Internal Audit – Financial Forecasting

Final Report

Audit, Evaluation, and Risk Branch

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Executive Summary

The Canada Revenue Agency (CRA) contributes to the economic and social well-being of Canadians and to the efficiency of government by delivering critical world-class tax and benefit administration. The delivery of these services depends in part on the CRA's ability to effectively manage its budget through the forecasting process (also referred to as the Projections Process).

The purpose of the forecasting process is to monitor the CRA's budget and to allocate financial resources to meet the Agency's strategic priorities. The process involves the development, review, challenge, and aggregation of financial forecasts throughout the CRA.

The audit objective was to provide the Commissioner, CRA management, and the Board with assurance that the Agency's financial forecasting activities in support of sound financial management and informed decision making are adequate and effective.

Overall, the audit concluded that processes and controls related to financial forecasting are in place and supporting sound financial management and informed decision making. However improvements are required to enhance the efficiency of the financial forecasting process.

Summary of recommendations

To enhance the efficiency of the financial forecasting process, improvements are required in the following areas:

- greater utilization of the capabilities of the CRA's financial systems and consistency in the tools used, to minimize manual interventions
- guidance to support cost centre managers with their financial forecasting responsibilities.

Management response

The Finance and Administration Branch agrees with the recommendations in this report and has developed related action plans. The Audit, Evaluation, and Risk Branch has determined that the action plans appear reasonable to address the recommendations.

Introduction

The CRA depends on its ability to effectively manage its financial resources to deliver tax and benefit administration services.

The forecasting process (also referred to as the Projections Process) aims to direct and allocate financial resources to meet the Agency's strategic priorities. Financial forecast results are reported to the Corporate Management Committee and the Board each quarter, at a minimum. The reports are presented both organizationally (i.e., separately by Headquarters [HQ] branches and by regions) and functionally (i.e., regional and HQ branch forecasts are combined).

The Strategic Financial Forecasting and Reporting Section within the Finance and Administration Branch (FAB) is responsible for coordinating, overseeing, monitoring and providing tools for the financial forecasting exercise.

Financial management advisors within the Financial Management Advisory Services Directorate of the FAB provides strategic analysis and advice to the cost centre managers and support them in the production of their financial forecasts.

The financial forecasting process allows branch and regional assistant commissioners and their delegated cost centre managers to monitor their budgets and ensure they do not overspend in a given fiscal year. For every forecasting exercise that is submitted to the Resource Management Directorate, branch and regional assistant commissioners must approve their financial forecasts and supporting variance explanations.

Focus of the audit

This internal audit was included in the 2022-2023 Risk-Based Assurance and Advisory Plan, which was approved by the Board of Management (Board) on March 30, 2022, and launched in February 2023. The Assignment Planning Memorandum was approved by the Commissioner on January 16, 2024.

Importance

This audit is important because it provides assurance that financial forecasting processes are accurate, timely, relevant and efficient, thereby supporting sound financial management and informed decision making within the organization, which is more important in times of fiscal restraint.

Objective

The audit objective was to provide the Commissioner, CRA management, and the Board with assurance that the Agency’s financial forecasting activities in support of sound financial management and informed decision making are adequate and effective.

Scope

The scope included forecasting processes performed by branches and regions, including the maintenance of forecasts throughout the fiscal year. Furthermore, the audit team analyzed aspects of the budgeting process that impact the ability to generate accurate forecasts by branches and regions (such as internal budget allocations).

The audit focused on the period from April 1, 2022, to March 31, 2023. However, the team also examined data from April 1, 2018, to March 31, 2022, for the purpose of trend analysis.

Audit criteria and methodology

The audit criteria and methodology can be found in Appendix A.

The examination phase of the audit took place from November 2023 to March 2024.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing, as supported by the results of the quality assurance and improvement program.

Findings, recommendations, and action plans

The FAB agrees with the recommendations in this report and has developed related action plans. The Audit, Evaluation, and Risk Branch (AERB) has determined that the action plans appear reasonable to address the recommendations.

Forecasting systems and tools and accuracy of information

While the CRA’s financial systems and tools support the production of accurate, complete and valid financial forecasts, there are opportunities to streamline the process and increase its efficiency.

Background

As per the Projection Process Overview for Regions and HQ Branches,[1] branch and regional forecasts are considered accurate when the forecasts at the end of the second quarter are within 5% of actual year-end expenditures.

Since February 2022, the CRA uses the Financial Planning System as the main system for forecasting salary and non-salary expenditures.[2] Financial management advisors, budget officers in the regions and some cost centre managers input Financial Planning System data into various Excel workbooks (workbooks), then financial management advisors do the analysis and amalgamation of the forecasts from the cost centres to the branch/regional level. Financial management advisors also perform additional calculations that are applied to the workbooks, such as attrition and discount factors to salary and non-salary forecasts.

Findings

The audit expected that financial systems and tools supported the efficient production of accurate, complete and valid financial forecasts and that branches and regions had access to adequate, complete and accurate information to produce their financial forecasts.

> Process improvement noted:
>
> Most interviewees reported the Financial Planning System to be an improvement over the previous system (Salary Planning System+).

The audit found that the financial forecasts at Agency and Branch levels are accurate. For fiscal years 2021-2022 and 2022-2023, the forecast variance was within the 5% accuracy range (1.44% and 0.62% respectively).

However, projections at the cost centre level were less accurate, and manual intervention was required to correct errors and amalgamate financial data, as the following findings demonstrate:

- The detailed testing results indicated variances greater than 5% of actual year-end expenditures for some of the cost centres tested (refer to Appendix D for detailed testing results) with higher variances in Operations & Maintenance forecasts compared to salary forecasts (refer to Appendix C for detailed testing results).
- Variances in the Financial Planning System and workbooks required manual interventions and reconciliations by financial management advisors for the

[1] This document provides a high-level explanation and process overview for the financial forecasting process at the CRA.

[2] The Resource Management Directorate initiates the financial forecasting process by issuing quarterly call letters to branch and regional assistant commissioners, and the branch reporting teams leads within the Financial Management Advisory Services Directorate.

Operations & Maintenance (O&M) in 3 out of 7 samples in HQ. No inconsistencies were noted in the 6 regional samples tested (refer to Appendix D for detailed testing results).

- Financial management advisors develop and use various templates to report financial forecasting information. These templates reflect differences in the work of various areas of the CRA (Headquarters, Tax Centres, Tax Services Offices, National Verification and Collections Centres, Regional Offices). These templates do not always include the same data elements and require significant manual interventions by financial management advisors when amalgamating and reconciling financial data at the regional/branch level.

Financial management advisors apply adjustments (discount factors) above the cost centre level to planned staffing, attrition, and Operations & Maintenance forecasts, based on anticipated reductions caused by unforeseen circumstances. While those adjustments ensure the projections are accurate at the branch/regional level, they lead to fewer targeted projections at the cost centre level.

- More than half of the samples tested applied discount and attrition factors varying from 1% to 80%, and there was no guidance provided on how the discount factors were calculated (refer to Appendix E for detailed testing results).

In addition, stakeholders in the regions identified some uncertainty around the timing and amount of funding to be transferred at their level, impacting, therefore, their ability to forecast and spend before the end of the year. Some of these amounts were known but not confirmed and reported in the Corporate Administrative System (CAS), and they were entered as anticipated transfers in the workbooks. Based on the sample tested, 3 out of 7 samples in HQ reported anticipated transfers to be sent to the regions in their workbooks at the end of the second quarter of 2022-2023. At the same time, 5 of the 6 samples in the regions reported anticipated transfers to be received from HQ.

Why it matters

Without fully defining forecasting business requirements to ensure minimum consistency in cost centre reporting and utilization of system capabilities, the forecasting process will continue to be reliant on financial management advisors' manual interventions at the branch/region level, while the cost centre-level projections will continue to be less accurate. Having accurate forecasts at the cost centre level is important to allow the cost centre managers to anticipate change, reduce uncertainty and identify the best ways to achieve their goals with available resources. Higher levels of manual intervention may introduce an additional barrier and a higher risk of inaccuracies in case of financial management advisors' changes.

Recommendation #1

The Finance and Administration Branch should review the processes and mechanisms for financial forecasting to ensure that:

- they are using the capabilities of the system, including non-salary expenses;
- the use of discount factors is clarified and communicated to stakeholders, and that a common approach reflective of context and operating realities of programs/regions are adopted;
- templates and related guidance contain consistent core elements and provide a sufficient level of detail to reduce the use of manual interventions outside the system.

Management Response #1

The Finance and Administration Branch agrees with recommendation #1.

Finance and Administration Branch is using a combination of CRA financial systems to develop and record projection information. The projections exercise utilizes the existing financial systems (CAS & FPS) as designed. All data is captured in CAS at the organizational level, respecting the forecasting process standards and guidelines, as concluded in the audit the accuracy of the projection data is correct at the organizational level. The Finance and Administration Branch continues to review how the two systems are used and agrees that continuous monitoring is required to adapt to new system and process developments.

In terms of using all of the capabilities of the system, currently, salary and O&M forecasts are captured by a vote in CAS (the CRA's system of record). Requiring that O&M entries be re-keyed in FPS will be a duplication of efforts. Of note, the FPS cannot capture the CRA's two different votes (Operating and Capital) which limits the FPS feasibility of becoming the CRA's financial system of record.

Discounting is part of the financial forecasting process. While discount factors are not being applied consistently across the CRA, they are applied with consideration to the various businesses and workforce realities of the affected regions or HQ branch. The end result has proven to be accurate; however, additional clarification and communication through RMD's quarterly call letter package will support common understanding across the CRA.

The Resource Management Directorate reporting templates, which contain SSA-level information from HQ and the regions, are consistent across the CRA and are designed to facilitate the review of data entered into the systems used for the financial forecasting process. All reporting templates contain the core financial elements necessary to develop an accurate financial forecast. This ensures that the reconciliation of financial information can be completed efficiently. Flexibility exists to tailor the financial elements when reporting at the cost centre level to align with regional and HQ branch requirements; however, certain core reporting elements are required.

Action plan #1

In response to the findings for recommendation #1, the Finance and Administration Branch will:

- By March 2025, conduct a review with financial management advisors and regional finance employees to assess how systems are currently used and what would be the challenges and advantages of expanding the use of O&M in the Financial Projection System (FPS). Over the past two years, requirements to improve existing systems have been compiled in consultation with FMA and regional finance and therefore this review would confirm existing list of requirements and identify any missing ones.
- Using the findings of the review, work with Finance and Administration Branch's systems teams and ITB to explore opportunities to leverage the CRA's financial systems to meet its financial forecasting needs. By June 2025, document the business requirements and feasibility of expanding the use of FPS while also considering the Agency's systems' roadmap, for example the CAS finance transition to S/4HANA.
- By June 2025, review its communication of guidelines and processes for financial forecasting within the RMD quarterly projections call letters and outline the common elements that are required to meet the CRA's reporting needs and include key factors (e.g., historical results, the financial environment, and the HR staffing environment) to assist cost centre managers and the financial community (i.e., financial management advisors and regional finance employees) in applying a more consistent approach to discounts on projections as well as understand roles and responsibilities.
- By June 2025, distribute the updated guidelines that form part of the RMD quarterly projections call letters to cost centre managers through the financial community.

Roles and responsibilities of key stakeholders

The roles and responsibilities of senior management and financial management advisors are defined, communicated and consistently applied. However, forecasting roles and responsibilities of cost centre managers are not documented, and no guidance or training on the financial forecasting process is available for them.

Background

The quarterly call letters sent out by the Resource Management Directorate outline guidelines for developing financial forecasts and instructions on completing the attached annexes. The call letter also often specifies who is required to complete the various templates. Financial management advisors support cost centre managers in developing their financial forecasts. They then amalgamate the information into consolidated forecasts at the directorate/regional level and present it for senior management approval.

Findings

The audit expected the CRA to have communicated and provided adequate guidance to support the financial forecasting process, including the assignment of clear roles and responsibilities as well as training and resources to support the effective production of financial forecasts.

The audit found that:

- Roles and responsibilities of senior management and financial management advisors were defined in core policy instruments, in call letters issued by the Resource Management Directorate as part of the financial forecasting process throughout the year, and in the Corporate Management Committee governance manual.
- Financial management advisors had access to financial forecasting training and resources. These included workshops provided by the Horizontal Integration team, the Financial Management Advisor Knowledge Centre, as well as courses provided by Canada School of Public Service courses. All responses received from the Financial Management Advisory Services Directorate (FMASD) and regional finance programs indicated that this training was sufficient.

> Best Practice noted:
>
> Financial forecasts are verified, challenged and approved on a regular basis by different levels of management with sufficient authority to make changes as needed.

However:

- There was no corporate guidance or training resources tailored to the needs of cost centre managers on the financial forecasting process.
- The interviews performed identified dissatisfaction with the financial forecasting guidance currently in place as well as with the insufficient training provided.
    - Five out of 14 cost centre managers interviewed expressed dissatisfaction with the financial forecasting guidance currently in place and 8 out of 13 managers declared they received insufficient training and have difficulty understanding their responsibilities, therefore, leading to a reduced involvement in the development of forecasts.
- Cost centre managers are relying on financial management advisors to enter information into the Financial Planning System.

Why it matters

Without proper training and supports, the cost centre managers may not understand their responsibilities in the financial forecasting process and be over-dependent on the advice and support of financial management advisors. Cost centre managers are ultimately accountable for their budgets and need the necessary training and resources to exercise their roles and responsibilities effectively.

Recommendation #2

The Finance and Administration Branch should develop and communicate guidance to support the roles and responsibilities of cost centre managers in the financial forecasting process, including the use of forecasting system.

Management Response #2

The Finance and Administration Branch agrees with recommendation #2.

Currently, there are a number of budget training courses for managers available (both mandatory and optional). Delegated financial authority (S32 and S34) is provided to budget managers upon successful completion of relevant mandatory training. It is a requirement that this training be renewed every 5 years. Cost centre managers involved in the financial forecasting process are not part of the Finance and Administration Branch's organization; however, the Finance and Administration Branch can offer guidance on training to cost centre managers as it relates to this financial forecasting process.

Action plan #2

In response to the findings for recommendation #2, the Finance and Administration Branch will:

- By June 2025, document existing training courses and materials, and distribute them through the Resource Management Directorate's quarterly call letter package. Financial Management Advisory Services Directorate and Regional Directors of Finance will be required to communicate this information with their clients (i.e., cost centre managers) and will continue to provide customized training and guidance based on the learning needs and experience level of cost centre managers.

Quality of information for decision making

Forecast variance explanations were clear and sufficiently detailed for intended users to understand the underlying causes of the variances but did not include the required information to assess the functional impact of surpluses/deficits when submitting the projection documentation to the Resource Management Directorate.

The Projection Process Overview for Regions and HQ Branches and the Projections Exercise Call Letter Package, distributed by the Resource Management Directorate, provides information on what variance explanations are required within the Assistant Commissioner Dashboard and the Functional Program Impact Statement. These templates, completed by the financial management advisors, are meant to provide the variance by program and region and bridge the gap between variances and impacts on program delivery.

The audit team expected the branches and regions to review and complete all required variance explanations as part of their submissions. The audit team found the following:

- Quarterly resource management reports presented and discussed at the Corporate Management Committee meetings in 2022-2023 were clear, concise, and well structured.
- The Corporate Management Committee was regularly briefed on the results of the Resource Management Committee meetings, including on the discussions and decisions related to surplus/deficit and reallocation of funds, through Resource Management Strategy Update and the Annual Resource Alignment Process exercises.
- All 5 of the sampled Assistant Commissioner dashboards included the required overall region/branch variance explanations, however they did not include an explanation of the impact of surpluses/deficits on the programs' ability to meet their performance objectives in their Q2 2022-2023 Assistant Commissioner Functional Program Impact Statement dashboards.

The forecast variance explanations are required as they provide senior management with information about the potential effect of program financial variances on the different programs' ability to deliver their mandates.

There is an opportunity for the Finance and Administration Branch to consider communicating to branches the importance of a full submission including qualitative impacts. They could also encourage branches to include the required functional impact information with the projection's documentation submitted to the Resource Management Directorate.

Conclusion

Overall, the audit concluded that processes and controls related to financial forecasting are in place and working. However, to enhance the efficiency of the financial forecasting process, improvements are required in the following areas:

- greater utilization of the capabilities of the CRA's financial systems and consistency in the tools used, to minimize manual intervention
- guidance to support cost centre managers with their financial forecasting responsibilities.

Acknowledgement

In closing, we would like to acknowledge and thank the Finance and Administration Branch, the Assessment, Benefit and Service Branch, the Collections and Verification Branch, the Compliance Programs Branch, the Information and Technology Branch, and regional finance & administration programs from the Western and Ontario Region for the time dedicated and the information provided during the course of this engagement.

Appendices

Appendix A: Audit Criteria and Methodology

Audit criteria

Based on the Audit, Evaluation, and Risk Branch's risk assessment, interviews and document reviews, the following line of enquiry was identified:

Line of enquiry	Criteria	Sub-criteria
CRA's financial forecasting process effectively supports sound financial management and informed decision making towards achieving the Agency's strategic priorities.	1.1 Policies, procedures and practices support the production of timely, relevant and accurate financial forecasts.	1.1.1 The Agency has developed, implemented and adequately communicated to key stakeholders (cost centre managers, senior management, financial management advisors) adequate guidance to support the financial forecasting process.
		1.1.2 Clear accountability, roles and responsibilities, and practices are followed and understood by key stakeholders.
		1.1.3 Financial forecasts are verified, challenged and approved on a regular basis by different levels of management with sufficient authority to make changes as needed.
	1.2 Financial systems, training and other tools to support the production of timely, relevant and accurate financial forecasts.	1.2.1 Financial systems and tools support the efficient production of accurate, complete and valid financial forecasts.
		1.2.2 Branches and regions have access to adequate, complete and accurate data/information to produce financial forecasts.

Line of enquiry	Criteria	Sub-criteria
		1.2.3 Training and resources are sufficient and effectively support the production of financial forecasts.
	1.3 Key stakeholders consider all relevant information to support sound decision making.	1.3.1 The information produced by financial forecasts is relevant, timely and provides appropriate and sufficient detail to support sound decision making.
		1.3.2 Sufficient and appropriate communication channels enable key stakeholders to collaborate and receive relevant and timely information for decision making.

Audit Methodology

The methodology used in the examination included the following:

- **Documentation and file review:**
    - Reviewed and analyzed financial forecasting documentation, including the projections process templates and submissions, supporting documentation for the submissions (such as Expenditure Analysis Reports and Staffing and Travel Plans), policy instruments, performance agreements, and other documentation including but not limited to, the Resource Management Directorate, branch and regional call letters, assistant commissioner dashboards, roll-up spreadsheets, committee meeting minutes, Corporate Administrative System Reports and Financial Planning System reports used as part of the financial forecasting cycle.
    - **Training material review:** Reviewed training materials for employees involved in the financial forecasting process.
    - **Roles and responsibilities review:** Reviewed the different stakeholders' roles and responsibilities related to the financial forecasting process.
- **Data analysis:** reviewed and analyzed data from the systems and tools used in financial forecasting, including the Funds Management Module of Corporate

Administrative Systems (CAS), CAS Business Intelligence, and the Financial Planning system.

- **Process review:** reviewed and analyzed the financial forecasting process in place in branches and regions and its related controls.
- **Governance review:** reviewed the monitoring and oversight process and controls related to financial forecasting.
- **Interviews:** interviewed select management and staff at headquarters and in the regions.

Appendix B: Glossary

Term	Definition
5% Performance Measure	The measure in which HQ and regional assistant commissioners are evaluated on in relation to financial forecasts. Financial forecasts provided at Q2 must be within 5% of year-end actual expenditures.
Annual Expenditure Plan (AEP)	The annual expenditure plan is a combination of the year-to-date actual expenditures plus projected expenditures to year-end. For example, a Q1 Annual Expenditure Plan would be period 1 to period 3 actual expenditures + period 4- period 12 forecasts.
Assistant Commissioner Dashboard	This refers to the document approved by HQ and regional assistant commissioners and submitted to Resource Management Directorate on the 10th business day of the projections exercise. It includes the overall variance, variance explanations by program and is meant to show the assistant commissioner accountability to forecasts.
Budget Officer	An individual who is responsible for preparing financial forecasts on behalf of responsibility/cost centre managers in the regions.
Corporate Administrative System (CAS)	This is an Enterprise resource planning system which serves as the central repository for most of the Agency's corporate financial, human resources, materiel, and facilities data.
Corporate Management Committee (CMC)	The CMC is the governing body for items to be presented to the Board of Management that have not been presented at the Planning and Priorities Committee. Its mandate is to discuss and approve corporate-related issues and initiatives.
Cost Centre Manager (CCM)	CCM, also referred to as a responsibility centre manager, is a manager who is accountable to one or more cost centres and has Section 34 authority over it/them.
Financial Planning System (FPS)	The Financial Planning System (FPS) is the new official salary and Operations & Maintenance projection tool for the CRA.

Term	Definition
Functional Program Impact Statement	This refers to the document approved by Assistant Commissioners of functional branches and submitted with the projections package submissions to Resource Management Directorate. It includes a Cumulative Quarterly Variance, Projected Annual Variance, Year-to-Date and Year-Over-Year Expenditure Variances. The focus of this document is commenting on the delivery of programs and how they are impacted by functional variances.
Operations & Maintenance (O&M) Cost	This refers to the cost associated with operating and maintaining an area. Examples include travel, training and supplies.
Resource Management Report	This refers to the document produced quarterly by the Resource Management Directorate and presented for approval to the Corporate Management Committee and the Board of Management. It provides the Agency's financial position along with the necessary variance and qualitative explanations.
Cost Centre Node	A group of multiple cost centres such as a division or section.
Workbooks	Excel Workbooks where the forecasting information is captured and amalgamated by Financial Management Advisors outside the system.

Appendix C: Sample testing results – Cost centres within 5% performance measure for 2022-23

Cost centres within the 5% performance measure (Q2 2022-2023 forecast vs. year-end actual expenditures)	Compliance
Overall 5% performance measure (sample of 13 cost centres)	**8/13**
Salary 5% performance measure (sample of 13 cost centres)	**9/13**
O&M 5% performance measure (sample of 13 cost centres)	**1/13**

Appendix D: Sample testing results –Forecast data[3]

Sample tested	Number of cost centres with differences between projections in workbooks and FPS	Amount of differences between projections in workbooks and FPS
By cost centre (headquarters)*		
Salary	3/7	$123,583 (1.67%) (Total $7,383,950)
O&M	3/7	$3,004,797 (99%) (Total $3,035,212)
By cost centre nodes (regions)**		
Salary	0/6	$0 (Total $140,015,363)
O&M	0/6	$0 (Total $2,486,092)

***** *HQ cost centre projections and expenditures were tested at the cost centre level. However, budgets were tested at the SSA level as that is the lowest level that they are entered in the system.*

****** *Regional cost centres were evaluated at cost centre node level as that is the lowest-level budget, actuals and projections are recorded at.*

[3] All variances are presented in absolute terms.

Appendix E: Sample testing results – Discount factors applied 2022-2023

Discount factor	Number of Cost Centres	Discount factor applied	Substantiation included on file? (Cost Centres with Discounts)
Discounts to planned staffing projections at directorate/regional office level to all cost centres	7/13	Varying from 8% to 80%	1/7
Attrition discounts applied to staff on strength at the cost centre and directorate level	10/13	Varying from 1 to 16.5%	4/10
Planned staffing discount applied at branch/regional level	3/5	Varying from 2% to 42%	0/3