



AUDIT OF ASSET MANAGEMENT IN REGIONS REPORT

AUDIT AND EVALUATION BRANCH FEBRUARY 2021

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Web Services Centre
Innovation, Science and Economic
Development Canada
C.D. Howe Building
235 Queen Street
Ottawa, ON K1A 0H5
Canada

Telephone (toll-free in Canada): 1-800-328-6189
Telephone (Ottawa): 613-954-5031
TTY (for hearing-impaired): 1-866-694-8389
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LIST OF ACRONYMS USED IN REPORT

AEB	Audit and Evaluation Branch
AMR	Asset Management Record
AVE	Annual Verification Exercise
CFSPB	Corporate Finance System and Procurement Branch
CMM-AM	Contract and Material Management – Asset Management
CMS	Corporate Management Sector
DTSS	Digital Transformation Service Sector
IAD	Internal Audit Directorate
IFMS	Integrated Financial Management System
IT-AM	Information Technology – Asset Management
KPI	Key Performance Indicators
NCR	National Capital Region
RCM	Responsibility Centre Managers



1.0 EXECUTIVE SUMMARY

1.1 INTRODUCTION

Federal material assets are essential corporate resources that have for objective to support the cost-effective and efficient delivery of government programs. Innovation, Science and Economic Development Canada (ISED) manages over 22,000 unique material assets which are subject to a system of formal inventory controls. These are categorized in three groups: *attractive assets* like computers and tablets, *controlled assets* costing between \$5,000 and \$10,000 including many measurement tools used by the Department's regulatory functions, and *capital assets* costing over \$10,000 which are amortized over their useful life.

At the departmental level, assets are governed through a combined model. The Contract and Materiel Management Directorate – Asset Management (CMM-AM), within the Corporate Finance System and Procurement Branch (CFSPB), is the functional authority responsible for providing strategic advice, direction and guidance concerning the Department's asset management program. Individuals program sectors across the country including Sector Heads, Responsibility Centre Managers (RCMs), Asset Managers, and Asset Custodians are responsible for the management of the assets within their respective programs.

AUDIT BACKGROUND

The objective of the audit was to provide assurance that the asset management function in regions is operating effectively, efficiently, and consistently in support of program delivery.

The audit scope focused on all aspects of the material internal service as defined by the Treasury Board *Directive on Results*, effective July 1, 2016. This included an assessment of governance, service delivery, performance, and reporting in the management of regional assets for the period April 1, 2018 to September 30, 2019.

The audit scope did not include the management of the Department's fleet of vehicles as this function that has been outsourced to Automotive Resources International (ARI) Fleet Management Services, and did not include cellular phones used by the Department, as these are attractive assets which are included in the inventory of Shared Services Canada.

1.2 OVERVIEW OF AUDIT RESULTS

ISED has established clear governance structures that integrate accountability, roles and responsibilities for asset management at the regional level. There are procedures in place to ensure proper management of assets from their purchase to their disposal and to ensure assets are operating effectively and efficiently. There are opportunities to further strengthen asset management roles and responsibilities at the regional level, as well as in the security incident reporting process and performance management of assets.

1.3 MANAGEMENT RESPONSE

Management has agreed with the findings included in this report and will take action to address all recommendations by March 31st, 2022.

1.4 STATEMENT OF CONFORMANCE

This audit was conducted in accordance with the Internal Auditing Standards for the Government of Canada, as supported by the results of the Audit and Evaluation Branch's quality assurance and improvement program.

Denis Martel
Chief Audit Executive
Innovation, Science and Economic Development Canada



2.0 BACKGROUND

2.1 ASSET MANAGEMENT OVERVIEW

Entity Background

Federal material assets are essential corporate resources that support the cost-effective and efficient delivery of government programs. Innovation, Science and Economic Development Canada (ISED) manages over 22,000 unique material assets which are subject to a system of formal inventory controls.

Within ISED, per the Department's *Policy on the Life Cycle Management of Departmental Assets*, three categories of assets are subject to formal inventory controls:

- attractive assets like computers and tablets which cost less than \$5,000 but which are easily portable and accessible and may contain Departmental data;
- controlled assets of a permanent or long-term nature owned by the Department and costing between \$5,000 and \$10,000, such as regulatory measuring tools;
- and capital assets costing over \$10,000 which are amortized over their useful life, such as Microsoft Surface Hubs used across the Department.

Items like office supplies, computer monitors, and furniture do not meet the financial threshold for controlled assets, or the definition of an attractive asset, as they do not contain departmental data, and may not be easily accessible or portable.

The asset lifecycle includes four phases: planning, where asset needs are determined and resources allocated, acquisition, where the asset is procured as part of the acquisitions internal service and documented in IFMS, operation/use/maintenance, where the asset is managed throughout its useful life, and disposal, where the Department disposes of the asset from the Department's inventory and records.

The Contract and Materiel Management Directorate (CMM-AM), within the Corporate Finance System and Procurement Branch (CFSPB) in CMS, is the central functional authority responsible for providing strategic advice, direction and guidance concerning the Department's asset management program throughout all phases of the asset lifecycle.

CMM-AM carries out overall management of the Department's inventory; the coordination of the annual inventory verification exercise; the creation and monitoring of the Department's capital assets; the monitoring of the Department's disposal and surplus activities; the training of the Department's custodians, asset staff and asset managers; the functional authority of IFMS access for shipping and receiving services for buildings in the National Capital Region (NCR); and the reception, barcoding and delivery of tagged equipment to NCR clients.

Regional Offices

ISED has regional offices across Canada, divided into five regions (Atlantic, Ontario, Quebec, Prairies and Northern, and West) that support the delivery of regulatory services and other programs to Canadians. There are multiple sectors operating programs within each regional office. Within each of these sectors, Responsibility Centre Managers (RCM) are responsible for the management of assets within their program, working alongside custodians who are responsible for the day-to-day management of assets.

Responsibility Centre Managers (RCMs) are functionally responsible for program delivery, and must ensure assets under their responsibility are managed in a sustainable and financially responsible manner. They are responsible for maintaining accurate information used for decision making purposes, for declaring assets surplus, and to ensure the department achieves maximum economic benefit in the performance of their assets. Custodians ensure the assets are received, tracked, safeguarded, maintained, prepared for disposal and are under warranties, if applicable. In the regions, custodians generally have additional responsibilities like the coordination of disposal activities, that custodians in the National Capital Region are not responsible for.

2.2 COVID-19 CONTEXT AND PREVIOUS AUDIT WORK

Context and Impact of COVID-19

Treasury Board's (TB) *Directive on Results* and the *Guide on Recording of Internal Services Expenditures*, issued in 2015 in support of the TB *Policy on Management, Resources and Results Structure* and still in use under the TB *Policy on Results*, define ten internal services common to all departments:

Management and Oversight Services	Communications Services
Legal Services	Human Resources Management
Financial Management	Real Property
Information Management	Materiel
Information Technology	Acquisitions

In 2019, the Internal Audit Directorate undertook a high-level analysis of these internal services across ISED to provide insight on resource allocation and usage. Concurrently, CMS performed a coding validation exercise to validate the allotment within IFMS of FTE's to each of these categories, which was complementary, but distinct. Collectively, these activities were carried out in support of ISED's continuous improvement of its internal services.

From this exercise, the Internal Audit Directorate (IAD) identified a need to examine the real property and material services in greater detail and launched the Horizontal Audit of Asset and Facilities Management. Due to the COVID-19 pandemic, the audit team could not complete testing as originally planned, and a scope limitation outlining elements excluded from the audit as well as adjusted objective, scope, and criteria was documented to that effect.

Previous Engagements

In 2011 and 2012, the Audit and Evaluation Branch (AEB) conducted two audits of the Regional Operations Sector (now the Strategic Innovation Policy Sector) to provide reasonable assurance that the management controls for Corporate Services were operating effectively. Regional responsibilities have expanded and the structural and policy frameworks for the delivery of internal services have changed significantly since this audit.

The Horizontal Audit of Compliance with the *Policy on Management, Resources, and Results Structures (MRRS)*, completed in FY 2013-14 by the Office of the Comptroller General, assessed departmental alignment with the updated Policy in April 2012. The audit concluded that internal services definitions were not applied consistently across the federal government, under the MRRS, which has now been rescinded. Recommendations were issued in the areas of strategic direction and guidance, both across the government and within departments. No audits of asset management have been conducted by IAD over the past five years.

3.0 ABOUT THE AUDIT

3.1 AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

In accordance with the approved Innovation, Science and Economic Development (ISED) 2019-2020 Risk-Based Internal Audit Plan, the Audit and Evaluation Branch (AEB) undertook an audit of asset management in regions.

Audit Objective

The objective of the audit was to provide assurance that the asset management function in regions is operating effectively, efficiently, and consistently in support of program delivery.

Audit Scope

The audit scope focused on all aspects of the material internal service as defined by the Treasury Board *Directive on Results*, effective July 1, 2016. This included an assessment of governance, service delivery, performance, and reporting in the management of regional assets for the period April 1, 2018 to September 30, 2019.

The audit scope did not include the management of the Department's fleet of vehicles. This is a material function that has been outsourced to Automotive Resources International (ARI) Fleet Management Services.

Additionally, the audit scope did not include cellular phones used by the Department, as these are attractive assets which are included in the inventory of Shared Services Canada.

Methodology

The audit was conducted in accordance with the Internal Auditing Standards for the Government of Canada.

Based on the risk assessment, audit criteria and sub-criteria, linked to the overall audit objective, were developed (see Appendix A).

The methodology used for this audit included various procedures to address the engagement's objective. These included interviews, review of documentation, walkthroughs of processes, data analytics, and site visits to selected regional offices across the country. The audit team visited all five regions of the country, including offices in Vancouver, Winnipeg, Toronto, Montreal, and Halifax, and tested a total of 716 assets.

In each of the regional offices visited, the audit team selected a sample of assets from the population of every custodian present. Controllable/attractive and capital assets were treated as separate populations within each custodian. The audit team tested a sub-sample of 25 assets from across the regional offices to examine procedures related to maintenance. In addition, the

audit team examined all assets subject to inventory controls that were reported lost or stolen during the period of the audit.

A debrief meeting was held with the Director General of the Corporate Finance System and Procurement Branch (CFSPB) on January 18, 2020 to validate the findings that form the basis of this report. This meeting also provided the auditee an opportunity to offer any additional information and clarification regarding the findings.



4.0 FINDINGS AND RECOMMENDATIONS

4.1 INTRODUCTION

This section presents detailed findings from the audit of asset management in regions. The findings are based on evidence and analysis from both the initial risk assessment and the detailed audit work.

4.2 GOVERNANCE AND OVERSIGHT

The Department has defined governance structures in place, including a policy framework, which clearly defines roles, responsibilities, and accountabilities over asset management. There is an opportunity to clarify the understanding and awareness of some roles and responsibilities over tracking of controllable and capital assets at the regional level.

In support of the Government of Canada's policy framework for materiel management, the Department has a Governance Structure for the Life Cycle Management of Assets in place, effective April 1, 2017, which defines the roles, responsibilities, performance expectations, accountabilities, and authorities for the management of ISED's assets.

This governance structure, along with a series of supporting internal policy documents, delineate between the central authority of the Asset Management team, part of the Contract and Materiel Management directorate (CMM-AM) within the Corporate Finance, Systems and Procurement Branch (CFSPB) which is responsible for policy development, functional direction, and training, and the roles played by individuals within programs and regions, which include Sector Heads, Responsibility Centre Managers (RCMs), Asset Managers, and Asset Custodians.

RCMs are accountable for their controllable assets, to monitor risks to these assets, and to ensure assets achieve maximum economic benefit in support of the Department's effective stewardship of material.

Asset Managers ensure required documentation is completed, coordinate asset-related activities like the Annual Verification Exercise (AVE) and execute the disposal activity within regions.

Asset Custodians ensure assets are received, tracked, safeguarded, maintained, prepared for disposal and under warranty if applicable. In the regions, custodians generally have more responsibilities than those in the National Capital Region. RCMs are generally also cost centre managers within their respective programs, while custodians are primarily program officers – their asset management roles are only one aspect of their overall program-related responsibilities.

There is an additional area of responsibility specific to Information Technology (IT) Asset Management, which is performed by a team within the Digital Transformation Service Sector (DTSS). This team coordinates the Department's IT requirements in support of the procurement process; receives, prepares, and provides IT assets to sectors at a predefined cost; installs, tracks and manages software licenses; wipes data contained in hard drive; and determines the status of surplus IT equipment.

There is an appropriate segregation of roles, responsibilities, and accountabilities between the functional authority within CMM-AM, and the various other actors in the Department's asset management structure, including IT-Asset Management, and sectoral asset custodians, asset managers, and RCMs.

However, based on interviews conducted, not all regional employees, including RCMs, are aware of their roles and responsibilities pertaining to the stewardship of assets. In several cases, RCMs were not aware of their responsibilities under the Department's governance structure, more specifically of their stewardship responsibilities for tracking the performance of controllable and capital assets. Employees with asset management roles and responsibilities not being aware of those roles and responsibilities could lead to assets being managed inefficiently, inconsistently, or not in compliance with applicable requirements.

Recommendation #1 (Low Risk)

The Department should ensure that regional responsibility centre managers have a clear understanding of their roles and responsibilities.

4.3 TRAINING

Guidance documents and tools are updated to reflect all aspects of asset management, and are made available through the departmental intranet. Regional custodians are provided training materials, and training delivered by CMM-AM is planned to be delivered on a monthly and as-needed basis.

Regional asset staff require mandatory training in support of their delegated authority, and the Governance Structure for Asset Management within ISED requires that this training, and additional training for custodians, RCMs and other staff where applicable is delivered under the authority of the Corporate Finance, Systems and Procurement Branch. CMM-AM has created a repository of training and guidance information which addresses all aspects of the asset management process at ISED, including regional operations. This guidance, published on ISED's intranet, is available to all departmental staff, and is appropriately updated on a regular basis by CMM-AM to reflect changes in technology, policies, or processes. Updates are also made to add clarity to processes, where necessary, based on the mailbox maintained by CMM-AM to address any asset-related questions.

In addition, in-person training is provided in the regions by CMM-AM staff, usually delivered every two to three years. This training is provided to Asset Managers and Asset Staff, who have specific

delegated authorities, but not to asset custodians where those positions do not overlap. The feedback was positive from employees across the regions who have received the training. There was a requirement that this training be completed within six months of appointment, but subsequently CMM-AM has mandated that this occur within three months of appointment and CMM-AM maintains a list of all employees who have completed this training.

While asset custodians who are not also asset staff receive training materials when they are appointed as custodians, they are not provided with regular cyclical training. Training provided to asset managers and asset staff is delivered in regions when the cost of travel to the regions can be justified by a sufficient number of course participants. Due to turnover of staff many staff do not receive training from CMM-AM within their first year in their new function, which can create knowledge gaps. Some interviewees also identified a potential need for additional refresher training, particularly when policies or departmental practices have changed. However, the audit team did observe that email communications were sent to IFMS users on policy or practice changes that affected IFMS directly.

In September 2020, in response to COVID-19, CMM-AM indicated plans to offer live training online to asset managers, asset staff, and to all custodians. This training is to be delivered on a regular basis for custodians, and on a as needed basis for other asset roles. The implementation of online training as a response to COVID-19 has addressed the gaps identified during the audit, and highlighted the importance of these adapted processes. CMM-AM has also indicated plans to perform the annual inventory exercise virtually this year due to the COVID-19 pandemic.

4.4 ASSET MANAGEMENT

The Department has processes in place to ensure that assets are managed in a sustainable manner that supports cost effectiveness and efficiency throughout all phases of the life cycle. However, the Department's process for documenting incidents of lost or stolen assets is not operating as designed.

Process, Verification, and Maintenance

The Department uses the Integrated Financial Management System (IFMS), a version of SAP, which is widely used across the Government of Canada, to manage and track assets. To support the management of assets in IFMS, CMM-AM has developed procedures for the acquisition of assets, barcoding of controllable and attractive assets, verification of assets, wiping and destruction of equipment, tracking of assets, and tracking of lost or stolen assets.

On an annual basis, the Department performs a verification exercise to ensure that all tracked assets, including capital assets which have a value of over \$10,000, are in working condition, and are properly located based on the data in IFMS. Capital assets were well-tracked in IFMS, and the audit team noted that each had an Asset Management Record (AMR) number and asset type assigned by CMM-AM, used to ensure the appropriate automated depreciation of the asset within IFMS. The annual verification exercise is usually performed by the asset custodian in regions, and the results are reported on by asset managers in each of the different sectors

present in the region. CMM-AM reviews the results of all verification activities, and requires sign-offs from the responsible Assistant Deputy Minister in the case of lost assets. These approvals support the Department's annual financial statements.

The COVID-19 pandemic has created challenges to the traditional verification exercise, which requires a physical verification. CMM-AM plans to conduct the Annual Verification Exercise (AVE) virtually and will need to effectively adapt existing processes which rely on custodian verification, to the ongoing context of the virtual environment. The IT-Asset Management function within the Chief Information Office, is piloting a new process to validate all IT assets using the Department's active directory, and each employee's unique myKey. If successful, this will be used by CMM-AM as a reference tool moving forward.

During regional site visits, the audit team randomly selected and tested 716 assets with an acquisition value of \$4,569,324.85 from across all sectors with a regional presence. A total of 636 assets, or 89% of the assets tested, were properly tracked in IFMS, were secured, and were subject to effective inventory controls. The errors found in the other 80 assets, representing 11% of the sample tested, were minor and 72 of these were in relation to the sort field, which is a text field used by custodians to track the user or location of a particular asset. Though some custodians were diligent in updating sort fields on a frequent basis, in many cases custodians, occupied with a range of other duties, did not update the sort field, which created discrepancies in IFMS. The remaining eight errors found were in relation to incorrect or missing barcodes, and assets that were transferred to another custodian but not processed correctly within IFMS. All identified errors were rectified by the responsible custodians.

The audit team also tested the maintenance and warranty program that supports the Department's assets. This only included non-IT assets in the regions used in support of regulatory program operations, as IT assets are maintained centrally, and were scoped out of the audit as a result of COVID-19. Of the 20 assets tested, 14 were inspected and maintained regularly. The remainder of the tested assets were inspected and maintained, but were not required to be actively maintained because support or use of the asset had ended, and it was kept in case of a specific technical need.

Asset Disposal

In time, all assets reach the end of their useful life. ISED assets must be disposed of in compliance with the TBS Directive on Disposal of Surplus Materiel, the ISED Standards for the Disposal of Surplus Electronic and Electrical Equipment and the ISED Standards for the Life Cycle Management of Departmental Assets. Disposal of assets in the regions occurs separately from, but follows, the standardized IT Asset Management (IT-AM) and CMM-AM processes for the disposal of assets in the National Capital Region, including computer equipment that ensures the protection of sensitive data. In the regions, asset staff are responsible for the disposal process, rather than for simply transferring the assets to CMM-AM. IT staff in the regions perform a similar role as IT-AM by ensuring the destruction of sensitive information stored on electronic drives before those IT assets are disposed of.

Lost and Stolen Assets

The Department's policy framework on assets, identifies a specific process to be followed in the event an asset is lost or stolen, which includes security incident reports prepared by Security Services within the Corporate Facilities and Security Branch. These are shared with CMM-AM to ensure the proper deletion of the asset from IFMS.

The process includes an approval from Sector / Agency Heads and Equivalents or Designates in the event of lost, stolen, or missing assets, including those identified through the Annual Verification Exercise. These approvals support a memo, produced by CMM-AM to consolidate the list of missing assets for the Department. It includes the net book value of the assets being submitted to the Public Accounts of Canada for official write-off, as part of the annual process. The Public Accounts of Canada are the audited consolidated financial statements of the Government of Canada prepared by the Receiver General in accordance with section 64 of the *Financial Administration Act*. Departments are responsible for ensuring that detailed and accurate records are maintained of all transactions in their accounts.

The audit team tested fifteen security incident reports that were not region-specific, as the data did not enable the identification of regional lost and stolen assets, and were based on the population of all lost and stolen assets during the audit period. The audit team identified a number of issues with the lost and stolen asset process, including incomplete or missing incident reports, missing review by management, and a lack of supporting information. In addition, the audit team found that some assets reported lost or stolen remained active in IFMS for between two months and a year and a half later. By not completing security reports for lost or stolen assets, these assets may not be accounted for in accordance with applicable policies, statements made to the Public Accounts may be incomplete, and the protection of sensitive data may be compromised.

Recommendation #2 (Medium Risk)

The Department should ensure that the process for lost and stolen assets is operating effectively and that security incidents for lost and stolen asset are appropriately documented.

4.5 PERFORMANCE MANAGEMENT

The Department uses IFMS to track financial and descriptive data associated with an asset at the point of acquisition, and regulatory bodies in regions effectively track calibration and certifications for their assets. However, the Department does not use performance measurements to manage its assets at the regional level.

Treasury Board's *Policy on Management of Materiel* has for objective that material be managed by departments in a sustainable and financially responsible manner that supports the cost-effective and efficient delivery of government programs. The policy outlines ongoing and systematic assessment of the physical condition, functionality, use and financial performance of assets against established targets based on appropriate benchmarks in place, and that capital acquisition, operations and maintenance, and disposal strategies are developed based on the findings of ongoing and systematic performance assessment.

As per ISED's Governance Structure for the Life Cycle Management of Departmental Assets,

strategies should be developed for planning, acquisition, operation/use and disposal of assets based on the findings of ongoing systematic performance assessments that consider full life cycle costs, and Key Performance Indicators (KPIs) should be used to measure capital assets' performance throughout the life of the asset (e.g., functionality, utilization, financial performance, past client and or end-user information).

When assets are acquired, CMM-AM uploads financial and descriptive data of the asset in IFMS. This includes the acquisition value, the acquisition date and the vendor warranty end date, for instance. This data is not subsequently used to inform performance indicators, like functionality, utilization, repairs, financial performance, or end-user information.

Performance indicators for capital assets represented a specific area of concern as these are required by the policy to be identified by the responsible RCM. The absence of these performance indicators is tied to the limited understanding that some RCMs have around their roles and responsibilities for asset management.

However, the audit team did note the careful and expert tracking of calibration periods and certifications for regulatory sectors in the regions, where any device could be expected to be used in the performance of regulatory duties, it was appropriately calibrated and certified.

Recommendation #3 (Low Risk)

The Department should develop and implement performance indicators for controllable, attractive, and capital assets.

4.6 MANAGEMENT RESPONSE AND ACTION PLAN

The findings and recommendations of this audit were presented to the Director General of Corporate Finance, Systems and Procurement Branch (CFSPB), and members of the Corporate Management Sector management team. Management has agreed with the findings included in this report and will take action to address all recommendations by March 31st, 2022.



5.0 OVERALL CONCLUSION

ISED has established clear governance structures that integrate accountability, roles and responsibilities for asset management at the regional level. There are procedures in place to ensure proper management of assets from their purchase to their disposal and to ensure assets are operating effectively and efficiently. There are opportunities to further strengthen asset management roles and responsibilities at the regional level, as well as in the tracking and performance management of assets.



APPENDIX A: AUDIT CRITERIA

Audit Criteria	Sub-Criteria
Governance and Oversight	
1. Effective governance and oversight mechanisms are in place to support the management of assets in regions.	1.1 Governance structures, including roles, responsibilities, and accountabilities are clearly defined and communicated.
	1.2 Employees are provided with consistent training, guidance, and tools.
Internal Controls	
2. Processes and systems are in place to support the efficient management of assets in regions and to comply with applicable policies and directives.	2.1 Assets in regions are managed in a sustainable manner that supports cost effectiveness and efficiency throughout all phases of the life cycles, in compliance with applicable policies, directives, and procedures.
Monitoring and Reporting	
3. Performance measures and indicators for the management of assets in regions are consistently defined, measured, and reported to support decision-making.	3.1 Performance measures for the management of assets in regions are tracked and reported accurately and regularly.