



Western Economic  
Diversification Canada

Diversification de l'économie  
de l'Ouest Canada

# Audit of Financial Management Controls

Western Economic Diversification Canada  
Audit, Evaluation & Disclosure Branch  
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## 1.0 Executive Summary

- 1.1 The audit of Financial Management Controls was carried over from the 2007-08 Risk Based Audit Plan and conducted during 2008-09. The audit was department wide in scope and covered the period of January 1, 2007 to June 30, 2008. The audit considered previous audit results along with a sample review from grants and contributions and operating expenditure transactions. The field work was done in July 2008 incorporating regional site visits, staff interviews, document review and transactional testing.
- 1.2 The audit objectives were to provide independent and objective assurance on:
- the adequacy of the financial management control framework to ensure compliance with the Treasury Board financial management policies;
  - the effectiveness of delegation of financial authorities;
  - segregation of duties for key financial processes;
  - the appropriateness of controls maintained over expenditures to ensure compliance to sections 32, 33 and 34 of the *Financial Administration Act*; and
  - the responsiveness and effectiveness of financial risk management.

Each of these objectives is discussed in detail in this report. It is important to acknowledge the department has made significant progress to address concerns identified in previous audits. The department is working to enhance rigor and probity to manage its funds, as evidenced by recent work-in-progress around process improvements.

### Key Findings

- 1.3 The department needs integrated financial management controls to ensure effective and sound stewardship of public funds. These controls should be part of a clearly defined and documented financial control framework that includes appropriate processes. The department does have elements of a financial control framework; however, this framework needs to be more clearly defined and documented. The department needs to link all its financial management processes together. The current delegation of financial authorities and departmental authority instrument are both current and effective. Adequate segregation of duties exists for the most part; however, one

significant system control enhancement is recommended. For the transactions tested, sections 32, 33, and 34 of the *Financial Administration Act* were properly authorized by qualified and trained staff, although, the department should make some process improvements in this area. The department should consider significant strengthening to its financial risk management practices and processes.

**1.4** Recommendations to strengthen the department's key financial controls are included in this report.

**1.5** Results of the criteria examined are summarized as follows:

Criteria	Assessed Results
Financial management control framework – current, well designed, documented, communicated	Criteria partially met
Delegation of authority – matrix is approved and current; delegated staff have training and tools	Criteria met
Compliance to sections 32, 33, and 34 of the <i>Federal Administration Act</i>	Criteria mostly met
Segregation of duties – well documented controls	Criteria mostly met
Financial risk management – identified, assessed, mitigated and regularly updated	Criteria partially met

## Conclusion

- 1.6** Financial management controls exist at Western Economic Diversification Canada; however, improvements are needed in the areas of developing a standard departmental financial management control framework and developing a more rigorous financial risk management process. Based on internal audit standards and criteria selected, sufficient audit work has been completed and analyzed to support the conclusion.
- 1.7** In accordance with the Government of Canada internal auditing standards, a reasonable assurance is provided that financial management controls exist subject to the improvements recommended in this report.

## 2.0 Introduction

The auditors would like to thank WD staff for their cooperation and timely assistance provided to the audit team throughout this engagement.

### Background

**2.1** Under the Federal Accountability Act, the Deputy Minister is designated as the accounting officer for the department and signs off on the departmental accounts. The deputy is supported by the Chief Financial Officer and Assistant Deputy Ministers to fulfill these responsibilities that specifically include:

- organizing resources to deliver departmental programs in compliance with government policies and procedures; and
- establishing and maintaining effective systems of internal controls to ensure that the departmental resources are used effectively and efficiently.

**2.2** Comprehensive and effective financial management control frameworks are critical in providing stewardship over public funds while achieving departmental strategic objectives. Strong financial management and related internal controls are critical components of the Stewardship section of the Government of Canada Management Accountability Framework. As a result, the Deputy Minister approved this audit in the 2007-08 Risk-Based Audit Plan and it was carried over as a top priority in the approved 2008-11 Risk Based Audit Plan.

### Audit Objectives

**2.3** The specific objectives of this audit were to assess:

- the adequacy of the departmental financial management control framework to ensure compliance with the Treasury Board financial management policies;
- the effectiveness of the delegation of financial authorities;
- segregation of duties for key financial processes;
- the appropriateness of controls maintained over expenditures to ensure compliance to sections 32, 33, and 34 of the *Financial Administration Act*; and
- the responsiveness and effectiveness of financial risk management.

## Key Risks

- 2.4** The audit focussed on the following key risks to the financial management function:
- inadequate or poorly documented financial management control framework;
  - departmental policies that are inconsistent with Treasury Board policies;
  - approvals from individuals without delegated authority;
  - delegated managers with insufficient awareness or training;
  - unauthorized expenditure approvals; and
  - lack of formal risk management processes.

## Audit Scope

- 2.5** This audit covered expenditures incurred during January 1, 2007 to June 30, 2008. The audit criteria for this audit was developed using TBS controls framework and other best practices. The audit was department-wide in scope and assessed the departmental financial management control framework, departmental policies and procedures, and financial roles and responsibilities. In addition, the auditors tested a random and representative sample from grants and contributions transactions and operating expenditure transactions from May 2007 and February 2008. The auditors tested this sample to ensure data integrity and compliance with Treasury Board and departmental policies and directives.

## **3.0 Findings, Conclusions and Recommendations**

### **Management Control Framework**

- 3.1** The department's financial management control framework consists of the organizational structure, the delegation of financial authorities, segregation of duties, departmental policies and guidelines to supplement Treasury Board policies, financial training and support to staff, claim and account verification processes and an oversight function.

#### **Structure, policies and procedures**

*Criterion: A current, well designed and documented financial management control framework (including structure, policies, and roles) exists at WD that is communicated for consistent implementation across the department.*

- 3.2** WD currently does not have a formally integrated and documented financial management control framework to manage its resources. Some practices and procedures are documented and available on the intranet, but they are not well integrated and consolidated into a single, comprehensive framework. Over time, Regional Finance Managers have developed and implemented their own control processes to help carry out their responsibilities. Regional practices are not always consistent across the department.
- 3.3** WD has developed and communicated financial policies, procedures and guidelines with respect to key areas of financial management. The departmental policies are consistent with the Treasury Board policies and are kept current. Staff can easily access these financial policies on the intranet. WD only writes internal policy to further clarify Treasury Board policies and legislation and links back to the original Treasury Board policies. The department is conducting a policy suite renewal to update existing policies in line with the expected changes to the Treasury Board financial management policy suite.
- 3.4** Corporate Finance is responsible for writing and communicating financial policies and procedures and for providing policy interpretation or expert advice. In the auditor's opinion, the Branch's intranet site is well organized, with appropriate policies, references and convenient links to Treasury Board financial policies. However, some of the documents are still in draft form and some links to policies do not

work. Both Corporate Finance and regional finance managers provide interpretations on these policies to managers and staff. The regions have implemented various means for communicating financial management policies, such as:

- Providing a walk through on the delegation of authorities to new staff;
- Providing financial management updates at managers' meetings
- Providing one-on-one training sessions;
- Conducting bi-annual meetings of finance and program staff to discuss important financial management issues, share best practices, new policies and procedures;
- Conducting regular conference calls with Finance Officers when changes to the financial system or other important changes to financial policies are introduced; and
- Providing access to important financial management information through departmental websites.

**3.5** These examples of ad hoc training all contribute to strengthening financial management awareness and capacity in the department. However, WD currently does not have a comprehensive and consistent financial management training strategy similar to the department's contracting training strategy.

**Recommendation #1:** The department should develop, implement and communicate an integrated financial management control framework. In doing so, the department should consider the following:

- The need for key financial processes to be carried out consistently across the department;
- The need to formalize financial management roles, responsibilities, authorities and reporting relationships;
- The need to establish an effective risk-based monitoring and review function with related accountability mechanisms; and
- The need to be able to provide assurance that financial controls are in place and operating as intended.

**Recommendation #2:** The department should develop a comprehensive financial management training strategy.

## **Delegation of Authority Instruments**

*Criteria: WD has a current approved delegation of authority matrix complete with specimen signature cards. Individuals with the delegated authority have appropriate training and tools to support their discharging of that authority.*

- 3.6** Through the Delegation Documents, the Minister delegates the authorities for financial administration to WD managers. WD delegation documents include the Delegated Financial Signing Authorities (Matrix), the Delegation of Financial Signing Authorities Policy and the Specimen Signature Document. WD's delegation matrix was signed by the Minister for financial and non-financial authority and is current. The policy and procedural guidelines are available to all staff on the intranet. All managers with delegated signing authority have completed the mandatory Authority Delegation Training (ADT).
- 3.7** Regional finance managers maintain specimen signature cards that are issued for appropriate level of authority after completion of mandatory training. When managers are absent, signing authority is not transferred if the acting individual has not completed the training. In one region, one human resource officer and one contracting officer had the section 34 signing authority but these employees had not completed the mandatory training. The regional finance manager indicated that the authority has since been revoked but the signature cards had not been updated at the time of the audit. Currently, the Chief Learning Officer keeps track of mandatory authority training requirements for staff and the training information is forwarded to Finance who creates a specimen signature card after formal training has been completed.
- 3.8** Finance officers frequently conduct quality assurance reviews to ensure that the delegated authority processes are working as intended. However, the department should ensure that all its monitoring and review processes are integrated into a well-defined financial management control framework. To work effectively, ongoing and active monitoring processes should be tailored to the specific elements and key risks inherent in the management control framework (see Recommendation #1).

### **Compliance to sections 32, 33, and 34 of FAA**

*Criterion: Controls are in place to ensure compliance with sections 32, 33 and 34 are working effectively.*

- 3.9** Expenditure management is governed by three specific sections of the *Financial Administration Act*: Sections 32, 33 and 34.
- 3.10** Section 32 of the FAA: Expenditure Initiation and Commitment Authority It is the authority to enter into contracts or other service arrangements that will result in a charge to the departmental appropriation.
- 3.11** Section 34 of the FAA: Contract Performance Contract performance is the authority to certify the receipt of goods and/or services is in accordance with the terms and conditions of a contract or other relevant arrangement and the availability of funds for payments.
- 3.12** Section 33 of the FAA: Payment Authority Designated finance officers exercise this final approval authority to release payments once they determine that the appropriate section 34 approval has been granted.
- 3.12** The department has some well defined processes in place for approvals of both grants and contributions and operating expenditures.
- 3.14** From a variety of sources, the auditors were able to gain a good understanding of the various processes in place to support ongoing compliance to sections 32, 33 and 34 of the FAA. The auditors conducted a sample of grants and contributions and operating expenditure transactions from two test months in the period covered in the audit. The auditors tested all regions and headquarters.

**3.15** The auditors selected a random and representative sample of 46 transactions: 26 were operating expenditures and 20 were grants and contributions. The following exceptions were noted:

- For the sample of 46 section 32 approvals, one commitment was not signed and three files did not have supporting documentation;
- For the sample of 46 section 34 approvals, five contribution claims did not indicate of receipt of documents required to release the payments and one operating expenditure claim was signed by someone without mandatory delegation of authority training (see previous section of the report); and
- For the sample of 46 section 33 approvals, one claim did not have a signature on file and 12 claims had signatures without any indication of what purpose was served by those signatures (i.e., for the purposes of approving section 33 of the FAA).

**3.16** With the exception of above instances, all other transactions showed evidence of sections 32, 33 and 34 of the FAA being exercised appropriately. All of the instances observed above were of a technical or administrative nature that can be addressed through the combination of improved and consistent processes and staff training and awareness.

**Recommendation #3:** The department should strengthen and standardize the monitoring and review practices around the approvals of sections 34 and 33 of *the Financial Administration Act*.

**Recommendation #4:** The department should ensure that all financial files are well maintained with all supporting and pertinent information on file.

### **Segregation of Duties**

*Criteria: Well documented controls are in place to segregate incompatible duties. Staff comply with and understand these controls.*

**3.17** Corporate Finance Branch ensures adequate segregation of duties primarily through the authority delegation matrix and financial system access controls. The department does have a Delegation of Authority Policy that explains principle of segregation of duties and the departmental controls in place to ensure adequate segregation of duties.

**3.18** Regional Finance Managers in regions are super users of the financial system (i.e., they have access to sections 32, 34 and 33 profiles). The auditors noted that in one transaction, the Regional Finance Manager entered and approved an invoice for payment, batched the claim and initiated the section 33 process. While section 33 sign off is a two stage process that requires final review by Corporate Finance, the financial system should trigger an event requiring executive over-ride and generating an exception report for mandatory review. The Chief Financial Officer should ensure that the segregation of duties system controls are enhanced. Given the structure of the department, the Chief Financial Officer or the Deputy Chief Financial Officer should be the only individuals with that authority to approve the bypassing of segregation of duties in exceptional circumstances.

**Recommendation #5:** The department should modify its current financial system access controls to build in a formal executive approval process when one individual is approving more than one element of the same transaction.

### **Access Controls and Security**

**3.19** For the most part, departmental financial system access controls and related security measures are in place and are operating as intended; however, the department can improve some of its processes.

**3.20** The department recently developed formal procedures to define and maintain access rules or profiles and to delete access rights when a person leaves. The auditors found evidence that this notification of removing system access does not always occur on a timely basis. In some cases, WD's systems staff only find out through follow-up on inactive accounts long after the employee's departure date. At times, this control seems to be more passive than active. This practice leaves the department at a risk of inappropriate access to the financial system if there is no documented process to update or review user profiles. This issue is somewhat mitigated by the fact that someone would also need WD network access to gain entry into the financial system through this inactive account.

**3.21** The department does not have a formal mechanism to monitor user profiles for access violations, change in responsibilities or tracking for incompatible duties because it is not identified as a risk by the department. However, if departures and changes in responsibilities are not reported in a prompt manner, the department is exposed to the risk of inappropriate access to the financial system.

**3.22** Generally, these system access controls are not documented. The department is at risk of a troublesome succession plan in the event that the three resident experts were to leave the department without adequate knowledge transfer.

**Recommendation #6:** The department should strengthen financial system user account management controls, specifically related to employee departures and periodic reviews of user profiles. All controls should be well documented to allow smooth knowledge transfer and succession planning.

## **Risk Management**

*Criterion: Financial management risks are identified, assessed and regularly updated with mitigation strategies developed and communicated to manage residual risks.*

**3.23** Informal financial risk management exists at all levels of the department; however, it tends to be intuitive and not well documented. Generally, the department does not document or formally assess its financial risks. It is difficult for the auditors to assess if any of the department's mitigation strategies are sufficient to reduce residual risks to adequate levels within management's tolerance.

**3.24** The department developed its first Corporate Risk Profile in 2006 and it has not been updated since. In that Corporate Risk Profile, the department identified some financial risks as part of its eight key risks. To date, the Chief Financial Officer has not developed any formal mitigation strategies to deal with those identified risks.

**3.25** The department performs lots of monitoring and reporting around ongoing financial management. The department's processes are very sound; however, these actions are not formally linked to the financial risks identified in the Corporate Risk Profile. In addition, in the auditor's opinion, the Chief Financial Officer needs to update the key financial risks currently facing the department

**3.26** At the transactional level, risk management for grants and contributions has significantly improved and is integrated into the due diligence and monitoring and payment roles.

**Recommendation #7:** The Chief Financial Officer should clearly identify key financial risks should at the department level, assess those risks in terms of developing mitigation strategies to manage them effectively, and communicate the risks to senior management and all involved in financial management. The Chief Financial Officer should regularly reassess and update key financial risks to ensure those identified are current.

## **4.0 Audit Strategy and Approach**

### **Planning**

**4.1** The audit planning work started in April 2008 and audit examination ended in July 2008. Sources of information reviewed included: Treasury Board Secretariat (TBS) Management Control Framework, recent similar audits conducted by other departments, TBS Financial Management Policies, WD Financial Management intranet site, WD Corporate Risk Profile, and previous WD audit reports. Internal Audit also reviewed financial management practices in the regions. Internal Audit used materials from the Treasury Board Secretariat, the Office of the Auditor General, and the Institute of Internal Auditors to develop audit criteria and audit program. Based on knowledge gained of the departmental management of financial activities and its challenges, Internal Audit examined the selected management controls and assessed the identified risk.

## **Standards and Methodology**

- 4.2** Internal Audit used Government of Canada internal auditing standards in planning, conducting and reporting on the audit. Emphasis was placed on factual evidence, analyzing evidence, and associated documentation. Internal Audit objectively analyzed conditions with objectivity and against risk exposure, significance, cause and probable effect. Internal Audit selected recommendations based on risk exposure, significance, and actionable items that will contribute to management efficiency and effectiveness.
- 4.3** Internal Audit interviewed staff from operational and financial activities to validate the use of internal control frameworks at WD including maintenance of file documentation, training, monitoring and risk management practices.
- 4.4** Internal Audit gave consideration to the recently conducted audits along with the results of the follow-up of previous related audits and the extent that management action plans have been implemented to date.
- 4.5** Through a follow-up of the previous audits, Internal Audit was able to determine that since 2005 financial management controls and practices have significantly improved.
- 4.6** The audit was carried out in three phases: planning, conducting and reporting phases.
- 4.7** Internal Audit used judgemental random sampling, based on dollar amounts and across different programs, to select financial files and transactions for testing.

**Audit team**

Donald MacDonald	Chief Audit Executive
Amarjit Mundi	Senior Audit Officer
Barry Neil	Internal Auditor