Public Health Agency of Canada
Agence de la santé publique du Canada

Final Audit Report

Audit of Financial Resource Management

January 2013

Canada

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Executive summary

The objective of the audit was to provide assurance to senior management on the effectiveness of financial resource management including processes and controls related to the initial allocation and reallocation of funds within the Public Health Agency of Canada (the Agency) in accordance with relevant policies, directives and sound planning and budgeting practices.

The audit was conducted in accordance with the Treasury Board of Canada *Policy on Internal Audit* and the *International Standards for the Professional Practices of Internal Auditing*. Sufficient and appropriate procedures were performed and evidence gathered to support the audit conclusion.

Generally, the Agency's processes for the management of financial resources as a whole need moderate improvement. Senior management has provided clear direction on priorities, the level of financial resources available and the nature of the changes that are required to achieve cost reduction objectives. The Agency is currently tasked with implementing business transformation initiatives in the context of decreasing financial resources; nonetheless, managers are focussed on achieving objectives while remaining within the level of available financial resources.

The Agency's ability to effectively allocate and reallocate financial resources depends highly on financial information provided by branches, including forecasted funding shortages or surpluses. In light of the changes the Agency is undergoing, it is important that rigorous processes and tools support the preparation of financial information for financial resource allocation decision-making.

Improvements are required to increase the manager's and the staff's proficiency in financial management, in using the system's capacities, and in streamlining and strengthening the processes and tools related to decision-making for resource allocation. The role of financial management advisors (FMAs) also needs to be better understood and their services uniformly utilized and maximized across the Agency. The preparation of timely internal operational plans reflecting each of the branch and directorate objectives needs to be addressed in order to ensure that proper forecasting can be completed and that available resources are re-distributed to maximize Agency priorities. These internal operational plans should support the development and implementation of branch Agency operational planning (AOP) submissions.

The recommendations in this report are intended to improve the rigor, timeliness and accuracy with which the Agency's financial position is analysed and reported in support of decision-making.

Management attention is required to:

- strengthen the role of the FMA;
- develop and communicate an Agency-wide methodology and tools to assist managers at centre/directorate level in the development of their operational plans that are aligned with AOP submissions and financial resources;
- develop a training curriculum containing mandatory training for managers and staff in the areas of planning, budgeting and forecasting and establish a formal training schedule;
- ensure that Management Variance Reports (MVRs) include grants and contributions information;
- strengthen internal controls related to budget transfers; and
- produce more frequent MVRs to ensure that financial situation reports include information on anticipated expenditures (forecast).

Management has agreed with the six recommendations and provided a detailed action plan that, once implemented, will strengthen the effectiveness of the financial resource management including processes and controls related to the initial allocation and reallocation of funds within the Agency.

A - Introduction

1. Background

An underlying principle of financial management within the Federal Government is that of allocating financial resources. This means that departments and agencies should be reviewing their programs, activities and reallocating financial resources on a continuous basis based on sound information provided by branches on a timely basis, to ensure that they remain relevant to the current environment and provide value to the Canadian public.

The Government of Canada governs the management of expenditures through a framework of legislation and policies, including the *Financial Administration Act* and the Treasury Board of Canada (TB) *Policy Framework for Financial Management*. This framework sets out guiding principles and provides direction with respect to the roles and responsibilities of key stakeholders in the area of financial management, including financial resource allocation.

Key components of the expenditure management cycle include activities such as strategic planning which leads to the initial allocation of financial resources (initial budgets). In-year resource management consists of the reporting and analysis of actual and forecasted expenditures, including the management of new priorities and financial pressures leading to the reallocation of resources.

The Public Health Agency of Canada (the Agency) is the main Government of Canada agency responsible for public health in Canada. The Agency's primary goal is to strengthen Canada's capacity to protect and improve the health of Canadians and to help reduce pressures on the healthcare system. To do this, the Agency works in close collaboration with all levels of government (provincial, territorial and municipal) as well as non-government organizations to build on each other's skills and strengths.

During 2011-12, the Agency conducted a review of its operations in the context of developing its Deficit Reduction Action Plan (DRAP) and realigned certain activities and processes in order to meet spending reduction goals set by Parliament. The financial impact of strategic decisions such as the realignment of some corporate activities to the Agency/Health Canada portfolio of shared services, as well as the Agency's direct expenditure reductions including workforce adjustments have been reflected in its decision with regards to the initial allocation of financial resources for fiscal year 2012-13.

Since 2012-13, the Agency consists of five branches led by three assistant deputy ministers and two director generals. Five other senior executives report directly to the Chief Public Health Officer (CPHO). They are the Chief Science Officer, the Director General, Business Transformation, the Chief financial Officer, the Director General, Office of Public Health Practice and the Director General of Emergency Management and Regulatory Affairs. In addition, the portfolio shared services partnership is accountable to the two deputy heads of the Agency and Health Canada for the delivery of services including audit, communications, evaluation, corporate services, emergency management, financial operations and international affairs.

In fiscal year 2012-13, the resource allocation process started with the initial allocation of financial resources to branches. These branches were to allocate financial resources to directorates and divisions based on divisional operational plans/budgets.

On March 22, 2012, the Emergency Management and Corporate Services Branch issued a call letter to formally launch the Agency Operational Planning (AOP) process. The AOP requires that branches plan their Branch Key Initiatives (BKIs) and key ongoing business activities to be completed for the 2012-13 to 2014-15 planning horizon. The progress of BKIs was to be monitored and reported quarterly to the Executive Committee (EC) to inform senior management of the decisions regarding adjustments to plans and resources. It is important to note that in May 2012, responsibility for leading the AOP was transferred to the Strategic Policy, Planning and International Affairs Branch as part of an Agency reorganization.

The AOP process was developed to seek more strategic, streamlined information while strengthening links to the Corporate Risk Profile (CRP) and the Report on Plans and Priorities (RPP) among other things.

Further financial risks are identified through the Management Variance Report (MVR) process. During the year, call letters are issued by the Office of the Chief Financial Officer (OCFO) to initiate the MVR process. Managers review and analyze actual and forecasted expenditures and identify anticipated deficits or surpluses of funds. Business cases are prepared for anticipated funding shortages that cannot be corrected by budgetary transfers within the Branch authority, and are included on a Financial Pressures and Investment List. This list is a report submitted to the Resource Planning and Management Committee (RPMC) that makes resource transfer decisions to best align resources with the Agency's priorities. In August of 2012, the Agency redesigned its governance structure whereby the role and responsibilities of the RPMC related to financial resource allocation are now with EC.

The following tables outline expenditures (in $000) by fund for 2011-12 and budgets for 2012-13, and the surpluses since the creation of the Agency.

Fund Description	FY 2011-12 Expenditures ($000)	FY 2012-13 Budget ($000)
Salaries and wages	206,442	195,816
Other operating costs	153,854	156,824
Capital	27,234	17,133
Grants and contributions	193,160	198,058
Total:	**580,690**	**567,831**

Source: SAP financial system as of June 11, 2012

History of Surpluses ($000)					
FY	**Salary**	**Operations**	**Total**	**Budget**	**%**
2005-06	5,530	13,669	19,199	286,461	6.7
2006-07	6,809	18,082	24,891	322,361	7.7
2007-08	7,672	21,530	29,202	407,345	7.2
2008-09	2,848	8,245	11,093	368,298	3.0
2009-10	4,497	14,598	19,095	371,032	5.1
2010-11	731	16,914	17,645	378,672	4.7
2011-12	3,296	7,966	11,262	371,166	3.0

Source: Unaudited information provided by the OCFO

2. Audit objective

The objective of the audit was to provide assurance to senior management on the effectiveness of the financial resource management including processes and controls related to the initial allocation and reallocation of funds within the Agency, in accordance with relevant policies, directives and sound planning and budgeting practices.

3. Audit scope

The scope of the audit included an assessment of the Budget Management Framework and its relevant activities including the following:

- the financial planning and budgeting process in place related to the initial allocation and reallocation of financial resources;
- the initial budget allocation and subsequent reallocations of funds throughout the year;
- processes supporting resource allocation decisions rendered by senior management;
- the management of funds received through supplementary estimates (if any) to assess if they are allocated for the purpose specified as per TB authority;
- variance analysis, forecasting and reporting mechanisms in place;
- the management of new financial pressures and investments, lapses and distribution of carry over funds;
- the relevance, accuracy, completeness and timeliness of the information available to management to support resource allocation decisions and decision-making; and
- the resource capacity and tools in place to support the financial resource allocation and reallocation processes.

This audit excluded:

- the strategic planning processes as this will be further examined as part of the Audit of the Agency's Planning Process which is planned for 2013-14; and
- the assessment of the use of funds and compliance with TB decisions prior to 2011-12.

The audit assessed the processes and controls in place during the resource allocation cycle for fiscal year 2012-13. The cycle will be segregated into two components:

- the initial financial resource allocation, including financial planning and budgeting; and
- in-year resource allocation, including forecasting, reporting, management of financial pressures and budget transfers.

4. Audit approach

The audit was conducted from July to August 2012. The audit criteria which are outlined in Appendix A were derived from the Office of the Comptroller General Internal Audit Sector's *Audit Criteria Related to the Management Accountability Framework: A Tool for Internal Auditors* (March 2011) and the following TB policies:

- TB *Policy Framework for Financial Management*;
- TB *Policy on Financial Management Governance*;
- TB *Policy on Financial Resource Management*, *Information and Reporting*; and
- *TB Policy on the Stewardship of Financial Management Systems*.

The audit was carried out at the Agency headquarters in the National Capital Region. The audit methodology included review of documentation, policies, processes, procedures related to financial resource allocation activities; interviews with key Agency personnel as well as representatives of program partners; sampling of transactions; inquiry and analysis.

5. Statement of assurance

In the professional judgment of the Chief Audit Executive, sufficient and appropriate procedures were performed and evidence gathered to support the accuracy of the audit conclusion. The audit findings and conclusion are based on a comparison of the conditions that existed as of the date of the audit, against established criteria that were agreed upon with management. Further, the evidence was gathered in accordance with the *Internal Auditing Standards for the Government of Canada* and the *International Standards for the Professional Practice of Internal Auditing*.

B - Findings, recommendations and management responses

1. Governance

1.1 Governance structure

Audit criterion: *An effective governance structure related to the financial allocation of resources is established, communicated and monitored.*

The Treasury Board (TB) *Policy Framework for Financial Management* and its related policy instruments specify the roles and responsibilities of key stakeholders in financial management, including the Deputy Head, the Chief Financial Officer (CFO) and senior departmental managers.

The TB *Policy on Financial Management Governance* sets the responsibilities with respect to financial management governance and capabilities and provides deputy heads with a clear outline of what they can expect of their CFO and senior departmental managers. The Policy states that government organizations should establish a sound financial management governance structure to foster the prudent stewardship of public resources in the delivery of their mandate.

Through the audit, it was determined that the Public Health Agency of Canada (the Agency) had a sound financial management governance structure in place to support the financial allocation of resources. This included an Executive Committee (EC) and a Resource Planning and Management Committee (RPMC), which is a sub-committee of EC. EC serves as a forum for guidance, leadership and final decision-making for the Agency, including key financial management issues. The RPMC played a leadership role in financial oversight and challenge functions related to business planning, resource allocation and reallocation.

The membership of the Agency's governance committee structure and the mandate and terms of reference of EC and the RPMC are clearly communicated on the Agency's intranet site.

The alignment of activities and resources with Agency priorities is formalized through the Program Alignment Architecture (PAA) (subsequently renamed the "Program Alignment Architecture" by the TB), the Report on Plans and Priorities (RPP), the Corporate Risk Profile (CRP), SAP financial budget allocations and the Agency Operational Planning (AOP) process.

The assessment of records of decisions indicated that the RPMC, which held regular meetings, was operating within its mandate and that decisions were documented and communicated. This Committee is chaired by the Associate Deputy Minister (Associate DM).

During 2011-12, the Agency created the Business Transformation Office (BTO) whose mandate is to develop and monitor cost savings initiatives, a staged cost reduction implementation plan, a business transformation plan and a work force adjustment plan for fiscal years 2012-13 to 2014-15. The BTO's functional direction was provided by the Associate DM. It also reports to EC to the Chief Public Health Officer (CPHO).

Interviews revealed that the BTO worked in collaboration with the Assistant Deputy Minister (ADM) Steering Committee, which was supported by a coordinating team composed of branch managers. During this exercise, regular meetings were held with branch representatives and the ADM Steering Committee. Cost reductions scenarios were tabled and discussed in order to arrive at the Agency's final allocation of resources for 2012-13. Specific recommendations were tabled and approved by EC. It was confirmed that the Agency's final Deficit Reduction Action Plan was documented through a funding proposal that was endorsed by EC members and signed by the CPHO. The funding proposal was approved.

In fiscal year 2011-12, the RPMC continued to make in-year resource allocation decisions, and approved the 2012-13 initial allocation of financial resource that is to say budgets as tabled by the Office of the Chief Financial Officer (OCFO) in April 2012.

At the branch level, once the initial budget allocations were approved by the RPMC and allocated, the budgets were then distributed by the ADMs at the Director General, Director and Manager levels. The method of determining the initial allocation varied between branches, from the preparation of zero-based budgets and internal operational plans, to the analysis of historical spending trends.

In August 2012, the Agency completed a revision of the governance structure. The purpose of this renewal was to bring innovation and discipline to the advancement of the Agency's policy and management objectives, in concert with the strategic priorities of the Government and the Minister, and to fully engage all Agency executives into the management of the Agency's agenda. Since August 2012, the RPMC no longer exists and its primary mandate is now part of EC. The organizational chart containing the new structure is available on the Agency's intranet site; however the revised terms of reference of EC have not yet been published.

In conclusion, the Agency has an effective and established governance structure related to the financial allocation of resources which is well communicated and monitored by senior management. The Agency's governance structure meets the audit criteria in all material aspects.

1.2 Authority and accountability

Audit criterion: *Authority, accountability and responsibilities with regards to budgeting and forecasting, as well as financial resource allocation decision-making are clear, communicated and understood.*

The TB *Policy on Financial Management Governance* states that all stakeholders are expected to be aware and have a clear understanding of their roles, responsibilities and accountabilities for the financial management and stewardship of public resources. This is achieved by clarifying the roles and responsibilities of the Deputy Head, the CFOs, and senior departmental managers. Senior managers have direct responsibility for their respective branches and play a wider role as part of the management team of the Agency as a whole.

The Agency relies on TB policies and directives to provide direction with regards to the overall accountabilities and responsibilities of the individuals involved in financial management. Authorities related to in-year financial resource allocation budget transfers are explained through the Budget Transfer Request form, and Management Variance Reporting (MVR) call letters provide direction in relation to forecasting. However, there are no guidelines or direction in relation to initial financial resource allocation, the preparation of budgets or internal operational plans within branches.

Budgeting and resource allocation

Until August 2012, the initial allocation of financial resources to branches and in-year financial resource reallocations related to the use of the corporate reserve to fund branch requests were based on RPMC decisions. As stated previously, those roles and responsibilities are now part of EC's mandate since August 2012.

At the branch level, financial resources are initially allocated to directorates and divisions based on operational needs.

Authorities related to in-year resource reallocation at all levels are understood and communicated through instructions included on the Agency's Budget Transfer Request form.

There were no Agency specific directives or guidelines describing branch authority, accountability and responsibilities with regards to budgeting and initial resource allocation. Such roles and responsibilities would normally be documented and communicated in an Agency specific Financial Management Framework (FMF). A 2011 internal audit report on the Agency's FMF contained the following recommendation to this effect:

> "*The Chief Financial Officer should define, document and implement a financial management framework that is consistent with the Treasury Board Policy on Financial Management Governance and that addresses the specific roles, and responsibilities of all those involved in financial management, including senior management.*"

At the time of the audit, no progress has been made by the CFO on this recommendation.

Forecasting

Forecast information is prepared during the MVR process. MVRs are prepared in all branches at the division level by directors and cost center managers, with the assistance of administrative officers and business managers.

The MVR process is a review of the financial position of business units and can be conducted down to the cost center level. The MVR methodology consists of estimating the level of total funding required to conduct program activities over the fiscal year by comparing actual expenditures and commitments at the end of a period against internal operational plans. Managers then estimate anticipated expenditures for the remainder of the fiscal year and identify corresponding lapses or deficits.

Responsibilities with regards to forecasting and the preparation of MVRs are communicated through call letters issued by the OCFO. In addition to the MVR call letter, some branches have developed additional guidelines and instructions to provide support to managers for the MVR process.

Since 2011-12, specific and measurable financial management accountability objectives have been included in the executive performance management agreements. Performance measures such as those related to effective budget management, accurate and timely forecasts and performance targets have been implemented.

Branches are also supported by their assigned Financial Management Advisor (FMA) who provides advice and guidance and participates in the challenge process. The role of the FMA is to provide support in the conduct of the MVR process, tactical advice to branch managers on financial management matters, and to challenge the probity of amounts recorded as commitments and anticipated expenditures. The service provided by FMAs is essential to the promotion of sound financial management practices across the Agency.

A review of the work performed by FMAs revealed that financial information was properly analysed and challenged. FMAs provide regular feedback to the CFO on financial information. Interviews with branch managers and staff revealed that in some branches, the support provided by FMAs is not always to the level that is expected nor is the role and purpose of the FMA clearly understood. That is to say that the integration and support provided by FMAs in the financial management process varies between branches. Program managers and FMAs do not consistently work in a collaborative manner to ensure that the FMAs understand branch business and provide guidance, support and mentoring to managers. FMA roles and responsibilities are described through job descriptions; however, they are not communicated and discussed with branch leads. Also, no platform exists to allow branches and the CFO to clearly express their expectations, and to integrate the FMA into their financial management process.

In conclusion, authorities, accountability and responsibilities related to forecasting are documented and communicated through call letters related to the MVR process. However, authorities, accountability and responsibilities related to budgeting and financial resource allocation are not documented and communicated at the branch level. Moreover, FMA roles and responsibilities are not clearly communicated.

Recommendation 1

It is recommended that the Chief Financial Officer, in consultation with branch leads, clearly articulate and communicate the Financial Management Advisor roles, responsibilities and the level of service provided.

Management response

Management agrees with the recommendation.

Documentation will be prepared for Executive Committee to discuss the roles of the Office of the Chief Financial Officer and of the financial management advisors relating to the financial management of the organization and of the branches. Meetings will be set up with branches to discuss the Financial Management Advisor role and the services that are available. Additional information about the role and services of the Financial Management Advisor will need to be communicated on an ongoing basis through the development of financial management training as well as the participation of financial management advisors at branch management tables.

2. Risk management

2.1 Operational plans and objectives

Audit criterion: *The financial impact of decisions and plans aimed at achieving the Agency's priorities have been reflected in the level of resources allocated. The activities, schedules and resources required to achieve objectives have been integrated into the budget.*

Financial impact of decisions and plans

The TB *Policy on Financial Resource Management, Information and Reporting* states that departments and agencies are expected to manage public funds well by effectively planning, and making decisions on the allocation, reallocation and the use of financial resources, based on reliable information and a sound analysis of that information. It is therefore important that the allocation of financial resources reflects the impact of the strategic decisions intended to achieve departmental and governmental priorities.

At the beginning of 2012-13, financial resources were allocated to branches and entered in the Agency's SAP financial system, based on historical expenditure levels adjusted by the financial impact of the cost reduction and business transformation initiatives. The Deficit Reduction Action Plan was developed at the outcome of a review of the Agency's operations to meet expenditure reduction objectives for the years 2012-13 to 2014-15.

At the start of 2011-12, the Agency took the initiative to launch an operations review process to elaborate a list of activities that would be deemed as priorities in the hypothetical context of a significant reduction in funding. As a result, a series of cost reduction opportunities and business transformation initiatives were identified throughout the Agency. The subsequent development of cost reduction initiatives later in 2011-12 was an Agency-wide consultative process conducted by the BTO, under the supervision of the Associate Deputy Minister, with direction/approval provided by EC. The methodology consisted in investigating the feasibility of potential cost reduction opportunities previously identified in consultation with a coordination committee composed of senior managers across the Agency and the ADM Steering Committee.

This process resulted in the development of a series of cost reduction initiatives summarized into major recommendations. For each initiative, the Agency identified the impacted business unit, a brief description of the initiative and an estimate of savings over fiscal years 2012-13 to 2014-15.

Further adjustments were made to the level of financial resources due to business transformation initiatives that included the rationalization of activities between the Agency and Health Canada, and the creation of the new Portfolio shared service partnership.

Initial budgets for 2012-13 were then approved by the RPMC early in April of 2012-13 and entered into the SAP financial system in May 2012. The Agency's financial system provides tools to monitor the budget and financial position by fund (Salary, Operating, Capital, Grants and Contributions) down to the division and project level.

Three of 12 TB supplementary submissions totalling $ 28.4M for fiscal year 2011-12 and 2012-13 were also audited and it was concluded that all funds received through this process had been utilized for the approved purpose specified by TB.

In conclusion, the financial impact of strategic decisions aimed at achieving the Agency's strategic objectives have been reflected in the level of financial resources allocated through the SAP financial system.

Internal operational plans

The audit of the Agency's planning process regarding the initial allocation of resources revealed that the following information was communicated to branches:

- The Agency's budget was entered in the SAP financial system at the branch level; and
- actionable initiatives were communicated to branches, and clearly reflected the financial impact on the business units that were impacted.

Branch budgets were then distributed by the ADMs to the directorate, division and project levels. They were to be allocated once internal operational plans were discussed and agreed to. The internal operational plans that would provide details on the activities and resources required to achieve objectives were requested from five directorates within three branches.

Descriptions of actionable initiatives were developed at a high operational level with little guidance or details on actual implementation. Business units were in the process of developing plans to implement and operationalize some of the initiatives and therefore, internal operational plans were not finalized. The plans provided by branches varied significantly in the degree of completion, form, level of detail and integration with financial resources and Agency planning tools. Some branches were unable to provide examples of internal operational plans at the time of the audit.

There is no Agency-wide guidance to assist managers at the centre/directorate level in the development of internal operational plans and to ensure that they are linked to budgets. However, branches have developed various templates and tools to assist managers in the preparation of operational plans. In the absence of guidance, there is an increased risk that internal operational plans may not effectively support the achievement of the Agency priorities.

Agency operational planning

On March 22, 2012, the Agency launched a new AOP Process which replaced the Integrated Operational Planning (IOP) Process that was introduced in 2008.

AOP is designed to focus on "… *key work by branch to demonstrate what the Agency is doing to realize its priorities*". The stated objective of the AOP with regards to financial resource allocation is to: "*Provide information for a resource reallocation process throughout the year*."

AOP will be the vehicle used to report progress on BKIs to EC at the branch level, in support of decision-making regarding any adjustments required to plans and resources. The call letter launching the 2012-13 AOP Process states that the monitoring and reporting of progress will be conducted on a quarterly basis. This reporting was intended to help inform resource reallocation exercises, the development of the 2013-14 AOP and 2013-14 RPP submissions, as well as the 2012-13 Departmental Performance Report. On April 25, 2012, EC decided to cancel the process reporting for the 1st quarter in favour of mid-year review in the 2nd quarter in late October 2012.

Branches are required to develop AOP submissions that summarize key significant work in the form of BKIs. These BKIs are time lined on a quarterly basis from 2012-13 to 2014-15. Some of them are directly linked to the planning highlights included in Section II of the RPP that are applicable to the branch. Others that are not linked to the RPP planning highlights can also be developed and included in the AOP submissions. The key branch risks and their treatment relatively to the CRP and BKI implementation are integrated within the AOP submissions.

AOP provides branch financial budget information by fund, and BKI planned expenditures. In many submissions, branches did not fully complete the BKI planned expenditures since the SAP financial system had not been structured to enable the tracking of and reporting on BKI expenditures. Therefore, as it stands, AOP is not conducive to support resource allocation decisions. Management needs to consider using internal operational plans as the preferred tool to detail activities in support of the development and implementation of branch AOP submissions. The AOP process is at its infancy; it is designed to ensure that program activities are aligned with Agency priorities. Financial control processes such as the MVR have been developed to closely monitor the financial activities of the Agency and its financial position.

In conclusion, internal operational plans do not ensure that the activities and resources required to achieve objectives are documented and aligned with branch AOP submissions.

Recommendation 2

> *It is recommended that the Assistant Deputy Minister, Strategic Policy, Planning and International Affairs Branch work closely with the Chief Financial Officer and branch heads to develop and communicate an Agency-wide methodology and tools to assist managers at the centre/directorate level in the development of their operational plans that are aligned with Branch Agency Operational Plan submissions and financial resources.*

Management response

Chief Financial Officer management agrees with the recommendation as it relates to the financial portions of the Agency operational planning exercise. The Agency operational planning is relatively new and a complete mapping of financial resources to the new Program Alignment Architecture is being done with the branches for the 2013-14 Agency operational planning exercise.

The above Program Alignment Architecture information will be mapped in the Controlling (CO) module of the SAP financial system down to the lowest levels in the organization. This will essentially constitute the financial portion of the internal operational plan for the organization.

The Assistant Deputy Minister - Strategic Policy, Planning and International Affairs Branch, the Chief Financial Officer, and all branch heads agree with the recommendation. The Strategic Policy, Planning and International Affairs Branch will work collaboratively with the Office of the Chief Financial Officer and all branches to develop and communicate an operational planning methodology and tools.

2.2 Risk identification and mitigation

Audit criterion: *Mechanisms exist to identify and report on risks, allowing management to monitor and respond to such risks by allocating/reallocating financial resources in a timely manner, to facilitate the achievement of objectives/results in line with the Agency's priorities.*

Risks are identified and reported at various stages of the Agency's business cycle.

Strategic risks

The Agency's overarching risk management document is the CRP, which is used to identify key strategic risks that could impact the achievement of the Agency's objectives, and to develop strategies to mitigate undesired results. The Agency's CRP is developed every three years and is refreshed annually to ensure that it is evergreen and that it reflects the risks related to the Agency's changing environment. The last CRP was approved in October 2011 and is currently being revised for 2012. A draft version of the 2012 document was made available to the auditors.

The RPP describes how the Agency aims to achieve its strategic outcome supported by activities as specified in the PAA. It also identifies organizational priorities that are linked to the Agency's PAA. The RPP includes an analysis of the risks associated with the strategic outcome and links program activities with the risks identified in the Agency's CRP.

Branch AOP submissions further describe the key risks that can have an impact on the achievement of objectives and the BKIs developed to mitigate those risks. The AOP Overview Guide provides instructions on the conduct of environmental scans, the identification of branch specific risks and the development of BKIs to mitigate those risks (including those described in the CRP and RPP) in order to achieve branch objectives. Monitoring of the Agency's progress on BKIs is expected to be conducted through the AOP quarterly reporting process. As discussed previously in Section 2.1 of this report, AOP tracking consists of quarterly reporting on the progress of BKIs.

Operational risks

Business units receive a budget through the Agency's initial financial resource allocation process. They are expected to develop operational plans that describe activities to be conducted during the course of the fiscal year in support of branch priorities and objectives.

Once financial resources have been allocated at the beginning of the fiscal year, the detection of financial risks related to operations is accomplished through the MVR process. This process consists of the identification, by business unit, of anticipated funding deficits or surpluses and takes into consideration the level of resources allocated to conduct assigned program activities to achieve branch and Agency objectives.

The CFO also prepares financial situation reports that are presented to EC on a monthly basis to illustrate the Agency's utilisation of funds and to identify any surpluses or shortfalls that may require management's attention.

Forecasting of anticipated expenditures is also an essential component of the MVR process. MVRs are reviewed and challenged by management at the branch, directorate, division and EC levels. The information is used to identify operational and financial risks, develop mitigating strategies or support resource reallocation decisions at the branch or RPMC level.

Budget transfers are documented through the use of the Budget Transfer Request form. Requests for resource reallocation that exceed branch authority are submitted to the RPMC (or EC since August 2012) through a pressures and investment list. Each request on the pressures and investment list is supported by a business case prepared by branches. Business cases are reviewed by the OCFO and finalized in collaboration with branches.

The RPMC meets monthly where decisions are made and documented. All budget transfers are recorded in the SAP financial system by the OCFO.

In conclusion, subject to the preparation of sound internal operational plans discussed previously, the Agency's mechanisms to identify and report on risks allow management to monitor and respond to such risks in a timely and efficient manner. Risk identification reporting and monitoring mechanisms meet the audit criteria.

3. Internal control

3.1 Guidance, tools and training

***Audit criterion:** The organization provides employees with the necessary training, guidelines, tools, resources and information to support the discharge of responsibilities in the area of resources management, that is to say planning, budgeting and forecasting.*

Managers are required by the Agency to participate in mandatory training in order to obtain their financial delegation of authorities. In addition, training is conducted internally in the following areas:

- FMAs provide guidance and support to managers on financial matters including the analysis of budgets, the preparation of TB Submissions and business cases.
- The Center for Grants and Contributions (G&Cs) provided training to program officers and managers on all aspects of the management of the G&Cs' life cycle. This training covers the financial management aspect of G&Cs including forecasting. In 2011-12, training was delivered across Canada, with the exception of one region, where training was cancelled due to other emerging priorities. Standard operating procedures for G&Cs have been developed and are being implemented across the Agency.

Management has the responsibility to make necessary arrangements for any additional financial management training requirements.

In the area of forecasting, the OCFO issues a call letter to initiate the MVR process. The MVR call letter provides timelines, detailed instructions and templates to support the process. Once completed, these templates constitute the supporting information for the anticipated expenditures in the MVR. The MVR call letter also solicits investment proposals for RPMC approval. This process includes ensuring that year-to-date expenditures, outstanding commitments and anticipated expenditures are accurate and complete and that the overall MVR forecast is realistic in light of allocated budgets and operational plans.

Formal financial training sessions have been provided to all administrative officers from 2008 to 2010. The administrative officers provide support to managers in the area of forecasting. Since 2010, the OCFO provides coaching and training to new administrative officers as required, based on the financial management knowledge of each individual.

Through interviews, it was determined that additional training in financial management, more particularly in the area of planning, budgeting and forecasting activities, would be beneficial for all personnel involved in these processes. Training would strengthen competencies and support the effective utilization of the SAP financial system functionality.

The OCFO recognizes that additional Agency financial management training would be beneficial. However, due to a shortage of resources, additional financial management training has not recently been delivered.

In conclusion, training is occurring but in an informal fashion in the absence of an Agency-wide formal training plan for financial management. There is no integrated learning strategy for the Agency managers and staff in the area of planning, budgeting and forecasting. However, it should be noted that the 2011 Audit of the Financial Management Framework recommended that an overarching continuous learning plan be developed to support managers and employees.

Recommendation 3

> *It is recommended that, the Chief Financial Officer develop a training curriculum for mandatory training for managers and staff in the area of financial planning, budgeting and forecasting and that a formal training schedule be established.*

Management response

Management agrees with this recommendation. The Office of the Chief Financial Officer will work with Health Canada to determine optimum training for managers and staff in the areas of financial management.

3.2 Plans and forecasts

Audit criterion: *Effective processes exist at the appropriate level of detail for the preparation of timely budgets and for the analysis of financial information regarding actual and forecasted expenditures.*

The TB *Policy on Financial Resource Management, Information and Reporting* states that the Deputy Head is responsible for ensuring effective oversight of the Department's financial plan and related allocations of its resources and for making decisions based on the sound analysis of reliable information. The CFO ensures that the departmental planning, budgeting, monitoring and reporting processes are effective and consistent with direction from central agencies. The CFO provides independent advice on the reliability of supporting financial information.

The analysis of financial information is conducted mainly through the MVR process. During 2011-12, the OCFO launched two formal MVR processes in early September and November 2011. At the time of the audit, one MVR had been conducted for 2012-13 as at

May 31, 2012, and the OCFO was preparing to conduct a second MVR as at August 31, 2012. The minutes of the April 3, 2012 RPMC meeting indicate that during 2012-13, a total of seven MVRs will be conducted in the months of May, August, October, December, January, February and March.

At the outset of the MVR processes, financial situation reports are prepared and presented to RPMC and EC. During interim periods when MVRs are not conducted, the OCFO prepares financial situation reports based on information extracted from the SAP financial system and from parallel information sources for G&Cs. These reports are presented to senior management on a monthly basis.

Similarly, in 2011-12, in the absence of formal MVR processes launched by the OCFO, branches generally conducted monthly financial position reviews and used various tools from simplified MVRs to dashboards and in-house templates to review actual expenditures, commitments and forecast expenditures. In one instance, a platform has been developed to generate monthly “dashboards’’ that each individual director uses to illustrate the status of their program activities and also to monitor the financial situation. This initiative required a substantial amount of effort to develop. The frequency of reviews conducted internally by branches generally increased during the year in order to ensure that funding shortages and surpluses were identified at the branch or directorate level.

The fact that financial position reviews were conducted within branches during interim periods demonstrates the need for more frequent MVRs. The development and use of multiple tools across the Agency may create duplication of effort and inconsistencies in the methodology used to analyze financial information. Furthermore, financial information resulting from informal MVRs is not consistently entered in the MVR module and is not available for the production of financial situation reports presented to EC. During interviews, many managers clearly indicated that they would endorse the conduct of regular MVRs and that they would use the information to manage their individual programs. This would allow for the elimination of duplicate tools.

According to the information obtained from the OCFO, MVRs can be produced every month or more frequently, if required, using the Agency's formal tool. However, not all managers are aware of this feature.

Grants and contributions and the MVR process

Although G&Cs represent approximately one third of the Agency’s total budget, the financial position of G&Cs is not consistently reflected in every MVR. Call letter instructions for the production of the 2012-13 May MVR did not include G&Cs. The OCFO does however include G&Cs information in the monthly Financial Situation Report presented to RPMC (to EC since August 2012).

The systems used by the stakeholders to monitor G&Cs are not integrated. Payments are processed through the SAP financial system however, planned expenditures are tracked through various templates and tools outside the MVR process. Managers maintain their own records outside the MVR module in order to monitor the financial activities pertaining to G&Cs. Similarly, the Center for G&Cs also uses a separate system to manage the process and to monitor the overall G&C financial position. The Center for G&Cs works closely with managers to reconcile and update information and to provide accurate financial information used in the preparation of monthly financial position. This process requires considerable effort by all involved. It was confirmed that a new integrated system for the management and monitoring of G&Cs will be in place within the next 18 months.

The MVR tool offers the functionality to monitor the financial position of G&Cs. The inclusion of G&Cs to the MVR processes would streamline and strengthen the financial analysis, forecasting and reporting process.

Support from administrative officers

At the directorate level, the administrative officer community was responsible for administrative and support services at the directorate and division levels. This included the processing of financial services such as financial commitments and data input into the SAP financial system in order to monitor the budget situation of the directorates and divisions, completing human resource (HR) and contract related documentation as well as other duties.

The Agency is currently going through an important transformation of administrative and financial support functions within branches. One transformation initiative consists in creating a central Administrative Services Division at the branch level that will provide support to managers in the areas of financial management, HR, contracting and other administrative services, which were previously provided by administrative officers at the directorate level.

This initiative comprises specific cost and work force reduction targets and is intended to standardize processes amongst the various directorates and cost centers. However, at the time of the audit, minimal support services were being provided to directorates and divisions by branch corporate services divisions.

Due to the temporary reduction in services provided by administrative officers, managers are having difficulties obtaining the financial information required to monitor their individual programs in an effective and timely manner.

Incomplete internal operational plans

As previously reported, at the time of the audit, most business units had not completed internal operational plans. Anticipated expenditures are based on the manager's knowledge of his or her operations. However, in the absence of sound internal operational plans, there is a risk that MVR forecasted expenditures may not be properly supported and may not provide accurate financial information in support of decision-making.

In conclusion, MVRs do not consistently include the G&C information required to provide a complete overview of the Agency's financial situation. Resource allocation and reallocation decisions must be supported by sound and complete financial information, including G&C financial information.

The following initiatives that were planned by management prior to the audit, will contribute to improve the rigor and consistency with which quality of financial information is developed and reported:

- An integrated financial management system for G&Cs should be implemented (the implementation of a new system is planned in 18 months);
- the deployment of support services from the Administrative Services Division at the branch level (deployment is imminent); and
- the conduct of MVRs on a more frequent basis (more frequent MVRs are planned for 2012-13).

Recommendation 4

It is recommended that the Chief Financial Officer ensure that all management variance reports include grants and contributions information to produce complete and timely financial forecasts.

Management response

Management agrees with this recommendation.

Since August of this year the Resource Management and Analysis Division and the Centre for Grants and Contributions have now amalgamated the grants and contributions information requirements (expenditures to year end) as part of the Monthly Variance Report process, thus eliminating some duplicative efforts within the Office of the Chief Financial Officer.

Budget transfers

Budget transfer authorities and procedures are described and communicated through the “Budget Transfer Request form”. The form is completed every time a budget transfer is required. Once they are authorized, the OCFO records the transfer in the SAP financial system. Budget transfers are authorized by the RPMC (EC since August 2012) or can initiate from a branch. This form is a key control to ensure that transfers are properly documented and authorized and it also ensures that budget transfers are properly communicated.

During interviews, it was noted that in some business units, all budget transfers require supervisor approval in addition to the levels of authority required in accordance with the Budget Transfer Request form.

A sample of 23 budget transfer documents were reviewed to determine whether procedures and instructions were being followed and authorized signatures applied in accordance with the instructions for processing budget transfers.

For 43% of the budget transfer transactions audited, documents were not signed as required by either the sender or receiver of the transaction. In one case, it was signed by a person that did not have the appropriate level of authority prior to processing the transaction. It was noted that there are no instructions regarding which signatures are required on the transfer form once a budget transfer is authorized by the RPMC (EC since August 2012). There is a risk that transfers not properly authorized and documented may not be aligned with Agency priorities.

The instructions with regards to budget transfers within branches are quite clear and budget transfer request forms can be obtained from the OCFO.

In conclusion, the procedures to authorize budget transfers require some improvement in order to ensure that transfers are properly authorized, documented and communicated and that they reflect Agency priorities.

Recommendation 5

It is recommended that the Chief Financial Officer strengthen internal controls related to budget transfers.

Management response

Management agrees with this recommendation.

The internal policy on budget allocation was last approved in 2008. This policy needs to be revised and brought to management for approval. Some of the roles within the Resources Management and Analysis Division will be strengthened to ensure that the necessary signatures are available on all transfer documents.

3.3 Challenge and monitoring functions

Audit criterion: *Effective and timely processes exist to monitor results against plans and challenge assumptions related to forecasted expenditures, including the review of ongoing commitments in support of the decision-making for resource allocations.*

The TB *Policy on Financial Resource Management, Information and Reporting* states that departments and agencies are expected to manage public funds well through effective planning, budgeting, and through making decisions on the allocation, reallocation and use of financial resources based on reliable information and on a sound analysis of that information. CFOs must ensure that departmental planning, budgeting, monitoring and reporting processes are effective and provide independent advice on the reliability of supporting financial information to the Deputy Head as the Departmental Accounting Officer.

Processes to monitor results against plans and to challenge assumptions exist at the Agency. The MVR process allows the Agency to estimate the level of funding required to conduct program activities over the fiscal year.

As mentioned in Section 3.2, the MVR process is a review of the financial position of business units and can be conducted down to the cost center level. The methodology consists of estimating the level of total funding required to conduct program activities over the fiscal year by comparing actual expenditures and commitments at the end of a period against operational plans. Managers then estimate anticipated expenditures for the remainder of the year and identify corresponding lapses or deficits.

MVR call letters include instructions along with Agency-wide standard templates that must be completed to support MVR forecasts.

MVR information is challenged at various Agency levels. Once commitments are reviewed and updated, MVR standard templates are populated by administrative officers at the manager and division levels. Business managers/planners review forecasted expenditures and commitments with directors and managers and challenge the likelihood of completing activities forecasted by the end of the fiscal year. MVRs are then presented to director generals (DGs) where forecasts are further discussed and resource allocation decisions are made as required. The DGs sign-off on MVRs once they are satisfied with the information contained in them.

After this initial DG sign-off, FMAs review the MVR and discuss assumptions supporting the commitments and forecasts with the DGs. In some cases, FMAs discuss MVR information with assistant deputy ministers (ADMs) and participate at the Branch Executive Committee (BEC), however, this practice is not consistent across the Agency. FMAs report their findings back to the CFO who assesses the reliability of the supporting financial information. The CFO then provides EC with advice and an independent assessment of the Agency's financial position. This is done through monthly financial situation decks.

We noted that the FMA role and responsibilities do not seem to be implemented in a standardized fashion across the Agency. In some cases, the FMA is a regular member of the BEC and actively participates in branch management discussions by providing tactical advice on financial matters as required, while in other cases, the FMA is not always consulted and/or known to the managers. Some FMAs appear to provide services mostly at the branch level only, while others assist DGs and other managers with their respective financial management requirements and follow-up on the decisions resulting from those discussions. See Recommendation 1 made in relation to the role of the FMA.

In 2012-13, due to the significant number of changes, individuals have been identified as the lead in charge for the implementation of each initiative. In addition to MVRs, the BTO has developed a dashboard that will be used as a tracking tool for the progress of the implementation of cost reduction measures and business transformation initiatives. Although the dashboard is not a tool related directly to financial resource allocation, it is a good practice as it demonstrates discipline and leadership from management to achieve its cost reduction objectives.

In conclusion, the role and use of FMAs needs to be clarified and strengthened. This issue has been addressed through Recommendation 1 of this report. Otherwise, effective and timely processes exist to monitor results against plans and challenge assumptions related to forecasted expenditures, including the review of ongoing commitments, in support of decision-making for resource allocations. These challenge and monitoring functions meet the audit criteria.

3.4 Reporting financial information

Audit criterion: *Effective processes exist to inform senior management of the Agency's financial position, including information regarding budget/resource transfers approved within branches. Reviews of results achieved against expectations are conducted by senior management in a timely manner.*

The Agency has a formal process to inform senior management on its financial position. The OCFO prepares monthly financial situation reports for presentation at RPMC and/or EC. These reports are prepared at the outset of MVRs. When MVRs are not conducted, financial situation reports are prepared based on information extracted from the SAP financial system and from other sources of information for G&Cs. In 2011-12, mid-year review reports were prepared at the outset of an MVR formal process. Mid-year review reports present a complete picture of the Agency's financial position and provides information at the branch level, including information on year-to-date expenditures, outstanding commitments, anticipated expenditures and forecasted surpluses and deficits.

The information provided in financial situation reports prepared during interim periods, (when MVRs are not produced) focuses on year-to-date expenditures versus current budgets and the comparison of year-to-year spending trends. In 2011, anticipated expenditures were presented in the September, November and December reports. The December anticipated expenditures were an image of the November forecast. Therefore, senior management was only presented with a full view of the Agency's financial position for the month of September and November of 2011-12.

With respect to 2012-13, minutes of the April 3, 2012 RPMC meeting indicated that during 2012-13, a total of seven MVRs (May, August, October, December, January, February and March) were to be conducted. More frequent MVRs will enable the OCFO to prepare more accurate and complete financial situation reports.

In conclusion, financial situation reports prepared in the 2011-12 did not consistently present a full view of the Agency's financial position. The implementation of an Agency-wide methodology and tools to assist managers at the centre/directorate level in the development of their operational plans (as described under Recommendation 2) in conjunction with the preparation of more frequent MVRs, will improve the accuracy and completeness of the financial information provided to senior management.

Recommendation 6

It is recommended that the Chief Financial Officer produce more frequent management variance reports to ensure that the financial situation reports presented to senior management include the Agency's anticipated expenditures (forecast) in order to provide the complete financial information required to support decision-making.

Management response

Management agrees with this recommendation.

Ultimately, the frequency of monthly variance reports will be decided by the Executive Committee. Please note that with the available tools, the monthly financial forecasts at the Agency level is labour intensive for both the branches and the Resources Management and Analysis Division.

The Monthly Variance Report tool will be made accessible to managers on a monthly basis. The Chief Financial Officer will place higher focus on forecasting during the critical period when budget reallocation can be most effective, that is to say between July and November.

C - Conclusion

The allocation of financial resources for 2012-13 is the result of an in-depth strategic and financial planning process where the Agency reviewed its operations and re-evaluated its priorities. A recurring theme throughout the audit has been the fact that the Agency is going through significant transformations.

One of the key factors in successfully delivering on priorities while implementing those changes and still remaining within budgetary limits is the ability to make resource allocation decisions based on timely and accurate financial information.

The audit found that, subject to the recommendations in this report, processes and controls related to the initial allocation and reallocation of funds within the Agency are effective. Senior management has provided clear direction on priorities, the level of financial resources available and the nature of the changes that are required to achieve cost reduction objectives and managers at all levels are focused on delivering on these objectives.

However, it should be noted that improvements are required to increase the proficiency of managers and staff regarding financial management and in using the system's capacities, in streamlining and in strengthening the processes and tools related to decision-making for resource allocation. It is also important that the role of financial management advisors (FMAs) needs to be better understood and that their services need to be uniformly utilized and maximized across the Agency. The preparation of timely operational plans reflecting each branch and directorate's objectives needs to be addressed in order to ensure that proper forecasting can be completed and that available resources are redistributed to maximize Agency priorities.

The recommendations in this report are intended to improve the rigor, timeliness and accuracy with which the Agency's financial position is analysed and reported in support of decision-making.

Management attention is required to:

- strengthen the role of the FMA;
- develop and communicate an Agency-wide methodology and tools to assist managers at the centre/directorate level in the development of their operational plans that are aligned with the Branch Agency Operational Plan submissions and financial resources;
- develop a training curriculum of mandatory training for managers and staff in the areas of planning, budgeting and forecasting and establish a formal training schedule;
- ensure that management variance reports (MVRs) include grant and contribution information;
- strengthen internal controls related to budget transfers; and
- produce more frequent MVRs to ensure that financial situation reports include information on anticipated expenditures (forecast).

Management has agreed with the six recommendations and provided a detailed action plan that, once implemented, will strengthen the effectiveness of financial resource management including processes and controls related to the initial allocation and reallocation of funds within the Agency.

Appendix A – Lines of enquiry and criteria

Audit of Financial Resource Management	
Criteria Title	**Audit Criteria**
Line of Enquiry 1: *Governance*	
1.1 Governance structure	An effective governance structure related to the financial allocation of resources is established, communicated and monitored.
1.2 Authority and accountability	Authority, accountability and responsibilities with regards to budgeting and forecasting, as well as financial resource allocation decision-making are clear, communicated and understood.
Line of Enquiry 2: *Risk Management*	
2.1 Operational plans and objectives	The financial impact of decisions and plans aimed at achieving the Agency's priorities, have been reflected in the level of resources allocated. The activities, schedules and resources required to achieve objectives have been integrated into the budget.
2.2 Risk identification and mitigation	Mechanisms exist to identify and report on risks, allowing management to monitor and respond to such risks by allocating/reallocating financial resources in a timely manner, to facilitate the achievement of objectives/results in line with the Agency's priorities.
Line of Enquiry 3: *Internal Control*	
3.1 Guidance, tools and training	The organization provides employees with the necessary training, guidelines, tools, resources and information to support the discharge of responsibilities in the area of resources management, that is to say planning, budgeting and forecasting.
3.2 Plans and forecasts	Effective processes exist at the appropriate level of detail for the preparation of timely budgets and for the analysis of financial information regarding actual and forecasted expenditures.
3.3 Challenge and monitoring functions	Effective and timely processes exists to monitor results against plans and challenge assumptions related to forecasted expenditures, including the review of on-going commitments in support of the decision-making for resource allocations.
3.4 Reporting financial information	Effective processes exist to inform senior management of the Agency's financial position, including information regarding budget/resource transfers approved within branches. Reviews of results achieved against expectations are conducted by senior management in a timely manner.

Appendix B – Scorecard

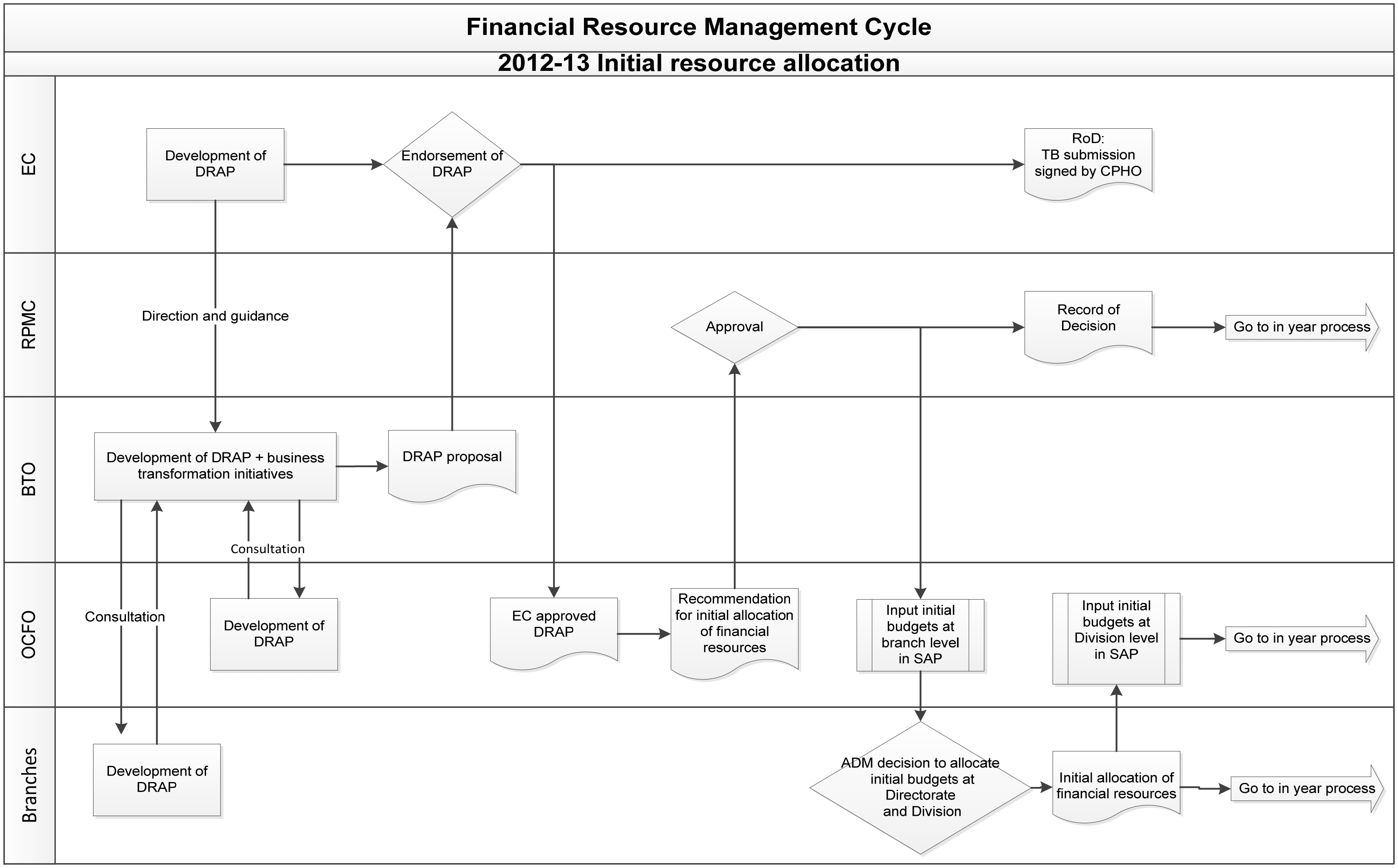
The ratings and supporting explanations summarize the current status for each audit criterion.

Criterion	Rating	Conclusion	Rec
Governance			
1.1 Governance structure	S	The governance structure in place during 2011-12 for resource allocation and reallocation is clear and understood. This includes direction and decision-making by senior management during the Deficit Reduction Action Plan. In August 2012, the Agency announced a revised governance structure. Under the new governance, the primary mandate of the Resource Planning and Management Committee is now part of the Agency's Executive Committee (EC).	-
1.2 Authority and accountability	NMO	Authorities, accountability and responsibilities related to forecasting are documented and communicated. While responsibilities with regards to budgeting and initial resource allocation are known and understood, they are not documented or communicated. The integration and implication of the financial management advisors (FMAs) within the financial management process varies between branches. Support provided by FMAs is not always at the expected level, nor is the role and purpose of the FMA clearly understood. FMA roles and responsibilities are not clearly articulated, communicated and discussed with branch leads.	1
Risk Management			
2.1 Operational plans and objectives	NI	There are no Agency-wide guidelines and tools for the preparation of internal operational plans. Branches are developing internal operational plans that vary in the level of detail and the type of information presented. The internal operational plans reviewed do not ensure that activities and resources required to achieve objectives are documented and aligned with branch Agency Operational Planning (AOP) submissions and budgets. In the absence of guidance, there is an increased risk that plans may not effectively support the achievement of the Agency's priorities.	2
2.2 Risk identification and mitigation	S	Subject to the preparation of sound internal operational plans, the Agency's mechanisms to identify and report on risks allow management to monitor and respond to such risks.	-
Internal Controls			
3.1 Guidance, tools and training	NMO	Training is occurring; however this is taking place in a piecemeal fashion due to the absence of an Agency-wide formal training plan for financial management. There is no continuous integrated learning strategy for the Agency managers and staff in the area of planning, budgeting and forecasting.	3

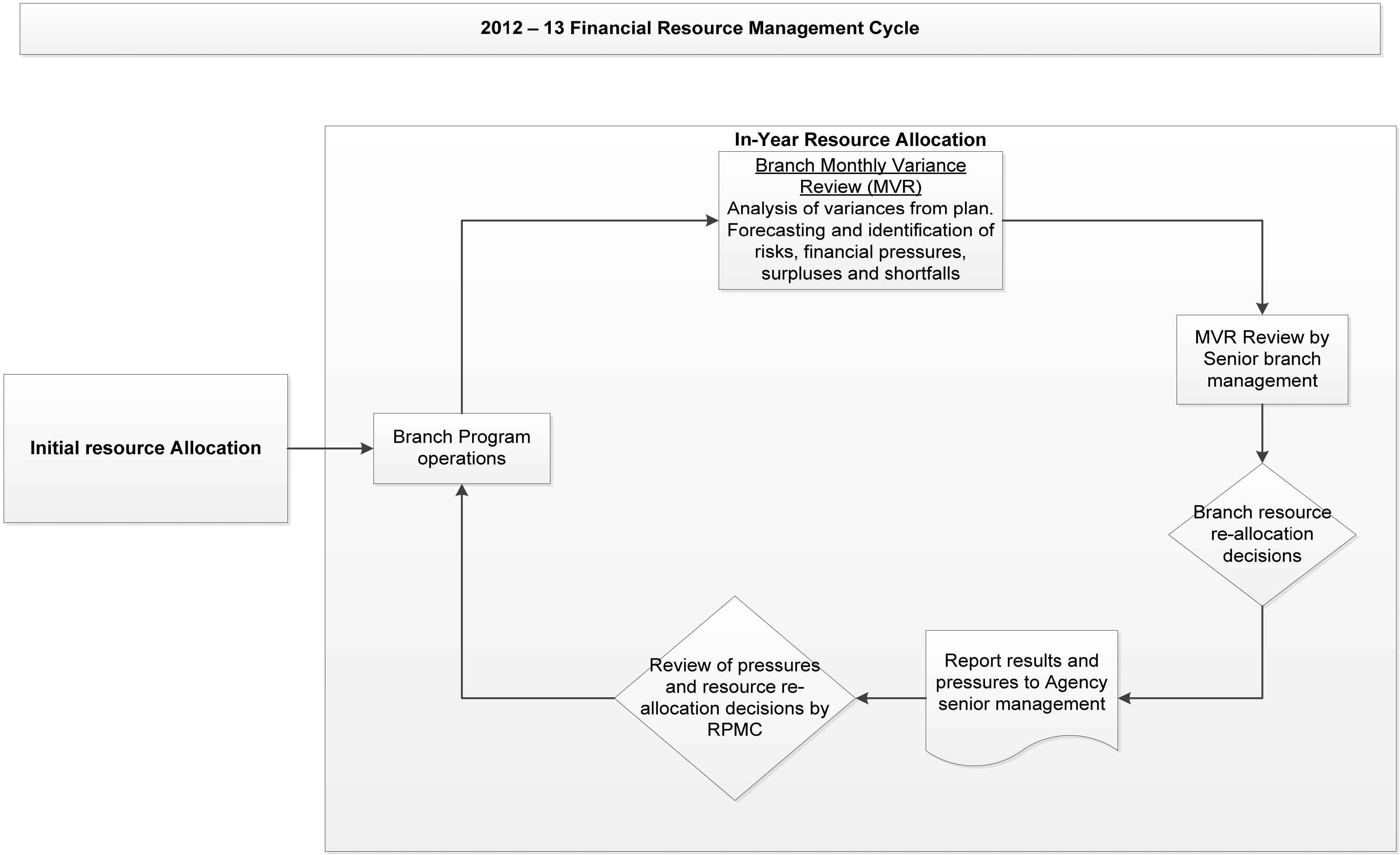
Criterion	Rating	Conclusion	Rec
3.2 Plans and forecasts	NMO	Branches are conducting monthly financial situation reviews using various tools during periods between formal management variance reports (MVRs) (only two in 2011-12). Financial situation reports presented to EC in 2011-12 were often incomplete, that it to say that they did not include forecasting. Financial information on grants and contributions (G&C) is tracked through parallel systems that are not integrated; G&C forecast information is difficult to derive and is not consistently monitored through the MVR process. In 2012-13, many new initiatives are under way: ▪ The implementation of a new integrated financial management system for G&Cs is planned in 18 months; ▪ the deployment of support services from the Branch Corporate Services Division is imminent; and ▪ the conduct of more frequent MVRs is planned for 2012-13. Management must ensure that G&Cs and all expenditures by fund types are included in each MVR planned for 2012-13. The “Budget Transfer Request form” used to document and authorize budget transfers is not effective.	4, 5
3.3 Challenge and monitoring functions	NMI	The challenge function is performed at many levels in the organization. Subject to Recommendation 1 related to the role and use of FMAs, the processes in place with regards to challenge and monitoring functions meet the audit criteria.	1
3.4 Reporting financial information	NMO	In the past, not all financial position reports presented to EC included anticipated expenditures and forecasted surpluses/deficits. Therefore, financial situation decks presented to EC were not complete.	6

S	NMI	NMO	NI	U	UKN
Satisfactory	**Needs Minor Improvement**	**Needs Moderate Improvement**	**Needs Improvement**	**Unsatisfactory**	**Unknown; Cannot Be Measured**

Appendix C – Initial resource allocation process



Appendix D – In-year financial resource management cycle



Appendix E – Management variance reporting process