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Core Control Audit of Western Economic Diversification Canada

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**Office of the Comptroller
General of Canada**

Canada

Why This Is Important

The *Financial Administration Act* designates deputy heads as accounting officers for their department or agency. As accounting officers, deputy heads are accountable for ensuring that resources are organized to deliver departmental objectives in compliance with government policy and procedures.

Core control audits provide deputy heads with assurance regarding the effectiveness of core controls over financial management in their respective organizations. By doing so, core control audits inform deputy heads of their organizations' level of compliance with requirements contained in selected financial legislation, policies and directives.

This audit is provided in accordance with an agreement between the Regional Development Agencies, including Western Economic Diversification Canada, and the Office of the Comptroller General of Canada for the provision of internal audit services.

About Western Economic Diversification Canada

Western Economic Diversification Canada (WD) was established in 1987 and mandated to promote the development and diversification of the economy of Western Canada and to advance the interests of Western Canada in national economic policy, program and project development and implementation according to the *Western Economic Diversification Act* (1988). With offices in each of the western provinces and its headquarters in Edmonton, WD administers programs that advance innovation, business development and community economic development in rural and urban areas throughout the four western provinces.

In fiscal year 2012–13, WD implemented several measures in response to the Deficit Action Plan. WD reduced its internal service staff, centralized its finance and procurement functions, and modified the management of the grants and contributions programs from a risk-based process to a life-cycle method. Additionally, the internal audit function was transferred to the Office of the Comptroller General of Canada.

According to its *2012–13 Departmental Performance Report*, WD had spending of approximately \$183.7 million and human resources of 368 full-time equivalents during fiscal year 2012–13.

Core Control Audit Objective and Scope

The objective of this audit was to ensure that core controls over financial management¹ within WD result in compliance with key requirements contained in the selected financial legislation, policies and directives.

The scope of this audit included financial transactions, records and processes conducted by the WD. Transactions were selected from January 1 to September 30, 2013. This audit scope was selected in order to test transactions that occurred during the implementation of WD's new financial procedures. The audit examined a sample of transactions for each of the selected policies and directives. The Appendix provides a complete list of policies and directives included in the scope of the audit and the overall compliance in the areas tested.

Conformance With Professional Standards

This audit engagement conforms with the *Internal Auditing Standards for the Government of Canada*, as supported by the results of the quality assurance and improvement program.

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Audit Findings and Conclusion

Testing of core controls within WD revealed full or partial compliance with the key requirements contained in 11 of the 16 policies, directives and corresponding legislation included in the scope. WD was not in compliance with the remaining 5 policies and directives tested.

Strong control was observed in the management of the delegation of financial authorities for disbursements. The delegation instrument was appropriate and current, and employees met the training requirements. WD also established a sound financial management governance structure.

Weaknesses were identified for the management of the three departmental cars, where a logbook was not always used to record usage on a daily basis. A tracking system to record maintenance, operating and repairs costs of the three cars was also missing. For the acquisition card program, some request forms and acknowledgment of responsibilities documents were not retained on file. With respect to contracting, the documentation on file was sometimes insufficient to support contracting decisions. Written justification was missing in some cases for competitive and non-competitive processes, where PWGSC standing offers for the services or goods were in place.

¹ See the Appendix for a complete list of policies and directives included in the scope of this audit.

Weaknesses were observed for hospitality-related expenditures, where supporting justification for expenditures was not always documented. Furthermore, the requirements for proactive disclosure on the department's website were not respected in some instances. For performance agreements and appraisals, documentation was not always signed and dated at the beginning of the performance period as well as at the end by the parties concerned. In the area of pay administration, departmental departure procedures were not always fully completed. For transfer payments, in some instances documentation to support the payment was not always on file.

Weaknesses were identified in expenditure initiation, where pre-approval was not always obtained. Account verification was not always properly exercised; proof of execution to corroborate expenditures was not always documented and was not always performed on a timely basis.

Recommendations

The Deputy Head of Western Economic Diversification Canada (WD) should ensure that:

1. A vehicle logbook is used to record usage on a daily basis, and a fleet management information system is in place to track maintenance, operating and repair costs related to fleet management.
2. Proper documentation is retained on file for acquisition cards to substantiate their issuance, approval, modification and conditions of use.
3. Its contracting business process is improved, is consistently performed in compliance with the Treasury Board *Contracting Policy*, and relevant documentation is retained on file.
4. Its travel business process is improved and consistently performed in accordance with the related directives.
5. Documentation that supports hospitality events is retained on file.
6. Designated senior-level Government of Canada hospitality expenses are appropriately coded for purposes of proactive disclosure on WD's website.
7. Performance agreements and appraisals are signed and dated by concerned parties.
8. Employees' departure forms are appropriately completed by applicable authorities.
9. Supporting documentation is on file and in accordance with the terms and conditions of funding agreements.
10. Expenditure initiation is properly documented and performed by an individual who has the appropriate delegated authority before expenses are incurred.
11. Account verification is done by someone who has appropriate delegated authority, is supported by complete documentation, and is done on a timely basis.

Management Response

Management has accepted the audit findings and has developed an action plan to address the recommendations. It is expected that the management action plan will be fully implemented by May 2015.

The results of the audit and the Management Action Plan have been discussed with the Deputy Head of WD and with the Small Departments Audit Committee. The Office of the Comptroller General of Canada will follow up on the implementation of the Management Action Plan.

Appendix: Policies and Directives Tested

Policies and Directives Tested	Compliance
<i>Directive on Delegation of Financial Authorities for Disbursements</i>	Met
<i>Policy on Financial Management Governance</i>	Met
<i>Directive on Fleet Management: Light Duty Vehicles (re WD fleet)*</i>	Not met
<i>Directive on Fleet Management: Light Duty Vehicles (re ARI fleet cards)*</i>	Partially met
<i>Directive on Acquisition Cards</i>	Not met
<i>Directive on Accountable Advances</i>	Partially met
<i>Contracting Policy</i>	Not met
<i>National Joint Council Travel Directive</i>	Partially met
<i>Directive on the Management of Expenditures on Travel, Hospitality and Conferences</i>	Not met
<i>Performance Pay</i>	Not met
<i>Directive on Leave and Special Working Arrangements</i>	Partially met
<i>Directive on Financial Management of Pay Administration</i>	Partially met
<i>Term Employment Policy and Directive on Terms and Conditions of Employment (re casual employees)</i>	Partially met
<i>Directive on Transfer Payments</i>	Partially met
<i>Directive on Expenditure Initiation and Commitment Control</i>	Partially met
<i>Directive on Account Verification</i>	Partially met

*The *Directive on Fleet Management: Light Duty Vehicles* was tested for the purchase of vehicles and the use of fleet cards.

Legend of Compliance Thresholds²	
Met	Greater than or equal to 98% compliance
Partially met	Greater than or equal to 80% and less than 98% compliance
Not met	Less than 80% compliance

² Compliance thresholds for the transactions tested.