



Western Economic  
Diversification Canada

Diversification de l'économie  
de l'Ouest Canada

## **Audit of Regional Operations – Manitoba Region**

**WESTERN ECONOMIC DIVERSIFICATION CANADA**

**Audit & Evaluation Branch**

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## **1.0 Executive Summary**

- 1.1 The audit of the Manitoba Regional Operations was identified in Western Economic Diversification Canada's (WD) approved 2010-2013 Risk-Based Audit Plan. The audit objective was to provide reasonable assurance to the Deputy Minister that the Manitoba Region has sound governance, forecasting, and reporting processes to support effective decision making.
- 1.2 The audit covered the period from April 2009 through to March 2010. The audit focused on governance structures and strategic directions, planning, budgeting, forecasting, and performance reporting in the region. In addition, transaction processing and appropriate delegation of authorities were examined. The audit team interviewed key personnel in the region and examined relevant documents, reports, and files to support the conclusions reached.

### **Findings**

- 1.3 The governance framework in the Manitoba Region adequately supported the region to deliver on its mandate. Manitoba Region was effective in involving managers and employees in setting goals, targets and strategies for the region. Regular workshops were held to discuss progress towards goals and strategies to meet objectives. The Senior Management Team and Regional Management Team in the region met regularly, and had appropriate terms of reference to outline their mandates. Records of decision were taken from meetings and were recorded. Adequate follow up on action items was noted.
- 1.4 A process was in place to allocate budget dollars in the region giving consideration to priorities. Spending in the region during the audit period was primarily in the final quarter of the fiscal year with 64% of grants and contribution spending occurring in the final quarter.
- 1.5 Regional practices and processes related to performance reporting were well established and formally documented. Progress towards targets is regularly monitored and reported to all levels of the organization through a quarterly report card. Although the report card did identify variances from targets, it did not include reasons for variances or planned actions to address the gaps. Documentation of reasons for variances from established targets or service standards and actions planned to address the gaps would enhance the process.

### **Statement of Assurance**

In my professional judgement as Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the conclusion that the Manitoba Region has sound governance, planning, budgeting, forecasting and reporting processes in place, subject to the implementation of the recommendations in the report.

The assurance is based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed upon with management. The assurance is applicable to the policies and processes examined. The evidence was gathered in accordance with Treasury Board policies, directives, and standards on internal audit for the Government of Canada. The evidence has been gathered to be sufficient to provide senior management with the proof of the conclusions derived from this audit.

## 2.0 Introduction

### Background

- 2.1 Western Economic Diversification Canada (WD) operates in four regions, each with a degree of regional diversity and flexibility. A coherent alignment to corporate goals and priorities is required to achieve overall corporate objectives. Regional Assistant Deputy Ministers are responsible for the controls and processes within their respective regions. Regional Assistant Deputy Ministers are being asked to provide regular assurance as to the adequacy of controls in their respective regions.
- 2.2 The overall grants and contributions budget for the Manitoba Region in 2009-10 was \$71.3 million. As at March 31, 2010, the Manitoba Region had 82 full-time equivalent positions, representing approximately 16.8% of the department's entire staff complement.

### Audit Objectives

- 2.3 The overall objective of the audit was to provide reasonable assurance to the Deputy Minister that the Manitoba Region has in place sound governance, planning, budgeting, forecasting, and reporting processes to support effective decision making. The sub-objectives were:
- To assess that an appropriate governance structure exists in the region;
  - To ensure that regional performance results are reported and monitored;
  - To assess regional budgeting and forecasting processes and ensure they reflect corporate priorities and financial requirements; and
  - To assess the adequacy of financial monitoring processes in the region.

### Key Risks

- 2.4 Management designs controls to mitigate risks. The audit is intended to provide assurance on the existence and effectiveness of management's controls to mitigate the following risks:
- The region's governance structure and framework are inappropriate, incoherent and ineffective;
  - Regional and WD's strategic objectives, plans and priorities are not effectively communicated to all staff and other stakeholders;
  - There is no formal process in place to challenge the assumptions and related resource allocations within the budget;
  - Inaccurate budget and forecast information is provided to management, resulting in flawed decision-making;
  - No formal process of reporting to management exists in the region;
  - Complete, accurate and timely reports are not produced;

- Performance results are not accurately measured or communicated;
- Transactions are not accurately coded;
- Unauthorized individuals approve transactions; and
- There is non-compliance with Treasury Board and WD policies, directives and guidelines for the delegation of authorities.

## **Scope and Methodology**

2.5 The audit covered the period from April 1, 2009 to March 31, 2010. The audit focused on management controls, processes and practices in place in the areas of:

- Governance structure and strategic directions;
- Planning, budgeting, forecasting and reporting;
- Results and performance reporting;
- Transaction processing and coding; and
- Delegation of authorities.

The auditors interviewed key personnel in the Manitoba Region, examined records, documents, reports, files, and sampled transactions.

## **Acknowledgements**

2.6 The auditors would like to thank management and staff of the Manitoba Region for their timely cooperation and assistance provided the audit team throughout the engagement.

## **3.0 Findings and Recommendations**

### **3.1 Governance Structure and Strategic Directions**

*Criteria: An appropriate governance framework exists in the region to ensure fulfilment of their mandate aligned with departmental strategic objectives, plans and priorities. Policies and procedures are in place, consistent with Treasury Board policies and communicated to staff with financial management responsibilities. Regional oversight bodies have clearly defined mandates including terms of reference, which is well documented and appropriately communicated. The oversight bodies perform their responsibilities as required by the terms of reference. Regional and departmental strategic objectives, plans and priorities are effectively communicated to staff and other stakeholders.*

- 3.1.1 The Senior Management Committee in the Manitoba Region is responsible for providing strategic and management oversight to regional activities and to set priorities for the region. This committee, chaired by the Assistant Deputy Minister for the region, includes regional members of senior management. Records of decision are taken and recorded from the meetings.
- 3.1.2 In addition to the Senior Management Committee, the Manitoba Region also has a Regional Management Committee. This committee is responsible to review the management of all regional activities, and to review priorities for the region to achieve strategic outcomes. The Regional Management Committee is chaired by the Assistant Deputy Minister and includes the same members as the Senior Management Committee, plus some additional managers. Records of decision from the Regional Management Committee are recorded including both decisions and actions to be taken.
- 3.1.3 Unlike some of the other regions, the Manitoba Region has not established a grants and contributions review committee. Managers interviewed indicated that the number of projects developed in the region tended to be small and informal discussions are ongoing between project officers, managers and monitoring and payments officers for all projects. Directors interviewed stated that a formalized process involving a grants and contributions review committee would not add value or to be an improvement on the process already in place.
- 3.1.4 Overall, an appropriate governance framework was in place for effective decision making in the region. Staff were included and involved in business planning, setting goals, targets, and strategies. Workshops were held mid-year to discuss performance and course corrections. In addition, the region prepares and distributes to all employees a one page quarterly report card outlining progress made towards goals and identifying any gaps where action is required to meet targets.

### **3.2 Planning, Budgeting, Forecasting and Reporting**

*Criteria: Financial planning processes are in place to identify financial resource requirements and to develop annual budgets consistent with priorities. Financial policies, comprehensive*

*monitoring and internal financial reporting that provides senior management with timely information, analysis, and options on resource utilization exist. Compliance with both Treasury Board and departmental policies is monitored in the region.*

- 3.2.1 Corporate Finance annually notifies the Manitoba region in writing of their budgets for grants and contributions, salaries, and operating and maintenance. The responsibility of the region is to determine how to allocate their regional budget within those basic categories given the particular priorities and programs of the region. The region has financial planning and allocation processes in place. Prior to the start of a new fiscal year, the Regional Finance Manager requests managers to identify their unit's resource requirements. All the requests are consolidated and presented to the Regional Senior Management Committee for consideration and Assistant Deputy Minister's approval.
- 3.2.2 The auditors observed the trend that the majority of the grants and contributions funds allocated are spent in the final quarter of the year. During the 2009-10 fiscal year, 64% of the spending for grants and contributions in the Manitoba Region occurred in the last quarter of the year. The auditors also noted that Manitoba was the recipient of a significant influx of additional funds in the fourth quarter. In 2009-10, Corporate Finance transferred an additional \$6.6 million in grants and contributions from the corporate Strategic Investment Fund and from other regions that could not fully utilize their allocations. Even though Manitoba received a 15% increase in its grants and contributions budget from fourth quarter transfers, Manitoba's budget variance at year end was low, because they had sufficient projects to absorb the additional funds on behalf of the department as a whole.

*Criteria: Guidelines, tools, systems and data are available and adequate to support the allocation of resources in a consistent and transparent manner.*

- 3.2.3 The region follows the departmental requirements and guidelines for reporting of financial information and forecasts. Corporate Finance communicates guidelines to the regions for preparing headquarters reports, and a standardized reporting template is used. Manitoba Region's financial results, budgeting and forecasting reports are prepared in accordance with these guidelines using the standardized template.
- 3.2.4 Regions are required to report in accordance with the financial planning cycle requirements outlined in the management framework guidelines. Manitoba Region prepared the required reports in accordance with the financial planning cycle. Corporate Finance coordinates regional reporting to ensure receipt of the required information on a timely basis for completion of financial reports for Executive Committee approval.

*Criteria: Financial monitoring reports are prepared on a periodic and timely basis and supported by sufficient evidence.*

- 3.2.5 Regional Finance prepares financial monitoring reports for regional management on a periodic basis. The reporting schedule and format is similar to that used for submission to Corporate Finance, although the regional report is more detailed. The region follows

Treasury Board and departmental policies to ensure that transactions entered are valid and accurate. Financial reports are prepared using the corporate financial information system data. The Finance Manager verifies and reviews reports to ensure accuracy. On a regular basis Regional Finance solicits input from managers to complete the forecasts; however, Regional Finance will challenge management assumptions and override their forecasting if it is felt that the forecasted numbers are not supported. The auditors observed that variances were very low for the region as a whole, between the forecasted and actual numbers and that those variances were analysed, explained and communicated by the Regional Finance team.

*Criteria: A process is in place to review financial monitoring reports to reallocate resources as needed and to take corrective actions.*

3.2.6 The auditors found that the Manitoba Regional office has an active and effective process in place to review financial monitoring reports in order to reallocate resources as needed and to take corrective action. Regional managers and finance officers are actively involved in monitoring forecasts and reviewing financial information. Analysis is timely to support decision making, and financial opportunities within the region or department are identified in a timely fashion to support reallocation.

3.2.7 Monthly regional financial reports are presented to the Regional Management Committee for discussion, review and decision-making. There is active, ongoing coordination between Regional Finance and Corporate Finance for identifying and responding to resource needs. Regional needs or surpluses are identified, are rolled up by Corporate Finance, and brought forward to Executive Committee for any reallocation decisions.

### **3.3 Results and Performance Reporting**

*Criteria: Performance measurement results in the region are documented, reported corporately and factored into decision making. Monitoring to assess the success of regional operations in contributing to overall corporate strategies is undertaken and appropriate steps are taken in response to variances or deviations from goals and objectives.*

3.3.1 The Manitoba Region has good management practices and processes related to results and performance reporting in place. Regional management and staff are actively involved in the business planning process, establishing regional goals and objectives, plans and priorities, performance targets, and strategies along with actions to achieve performance targets. Regional management and staff are actively engaged in monitoring and reporting results against planned strategies and performance targets. Departmental and regional goals and objectives, performance targets, planned strategies and actions are specified in the regional business plan. Manitoba Region had formally documented their approach to planning and reporting, and regional management and staff follow the established guidelines. An all staff workshop is held to formulate strategies and actions for departmental program sub-activities. A separate workshop is held where the Regional

Management Committee develops management strategies respecting the Management Accountability Framework.

- 3.3.2 Manitoba Region adopts the WD Performance Measurement Framework and provides regional output and outcome targets to Headquarters for corporate performance measurement. Regional Policy, Planning and External Relations prepare quarterly performance reports. The Regional Management Committee and staff are actively engaged in the reporting process.
- 3.3.3 The Regional Management Committee assesses mid-year status of each business plan strategy. In the third and fourth quarters, the Regional Management Committee re-evaluates their assessment of business plan strategies and makes changes as needed. Since the fourth quarter of 2009-10, the region had significantly streamlined its quarterly regional performance report. A new quarterly report card highlights the region's output targets and results, full-time equivalent positions, planned spending, actual commitments, expended funds, and key results achieved under all program activities. The status of each planned strategy is indicated as strong, opportunity for improvement or attention required. Planned actions to fulfill strategies are highlighted. Service standard targets and results are included in quarterly report cards.
- 3.3.4 The auditors found that the report card for the fourth quarter of 2009-10 did not include reasons for significant variances from targets and service standards, and actions planned to address the gaps. Several strategies and actions were assessed as "Attention Required"; however, the auditors could not find any documented evidence of any planned corrective action or of the reasons for being off target. Documentation of reasons for significant variances from established targets or service standards, and planned management strategies/actions to address gaps would enhance effectiveness and usefulness of performance reporting for regional senior management decision-making.

**Recommendation # 1:** The Manitoba Region should improve its performance reporting framework by documenting reasons for any significant variances from established targets or service standards, and actions planned to address any gaps.

### **3.4 Transaction Processing and Coding**

*Criteria: Financial transactions are coded correctly and processed in an efficient and timely manner.*

- 3.4.1 The auditors performed an analytical review of coding for all third party grants and contributions payments for fiscal year 2009-10. No exceptions were identified.
- 3.4.2 The auditors selected a judgemental sample of 20 high dollar transactions from all grants and contributions programs and five operating and maintenance transactions for review of transaction processing and coding. One exception was identified in the sample selected. In that exception, costs for that project were to be coded to capital, as the

expense related to capital equipment purchases for a third party non-profit organization, yet this transaction was coded to operating. This exception identified is a control weakness that is likely to occur throughout the population, however this coding does not appear in any of the regional financial reports and it is unlikely to have any material impact.

### 3.5 Delegation of Authorities

*Criteria: Authorized individuals approve transactions in compliance with Treasury Board and departmental policies, directives and guidelines.*

3.5.1 The sample payments examined had the approval of regional staff with proper financial signing authority. The training requirements of Treasury Board policy for delegation of authorities have been met. Regional Finance actively monitors compliance with Treasury Board and departmental policies, directives and guidelines related to financial controls.

## 4.0 Conclusion

4.1 Overall, the Manitoba Region has a sound governance framework that provides effective decision making, strong leadership and oversight. The Manitoba Region has good and effective management controls, practices, and processes that exist in the areas of planning, budgeting, forecasting, results and performance reporting, coding of accounts and delegation of authorities. Those controls and practices can be further enhanced by implementing the one recommendation included in this report.

4.2 Audit criteria were used to assess the identified key risks, management control framework and practices. The following is a summary of results.

Assessed Area	Result
Governance structure and strategic directions	Criteria met
Planning, budgeting, forecasting and reporting	Criteria met
Results and performance reporting	Criteria mostly met
Transaction processing and coding	Criteria mostly met
Delegation of authorities	Criteria met

## 5.0 Audit Approach

### Planning

- 5.1 Audit planning started in June 2010 and fieldwork was completed in November 2010. Pre-engagement meetings and preliminary survey were conducted to facilitate identification of key risks, audit criteria, control elements and audit strategies. WD staff was involved as necessary throughout the audit process.

### Standards and Methodology

- 5.2 Government of Canada internal auditing standards were used throughout the planning, conducting and reporting phases of the audit. The audit was evidence-based in order to ensure the audit assurance is fully supported. All available evidence has been examined and analyzed against the audit criteria in order to recap the results. Sources of evidence included: interviews and document reviews at the region, review and analysis of policies, background literature and management practices, review of previous audits or reviews by other assurance providers, analytical reviews, and elaboration on cause and effect of conditions, and follow-up on previous internal audits.

### Sampling

- 5.3 As part of the audit evidence, the auditors judgementally selected 25 representative sample payments (20 Grants and Contribution transactions and 5 Operating and Maintenance transactions) processed by the region in 2009-10. The sample payments were selected to provide appropriate audit coverage of grants and contribution programs and various types of transactions.. The sample selected also took into consideration identified key risks, dollar amounts and program activities. A risk based sample methodology was used to determine the appropriate sample size. The sample selected represented 26% of the grants and contributions dollars in the population for the audit period, and 4% of the operating expenditure dollars for the audit period. The auditors conclude that the sampling methodology and the sample size are adequate upon which to form conclusions.

### Audit Team

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