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Audit of Section 34 of the *Financial Administration Act*

Audit Report

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EXECUTIVE SUMMARY

The *Financial Administration Act (FAA)* and the Treasury Board of Canada Secretariat (TBS) *Directive on Account Verification* set out the core legal and policy framework for general financial management and accountability of public sector managers. Section 34 of the *FAA* requires an individual with delegated financial signing authority to certify that work has been performed, goods supplied, or services rendered prior to making any payment from the Consolidated Revenue Fund. Compliance with the *Directive on Account Verification* requires departmental Chief Financial Officers (CFOs) to establish post-Section 34 account verification processes and controls that maintain sound stewardship of financial resources. These include ensuring that there is auditable evidence demonstrating that account verification has taken place and Section 34 has been certified prior to authorizing payments. It also includes establishing, documenting and communicating risk-based management practices as well as conducting periodic quality assurance activities.

Audit Objective

The audit objective was to provide assurance that account verification and certification under Section 34 of the *FAA* is performed in a consistent, effective and efficient manner for Goods and Services (G&S) and Grants and Contributions (G&C) expenditures.

Summary of Key Findings

- Evidence of valid Section 34 Certification could be strengthened for some categories of G&S expenditures.
- A national, risk-based approach to account verification for G&S transactions was not in place.
- A quality assurance process to periodically monitor and validate the adequacy of Section 34 Certification and account verification for G&S was not established.
- At National Headquarters (NHQ), retention practices for financial documentation, which would provide for a complete audit trail for G&S transactions, require improvements.
- A national, risk-based approach to G&C claims processing had not been implemented.
- Evidence of valid Section 34 Certification was observed for G&C claims processing; however, there were weaknesses related to maintenance of the Signing Authorities Application (SAA) website.

Audit Conclusion

Goods & Services: The audit concluded that account verification and certification under Section 34 of the FAA is effective. However, processes and practices used are inconsistent between NHQ and the Regions, with areas of inefficiencies. An effective governance framework is in place, with improvements recommended in terms of roles, responsibilities and accountabilities for retention of auditable evidence to support payments. The internal control framework requires management focus to strengthen the controls surrounding post-section 34 verification through a risk-based approach and periodic quality assurance.

Grants & Contributions: The audit concluded that account verification and certification under Section 34 of the FAA is effective. However, as with G & S, processes and practices are not consistent between NHQ and the Regions. An effective governance framework is in place. The internal control framework is in place and well managed. The implementation of a risk-based approach to account verification and certification would strengthen the overall management of G&C.

Summary of Recommendations

1. The Chief Financial Officer Branch (CFOB) should:
 - Strengthen processes for maintaining and verifying delegation of financial authorities; and
 - Provide periodic refresher training on Section 34 Certification requirements, where appropriate.
2. The CFOB should:
 - Implement a risk-based process for post-Section 34 account verification, including guidance for conducting account verification activities;
 - Document and communicate requirements for maintaining adequate financial records and an appropriate audit trail; and
 - Establish a quality assurance process to monitor and report on the adequacy of the account verification and Section 34 practices.
3. In consideration of the G&C modernization agenda, the Program Operations Branch (POB), in coordination with the CFOB, should develop and communicate risk-based approaches for verification of claims.

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1.0 BACKGROUND

1.1 Context

The *FAA* and the TBS *Directive on Account Verification* set out the core legal and policy framework for general financial management and accountability of public sector managers. Section 34 of the *FAA* pertains to confirmation that work has been performed, goods supplied, or services rendered. It involves the certification of entitlement for settlement by individuals with delegated financial signing authority prior to making payments from the Consolidated Revenue Fund.

Compliance with the *Directive on Account Verification* requires departmental CFOs to establish post-Section 34 account verification processes and controls that maintain sound stewardship of financial resources. These include ensuring that there is auditable evidence demonstrating that account verification has taken place and Section 34 has been certified prior to authorizing payments. It also includes establishing, documenting and communicating risk-based management practices as well as conducting periodic quality assurance activities.

1.2 Audit Objective

The objective of this audit was to provide assurance that account verification and certification under Section 34 of the *FAA* is performed in a consistent, effective and efficient manner for G&S and G&C expenditures. There were two lines of enquiry:

- A defined and communicated governance framework is in place to support the requirements of Section 34 of the *FAA*.
- Appropriate controls are in place to comply with the requirements of Section 34 of the *FAA*.

1.3 Scope

The audit focused on Section 34 Certification and account verification practices and controls in place throughout the Department for G&S and G&C expenditures. All regions were in scope: NHQ, Western-Territories, Ontario, Quebec and Atlantic. The audit fieldwork was completed between July 2011 and December 2011.

The scope excluded statutory and other expenditures, as it was determined that separate audits are required due to the unique characteristics of these expenditures.

1.4 Methodology and Sampling Plan

The following audit techniques were used:

- Documentation review and analysis of legislation, TBS and departmental policies, guidelines and processes surrounding Section 34 of the *FAA*;

- Interviews with CFOB management and staff, management and staff supporting Section 34 processes in other branches, as well as with key individuals responsible for performing Section 34 Certification across the Department;
- Observation of account verification and certification processes in use;
- Observation of systems input and approval processes within the Common System for Grants and Contributions and the Corporate Management System (CMS) – the Department’s financial management system; and
- Audit tests to assess whether there was an appropriate Section 34 Certification and post-Section 34 account verification, including a supporting audit trail.

A random sample of high risk transactions was taken. This enabled the audit to provide assurance and generalize on the effectiveness of Section 34 controls. Using an error rate, confidence interval and precision deemed appropriate for financial transactions, the audit team tested over 800 G&S and G&C transactions made between October 1, 2010, and March 31, 2011.

The resulting sampling plan incorporated the following:

- A random sample of a total of 419 G&S payments at NHQ associated with management consulting and hospitality as separate categories of expenditures; and travel, materials and supplies, construction/machinery and equipment less than \$10,000, and repairs and maintenance expenditures as a combined category;
- A random sample of 230 G&S payments across the combined Western-Territories, Ontario, Quebec and Atlantic Regions associated with hospitality, travel, and materials and supplies expenditures as a combined category; and
- A random sample of 210 G&C claim payments was selected from across the Department. These were processed at NHQ and the Western-Territories Region, as well as the Ontario, Quebec, Atlantic Regions, which were combined.

In addition, a file review of all high-dollar value G&S and G&C transactions incurred between October 1, 2010 and March 31, 2011, was included in the audit fieldwork. This approach incorporated all G&S payments processed at NHQ with values greater than \$6 million, and all G&C payments associated with agreements having greater than \$5 million in claims.

2.0 AUDIT FINDINGS

2.1 GOODS AND SERVICES

2.1.1 Evidence of valid Section 34 Certification could be strengthened

Evidence of valid Section 34 Certification was observed for high-dollar value G&S transactions, hospitality and management consulting expenditures tested at NHQ. Other expenditure categories sampled at NHQ had a slightly higher than acceptable rate of certification errors. Evidence of valid Section 34 Certification was also observed for the expenditure categories tested from the regions.

Analysis

The *FAA* requires that no payment be made until a certification has been signed by an individual with the authorized delegated financial authority. CFOB is responsible for the design and maintenance of the Delegation of Authority policies, procedures, matrix of authorities and limits for payment transactions for the Department. Policies are communicated primarily through the CFOB financial portal.

The Canada School of Public Service (CSPS) provides training to newly appointed managers on the requirements and responsibilities associated with Section 34 Certification as part of its five day course on Essentials of Managing in the Public Service. It is departmental policy that all managers with delegated Section 34 authority have undergone the training offered by the CSPS.

Each manager with delegated authority performs a verification of goods and/or services received prior to Section 34 Certification, by signing the transaction documents. The documents are then forwarded to a payment processing unit which verifies the signature for proper financial authority prior to performing data entry into CMS and authorizing issue of the required payment.

A Delegation of Authorities matrix was in place and was clearly defined, communicated and approved. The supporting SAA website is an intranet accessible database that contains records, based on signature cards that are completed by incumbent, indeterminate managers and their direct reports of each individual with delegated authority under the *FAA*. The signature cards show the effective date of an incumbent's delegation and in the case of acting appointments, the effective and end dates of the period of delegated authority. In addition, the cards should specify the Responsibility Centres (RCs) to which the authority applies and whether it is valid for G&S, G&C, or both, and a specimen signature.

The audit team expected that Section 34 Certification requirements and controls would be diligently exercised throughout the Department, with minimal Section 34 Certification errors (e.g. a signature without the delegated financial authority or no signature at all).

The audit found that all the high-dollar value transactions had been signed by an individual with the authorized delegated financial authority. However, Section 34 Certification errors were observed for some categories of expenditures sampled in NHQ.

The primary weaknesses observed related to a general lack of understanding of delegated financial authority, expired signature cards, and insufficient evidence of authorities of managers in acting capacities. Although Accounting Operations within CFOB has a process in place for post-Section 34 account verification, audit tests identified instances of improperly documented authorities. Audit tests results pertaining to Section 34 certification errors (expired signature cards or insufficient evidence of authorities of managers in acting capacities) are summarized below.

- *NHQ:*
 - The audit team tested a total of 419 transactions from the expenditure categories of hospitality; management consulting; and from the combined category made up of travel, materials and supplies, construction/machinery and equipment less than \$10,000, and repairs and maintenance expenditures.
 - No errors were observed in the sample of 74 hospitality transactions.
 - Six errors were found in the sample of 128 transactions from management consulting.
 - 13 errors were found in the sample of 217 transactions representing the combined category.

- *Regions:*
 - The audit team tested a total of 230 transactions (83 in Western-Territories, 71 in Ontario, 46 in Quebec and 30 in Atlantic) from the expenditure categories made up of hospitality, travel, and materials and supplies.
 - No errors were found in the Atlantic Region.
 - Two errors were found in Western-Territories. They pertain to travel expenditures.
 - Four errors were found in Ontario. They pertain to travel (1) and materials and supplies (3).
 - Three errors were found in Quebec. They pertain to hospitality (1) and materials and supplies (2).

Recommendation

1. The CFOB should:
 - Strengthen processes for maintaining and verifying delegation of financial authorities; and
 - Provide periodic refresher training on Section 34 Certification requirements, where appropriate.

2.1.2 National, Risk-based Approach to Account Verification was not in place

Practices relating to post-Section 34 verification activities varied department-wide. A national, risk-based approach to account verification was not in place; 100% of the transactions were subjected to verification within the CFOB. As audit fieldwork was completed, a national, risk-based approach to performing post-Section 34 account verification was being implemented for G&S expenditure types.

During the audit, we found that a national approach for the pre-authorization and processing of two high risk categories of expenditures (travel and hospitality expenses) was established in the Department.

Analysis

The *Directive on Account Verification* requires financial officers, when exercising their payment authority, to ensure that all high risk transactions are subjected to a full review of the transaction. The Directive also indicates that a sample of medium and low risk transactions be drawn based on a sample selection methodology and be subjected to a review of the most important aspects of each selected transaction. Financial officers are also required to ensure that there is auditable evidence demonstrating that a confirmation of goods and/or services received has taken place and Section 34 has been certified by an individual with delegated financial signing authority. Individuals responsible for certifying pursuant to Section 34 are to confirm that the work has been performed, the goods supplied, or the services rendered, transaction details are accurate, and contract terms and conditions and other policy and legal obligations have been met. These provisions are aimed at ensuring that there is due diligence over transactions that require rigorous review; greater efficiency over transactions that are lower risk; and payments are properly authorized, timely, accurate and fulfill legitimate obligations.

Departmentally, there were no documented, standard procedures and tools deployed to support post-Section 34 account verification. Western-Territories had developed desktop procedures to assist CFOB staff with payment processing and training, as well as to support application of common processes across that region. NHQ and other regions, such as Ontario and Quebec, relied more on informal approaches and ongoing assistance to staff.

The audit team further noted that NHQ and the regions had different practices concerning what was required in support of auditable evidence demonstrating that post-Section 34 account verification had taken place prior to processing payments. In NHQ, the Section 34 Certification was considered sufficient by CFOB staff and they did not routinely request additional evidence of receipt of goods or services. As well, NHQ, with its high volume of transactions, accepted photocopies of invoices when processing payments. In the regions, the audit team observed stronger controls and protocols for processing original invoices. Audit trails and supporting evidence of receipt of goods or services were stronger in the regions than at NHQ.

The audit team examined whether each payment sampled was supported by an invoice and appropriate corroborating documentation, depending on the type of expenditure:

- Hospitality: Evidence of the pre-approval by senior management, as required by departmental policy.
- Management consulting: Evidence that the work was done, such as a timesheet, a copy of report or a note on file;
- Travel: Receipts from travellers that demonstrated expenses were incurred and travel had taken place;
- Materials and supplies, repairs and maintenance and construction/machinery and equipment less than \$10,000: Packing slips, asset tags and service orders that demonstrated that the good or service had been delivered; and

Audit tests results identified instances of transactions lacking corroborating documentation in the payment file in accounts payable such as evidence of work performed, goods received or services rendered. Results are summarized below.

- *NHQ:*
 - The audit team tested a total of 419 transactions. Details about the audit sample can be found on page 4.
 - No errors were observed in the sample of 74 hospitality transactions.
 - Seven errors were found in the sample of 128 transactions from management consulting.
 - 33 errors were found in the sample of 217 transactions representing the combined category made up of travel, materials and supplies, construction/machinery and equipment less than \$10,000, and repairs and maintenance expenditures.
 - One high-dollar Payable at Year End transaction lacked sufficient supporting documentation for the amount to be set up as a liability. It should be noted, however, that the audit team was able to locate the required documentation from the originating RC.
- *Regions:*
 - The audit team tested a total of 230 transactions. Details about the audit sample can be found on page 4.
 - No errors were found in the Atlantic Region.
 - No errors were found in the Quebec Region.
 - Eight errors were found in Western-Territories. They pertain to travel (2) and materials and supplies (6) expenditures.
 - Three errors were found in Ontario. They pertain to materials and supplies.

The audit team also tested for the presence of auditable evidence demonstrating that post-Section 34 account verification had taken place and had been certified by an individual with delegated financial signing authority. This was accomplished by verifying that all Section 34 signatures were dated. Without a dated signature, it is difficult for financial officers when exercising their payment authority, to verify that individuals signing do in fact have the delegated financial authority at the time of certification.

Section 34 signatures that were undated were observed in NHQ and the regions. The breakdown was as follows:

- *NHQ:*
 - Management consulting expenditures had undated signatures at a rate of 25.2%;
 - Hospitality expenditures had undated signatures at a rate of 25.3%; and
 - The combined travel, materials and supplies, construction/machinery and equipment less than \$10,000, and repairs and maintenance expenditures had a weighted average rate of 13.1% with undated signatures.
- *Regional Offices (Western-Territories, Ontario, Quebec, Atlantic):*
 - With the exception of the Atlantic Region, which exhibited no undated signatures, regions had expenditures with undated signatures at a weighted rate of 8.6%.

Departmentally, there were inconsistent approaches to account verification and requirements for auditable evidence. The absence of consistently applied account verification procedures and controls across the Department may present a risk.

The CFOB had recently begun implementing a process for post-Section 34 account verification to demonstrate the adequacy and reliability of the account verification and certification process. Key elements included ensuring that error rates remain below 10%; that the population of G&S payments were segmented into tiers of high, medium and low risk; and that statistical sampling and spot checking was conducted on payment transactions by Accounts Payable, with additional review of high risk transactions. This process was approved by the CFO in early December 2011. By the conclusion of the audit fieldwork, there had been a pilot in Quebec, with implementation on a department-wide basis planned for the end of the 2011-2012. There was also an intent to implement the process in the decentralized RCs at NHQ.

Recommendation

2. The CFOB should:
 - Implement a risk-based process for post-Section 34 account verification, including guidance for conducting account verification activities; and
 - Document and communicate requirements for maintaining adequate financial records and an appropriate audit trail.

2.1.3 Quality Assurance was not established

A quality assurance process to periodically monitor and validate the adequacy of Section 34 Certification and account verification for G&S was not established.

Analysis

The *Directive on Account Verification* makes financial officers responsible for quality assurance activities to enable reporting on results and to demonstrate the overall adequacy and reliability of the account verification process. The objective is to ensure that gaps in performance or compliance issues are detected in a timely manner so that appropriate corrective action can be taken.

At the time of the audit fieldwork, a quality assurance process for G&S expenditures was not in place. The audit team noted that CFOB's newly implemented process, described in Section 2.1.2, contained provisions for reporting the results of the sampling and spot testing to the CFO. In addition, the CFOB plans to continue with its efforts to develop common business processes and to document processes and controls for G&S. However, the Department had not yet moved into systematically testing, monitoring and reporting on the operational effectiveness of its account verification processes for G&S.

Recommendation

3. The CFOB should establish a quality assurance process to monitor and report on the adequacy of the account verification and Section 34 practices.

2.1.4 Audit Trail at NHQ could be strengthened

At NHQ, retention practices for financial documentation, which would provide for a complete audit trail for G&S transactions, require improvements.

Analysis

The *Directive on Account Verification* requires that supporting documentation for all payments be complete, including maintenance of an appropriate audit trail.

There were no guidelines or procedures in place departmentally, regarding the required documentation to be maintained in order to support a complete audit trail for G&S expenditures.

During the conduct of audit tests, 26% of financial invoices with the original Section 34 signatures could not be traced within the CFOB at NHQ. However, it should be noted that the audit team received photocopies of these invoices from the originating RCs, which allowed the team to complete its file testing.

The audit team further observed that, although CFOB staff understood their broad responsibilities, they were following different practices for supporting documentation. CFOB regional staff required that both an original Section 34 Certification and supporting documentation be provided before approving payments. Consequently, these documents were habitually included in the payment files the audit team reviewed. In NHQ, on the other hand, document retention procedures were not in place, so there were a significant number of files where supporting documentation was not maintained on file within Accounts Payable, and had to be requested from the initiating RC.

A lack of processes which clearly identify the key documents to be kept on financial records (an appropriate audit trail) may compromise the Department's ability to comply with TBS policies and directives. This may also complicate the work to be carried out by an external party responsible for assessing whether payment authorization had been completed as required.

Recommendation

Refer to Recommendation 2, which would address this observation as well.

2.2 GRANTS AND CONTRIBUTIONS

2.2.1 National, Risk-based Approach to Claims Processing was not in place

There was variability in claim review and verification practices associated with Section 34 Certification for G&C across the Department. A national, risk-based approach to G&C claims processing had not been implemented at the time of the audit.

Analysis

The Department is modernizing its G&C to align administrative and reporting requirements with risks, in order to help recipients achieve results while ensuring effective control, transparency and accountability. Modernization efforts are in the early stages of assessing risk-based approaches to processing claim payments, defining sufficient financial support documentation and streamlining reviews and approvals of claims.

The audit team observed a number of effective processes and controls for G&C administration and claim processing. These included:

- Completion of risk assessments during the agreement approval process using a consistent approach and tool – the Risk Assessment, Management and Mitigation (RAMM). The RAMM identified the extent of monitoring to be conducted for agreements by program officers, including financial monitors;

- Annual, independent quality assurance reviews by the CFOB's Quality Assurance and Monitoring Directorate of randomly selected G&C agreements. Section 34 Certifications were tested during the reviews; and
- The "Change Agenda", which is supportive of risk-based practices and controls for management and administration of select G&C programs, had been implemented.

Notwithstanding these processes, variability in claim review practices associated with Section 34 Certification was observed across the Department:

- *NHQ:*
 - Extensive review of each claim and supporting financial and activity reporting documents was completed by a program officer, and then verified by the team leader. The activity reporting documents received further review by a program analyst.
- *Ontario Region:*
 - A program officer completed the review of each claim and supporting documentation and then a team leader verified it. Following that, claim documents were subjected to a review and verification by a Business Expertise Advisor (BEA).
- *Western-Territories, Quebec and Atlantic Regions:*
 - Program officers' completed claim verification was reviewed by their team leaders. There were plans to have BEAs become more involved in the claim review process in the Quebec Region; and
 - In the Western-Territories, program officers accepted financial documentation of inconsistent quality when reviewing/verifying claims under the Aboriginal programs.

Review practices used at NHQ and Ontario Region, that subject every claim to supervisory review as well as additional independent review, are not risk-based. On the other hand, absence of the additional, independent reviewer for all claims is also not risk-based.

The lack of a risk-based approach for reviewing and verifying payment claims diminishes the value and effectiveness of the control performed by those involved in the process and increases workload.

A well-defined risk-based approach would outline the level of effort, formality and documentation needed commensurate with the level of risk associated with the claim and project. For example, low risk claims which warrant only essential checks, can result in faster processing without increasing the risk of errors. In comparison, high risk claims require higher level of attention and more stringent checks are critical. The resources freed up from the streamlined approach to low risk claims can be focused on a more rigorous review of high risk claims.

Recommendation

4. In consideration of the G&C modernization agenda, the POB, in coordination with the CFOB, should develop and communicate risk-based approaches for verification of claims.

2.2.2 Evidence of Valid Section 34 Certification and Audit Trail could be strengthened

Evidence of valid Section 34 Certification for G&C claims processing was observed. However, there were weaknesses noted related to the maintenance of the SAA website. Several instances where the SAA website was not up-to-date with signature cards were observed in the Western-Territories, Ontario and Quebec Regions. This issue was not observed in the Atlantic Region and NHQ.

Analysis

A Delegation of Authorities matrix was in place and was clearly defined, communicated and approved. G&C administration is also supported by the SAA website.

The audit's testing of a representative sample of 210 G&C claim payments revealed that there were weaknesses associated with Section 34 Certification. The primary weaknesses observed related to inadequate maintenance of signature cards on the SAA, i.e. expired signature cards and insufficient evidence of authorities of managers in acting capacities. These observations are summarized below:

- *NHQ:*
 - One error was found in the sample of 65 transactions tested.
- *Western-Territories Region:*
 - Five errors were found in the sample of 76 transactions tested.
- *Ontario, Quebec and Atlantic Regions (combined):*
 - No errors were found in the sample of 10 transactions tested from Atlantic Region.
 - One error was found in the sample of 10 transactions tested from Quebec Region.
 - 13 errors were found in the sample of 49 transactions tested from Ontario Region. These errors were primarily attributed to inadequate maintenance of signature cards and activation notices for authorities in acting positions and SAA records.

Although there is no explicit requirement to date a Section 34 Certification under the TBS *Directive on Account Verification*, there is a requirement for auditable evidence and a date of authorization is an important element of audit evidence. At NHQ, the audit

team observed a 6.2% error rate of undated certifications. There were no instances of undated certifications in the regions.

The audit fieldwork also included testing of 22 additional payments from across NHQ and the regions, associated with agreements having greater than \$5 million in claims (13 from the Skills and Employment program activity and 9 from the Social Development program activity). The audit observed that Section 34 Certification was exercised appropriately. The audit team observed instances of undated certifications in these payments at the rate of 14%.

Recommendation

Refer to Recommendation 1, which would address this observation.

3.0 CONCLUSION

Goods & Services: The audit concluded that account verification and certification under Section 34 of the FAA is effective. However, processes and practices used are inconsistent between NHQ and the Regions, with areas of inefficiencies. An effective governance framework is in place, with improvements recommended in terms of roles, responsibilities and accountabilities for retention of auditable evidence to support payments. The internal control framework requires management focus to strengthen the controls surrounding post-section 34 verification through a risk-based approach and periodic quality assurance.

Grants & Contributions: The audit concluded that account verification and certification under Section 34 of the FAA is effective. However, as with G & S, processes and practices are not consistent between NHQ and the Regions. An effective governance framework is in place. The internal control framework is in place and well managed. The implementation of a risk-based approach to account verification and certification would strengthen the overall management of G&C.

4.0 STATEMENT OF ASSURANCE

In our professional judgement, sufficient and appropriate audit procedures were performed and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on observations and analyses of the situations as they existed at the time against the audit criteria. The conclusions are applicable only for the Audit of Section 34 of the *FAA*. The evidence was gathered in accordance with the Internal Auditing Standards for the Government of Canada and the International Standards for the Professional Practice of Internal Auditing.

APPENDIX A: Audit Criteria

The conclusions reached for each of the audit criteria were developed according to the following definitions.

| Numerical Categorization | Conclusion on Audit Criterion | Definition of Conclusion |
|--------------------------|-----------------------------------|--|
| 1 | Significant Improvements Required | <p>Requires significant improvements (at least one of the following three criteria needs to be met):</p> <ul style="list-style-type: none"> • Financial adjustments material to the line item or area or to the Department; or • Control deficiencies present serious exposure; or • Major deficiencies in overall control structure. <p>Note: Every audit criterion that is categorized as a “1” must be immediately disclosed to the Chief Audit Executive and the client Director General or higher level for corrective action.</p> |
| 2 | Moderate Issues | <p>Has moderate issues requiring management focus (at least one of the following two criteria needs to be met):</p> <ul style="list-style-type: none"> • Control weaknesses, but exposure is limited because the likelihood of the risk occurring is not high. • Control weaknesses, but exposure is limited because impact of the risk is not high. |
| 3 | Controlled | <ul style="list-style-type: none"> • Well managed, but minor improvements are needed; and • Effective. |
| 4 | Well Controlled | <ul style="list-style-type: none"> • Well managed, no material weaknesses noted; and • Effective. |

The following table outlines the audit criteria and examples of key evidence and/or observations noted which were analyzed and against which conclusions were drawn. In cases where significant improvements (1) and/or moderate issues (2) were observed, these were reported in the audit report.

GOODS AND SERVICES

| Line of Enquiry | | |
|---|-------------------|--|
| 1. A defined and communicated governance framework is in place to support the requirements of Section 34 of the FAA. | | |
| Audit Criteria | Conclusion | Observations/Examples of Key Evidence |
| It is expected that roles, responsibilities and accountabilities are established and communicated department-wide. | 2 | <ul style="list-style-type: none"> • Roles, responsibilities and accountabilities for account verification and Section 34 Certification were established and communicated widely on the intranet. • Post-Section 34 verification responsibilities were established and communicated; however, the audit identified weaknesses during the file testing. • Roles, responsibilities and accountabilities for retention practices of financial documents post-Section 34 verification were not defined and communicated. As a result, there was a high incidence of misplaced original financial invoices in CFOB at NHQ. |
| It is expected that functional advice, guidance and support is provided by the CFOB in a timely and effective manner. | 3 | <ul style="list-style-type: none"> • The CFOB had a financial portal for communicating Delegation of Authority policies, procedures, the matrix of authorities and limits for payment transactions. • The CFOB had personnel in all four regions as well as NHQ. • The CFOB in Western-Territories had developed desktop procedures to assist finance staff with payment processing and training, as well as to support application |

| | | |
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| | | <p>of common processes across that region.</p> <ul style="list-style-type: none"> • CFOB in NHQ and other regions, such as Ontario and Quebec, relied more on informal approaches and ongoing assistance to staff. |
| It is expected that a delegation of financial authority instrument is in place and updated as required. | 3 | <ul style="list-style-type: none"> • The Delegation of Authorities matrix was in place and was clearly defined, approved and communicated. The SAA website was not always maintained as required. |
| <p>Line of Enquiry</p> <p>2. Appropriate controls are in place to comply with requirements of Section 34 of the FAA.</p> | | |
| Audit Criteria | Conclusion | Observations/Examples of Key Evidence |
| It is expected that policies and risk-based practices and controls are in place to support consistency and compliance. | 2 | <ul style="list-style-type: none"> • The Department follows the TBS <i>Directive on Account Verification</i>. However, the audit observed variability between NHQ and the regions in the extent to which control practices were applied when processing payments for G&S. • The CFOB process for post-Section 34 verification included 100% account verification. However, the audit noted errors through the file testing. • Interviews demonstrated that there had been recent progress towards establishing a risk-based process for account verification when processing of G&S payments by Accounts Payable across the country. Pilot testing had taken place in Quebec, and plans were in place to implement the process department-wide by the end of fiscal year 2011-2012. |
| It is expected that segregation of duties is in place. | 4 | <ul style="list-style-type: none"> • NHQ and regional offices' interviews demonstrated an understanding and application of segregation of duties. |

| | | |
|---|---|---|
| | | <ul style="list-style-type: none"> • Segregation of duties was observed in the files reviewed. |
| It is expected that evidence of account verification and certification is demonstrated (e.g. maintained on record, electronic audit trail). | 2 | <ul style="list-style-type: none"> • Through the file testing, higher than anticipated error rates were observed for Section 34 Certification and related control weaknesses, particularly in NHQ. • Supporting documentation and authorization according to the delegation of financial signing authorities was not consistently maintained on the SAA website. • Weaknesses were also identified with respect to inadequate retention of appropriate supporting documentation related to financial records. |
| It is expected that a quality assurance process is in place to monitor and validate the adequacy of account verification practices. | 2 | <ul style="list-style-type: none"> • There was no CFOB national process for G&S to monitor and report on the overall adequacy and reliability of account verification and Section 34 Certification. |
| It is expected that risk-based sampling practices are established and used to demonstrate the overall adequacy and reliability of the account verification process. | 2 | <ul style="list-style-type: none"> • At the time of the audit, except for travel and hospitality expenses, the CFOB used a 100% verification process post-Section 34 verification of all other expenditure types. • There had been recent progress towards establishing a risk-based process for sampling certain classes of G&S transactions to demonstrate the overall adequacy and reliability of account verification. • Target completion for the implementation of the methodology was planned for the end of fiscal year 2011-2012. |
| It is expected that reporting and feedback | 2 | <ul style="list-style-type: none"> • At the time of the audit, informal weekly meetings took place among finance |

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| <p>mechanisms are in place to address irregularities and facilitate appropriate and timely corrective action.</p> | | <p>directors across the Department.</p> <ul style="list-style-type: none"> • National Accounting Operations also provided end of year training/meeting sessions in order to discuss end of year processing, as well as new changes and thresholds for the upcoming fiscal year. • The process for the risk-based sampling approach to G&S transactions includes reporting capabilities. Testing, monitoring and communicating deficiencies in account verification is not planned until 2012-2013. |
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GRANTS AND CONTRIBUTIONS

| <p>Line of Enquiry 1. A defined and communicated governance framework is in place to support the requirements of Section 34 of the FAA.</p> | | |
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| <p>Audit Criteria</p> | <p>Conclusion</p> | <p>Observations/Examples of Key Evidence</p> |
| <p>It is expected that roles, responsibilities and accountabilities are established and communicated department-wide.</p> | <p>4</p> | <ul style="list-style-type: none"> • Online documentation suite details roles, responsibilities and accountabilities. • NHQ and regional offices' interviews demonstrated a clear understanding of who is responsible for account verification and Section 34 Certification activities. • A wide variety of communication mechanisms were in place. |
| <p>It is expected that functional advice, guidance and support is provided by the CFOB in a timely and effective manner.</p> | <p>3</p> | <ul style="list-style-type: none"> • Two organizations at NHQ (POB and the Skills and Employment Branch), in coordination with the CFOB provided advice and support, oversaw management practices, and developed, promoted and implemented tools for managing agreements. • NHQ interviews demonstrated satisfaction with the advice, guidance and support |

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| | | <p>provided.</p> <ul style="list-style-type: none"> Regional offices' interviews demonstrated requirements for additional support in financial management. |
| It is expected that a delegation of financial authority instrument is in place and updated as required. | 3 | <ul style="list-style-type: none"> The Delegation of Authorities matrix was in place and was clearly defined, approved and communicated. The SAA website was not always maintained as required. |
| <p>Line of Enquiry 2. Appropriate controls are in place to comply with requirements of Section 34 of the FAA.</p> | | |
| Audit Criteria | Conclusion | Observations/Examples of Key Evidence |
| It is expected that policies and risk-based practices and controls are in place to support consistency and compliance. | 2 | <ul style="list-style-type: none"> An integrated, national risk-based approach had not been implemented for the processing of agreement claims. There was variability in claim verification practices and requirements across the Department. The "Change Agenda", which was supportive of risk-based practices and controls, had not been implemented on a uniform basis across the Department. |
| It is expected that segregation of duties is in place. | 4 | <ul style="list-style-type: none"> NHQ and regional offices' interviews demonstrated an understanding and application of segregation of duties. Segregation of duties was observed in the files reviewed. |
| It is expected that evidence of account verification and certification is demonstrated (e.g. maintained on record, | 2 | <ul style="list-style-type: none"> Notwithstanding interview results, control weaknesses were observed in the regions, mainly attributed to the maintenance of the SAA website. At NHQ, the main issue was related to undated Section 34 certifications. |

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| <p>electronic audit trail).</p> | | |
| <p>It is expected that a quality assurance process is in place to monitor and validate the adequacy of account verification practices.</p> | <p>4</p> | <ul style="list-style-type: none"> • There was a Quality Assurance and Monitoring Directorate within the CFOB that conducted annual, end-to-end, reviews of a sample of agreements and published the results of the reviews in annual reports. |
| <p>It is expected that risk-based sampling practices are established and used to demonstrate the overall adequacy and reliability of the account verification process.</p> | <p>2</p> | <ul style="list-style-type: none"> • Claims were not subjected to a risk-based approach for verification across the Department. • G&C Modernization efforts were in the early stages of assessing risk-based approaches to processing claim payments, in defining sufficient financial support documentation and in streamlining reviews and approvals of claims. |
| <p>It is expected that reporting and feedback mechanisms are in place to address irregularities and facilitate appropriate and timely corrective action.</p> | <p>4</p> | <ul style="list-style-type: none"> • Annual reviews were conducted by the CFOB Quality Assurance and Monitoring Directorate and resulted in annual reports that assessed the extent to which regions and NHQ were adhering to national directives and guidelines, the G&C Operations Manual, TBS Transfer Payment Policy and CFOB financial, administrative and program policies. • Cases, types of errors and error rates were reported directly to responsible management within two to four months after the discovery of errors by the annual reviews with a request for a management action plan. This direct reporting took place before the annual reports were published. |

Appendix B: Glossary

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| BEA | Business Expertise Advisor |
| CFO | Chief Financial Officer |
| CFOB | Chief Financial Officer Branch |
| CMS | Corporate Management System |
| CSPS | Canada School of Public Service |
| <i>FAA</i> | <i>Financial Administration Act</i> |
| G&C | Grants and Contributions |
| G&S | Goods and Services |
| NHQ | National Headquarters |
| POB | Program Operations Branch |
| RAMM | Risk Assessment, Management and Mitigation |
| RC | Responsibility Centre |
| SAA | Signing Authorities Application |
| TBS | Treasury Board of Canada Secretariat |