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Chief Financial Officer Branch
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Message from the Deputy Minister and Chief Financial Officer

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2022, and all information contained in these statements rests with the senior management of the Department of Canadian Heritage (PCH). These financial statements have been prepared using the Canadian public sector accounting standards.

Some of the information in these financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of PCH's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in PCH's *Departmental Results Report*, is consistent with these financial statements.

Management is also responsible for maintaining an effective system of internal control over financial management (ICFM), including internal control over financial reporting (ICFR), which is designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards and managerial authorities are understood throughout PCH. The monitoring of PCH internal controls is performed on an ongoing basis and identified deficiencies are remediated to mitigate risks to an acceptable level.

In accordance with the Treasury Board *Policy on Financial Management*, a risk-based assessment of the system of ICFM was completed, for the fiscal year that ended March 31, 2022. The results and action plans are presented in this annex for fiscal year 2021-22.

The effectiveness and adequacy of PCH's system of internal control are reviewed by the work of internal control and internal audit staff, who conduct periodic reviews and audits of different areas of PCH's operations. Additionally, the Departmental Audit Committee (DAC) oversees management responsibilities for maintaining adequate control systems and the quality of financial reporting.

The financial statements of PCH have not been audited.

Isabelle Mondou
Deputy Minister

Eric Doiron
Chief Financial Officer

1. Introduction

This annex provides information on the measures taken by Canadian Heritage (PCH) to maintain an effective system of Internal Control over Financial Management (ICFM), including Internal Control over Financial Reporting (ICFR), assessment results and related action plans.

Information on PCH's authority, mandate and program activities can be found in the [Departmental Results Report](#) and the [Departmental Plan](#).

2. Internal control over financial management

The *Policy on Financial Management* came into effect on April 1, 2017 and requires the establishment and maintenance of a risk-based system of ICFM.

In this context, PCH must perform the ongoing monitoring of the design and operation of its internal controls and remediate identified deficiencies. This also provides reasonable assurance that public resources are used prudently and that financial legislation, regulations and policies are being complied with.

2.1 Internal control governance

PCH has a well-established governance structure to support departmental assessment efforts and oversight of its system of internal control. A departmental internal control management framework, approved by the Deputy Minister (DM) and the Chief Financial Officer (CFO), is in place and includes:

- The Internal controls division under the CFO monitors the effectiveness of ICFR and ICFM across the department and develops recommendations on identified deficiencies;
- The provision of regular updates on internal control assessment results and action plans to the Departmental Audit Committee (DAC), in order to provide advice to the DM on the adequacy and functioning of the department's risk management, control and governance frameworks and processes;
- An annual risk-based ongoing monitoring plan is developed in consultation with senior management across the Department to address areas of higher risk and significance. In order to maximize the efficiency within the department, the ongoing monitoring plan is developed in consultation with the Office of the Chief Audit Executive (CAE) to coordinate the planning activities related to internal control assessments;
- Organizational accountability structures that define clear roles and responsibilities for senior management to support sound financial management within the department;
- Strong Entity-Level Controls, including a "tone from the top" organizational culture and a department-wide Code of Conduct, which is supported by management and by the Office of Values and Ethics (OVE). The OVE provides confidential, independent, impartial and informal assistance to employees and groups of employees who are experiencing conflicts affecting their work;

- A Fraud Risk Management Framework that creates a transparent and sound anti-fraud culture within the department. This process includes periodic fraud risk assessments and a departmental fraud awareness strategy for all employees, and;
- Ongoing communication and training on statutory requirements, policies and procedures for sound financial management and control.

2.2 Service arrangements relevant to financial statements

PCH relies on other organizations for the processing of certain transactions that are recorded in its financial statements.

2.2.1 Common Arrangements

- Public Services and Procurement Canada (PSPC) centrally administers the payment of salaries and the procurement of some goods and services in accordance with PCH's Delegation of Authority, and provides accommodation services;
- Treasury Board of Canada Secretariat (TBS) provides PCH with information used to calculate various accruals and allowances, such as the accrued severance liability. It also provides policy guidance and interpretation on matters of financial management;
- The Department of Justice provides legal services to PCH, and;
- Shared Services Canada (SSC) provides information technology (IT) infrastructure services to PCH in the areas of data center and network services.

2.2.2 Specific Arrangements

- Parks Canada Agency provides PCH with the PeopleSoft system platform to capture and report on human resources data;
- Agriculture and Agri-Food Canada provides hosting services to PCH for the SAP financial system servers.

3.Ongoing monitoring of key controls

Ongoing monitoring is intended to ensure that Internal Control over Financial Management (ICFM), including Internal Control over Financial Reporting (ICFR), continues to operate effectively and as designed, following the guidance received from the Office of the Comptroller General.

3.1 Assessment results during fiscal year 2021-22

In fiscal year 2021-22, PCH continued the ongoing monitoring of the key financial management business processes. The following table presents PCH’s progress as at March 31, 2022, based on the previous year action plan.

Table 1. PCH’s progress with regards to its previous year action plan

Key business process	2021-22
Costing	Completed
Procurement Fraud Risk Assessment	Completed
Planning, Budgeting and Forecasting	Completed
Purchases and Payables	Completed
Joint Agreements	Completed
Grants & Contributions	Completed
Revenues	Completed
Investment Planning	Deferred to Fiscal Year 2022-23

3.1.1 Costing

PCH is required to produce accurate and credible cost estimates when requesting funding for new or existing projects or program initiatives. Costing represents a prediction about the future cost of an investment based on the data and information available at a given point in time.

In 2021-22, PCH has updated the risk assessment for this key business process. Central agencies (PCO/TBS) documentation was analyzed to benchmark recommended processes against departmental practices, in consultation with PCH financial experts.

The TB *Guide to Cost Estimating* was used to document the PCH costing methodology used for the preparation of cost estimates related to Budget proposals (BA), Treasury Board (TB) submissions and Memorandum to Cabinet (MC). The assessment also looked at the controls around the tools used to calculate the costs of the operating resources required to deliver a new program or initiative.

When the revised costing control documentation was assessed against the current departmental process (operating effectiveness), it was determined that control deficiencies existed in the Budget Proposals (BP) area.

The results shown that BP are often developed on very short timelines and there is only a very short window available for the CFO and the Financial Management Advisory group to perform their due diligence. Additionally, there is no formal/documented process in order to obtain CFO attestation on

the financial information (costing) associated with the BPs, which also contributes to the above-mentioned issue.

A Management Action Plan was developed to address this issue and was validated by the business owner. As a result, it was decided by senior management that PCH had reached the ongoing monitoring stage for Management Accountability Framework (MAF) purposes.

3.1.2 Fraud Management

PCH is committed in reducing fraud risks, which can cause the loss of public money, undermine public confidence, and affect employee morale negatively.

The *TB Policy on Financial Management* requires that financial resources be safeguarded against material loss due to waste, abuse, mismanagement, errors, fraud, omissions, and other irregularities. Additionally, prompt corrective actions must be taken when fraud risks are identified in the system of internal control over financial management and financial reporting. The combination of effective fraud risk governance, a thorough fraud risk assessment, strong fraud prevention and detection controls, along with a coordinated and timely investigation process, can significantly mitigate fraud risks.

Fraud Risk Management Framework

In January 2022, following intensive consultations with the Fraud Risk Management Working Group, the Fraud Risk Management Framework was approved by the Executive Committee (EXCOM). The document helps PCH clarify the roles and responsibilities with regards to fraud management, including the conduct of regular fraud risk assessments and the promotion of fraud awareness within the department.

In terms of roles and responsibilities, an effective and open communication between PCH management and the Office of the Chief Audit Executive (CAE) is key to support the implementation of a coordinated approach on fraud across the department, including data analytics, fraud prevention and detection and fraud awareness.

Procurement Fraud Risk Assessment

In 2021-22, a Procurement Fraud Risk Assessment was undertaken to evaluate fraud risks and possible control gaps in relation to subprocesses such as bidding and vendor evaluation, employee reimbursements and the selection of the procurement mechanism. Fraud risk scenarios were presented to key stakeholders and the results were assessed to determine if appropriate controls were in place to mitigate inherent risk.

A Management Action Plan is currently under development for fraud risks related to limited tendering, contract splitting and possible sharing of confidential information with suppliers involved in the bidding process.

The plan will be presented to EXCOM in the fall of fiscal year 2022-23.

Data Analytics

A data analytics strategy was developed to reinforce the testing of internal controls, monitoring of financial operations, and the continuous detection and remediation of fraud, waste and abuse. The analytics covered the areas of accounts payable, vendor management, financial operations (includes receivables), acquisition cards, travel expenses and contracting. PCH performed data analytics to assess the integrity of the SAP data for FY 2019-20 and 2020-21. In 2022-23, the data for both fiscal years will be compared to identify possible control gaps and areas of improvements.

3.1.3 Planning, Budgeting and Forecasting

Planning, Budgeting and Forecasting is a key business process that supports the prudent and efficient use of public resources and helps the department achieve its objectives. Effective budgeting and forecasting activities provide timely and accurate financial information to senior management for decision-making.

In 2021-22, PCH has updated the risk assessment of the control environment for this key business process. OGD control documentation was analyzed to benchmark best practices against departmental planning, budgeting and forecasting activities, in consultation with PCH financial experts.

Additionally, the control documentation was reviewed and compared with the current operational processes to validate the structure and identify possible control deficiencies. The results shown that improvements could be made when developing departmental operational plans, as they sometimes exceed existing Reference Levels (in the Annual Reference Level Update (ARLU)), causing financial pressures for PCH. It was also determined that there was not a clear link between the Operational Plans and the financial situation presented in the Yearly Budget Review exercise.

A Management Action Plan was developed to address these deficiencies and was validated by the business owner. As a result, senior management decided that PCH had reached the ongoing monitoring stage for MAF purposes.

3.1.4 Purchases and Payables

In 2021-22, the risk assessment for this key business process was updated to measure the risks associated to the following sub-processes.

Contracting

In 2021-22, this sub-process was updated to document the new automated controls that were developed following the implementation of the Delegation of Authority Application (DAA), Invoice to Payment (I2P) and Purchase to Payables (P2P) solutions. Testing of the controls and documentation for the purpose of operating effectiveness was performed. It was determined that the controls in place were operating effectively.

Contractual Arrangements

In many instances, a transfer payment or a contract can be used to deliver on PCH mandate or priorities. However, when collaborating with provinces, territories, municipalities, foreign governments, or certain crown corporations, a contractual arrangement may be the only alternative. These types of arrangements, more commonly referred to as Memoranda of Agreement (MOA) or Letters of Agreement (LOA), involve the receipt of a service and are generally not legally binding.

Based on the results of the risk assessment, contractual arrangements were targeted as a high-risk sub-process from a financial management perspective. Documentation of controls was conducted in 2021-22 as well as operating effectiveness in conjunction with the review of Joint Agreements (separate key business process). As a result, a new standardized process was implemented to improve the monitoring by PCH to select the proper financial mechanism as well as to ensure the appropriate agreement template was used.

Acquisition Card

In 2020-21, PCH had to adapt its acquisition card reconciliation process, as it was still a very manual, paper-based process. The combination of the new e-signature (MyKey) process and the digitalization of the supporting documentation in SAP has allowed PCH to modernize the approval and processing of acquisition card transactions. PCH is still aiming to improve the [Financial Administration Act](#) (FAA) Section 34 approval process for its acquisition card transactions, so that managers apply their approval in SAP (I2P).

In 2021-22, the acquisition card narrative process was updated, and operating effectiveness was completed. The process is well established, and no control gap was observed.

3.1.5 Joint Agreements

PCH collaborates with external parties or Other Government Departments (OGD) to enhance the delivery of its programs or to meet its operational objectives. These partnerships are formally documented through Memorandum of Understanding (MoU), Memorandum of Agreement (MoA), Sponsorship Agreement (SA) and Letter of Agreement (LoA), all of which fall under the definition of “*Joint Agreements*”. The objective of this key business process is to ensure that requirements are in place to effectively manage and monitor Joint Agreements in a manner that is consistent, enables flexibility and manages risk. These types of agreements must be relevant to the department’s mandate or support overarching priorities of the Government of Canada.

In 2021-22, a risk assessment was conducted to define the scope and identify possible weaknesses in the process. As part of this assessment, subprocesses were defined and divided by financial mechanisms as follows:

- Interdepartmental Settlements (includes cost recovery and OGD suspense account)
- Estimate Process (Budget transfer)
- Specified Purpose Account (SPA)
- Vote Netted Revenues (VNR)

The results showed that the risks were mainly based on the use of the appropriate financial mechanisms and financial authorities to charge or spend revenues. As additional risks were observed surrounding the accounting treatment of SPAs, control documentation was created to streamline the process and address control gaps.

In response to the risks identified, a new function has been created within the Chief Financial Officer Branch to review Joint Agreements to ensure that appropriate financial mechanisms and authorities are used and the appropriate experts are consulted. Through this new function, design effectiveness and operating effectiveness have been reached.

3.1.6 Grants and Contributions

PCH manages more than 30 Grants and Contributions (G&Cs) programs which account for over \$1B in the departmental financial statements. Annually, the departmental Account Verification Strategy is updated to consider new risks associated to each G&Cs program and allows for a risk-based payment verification.

In fiscal year 2021-22, the control documentation for the G&Cs business process was updated to reflect the automated controls associated with the Invoice to payment (I2P) workflow in SAP. This new functionality helped PCH improve compliance rates with regards to FAA Section 34 application and auditable evidence to support G&Cs payments.

3.1.7 Revenues

Revenues account for approximately \$10M annually in the departmental financial statement, of which \$5.2M is generated by the Canadian Audio-Visual Certification Office (CAVCO) program and approximately \$2M from the MoU with Parks Canada for the SAP financial system. Other revenues are derived from fees charged for internal support services, conservation treatments through the Canadian Conservation Institute, Capital Experience's rental and loan program. PCH also collects revenues from sponsorship agreements that are recorded as special purpose money.

Vote Netted Revenues (VNR)

VNR are revenues that are used to wholly or partially fund selected programs or activities that produce revenues. More specifically, VNR are used to offset expenditures incurred to provide the service in the same fiscal year that the revenues are received and departments must obtain annual parliamentary authority to be able to spend the revenues. VNR authority is also the mandatory mechanism to be used when PCH provides internal support services that fall under section 29.2 (authority to charge fees) and 29.1(2)(a) (authority to spend revenues) of the FAA. Internal support services are administrative services that support a department or a program and do not include those delivered directly to the public. Related agreements were reviewed in 2021-22 as part of the Joint Agreement process (see process above).

CAVCO

CAVCO co-administers two federal tax credit programs with the Canada Revenue Agency (the Canadian Film or Video Production Tax Credit program and the Film or Video Production Services Tax Credit program) and operates under the VNR authority to fund its services.

In 2021-22, the design effectiveness of CAVCO's activities were documented in collaboration with the Office of the Chief Audit Executive (OCAE) and included the review of the fee collection process and the reimbursement process. The results shown that PCH had the controls in place to ensure fees were collected and processed in accordance with the [Service Fee Act](#), but that the collection process was still manual and paper-based, which increases the risk of manual errors and results in the possibility of insufficient funds cheques being collected.

CAVCO, in collaboration with Accounting Operations and Chief Information Officer Branch (CIOB), has addressed this deficiency by making the Receiver General Buy Button (RGG) available to clients for fiscal year 2022-23. This new acceptance of electronic payments will provide several benefits, including reduced risk of manual error, simplified reconciliation of revenue collected, and the ability to deposit funds the same day.

The next review for this key business process will focus on the risks associated with other revenue streams such as the Rent and loan program (Capital Experience) and revenue-generating services offered by the Canadian Conservation Institute.

3.1.8 Investment Planning

In 2019-20, a new TB Policy Suite was developed for the management of assets and acquired services, including the [Policy on the Planning and Management of Investments](#) and the [Directive on the Management of Projects and Programmes](#). These new policy instruments establish a formal framework for PCH to demonstrate that informed investment decisions are made and that these decisions are implemented through well-managed projects and procurement.

In accordance with these policy instruments, PCH has mandated Senior designated officials (SDO) to oversee the planning and management of investments. The department is currently reviewing its governance model to strengthen investment management processes and related controls.

As these policy instruments were rolled out in 2019-20, the CFO has presented a summary of the changes to PCH governance. The control frameworks and mechanisms in relation to these new requirements will be documented and tested as the department implements the various components of the new policy suite.

The work is planned to begin after the implementation of the recommendations of the Advisory engagement on Planning and Prioritizing of Investments from the Office of the Chief Audit Executive. PCH's capacity to reach the ongoing monitoring stage before fiscal year 2023-24 will depend on its capacity to implement the recommendations stemming from this advisory project.

4. Three-year action plan

Based on the results of PCH’s annual risk assessment exercise, the three-year ongoing monitoring plan was revised:

Table 2. Three-year Ongoing Monitoring Plan

The X indicates the year in which the monitoring for each key control area will take place.

Key Business Processes	2022-23	2023-24	2024-25
Investment Planning	-	X	-
Fraud Management	-	-	-
• G&Cs fraud risk assessment	-	X	-
Salaries fraud risk assessment	-	-	-
Purchases and Payables	X	-	-
Financial Reporting	X	-	-
IT General Controls	-	X	-
Salaries	-	-	X
Grants and Contributions	-	-	X
IT Application Controls	X	-	-
Entity-Level Controls	-	X	-
Capital Assets	-	-	X
Accounts Receivables	-	-	X
Joint Agreements	X	-	-