financial results, and the implications of providing individual common services and reporting on these factors in annual reports. Most CSOs in this audit achieve this through regular performance reviews and assessments. In addition, most CSOs are publicly reporting on this performance information.

Recommendation

CSOs should establish comprehensive plans and performance objectives for their services based on an understanding of their current internal and external environments.

Finding 3: Costing Practices

> **The current policy regime contains historical differences that need to be re−examined.**

We examined whether CSOs are setting rates and managing costs for their common services in compliance with the *Common Services Policy*. This included whether they are following the principles of the *Guide to Costing*. We also looked at practices that CSOs have put in place to manage and report on the cost-effectiveness of their services.

To have assurance over the accuracy of costs, departments should be following the principles of the *Guide to Costing*. In principle, there should be no cross-subsidization between or among optional services and no cross subsidization for mandatory services. CSOs should set their rates to break even on a year-over-year basis or be self-sufficient and not profit from the delivery of common services. Lastly, cost-effectiveness practices should be in place to ensure that services are providing value for money.

CSOs are managing costs for their common services within the requirements of the *Common Services Policy*

CSOs are following the principles of the *Guide to Costing* in developing their cost models and setting rates. In addition, the majority of CSOs are costing their services and setting their rates at the individual service level, and there is no cross-subsidization occurring between or among optional and mandatory services.

CSOs are setting rates to ensure self-sufficiency in the delivery of their services. In one case, that of the Public Prosecution Service of Canada, the Department of Justice Canada's costing model is being used to set rates. This model ensures consistency in fees for legal services within the government and has been approved by the Treasury Board.

Policies need to be revised to ensure that rate setting requirements related to the various service delivery models reflect the current government environment

CSOs and line departments[7] both offer optional services to other government departments. However, line departments and CSOs are subject to different policy requirements.

Line departments that offer services to other line departments are governed by the *Policy on Interdepartmental Charging and Transfers Between Appropriations*. They cannot charge more than the incremental or additional cost of providing the service.

Optional services provided by CSOs are funded mainly through either a revolving fund or net-voting authority. The *Common Services Policy* requires optional services that are funded by a revolving fund to recover up to full costs and break even over a reasonable period of time. The *Policy on Special Revenue Spending Authorities*

provides additional requirements for revolving fund authorities to achieve a level of self-sufficiency over a specified period of time. CSOs have interpreted this to mean full cost. There has been no guidance offered that is contrary to this interpretation. As a result of a lack of guidance within these policies, CSOs may be unaware of the rate-setting flexibilities afforded to them.

The *Federal Administration Act* has recently been amended to provide line departments with more flexibility to provide continuous services to other line departments. The current policies may not address today's reality regarding the various service delivery models. The Secretariat has recognized this issue and is currently reviewing and updating policies and directives related to the delivery of services between departments.

CSOs have not developed practices to measure and report on the cost-effectiveness of their services

CSOs should be continuously managing their costs in order to ensure they are efficiently delivering their services. Most departments have not implemented cost efficiency reviews or comparisons with industry benchmarks to ensure that the service is providing value for money. This is due mainly to the lack of systems and practices put in place to measure cost efficiency; and a lack of a clear comparison for similar services that are available. Most client departments indicate that, in general, common services are providing value for money.

Without regular monitoring for cost efficiency, CSOs cannot ensure that they are employing the right resources in the right areas or that they have an efficient process that demonstrates to clients they can control costs while meeting agreed upon service levels.

Recommendations

1. The Secretariat should review its policies to ensure they are aligned with the service delivery models and should continue to review the current rate-setting controls and funding model requirements and determine whether they are appropriate and effective, for both CSOs and line departments that provide services to other federal departments.

2. CSOs should develop practices to measure cost-effectiveness and report on this information to key stakeholders.

Finding 4: Service Management

CSOs have developed practices for managing their services, but there are areas for improvement.

We looked at the systems and practices that CSOs have put in place to manage service quality. We also looked at whether CSOs have developed standards of service and are monitoring performance against these standards.

Quality management systems and practices give CSOs assurance that the services they are delivering are meeting their clients' needs. Service standards provide measures of performance and accountability for client departments and CSO management.

CSOs have practices in place to ensure effective management of service quality, but there are areas for improvement.

CSOs have put in place management practices and systems to ensure they are providing quality services that are meeting the needs of client departments. These include departmental policies and procedures, guidelines, and surveys of client departments. These practices are consistent with *Common Services Policy* expectations, which require CSOs to establish a client service environment. Most client departments indicated that the services they are provided with were generally meeting their needs.

Some CSOs have not fully developed and formalized appeal and redress mechanisms for dealing with disputes arising from memorandums of understanding or service agreements. This is generally due to a lack of formalized agreements between the CSO and client departments. Most client departments indicated that they have a limited awareness of available appeal and redress mechanisms. Clearly outlined appeal and redress mechanisms assure clients of a fair and impartial process when there are disputes over service delivery or payment issues.

Most CSOs do not have consistent service agreements with their client departments

CSOs examined in this audit have some service standards but do not have fully outlined expectations between the service providers and the client. In addition, CSOs have developed some targets in terms of expected response time, service and product deliverables, and client survey results. Performance against these targets is reviewed regularly and used to improve services. Most client departments indicated a low awareness of service standards, but they were satisfied that CSOs are considering their feedback for service improvements. Without visible service standards and performance targets, CSOs cannot hold managers accountable, and this limits their ability to inform service changes and improvements. Although service standards and performance targets may

not be required for all service agreements, an assessment should be made to determine whether such standards and targets are necessary.

In the early 2000s, the Secretariat developed *A Policy Framework for Service Improvement in the Government of Canada*. This initiative exclusively focused on the delivery of external services to the public. No equivalent internal services policy framework exists. Outside of the *Common Services Policy* and the Secretariat's *Guide to Costing*, there are no policies, directives, guidelines or standards related to internal services. The Secretariat has developed guidance with respect to service agreements, but this has not been finalized. Without guidance and direction, departments may continue to face challenges in implementing service controls effectively.

Recommendations

1. CSOs should develop, when deemed necessary, service agreements in negotiation with client departments that include service standards and performance targets.

2. CSOs should develop and communicate appeal and redress mechanisms to client departments.

3. The Secretariat should finalize guidance for CSOs on service agreements.

Management Action Plans

The findings and recommendations of this audit were presented to the six departments included in the scope of the audit. The Office of the Comptroller General has asked each department that participated in the audit to prepare detailed management action plans and to discuss these plans with their respective Departmental Audit Committees.

Appendix A: Audit Criteria

The objective of this audit was to determine whether CSOs and the Secretariat, in its role as a central agency, are fulfilling the requirements of the *Common Services Policy*.

Objectives	Criteria
1) The Secretariat and CSOs have established effective governance, oversight and evaluation practices to ensure they execute their responsibilities under the policy and that the governance function is receiving appropriate planning information from which to set the future direction of the CSO.	▪ The Secretariat, in conjunction with CSOs, ensures that the *Common Services Policy* evolves with the changing needs of the Government of Canada. ▪ CSOs have appropriate planning information from which to determine the services to be offered. ▪ The Secretariat monitors CSOs to assess the extent to which they are fulfilling their responsibilities under the *Common Services Policy*. ▪ CSOs are providing services within the scope of their approved mandate.
2) CSOs have well-prepared and timely cost information that contributes to accountability and transparency to enhance decision making on the provision and use of common services by departments.	▪ CSOs are responsible for setting rates and managing costs for their common services in compliance with the provisions of the *Common Services Policy*.
3) CSOs have adopted and are ensuring that client services are delivered using best practices as outlined in the *Common Services Policy*.	▪ CSOs are delegating authority to meet the needs of client departments. ▪ CSOs deliver services in consideration of government-wide objectives and goals. ▪ CSOs have established quality systems and practices that are meeting client needs and expectations.
4) CSOs have designed effective performance measurement systems and are monitoring performance to ensure that they are meeting their objectives.	▪ CSOs have developed standards of service, and they are monitoring their performance against these standards. ▪ CSOs have relevant and transparent performance information from which to make decisions about the future of their services.

Appendix B: Departments and Agencies Included in the Audit Engagement

Department	Service Examined	Funding Model	Nature of Service
Canada School of Public Service	Public service learning	Net-voting with special authority to carry over previous year balances	Optional
Department of Justice Canada	Legal services to departments	Hybrid Net-voting / Appropriated	Mandatory
Public Prosecution Service of Canada	Prosecution of federal statutes offences	Hybrid Net-voting / Appropriated	Mandatory
Public Works and Government Services Canada	SELECT[8] System for the selection of private engineering and architectural firms	Appropriated	Mandatory
	Real property—Environmental services	Revolving fund	Optional
Statistics Canada	Statistical services to departments	Net-voting	Optional
Central Agency Involved in This Audit			
Treasury Board of Canada Secretariat	*Common Services Policy* and *Guide to Costing* owner		

Appendix C: Risk Ranking of Recommendations

The following table presents the recommendations and assigns risk rankings of high, medium or low. Risk rankings were determined based on the relative priorities of the recommendations and the extent to which the recommendations indicate non-compliance with Treasury Board policies.

Recommendations	Priority
1. The Secretariat should evaluate and update the policy in line with the Policy Suite Renewal Initiative. 2. CSOs should establish comprehensive plans and performance objectives for their services based on an understanding of their current internal and external environments. 3. The Secretariat should review its policies to ensure they are aligned with the service delivery models and should continue to review the current rate-setting controls and funding model requirements and determine whether they are appropriate and effective, for both CSOs and line departments that provide services to other federal departments. 5. CSOs should develop, when deemed necessary, service agreements in negotiation with client departments that include service standards and performance targets. 7. The Secretariat should finalize guidance for CSOs on service agreements.	High
4. CSOs should develop practices to measure cost-effectiveness and report on this information to key stakeholders. 6. CSOs should develop and communicate appeal and redress mechanisms to client departments.	Medium

Appendix D: Recommendations by Department and Agency

Recommendations	PWGSC		CSPS	PPSC	JUS	StatCan	TBS
	Environmental Services	SELECT Service	Public Service Learning	Public Prosecutions	Legal Advisory Services	Statistical Services	
1. The Secretariat should evaluate and update the policy in	non applicable	non applicable	non applicable	non applicable	non applicable	non applicable	applicable

Recommendation							
line with the Policy Suite Renewal Initiative.							
2. CSOs should establish comprehensive plans and performance objectives for their services based on an understanding of their current internal and external environments.	non applicable	applicable	applicable	applicable	non applicable	non applicable	non applicable
3. The Secretariat should review its policies to ensure they are aligned with the service delivery models and continue to review the current rate-setting controls and funding model requirements and determine whether they are appropriate and effective for both CSOs and line departments that provide services to other federal departments.	non applicable	non applicable	non applicable	non applicable	non applicable	non applicable	applicable
4. CSOs should develop practices to measure cost-effectiveness and report on this information to key stakeholders.	non applicable	applicable	non applicable	applicable	applicable	non applicable	non applicable
5. CSOs should develop, when deemed necessary, service agreements in negotiation with client departments that include service standards and performance targets.	non applicable	applicable	applicable	applicable	non applicable	applicable	non applicable
6. CSOs should develop and communicate appeal and redress mechanisms to client departments.	non applicable	applicable	applicable	applicable	non applicable	non applicable	non applicable
7. The Secretariat should finalize guidance for CSOs on service agreements.	non applicable	non applicable	non applicable	non applicable	non applicable	non applicable	applicable

Legend

PWGSC
  Public Works and Government Services Canada
StatCan
  Statistics Canada
PPSC
  Public Prosecution Service of Canada
JUS
  Department of Justice
CSPS
  Canada School of Public Service

Appendix E: Sources of Criteria and Additional Reference Material Used in the Conduct of This Audit

Sources of Criteria

1. *Common Services Policy*
2. Office of the Comptroller General of Canada: *Guide to Costing*
3. Office of the Comptroller General of Canada: *Lessons Learned on Costing Practices*
4. The Institute of Internal Auditors: International Standards for the Professional Practice of Internal Auditing
5. *Policy on Internal Audit*
6. *The Secretariat Guide to Service Agreements—Essential Elements* (Draft 1.2), Section 8: Performance - Draft (unpublished)

Reference Material

1. Audit Criteria Related to the Management Accountability Framework: A Tool for Internal Auditors, March 2011 - Unpublished
2. *Report of the Auditor General to the House of Commons*,Chapter 5, "Managing the Delivery of Legal Services to Government—Department of Justice Canada," May 2007
3. Public Service Commission: *Audit of Cost-Recovery*, April 2005
4. Public Works and Government Services Canada: *Evaluation of the Crown Assets Distribution Program, Final Report*, May 2008

Footnotes

[1]. An Administrative Services Review was established under Budget 2010 with a mandate to undertake a comprehensive review of government administrative functions and overhead costs in order to identify opportunities for additional savings and improve service delivery.

[2]. The Office of the Comptroller General has not undergone an external assessment of its audit activity at least once in the past five years to confirm its conformance with these standards.

[3]. The Secretariat is currently working on an internal service framework to manage the delivery of internal services between departments.

[4]. An Administrative Services Review was established under Budget 2010 with a mandate to undertake a comprehensive review of government functions and overhead costs in order to identify opportunities for additional savings and improve service delivery.

[5]. The Office of the Comptroller General has developed an initiative to address the legislative framework of service delivery between government departments.

[6]. In 2005, the Treasury Board Secretariat and Public Service Human Resources Management Agency of Canada launched a review of Treasury Board management policies in order to clarify the responsibilities and accountabilities of ministers and deputy heads in key areas of public service work.

[7]. Line departments are all departments and agencies whose main responsibility is to deliver public programs and services.

[8] This service was formerly known as SPEC.