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SAFETY, RESPECT AND DIGNITY FOR ALL

LA SÉCURITÉ, LA DIGNITÉ ET LE RESPECT POUR TOUS

Audit of Core Management Controls

Internal Audit Sector

November 4, 2014

Canada

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Executive Summary

The *Audit of Core Management Controls* was conducted as part of CSC's 2013-2016 Risk-Based Audit Plan (RBAP) and links to the departmental priority of efficient and effective management practices that reflect values-based leadership. The audit was conducted to obtain reasonable assurance that CSC's internal controls over financial reporting (ICFR) were operating effectively to mitigate the risk of material misstatements and to support the Departmental Audit Committee (DAC) in its role with regard to oversight on the financial statements. Further, as CSC is managing a budget of $2.3 billion (Main Estimate for 2014-15), and approximately 18,600 employees, financial stewardship and effective financial management are key to the achievement of departmental objectives, more so given the significant budgetary restrictions of the past few years.

Background

There have been many government-wide initiatives undertaken in recent years to strengthen public sector financial management and reporting. Specific to this audit, the Treasury Board (TB) *Policy on Internal Control (PIC)*, effective April 2009, requires that department/agency heads annually sign a *Statement of Management Responsibility*, which includes a declaration that an effective system of internal controls exists over financial reporting. Accordingly, there is a requirement within departments/agencies to ensure that key financial management controls are adequately documented, monitored and tested on an on-going basis.

The objective of this audit was to determine whether the key controls in support of the department's financial statements were operating effectively to mitigate the risk of material misstatement. The audit was national in scope and included the total population of transactions processed to the financial statements for the year ended March 31, 2013, for eight key control areas:

1. Accounts Payable/Invoice processing
2. Acquisition cards management
3. Vendor Master Data
4. Tangible Capital Assets – including Assets Under Construction
5. Amortization
6. Interdepartmental Settlements process
7. Sales/Receivables
8. Inventory

Control areas pertaining to salaries and procurement were not included in this audit because they were recently examined in IAS audits (refer to section 6.2 for more details). CORCAN[1]

[1] CORCAN is a Special Operating Agency (SOA) within CSC, which allows it to operate in a business-like manner while respecting government policies and regulations. CORCAN is a key rehabilitation program of CSC and it contributes to safe communities by providing offenders with employment and employability skills training while incarcerated in federal penitentiaries, and for brief periods of time, after they are released into the community.

transactions were included, for limited key control areas, as part of an overall random sample, depending on materiality.

The total population of financial transactions processed between April 1, 2013 and August 31, 2013 for the aforementioned control areas was included in the scope of the audit. Samples included CSC (all regions) and CORCAN transactions. Testing that was only applicable to year-end or financial statement reporting included the year-ended March 31, 2013.

Conclusion

Overall, audit results demonstrated that CSC was progressing on its documentation and implementation of key controls over financial reporting; no evidence of fraud or inappropriate purchases or payments was detected.

With regard to key control areas for invoice processing, interdepartmental settlements, amortization and sales/receivables, the audit found consistent application and effective operation of key controls.

In specific key control areas for post-payment verification, acquisition card management, vendor master data management and inventory counts, the audit found that full process implementation or enhancements to documentation practices are required to consistently demonstrate the effective operation and consistent application of key controls.

Regarding the key control area for capital assets, the audit found that additional work is required in both process implementation and documentation in order to ensure that capital assets are reported accurately, and according to applicable policies and directives.

Recommendations have been issued in this report to support CSC's on-going work on internal financial controls, so as to provide the deputy head with a level of assurance that financial statements are free from material misstatement.

Management Response

Management agrees with the audit findings and recommendations as presented in the audit report. Management has prepared a detailed Management Action Plan to address the issues raised in the audit and associated recommendations. The Management Action Plan is scheduled for full implementation by March 31, 2015.

Acronyms & Abbreviations

AuC:	Assets under Construction
CSC:	Correctional Service Canada
DAC:	Departmental Audit Committee
FAA:	Financial Administration Act
FRA:	Financial Reporting Authority
ICFR:	Internal Controls over Financial Reporting
IFMMS:	Integrated Financial and Material Management System
NHQ:	National Headquarters
OGD:	Other Government Departments
OPI:	Office of Primary Interest
PAYE:	Payables at Year-End
RBAP:	Risk-based Audit Plan
RCC:	Regional Card Coordinator
RCM:	Responsibility Centre Manager
RHQ:	Regional Headquarters
PIC:	Policy on Internal Control
TB:	Treasury Board

1.0 Introduction

1.1 Background

The *Audit of Core Management Controls* was conducted as part of CSC's 2013-2016 Risk-based Audit Plan (RBAP) and links to the departmental priority of efficient and effective management practices that reflect values-based leadership. The audit was conducted to obtain reasonable assurance that CSC's internal controls over financial reporting were operating effectively to mitigate the risk of material misstatements and to support the Departmental Audit Committee (DAC) in its role with regard to oversight on the financial statements. Further, as CSC is managing a budget of $2.3 billion (Main Estimate for 2014-15), and approximately 18,600 employees, financial stewardship and effective financial management are key to the achievement of departmental objectives. The audit was contracted to a professional services firm, under the supervision of CSC's Internal Audit Sector (IAS).

There have been many government-wide initiatives undertaken in recent years to strengthen public sector financial management and reporting. Specific to this audit, the Treasury Board (TB) *Policy on Internal Control (PIC)*, effective April 2009, requires that department/agency heads annually sign a *Statement of Management Responsibility*, which includes a declaration that an effective system of internal controls exists over financial reporting. Accordingly, departments must ensure that key financial management controls are adequately documented, monitored and tested on an on-going basis, in compliance with the legislative and policy framework.

1.2 Legislative and Policy Framework

There is a series of legislation, policies and directives that guide CSC in this area.

Financial Administration Act

The *Financial Administration Act* (*FAA*) lays out the financial rules which financial management is to follow within the Government of Canada. It designates deputy heads as accounting officers for their department, who are accountable for: ensuring resources are organized to deliver departmental objectives in compliance with government policy and procedures; ensuring that there are effective systems of internal control; signing departmental accounts; and, performing other specific duties assigned by law or regulation to the administration of their department.

Treasury Board *Policy on Internal Control*

The *Policy on Internal Control* states that organizations must establish and maintain broad systems of internal control. It stipulates that the deputy head is responsible for ensuring the establishment, maintenance, monitoring and review of the departmental system of internal controls to mitigate risks in the following broad categories:

- the effectiveness and efficiency of programs, operations and resource management, including safeguarding of assets;

- the reliability of financial reporting; and
- compliance with legislation, regulations, policies and delegated authorities.

1.3 CSC Organization

At CSC, the responsibility for providing sufficient assurance to the departmental head that key financial management controls are working effectively rests with the Corporate Services Sector. Specifically, the Financial Accountability and Reporting team is responsible for the documentation and testing of key financial processes.

Although most financial processes are the responsibility of the Corporate Services Sector at National Headquarters (NHQ), certain duties have been delegated to the regions. These responsibilities include, but are not limited to:

- recording and maintaining the Fixed Assets module;
- conducting annual capital asset and inventory counts;
- maintaining inventory systems/listings; and
- conducting certain *FAA* section delegation of authorities (32, 33, 34) approvals.

As such, both National and Regional Headquarters have responsibilities in ensuring that the financial management control framework is applied consistently and working effectively.

Specifically, under the direction of the Comptroller's Branch, the Internal Financial Controls (IFC) Group within the Financial Accountability and Reporting (FAR) team is responsible for the documentation and testing of key financial controls. Financial controls currently in place are regularly evaluated, through on-going risk assessments as well as reviews of design and operational effectiveness.

1.4 Risk Assessment

This audit was identified as an audit priority and an area of high risk to CSC in the 2013-2016 RBAP. A risk assessment was completed based on interviews with the Office of Primary Interest (OPI), members of CSC senior management at NHQ and RHQ, and CORCAN executives. As well, a review of policies, past audit work, previous fraud risk assessment work, and other documentation related to financial controls was conducted. Overall, the assessment identified that the main risks to CSC are related to unauthorized or fraudulent transactions and payments.

2.0 Objectives and Scope

2.1 Audit Objectives

The objective of this audit was to determine whether the key controls in support of the department's financial statements were operating effectively to mitigate the risk of material misstatement.

Specific criteria are included in ***Annex A***.

2.2 Audit Scope

CSC identified 21 key control areas, as per the *Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting* that is included in the annual financial statements.

The audit team initially reduced the number of control areas to be examined to 15, based on the IAS assessment of recent audit work completed in control areas (refer to section 6.2 for more details). During the planning phase, a materiality[2] calculation was applied to the year-end balances (as at March 31, 2012). This calculation and other factors were considered by the audit team and external consultants, specifically:

- changes in relevant policies;
- risk level;
- feasibility of control testing; and
- results of the ongoing *PIC* readiness work.

Based on this analysis, the following control areas to be tested were identified:

1. Accounts Payable/Invoice processing
2. Acquisition cards management
3. Vendor Master Data
4. Tangible Capital Assets – including Assets Under Construction
5. Amortization
6. Interdepartmental Settlements Process
7. Sales/Receivables
8. Inventory
9. Procurement

[2] Materiality has been defined as 0.5% of the total operating expenditures for CSC which was calculated based on the March 31, 2012 consolidated financial statements; this was determined to be $13 Million, which was used to determine the significant balances/control areas for the scoping of key control areas.

Salary was excluded from this audit as it was recently examined in CSC's *Audit of Salaries and Review of Management Action Plans for Hospitality* (2012/2013). As well, audit results from CSC's *Audit of Contracting and Procurement Processes* and *Audit of Low Value Contracts* permitted procurement activities to be scoped out of this audit (refer to section 6.2 for more details).

Audit criteria and associated key controls for testing were developed for the above-noted key control areas, based on risks that relate specifically to financial reporting requirements.

The total population of financial transactions processed between April 1, 2013 and August 31, 2013 for the aforementioned control areas was included in the scope of the audit. Samples included CSC (all regions) and CORCAN transactions. Testing that was only applicable to year-end or financial statement reporting included the year-ended March 31, 2013.

The scope of this audit included a sufficient number of samples to provide information to management on the current state of key financial controls over financial reporting; however, it does not fulfil the requirement of ongoing monitoring for purposes of *PIC* compliance.

3.0 Audit Findings and Recommendations

3.1 Objective One

The objective of this audit was to determine whether the key controls in support of the department's financial statements were operating effectively to mitigate the risk of material misstatement. Key control areas pertaining to salaries and procurement were not included in this audit as they were examined recently in previous IAS audits. Refer to section 6.2 for more details.

Controls were in place and were documented for a number of key control areas; however, some essential areas require attention.

The following sections highlight those key control areas where management attention is required.

3.1.1 Accounts Payable

Although there were adequate controls in place to assure that invoices processed/paid were approved by an appropriate delegated authority and accurately reflected goods/services received, limited evidence was provided to support the completion of a post-payment verification program. Weaknesses were identified in the maintenance of both the documentation evidencing Section 33 approvals and the supporting documentation for PAYE[3] transactions.

3.1.1.1 Pre-payment verification programs were in place; however, evidence of a fully implemented post-payment verification program was not provided.

Evidence was available to demonstrate that a formalized quality assurance program for pre-payment verification on high-risk transactions was in place and operating effectively, for all 47 samples selected across all regions.

Regarding post-payment verification, evidence demonstrated that a formal, risk-based program was implemented as of July 1, 2013. Prior to this implementation, post-payment verification was not risk-based and was conducted 100% of the time on all transactions. Consequently, audit testing was limited to post-payment verification that occurred during July 1, 2013 - August 31, 2013. Evidence provided for this time period was limited to one summary sheet of errors provided by NHQ for the month of November 2013. The scope of the work performed was not documented, and no evidence of the completion of the post-payment verification activities and associated follow-up for any period beyond November 2013 was provided.

It was reported to the audit team that progress was being made in this area; nonetheless, without evidence of a fully operational post-payment verification program, CSC cannot demonstrate

[3] PAYE is Payables at Year-End

compliance with the TB *Directive on Account Verification* or demonstrate quality assurance over Section 34 certification.

Recommendation 1
The Assistant Commissioner, Corporate Services should ensure all elements of the post-payment verification program are fully implemented across all regions, including the completion of post-payment verification activities as prescribed in Financial Directive Fops-DIR-2013-325, and the associated reporting and monitoring of the results, in order to demonstrate compliance with TB *Policy on Internal Control*.

Management Response
We agree. Additional steps will be taken by March 31, 2015 to demonstrate full compliance with the TB Policy on Internal Control.

3.1.2 Acquisition Cards

Weaknesses were detected in the current control framework established to ensure that acquisition card transactions were appropriately authorized and monitored.

3.1.2.1 Generally, appropriate approvals were obtained to request the issuance of an acquisition card, and verification by the responsibility centre manager (RCM) that goods were received for the correct price was completed consistently, under Section 34 of the FAA. However, Section 32 of the FAA approval of acquisition card transactions prior to purchase was not consistent across all regions.

As required by the Financial Directive on Acquisition Cards (FD-350-4), we expected to find evidence of the consistent application of Section 32 approval for all acquisition card transactions selected for testing, “to ensure there is a sufficient and unencumbered balance available before entering into acquisition card transactions or providing written expenditure initiation, commitment and/or transaction authorization to the cardholder"[4].

Some regions reported that Section 32 approval was not required for purchases under $10,000 when using acquisition cards. Other regions provided evidence of approval for expenditures over $500. This variation was reflected in testing results, whereby 17/41 purchases (41%) over $500 had Section 32 approval prior to the date of the acquisition card transaction.

[4] FD 350-4 sec 8 e.

Without clear approval limits to support consistent, appropriate Section 32 approval in advance of an acquisition card transaction, there is a risk that purchases could be made without available funds within RCM budgets.

3.1.2.2 Specific key controls to ensure alignment with TB and CSC directives and guidelines were not consistently in place.

For a sample of 15 acquisition cards issued, evidence that the Acquisition Card Acknowledgement and Receipt form had been signed by the employee before issuing the card to the employee was available for one cardholder. Without the employee's acknowledgement of their restrictions and responsibilities relative to holding an acquisition card, there is an increased risk of potential abuse or errors.

Recently, NHQ rolled-out the *Acquisition Card Policy and Procedures e-Leaning Module* on-line training, which applies to all CSC employees who use, or are accountable for acquisition cards. Successful completion of the training ensures employees acknowledge their understanding of CSC acquisition card policies and procedures, which should mitigate the risk that employees are unaware or misinformed of their responsibilities regarding the use of acquisition cards.

Evidence was provided to demonstrate that a formal quality assurance review program is in development to monitor the use and potential abuse of acquisition cards. Currently, reliance is placed on the Section 34 approval of the individual transactions and the post-payment verification program, which includes acquisition card transactions. While some ad-hoc monitoring of acquisition card transactions is being performed by certain regions, the implementation of a formal quality assurance program across all regions will reduce the risk that acquisition card abuse or errors may go undetected.

Recommendation 2

The Assistant Commissioner, Corporate Services should proceed with the implementation of the formal quality assurance program for the monitoring of acquisition card transactions to ensure:

- evidence is retained to demonstrate consistent Section 32 authorization for all applicable acquisition card transactions; and
- Acquisition Card Acknowledgement and Receipt forms are signed prior to the issuance of an acquisition card to an employee.

Management Response

We agree. Actions will be taken to address the issues identified by March 31, 2015.

3.1.3 Vendor Data Management

The segregation of duties between those individuals who process/pay invoices and those individuals who have the access to create or amend vendor master data was not consistently enforced within the regions. Further, supporting documentation was not consistently maintained to support vendor master data changes or demonstrate that changes had been reviewed and approved prior to processing.

3.1.3.1 Appropriate segregation of duties has not been embedded into the financial system for vendor master data.

It was reported by some regional offices that there was no segregation of duties between those employees involved in vendor master data management within the financial system and those employees who process supplier invoices; reliance is placed on the segregation of duties with Section 33 officers who release payments. However, Section 33 approvals in IFMMS are completed in batches and do not require the review of individual transactions, unless the transaction meets the criteria for pre-payment verification or is selected as part of a post-payment verification sample. It was noted that this issue was identified during CSC's Design Effectiveness Testing exercise and, at the time of this audit, the business process owner was developing a management action plan to address the risk.

Although testing did not find any evidence of fraud, without proper segregation of duties between those authorized to make vendor master data changes and those involved in invoice processing, there is a risk that fictitious suppliers could be created within IFMMS and fraudulent invoices processed without detection.

3.1.3.2 Changes made to vendor master data were not appropriately supported by documented evidence.

The testing of a sample of 60 vendor master data changes selected from across the country revealed that 17 (28%) were supported by appropriate evidence, including authorization prior to processing. An additional seven (11%) changes were supported by an e-mail.

Without a standardized expectation that sufficient and authorized evidence is required prior to amending a vendor master data file, there is an increased risk that new vendors or changes to vendor master data could be created or amended without detection, which could lead to a fraudulent payment being released, or errors occurring undetected.

Discussions with management within the Comptroller's Branch revealed that a process is being implemented to formalize the request for, and approval of, vendor master data changes, as part of their management action plan to address a recommendation from CSC's Design Effectiveness Testing results for the Payables and Payments process. As a result, no additional recommendation will be issued in this report; however, this area will be included in future internal audit follow-up work.

3.1.4 Capital Assets

Limited documentation was available to support the current control framework in place to ensure that: capital assets were recorded at historical cost; that once disposed of, capital assets were removed from the fixed asset register; and, that assets under construction (AuC) represented all costs associated with the construction of capital assets and did not reflect any assets already in use.

3.1.4.1 Limited documentation was provided to demonstrate the approval and accurate reflection of capital assets in the capital asset sub-ledger.

Preliminary audit testing revealed 9/55 (16%) transactions were recorded in the asset sub-ledger, and documentation (Form 0958) was provided for 3/55 (5%) transactions. Secondary testing revealed 34 of 55 transactions were WIP (thus not requiring an asset tag); and an additional two transactions were outside the scope of the audit. For the remaining 19 samples, all were recorded in the capital asset sub-ledger module, and 17 had evidence that an asset tag was assigned. Documentation (Form 0958 for assets and Form 1464 for fleet) to demonstrate that the RCM had received the capital asset was available for 8/19 assets.

3.1.4.2 Limited formal processes were in place to monitor and reconcile individual project Assets under Construction (AuC) accounts to ensure completeness, accuracy and that no completed assets remained in this account at year-end.

Interviews and supporting analysis showed that in fiscal year 2012-2013, the Comptroller's Branch did not consistently reconcile Accounts Payable transactions to the capital asset sub-ledger and the AuC accounts for Infrastructure and Software AuC accounts. This exercise was only completed for Buildings. While it is CSC's intention that all AuC accounts will be reconciled for year-end 2013-2014, evidence of the reconciliation of the AuC accounts could not be demonstrated for all AuC balances during the time period of this audit.

As part of the overall AuC testing, a sample of 10 AuC projects was selected to confirm if regular reviews were being conducted of the AuC balance for accuracy and completeness, and to ensure that any completed assets had been transferred to the capital asset sub-ledger. For the sample of projects selected, only three projects (30%) provided evidence of a project manager's review of the AuC balance.

It was confirmed by the Comptroller's Office that a formal process is being implemented based on a recommendation from the Design Effectiveness Testing of the AuC process. This process will require project managers to review and approve their AuC balances for each project for completeness and accuracy, and to document the status of each of their projects. The result will be that the Comptroller's Branch receives sufficient detail to support the amounts within the AuC and those transferred to the capital asset sub-ledger.

Without the reconciliation of the accounts payable transactions to the capital asset sub-ledger as well as the AuC accounts, there is an increased risk that incorrect posting within the asset sub-ledger and the AuC accounts may go undetected.

3.1.4.3 Evidence to demonstrate an effectively conducted physical inventory of assets as at March 31, 2013 was not provided.

A sample of three Financial Reporting Authorities capital asset balances was selected to obtain evidence to support the physical inventory of assets as of March 31, 2013. For all balances, no evidence was provided to demonstrate that the physical inventory of assets was completed at year-end. The supporting documentation that was provided was a copy of the signed Regional Letter of Representation that was signed by each region at year-end. Included in this letter is Annex B – Certification of Inventory Count, Capital Assets and Attractive Items which confirms the completion of the physical inventory of assets and adjustments processed. In one case, the region did not sign off on this Annex as their physical counts were not yet complete.

Without evidence other than the letter mentioned above to support the completion of the year-end physical inventory of assets, best practices (such as segregation of duties, sign-off on count sheets) supporting the quality of the counts cannot be confirmed.

3.1.4.4 Insufficient information was available to demonstrate consistent review and approval of assets identified for disposal or write-off/down.

It was confirmed through documentation examination and interviews that Disposal Review Boards and Asset Review Boards were in place to review and approve the disposal or write-off of assets. As no evidence was provided to support the completion of the physical inventory of assets (see above), no conclusion can be made on the state of controls relative to the associated write-off/down of assets as a result of the year-end counts.

Consistent with the results of the year-end counts, information gathered confirmed that policies and procedures were in place for the identification and approval of surplus assets and those requiring write-down or write-off during the year; however, no evidence to support the conduct of periodic assets assessments was provided.

A sample of 60 capital assets was selected for testing that included assets from each region, all earmarked for disposal. The audit team expected to find that prior to accounting for the disposal of a capital asset, documentation related to the disposal of the assets was on file.

The largest transaction within the sample was a $59,432 vehicle and the smallest, a $1,000 table saw. One item valued at $1,024,757 had been selected, but was subsequently excluded because it was determined that it was miscoded. This error was recognized and corrected by finance staff prior to the audit. With this exclusion noted, the average asset size was calculated at $12,346. Therefore, errors in accounting for these assets were considered to be not material.

Of the sample of 60, 31 disposed assets (52%) demonstrated approval for removal from the capital asset sub ledger. The sample was further reduced as it was determined that the information on five assets contained errors. For 64% of the remaining items (35/55), information on the disposal method was not provided and therefore it could not be determined if there were proceeds from a sale and if so, if the proceeds from sale were accurately reflected in the financial system. For six transactions where it was confirmed that the asset was disposed of by sale, no evidence was provided to confirm that the proceeds from sale were accurately reflected in the financial system. Therefore the examination of the sampled transactions noted a number of administrative deficiencies, from a lack of approvals on file to a lack of proof of disposals.

The lack of documentation is of sufficient concern for the auditors that an audit is scheduled for the near future.

Recommendation 3

The Assistant Commissioner, Corporate Services should develop and implement a formal program whereby:

- project managers are required to review and update the status of their projects and AuC balances regularly to allow for timely capitalization of completed assets and overall reconciliation of accounts;
- reconciliations of the AuC accounts are completed at a minimum annually; and
- evidence is available for all disposal and write-off/down transactions impacting capital assets and the completion of physical inventory of assets.

Management Response

We agree. Steps have already been taken to formalise the capital asset process. The reconciliation of assets under constructions and requirements for evidence of disposal and write-offs will be in place by March 31, 2015.

3.1.5 Inventory

A framework was in place and operating to appropriately value the perpetual inventory on CSC's financial statements; however, evidence was not available to support the valuation of inventory for periodic inventory systems at year-end (inventory counts and valuation approach).

3.1.5.1 Evidence was available to confirm compliance for CSC's perpetual inventory system; however, limited information was available to support completion of the year-end inventory counts and the associated segregation of duties for CSC's periodic inventory systems.

For inventory managed through periodic inventory systems in all regions, the year-end inventory count is based on what is recorded in the financial statements, because on-going inventory records are not maintained. A sample of periodic inventory balances from March 31, 2013 was selected to review evidence of the completion of year-end inventory counts. For the sample of eight balances (representing multiple regions/locations), annual inventory count summary sheets, approved by the manager, were provided for only 75% of the sites (69 sites out of 92 sites tested). Further, no sites provided inventory count sheets and as such, the audit team was unable to assess whether or not appropriate segregation of duties was enforced.

As the detailed annual inventory count documentation was not provided, the audit team was unable to assess the appropriateness of the valuation approach used for this periodic inventory.

Recommendation 4

The Assistant Commissioner, Corporate Services should ensure that evidence is available to support the conduct and completion of inventory counts for periodic inventory, in compliance with CSC's *Asset Management Guidelines (350-1*).

Management Response

We agree. Enhanced procedures will be implemented to support effective inventory management by March 31, 2015.

4.0 Conclusion

Overall, audit results demonstrated that CSC was progressing on its documentation and implementation of key controls over financial reporting; no evidence of fraud or inappropriate purchases or payments was detected.

With regard to key control areas for invoice processing, interdepartmental settlements, amortization and sales/receivables, the audit found consistent application and effective operation of key controls.

In specific key control areas for post-payment verification, acquisition card management, vendor master data management and inventory counts, the audit found that full process implementation or enhancements to documentation practices are required to consistently demonstrate the effective operation and consistent application of key controls.

Regarding the key control area for capital assets, the audit found that additional work is required in both process implementation and documentation in order to ensure that capital assets are reported accurately, and according to applicable policies and directives.

Recommendations have been issued in this report to support CSC's on-going work on internal financial controls, to provide the deputy head with a level of assurance that financial statements are free from material misstatement.

5.0 Management Response

Management agrees with the audit findings and recommendations as presented in the audit report. Management has prepared a detailed Management Action Plan to address the issues raised in the audit and associated recommendations. The Management Action Plan is scheduled for full implementation by March 31, 2015.

6.0 About the Audit

6.1 Approach and Methodology

Audit evidence was gathered through a number of methods such as: review of documentation; detailed testing of key controls; and interviews with staff at NHQ and in the regions.

Review of documentation: Relevant documentation, such as legislation, process maps, accounting manuals, financial directives, commissioner's directives and guidelines, financial records and reports as well as supporting documentation for key controls was reviewed.

Testing: Detailed testing of key controls (for selected processes identified in ***Annex A***) was performed during the conduct phase in order to assess their effectiveness. The testing was selected based on the application of the sampling approach, described below.

Sampling Strategy: In order to develop a sampling approach that addressed the audit criteria identified in ***Annex A***, a sample of financial transactions within selected processes was chosen for testing. The sample sizes of transactions to be selected and tested were dependent on the inherent risk rating assigned to the control area, the dollar value of the respective financial accounts, or the frequency of the occurrence of the control in question based on an established sampling methodology. Both professional judgment (i.e. high value transactions, year-end transactions), and random discovery sampling methods were used to select individual transactions, allowing for the selection of specific items or transactions that exhibited characteristics that were suspicious, unusual, particularly risk prone, or had a history of error. Every effort was made to select samples that represented the geographic proportion of the population.

Interviews: Interviews were conducted with senior management in Finance, process owners of selected key processes, and staff involved in the management and administration of key processes, both at the NHQ and select regions.

Travel: No travel was required for this audit; documentation was provided by the regions for examination by the auditors, and interviews were conducted by telephone and videoconference.

6.2 Previous Audit Work

Past CSC internal audits were used to assist in scoping the audit work.

Continuous Auditing of Internal Controls over Financial Reporting

The objective of these audits was to independently review and test the operational effectiveness of some of the higher risk controls over financial reporting, with a view to support CFO and Accounting Officer responsibilities. The following continuous audits were completed by IAS:

- Salary (2009/2010);
- Travel (2009/2010);
- Allowance for Doubtful Accounts (2009/2010);
- Hospitality (2011/2012);
- Salary – including follow-up to previous audit (2012/2013); and
- Non-Regular Pay Transactions (2012/2013).

Audit of Contracting and Procurement Processes and *Audit of Low Value Contracts* (2012)

The two audits provided assurance that contracts greater than and less than $25,000, during the timeframe of April 1, 2011 to December 31, 2012, were processed in compliance with relevant Government of Canada legislation, policies and guidelines.

In addition to the work completed by IAS, other exercises in the area of financial controls have been completed by CSC's IFC group.

Design and Effectiveness Testing

The Internal Financial Controls (IFC) group at CSC has a multi-year plan to complete the design and effectiveness testing of all entity level controls, Information Technology General Controls (ITGC), and for all identified significant processes including all key financial controls within these significant business processes. Recommendations have been identified (150 in total) and business process owners have prepared management action plans in response. Some recommendations, depending on their complexity, have not been completely implemented as of the date of this report. Recommendations pertaining to those identified by the IFC group are discussed within this audit report.

6.3 Statement of Conformance

In my professional judgment as Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinion provided and contained in this report. The opinion is based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed on with management. The opinion is applicable only to the area examined.

The audit conforms to the Internal Auditing Standards for Government of Canada, as supported by the results of the quality assurance and improvement program. The evidence gathered was sufficient to provide senior management with proof of the opinion derived from the internal audit.

______________________________ Date: ______________________

Sylvie Soucy, CIA
Chief Audit Executive

Annex A: Audit Criteria

The following table outlines the audit criteria developed to meet the stated audit objective and audit scope:

Financial Process	Audit Criteria	Met/ Partially Met/ Not Met
Accounts Payable/ Invoice Processing	The accounts payable process is managed in accordance with applicable legislation, policy, and best practices.	Partially Met
Acquisition Card Management	Acquisition cards are managed in accordance with applicable legislation, policy, and best practices.	Partially Met
Vendor Master Data Management	Appropriate segregation of duties exists in the vendor management process.	Not Met
Tangible Capital Assets (including Assets Under Construction)	Tangible capital assets are managed in accordance with applicable legislation, policy, and best practices.	Not Met
Amortization	For capital assets eligible for amortization, an appropriate amortization period is assigned, amortization is calculated and applied on a monthly basis and the overall reasonability of the monthly amortization expense is reviewed.	Met
Interdepartmental Settlements Process	Appropriate approvals/monitoring programs are in place to ensure the accuracy and completeness of transactions with Other Government Departments (OGD).	Met
Sales/Receivables	The sales/receivables process is managed in accordance with applicable legislation, policy, and best practices.	Met
Inventory	The inventory process is managed in accordance with applicable legislation, policy, and best practices.	Partially Met