

Chapter 21

Financial Information Strategy

Departmental Readiness

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Financial Information Strategy

Departmental Readiness

Main Points

21.1 We found that most departments are just starting to focus on the Financial Information Strategy (FIS) despite the fact that the target implementation date for FIS, 1 April 2001, is less than two years away. At the time of our audit, while most departments had implemented new financial systems, they still had a lot of work to do to prepare these financial systems and to implement the accrual accounting policies to meet FIS requirements. Strategies for preparing managers to use the information provided by FIS to strengthen management decision making are not yet in place. We are also concerned that FIS is not seen as a high priority by senior managers.

21.2 In our view, the Treasury Board Secretariat, overall project manager for FIS, will need to assume a greater leadership role, drawing on some of the lessons learned in dealing with the Year 2000 problem. In particular, the central FIS Project Office will need to put in place and keep current an updated overall implementation plan, and use appropriate risk management capabilities, monitor implementation by departments and intervene constructively if problems arise. In addition, it will need to provide departments with required accounting policies and manuals, which are currently being developed, and assist departments in developing an appreciation of the use of FIS in day-to-day management.

21.3 Public Works and Government Services Canada (PWGSC) effectively carried out the development and implementation of new central systems. PWGSC and its major partners, the Secretariat and Revenue Canada, worked together to conclude a successful pre-production pilot of those new systems. We found that the Department and its partners established a detailed plan and risk management capability, monitored progress and intervened when necessary, and met key target dates.

Background and other observations

21.4 As we reported last year in our first report on FIS (September 1998 Chapter 18), the government is making sweeping changes in the type of financial information provided to decision makers. Under the Financial Information Strategy, new financial systems throughout government are being implemented. But FIS is much more than the renewal of aging financial systems. The Strategy is also designed to help the government strengthen significantly its management of business lines and its accountability to Parliament. To do this, FIS will generate full accrual accounting information similar to that used by the private sector and integrate this information into day-to-day decision making of departmental managers. The Office of the Auditor General continues to support fully these stated objectives of FIS.

21.5 The push for improvements in financial information to support government decision making started in 1962 with the Royal Commission on Government Organization (Glassco Commission). FIS was officially launched in 1989 and, after several false starts, the project was revitalized in 1995. A goal of April 2001 was published as the target date for implementation. We noted in our research that in some other jurisdictions, such as the Province of Alberta, the United Kingdom, Australia and New Zealand, financial management reform has progressed more rapidly.

21.6 Parliament's Standing Committee on Public Accounts held a hearing on Chapter 18 in October of 1998. The Committee called for the Treasury Board Secretariat to proceed with "all diligence and speed" in pursuing the option discussed in the chapter of changing the appropriations process to focus on resources consumed to achieve results rather than simply resources acquired. We saw this change in the appropriations process as a necessary step

in creating demand by departmental managers for full accrual information to strengthen day-to-day management and decision making. The Committee also called for the Secretariat to monitor the progress of FIS across all departments and agencies and to provide Parliament with better estimates of the total implementation costs. Estimates of FIS costs are still largely unknown or undetermined; only 11 of 24 departments that we surveyed had partial or full cost estimates.

21.7 One of the key aspects of successfully delivering a major initiative like FIS is the cultural change required at the management level to fully participate in and reap the benefits from the new approaches to informed decision making that FIS brings. The importance of change management has been well publicized in industry and in other government jurisdictions. Looking ahead, a major challenge for the Secretariat will be to provide guidance and lessons learned to departments with regard to this important issue.

The Treasury Board Secretariat's responses to our recommendations are included in the chapter. In line with the recent decision to increase its focus on implementation of the Strategy, the Secretariat will monitor departmental progress and take into consideration our recommendations.

Introduction

The Financial Information Strategy (FIS) is a needed reform

21.8 As we approach the new millennium, the Government of Canada is one of several governments around the world looking at new, modern ways of managing the business of government. The President of the Treasury Board indicated in his 1998 Annual Report to Parliament, *Managing for Results*, that government is “shifting from rules and processes to values and results with a focus on citizens, clients and taxpayers.”

21.9 The government is making the shift through ongoing program review and a move to results-based management. It is also exploring new ways of delivering the services Canadians expect of their government, including alternative service delivery, public/private partnerships and privatization.

21.10 The Standing Committee on Government Operations recognized the need for better information to support this new approach to governing. In its Third Report to Parliament in April 1997, the Committee said:

With the advent of government restructuring, alternative services delivery, new partnerships...there must be established as soon as possible a framework of accountability to assure the various stakeholders, public and private, of greater access to information on performance and results of public programs and services. This is the essence of improved public transparency.

21.11 The government introduced its modernization of comptrollership initiative in response to this call for a modern management agenda. The Deputy Comptroller General of Canada describes modern comptrollership as “an integrating concept — one that brings information

from many sources into a meaningful whole and that communicates that information to those who need it. Modern comptrollership supports an open, accessible, values-driven and results-oriented government.”

21.12 With a vision to “enhance the government’s decision making and to improve organizational performance through the strategic use of financial information,” the Financial Information Strategy (FIS) is critical to modern comptrollership and provides tools that support this new way of managing. The target date for FIS implementation is 2001.

21.13 A key objective of FIS is to provide departmental management, at all levels, with more relevant, reliable and timely financial information. This information would then be used in conjunction with other performance and operational information to help make key program and other decisions. The first edition of the FIS newsletter in November 1997 stated that FIS supports “the first three of the four key elements of comptrollership...” These elements are performance information, risk management and control systems. The fourth key element is ethics and values, which has “long been associated with the financial community.”

21.14 To achieve this vision, the government is implementing modern financial systems throughout government and is moving to an accrual accounting environment similar to that used by private sector businesses.

21.15 To be successful, organizations need to begin with a clear articulation of business needs and then design strategies, systems and tools that meet these needs. The Year 2000 problem had an impact on the implementation of new financial systems, as most government departments and agencies implemented their new financial systems as a Year 2000 solution and therefore earlier than might have been planned for FIS. As a result, the systems

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The Office of the Auditor General continues to support the objectives of FIS and is keen to see the Strategy fully implemented as soon as possible.

The Strategy supports the government's drive to change how the business of government will be managed.

were put in place under the old accounting and management environment and will likely require reconfiguration to meet the government's modern management requirements under FIS. These new financial systems are a key component of "enterprise-wide resource planning" systems that have the potential to touch all areas of management and affect, to varying degrees, every business process. Reconfiguration for newly articulated business needs is possible but requires considerable thought and care in execution.

21.16 New financial systems and businesslike accounting policies are important to the government as it attempts to introduce modern financial management practices. However, it is necessary to remember that these are simply a means to an end — managerial use of better information for decision making — not an end in themselves.

21.17 The Office of the Auditor General continues to support the objectives of FIS and is keen to see the Strategy fully implemented as soon as possible. As we stated in our chapter on FIS in 1998, there have been calls for financial management reform for over 35 years, starting with the Royal Commission on Government Organization (Glassco Commission) in 1962. The 1979 Royal Commission on Financial Management and Accountability (Lambert Commission), the 1997 Independent Review Panel on the Modernization of Comptrollership in the Government of Canada and several Auditor General reports have echoed the call for reform.

Departments and agencies are key to the success of FIS

21.18 In the past, all financial transactions were processed centrally by Public Works and Government Services Canada and maintained in the central accounting system. The government's annual financial statements were prepared

from this centralized information. For management information purposes, many departments and agencies maintained duplicate information in their own management information systems.

21.19 Under FIS, financial management and accounting will be decentralized. Departments will now be responsible for processing and maintaining detailed financial transactions in their own financial systems. Departments will submit to the new central systems only the summary information required for government-wide reporting and analysis. In addition, departments will now be required to produce accrual-based departmental financial statements that can withstand the test of audit.

21.20 Departments are to be more businesslike in their decision making. As envisaged, FIS will help departments achieve this by laying a foundation involving the use of financial tools similar to those used in the private sector, such as costing and businesslike accrual accounting practices. In combination with non-financial performance and operational information, FIS should provide departmental management with the timely, relevant and reliable information needed for day-to-day decision making in the years ahead.

21.21 FIS changes significantly how financial information will be captured and maintained by departments. However, it is not simply a centrally driven initiative to change the government's summary level financial statements — this is a secondary objective of FIS. The Strategy supports the government's drive to change how the business of government will be managed. It is therefore designed primarily for the benefit of departments in meeting their responsibilities in the new management environment.

21.22 To ensure success, departmental managers, both program and financial, need to understand and buy into the full vision of FIS, including improved financial management and full reporting

of results. In our view, if managers do not take an active interest in the quality of their departments' financial information, there is an increased risk that data quality and integrity could suffer.

21.23 In addition, departments will need to ensure that they have the required financial expertise to properly exercise their increased responsibility under FIS. As a result, managing the changes in training as well as in people's roles and responsibilities will be a key component of successful implementation of the full vision of FIS. Experience elsewhere has shown that new staff, familiar with modern accounting and comptrollership concepts and techniques, will need to be recruited. Some departments have already started this process. Secretariat officials indicated that they are pleased with the results of the Financial Officer Recruitment and Development (FORD) program in recent years. The Treasury Board Secretariat is also holding discussions this fall on creating an initiative to recruit middle-level financial officers.

Financial management reform is occurring in other jurisdictions

21.24 Canada is not alone in attempting to change how it manages the business of government. Many other jurisdictions, both within Canada and internationally, have also introduced or are planning to implement modern financial management and, in some cases, even broader reforms. These include New Zealand, Australia, the United Kingdom and the Province of Alberta (see Exhibit 21.1).

21.25 A common thread in these jurisdictions was the desire to move to a more businesslike management framework — one that focusses on results, rather than inputs. In all cases, these reforms saw the adoption of accrual accounting practices as a logical component of the new management culture and not an end in itself. In

addition, there was strong political support, at the highest levels, which helped drive the change in management philosophy.

21.26 The Auditor General of Canada and the Chair of the Federal Standing Committee on Public Accounts (PAC) attended the Australasian Council of Public Accounts Committees in Australia in February 1999. They were briefed by Australian and New Zealand government officials on developments in public sector management, accounting and reporting in those countries. On their return, they submitted a joint report to the Canadian PAC's sub-committee on International Financial Reporting Guidelines and Standards for the Public Sector. This report, available from the Canadian Public Accounts Committee, has information on the Australian and New Zealand experience.

There are a number of drivers for FIS

21.27 The Minister of Finance's 1995 commitment to move to an accrual accounting basis provided a much-needed push to the stalled FIS initiative. Unlike other jurisdictions though, this commitment was not accompanied by a widely shared and clearly articulated vision of an operating philosophy or culture of which FIS would be seen as a logical part. According to Treasury Board Secretariat officials, however, the recent initiative to modernize comptrollership in the Government of Canada represents that broader vision.

21.28 FIS is often talked about in the context of the longer-term comptrollership initiative, particularly in the area of management decision making. In fact, the Secretariat has referred to comptrollership when responding to a number of issues that the Office has raised in previous audits (see Exhibit 21.2). While we recognize that comptrollership provides an overall financial management framework within which FIS will eventually operate, comptrollership is still in its early stages

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Exhibit 21.1

**Financial Management Reform
in Other Jurisdictions**

New Zealand

As a result of a financial crisis, the Government of New Zealand introduced a series of reforms designed to place the government on a more businesslike footing. The government introduced the notion of a minister purchasing services from the public service. This is formalized in a series of purchase agreements between the Minister and the Secretary (Deputy Minister) or Chief Executive. These agreements require clear expectations for the nature and price of the goods and services to be delivered by departments. Parliament, through the appropriations process, votes the resources to ministers to purchase the required outputs (goods and services).

Departmental managers were given the freedom to manage their organization within the terms of the purchase agreement. A great deal of operational autonomy was given to heads of departments and agencies. In addition, the personal performance of these senior managers is assessed against individual performance agreements. Therefore, an essential part of the accountability framework is the reporting of the financial results and accomplishments against the performance targets. There is a comprehensive quarterly reporting against departmental purchase agreements and personal performance agreements.

Australia

The Commonwealth of Australia government recognized that a cash and input-based resource management system was inadequate. Such a system did not promote best practice management or accountability. The government believes that a modern, accrual-based management framework facilitates solid analysis and good decision making about resource usage and financial position.

The government tabled its first outcomes- and outputs-based budget in May 1999. This accrual-based approach represented a major shift in the way the Australian federal government budgeted and managed its resources. Under the new framework, outcomes (results) and outputs (deliverables) become the focus of how agencies plan, budget and report. Outcomes are the results government expects to achieve while outputs are the goods and services agencies produce to contribute to the achievement of the outcomes. Agencies are resourced for the price of their outputs. This price includes full costs, such as depreciation. Accrual accounting provides agencies with the financial information required for the pricing of outputs.

United Kingdom

In March 1999, the United Kingdom issued a white paper on modernizing government, a central piece of the government's renewal and reform program. In the section, Quality Public Services, the paper describes a number of levers to drive up standards in public services. These include the Comprehensive Spending Review which established a new approach to improving service delivery. The new Public Service Agreements (PSAs) set out in detail what people can expect in return for new investment. Ministers and their departments will be held to delivery of the priorities set out in the PSAs. These priorities are cascaded through targets and measures that will be set for all public bodies, in consultation with those that receive services. The government has also developed a new approach to public expenditure planning and control. Three-year spending plans have replaced annual plans for departments wherever possible. The scope of year-end carry forward provision has been increased to reduce the year-end spending rush. The introduction of resource accounting and budgeting, during the 1999–2000 budget year, will replace the archaic use of cash-based accounting. This will mean better linkages between the resources put in and what is achieved, and will increase the incentives for assets to be managed effectively.

Province of Alberta

The Government of Alberta introduced accrual accounting and performance reporting as part of its broader financial management reform. As part of the Premier's agenda of bringing a more businesslike approach to governing the province, ministries are now required to prepare fully consolidated business plans and present business cases for new initiatives. New financial systems, performance reporting and a move to accrual accounting supported this change in management philosophy. In response to these new requirements, managers began to demand better financial information.

and, according to the Treasury Board Secretariat Comptrollership Modernization Office, it has a 7 to 10-year implementation time frame. There is a risk of delay in achieving the full benefits of FIS if key aspects begin to be associated with this longer-term project.

21.29 The high-priority requirement to deal with the Year 2000 problem pushed departments to implement new financial systems while they, and the government as a whole, were determining the FIS framework. In a sense, the Year 2000 problem has been both a blessing and a curse. On the one hand, it has moved forward the implementation of replacement financial systems, while on the other hand, it has forced early implementation of certain aspects of FIS in most departments without determining

the management needs that FIS will need to serve.

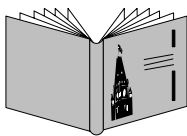
21.30 The Treasury Board Secretariat expects to produce the first accrual-based government-wide financial statements for the 2001–02 fiscal year. Secretariat officials informed us that these financial statements will be seen as a critical indicator of FIS success in the shorter term. They also indicated that they will take the appropriate measures necessary if some departments are unable to provide accrual-based information at that time. Currently, this goal is driving the implementation of new accrual-based accounting systems and of accrual accounting policies.

21.31 Although it makes sense to break a large project into manageable components, there is a risk that

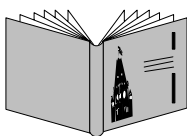
FIS is more than simply producing accrual-based financial statements.

Exhibit 21.2

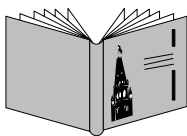
Summary of the Treasury Board Secretariat's Responses



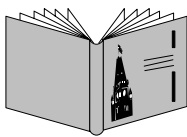
Chapter 18 September 1998
The Financial Information Strategy: A Key Ingredient in Getting Government Right



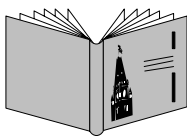
Chapter 2 April 1997
Financial Management: Developing a Financial Management Capability Model



Chapter 3 April 1997
Management of the Government's Accounting Function: A Central Agency Perspective



Chapter 5 April 1997
Reporting Performance in the Expenditure Management System



Chapter 11 October 1997
Moving Toward Managing for Results

In all cases, the Treasury Board Secretariat's response included reference to the comptrollership initiative, which has a longer-term implementation time frame.

FIS is about providing those who manage our tax dollars with financial information to permit them to make better program decisions.

departments might focus solely on shorter-term goals and take the emphasis away from the full objectives of FIS. FIS is more than simply producing accrual-based financial statements. It is mainly about providing those who manage our tax dollars with more relevant, reliable and timely financial information to permit them to make better program decisions.

21.32 Circumstances, such as dealing with Year 2000, have resulted in a step-by-step implementation approach for FIS that has put systems first. While this may represent a practical reality, the government needs to ensure that it does not declare victory on FIS until all steps have been completed — that is, until the appropriate accounting policies are in place and the information that FIS provides becomes an integral part of day-to-day decision making.

The Public Accounts Committee considered FIS in 1998

21.33 The Public Accounts Committee held a hearing on the 1998 chapter on FIS. Its report to Parliament provided full support to the issues raised in the chapter and made four recommendations to the government. The Committee's report is included in Appendix C of this Report. The Committee asked the Treasury Board Secretariat to prepare options for a move to accrual appropriations, to consult with stakeholders and to prepare a plan to implement the chosen solution. It also asked that the Secretariat monitor departmental implementation, inform Parliament of any impediments to successful implementation and provide it with an estimate of the total cost of implementation. The Secretariat agreed with these recommendations and its action on them is discussed in paragraphs 21.109 to 21.111.

Focus of the audit

21.34 This is the second of a series of audits on the implementation of the Financial Information Strategy. In our first

chapter, published in September 1998, we focussed on broader central issues surrounding FIS such as accrual appropriations, the development of the FIS accounting and control framework, the Treasury Board Secretariat's management of FIS overall and the development of the new central systems. This year the audit focussed primarily on the readiness of departments to implement FIS. We also continued our review of the broader central issues.

21.35 The objectives of the audit were to:

- assess the state of FIS readiness in a selection of departments;
- review the management of FIS overall by the Treasury Board Secretariat;
- examine the implementation of the new central systems; and
- follow up other significant issues raised in our September 1998 chapter as well as the recommendations made in Chapter 3 of the April 1997 Auditor General's Report.

21.36 Further details on the audit are found at the end of the chapter in **About the Audit**.

Observations and Recommendations

Departmental Readiness to Implement FIS

The Year 2000 problem has been a major distraction

21.37 As mentioned earlier, the appearance of the Year 2000 problem, the scale of which required resources and urgent action, prevented FIS from being implemented in what would generally be considered a logical order — that is, to determine first the overall management framework or culture, then the accounting information structure and finally the systems required to support these.

The Year 2000 problem prevented FIS from being implemented in what would generally be considered a logical order.

21.38 The Year 2000 issue has pushed most departments to implement new financial systems early and therefore these systems generally continue to process transactions in the old way and still connect with the old central accounting system. As a result, there has been limited business re-engineering with implementation of these interim systems. Modern enterprise-wide systems usually require that re-engineering be done first.

Serious departmental planning for FIS is just starting

21.39 To implement FIS we would expect dedicated implementation teams to consist of people with systems, financial and change management skills as well as representatives from program management. Only 5 of the 24 departments we surveyed had these integrated teams in place.

21.40 Most departments indicated in the survey that they expect to have FIS plans in place in late 1999 or early 2000. Early indications are that these plans will focus primarily on the development and implementation of interfaces with new central accounting systems along with the analysis and implementation of the new accrual accounting policies. Only two of the surveyed departments have assessed risks associated with implementing FIS.

21.41 Change management is important because it deals with how to motivate managers to use accrual-based financial information for day-to-day decision making. However, where this has been considered as part of the planning process, the focus has been on the necessary training for new systems and accrual accounting. Only 1 of the 24 departments we surveyed had a plan that considered the changes required to bring about the new management culture.

Less than two years to the target date

21.42 There are less than two years remaining before the publicly declared April 2001 target for FIS implementation. Treasury Board Secretariat officials have informed us that by this date they expect to have all departmental financial systems connected to the new central systems and to have the necessary accrual accounting policies in place to permit the preparation of accrual-based summary-level financial statements for the government as a whole for the 2001–02 fiscal year. However, to meet the need for the significant change in management culture required by FIS, as well as for comptrollership, the Secretariat recently indicated to us that they will prepare managers as much as possible leading up to April 2001, use 2001–02 as a building year and do continuous improvement after that.

21.43 Treasury Board Secretariat officials indicated to us that they have six pilot departments leading the way on comptrollership. Discussions are under way within the Secretariat for future implementation of comptrollership to include a cultural change component. In his presentation to the European Commission in April 1999, the Secretary of the Treasury Board and Comptroller General said that the Secretariat is looking for substantial modernization in the pilot departments with visible results by the fall of 2001, the same time that the Secretariat expects to have its comptrollership responsibilities in place. However, he also said that it will take 7 to 10 years for all parts of government to move to modern comptrollership.

21.44 The full implementation of FIS in departments and agencies — new financial systems, new accounting rules and the use of better financial information to manage — is the responsibility of the deputy minister or head of agency. In this regard, we believe that they need to make the full implementation of FIS a departmental priority. We reviewed departmental Reports on Plans and

Only 1 of the 24 departments we surveyed had a plan that considered the changes required to bring about the new management culture.

We reviewed departmental Reports on Plans and Priorities for 1999–2000 and found little mention of FIS.

It is important that FIS planning in departments start now to ensure success.

Priorities for 1999–2000 and found little mention of the Financial Information Strategy. Since FIS is a key tool for providing financial information for program management, it would be reasonable to expect that departments would make a public commitment to FIS in their departmental Reports on Plans and Priorities documents to be tabled in Parliament in the spring of 2000.

21.45 Planning is crucial. FIS implementation requires a well-defined and understood “destination” — that is, how the future financial management environment will look, a change management strategy to reorient managers to a more modern way of managing, as well as the financial systems and accounting policies that are needed to support this future environment. Only one department in our survey had planned its FIS implementation in this manner.

21.46 It is important that FIS planning in departments start now to ensure success. As described above, implementation is more than simply

connecting to new central accounting systems. All of this takes time. Setting up a project team and infrastructure in a department can take several months. The scoping, business case preparation and planning exercise can take another few months. The development and implementation of accounting policies can take a year to put in place.

21.47 As shown in Exhibit 21.3, Public Works and Government Services Canada (PWGSC) expects, based on the results of the pre-production pilot, that building interfaces to connect the new departmental financial systems to the new central systems, if tightly controlled, would take a minimum of nine months once a dedicated project team is appointed and working. The testing of departmental interfaces to the new central systems needs to be co-ordinated with PWGSC while taking into account the logistics and scheduling of other departments that need to test their connections at the same time. PWGSC indicated that in cases where a department could use an existing interface without modification, then the amount of time may be reduced.

21.48 Finally, changing the financial management culture of a department can easily take up to two years, and even longer if major organizational changes are required or if new staff needs to be recruited as a result of a departmental analysis of competencies required in the future versus those in place now. Nine of twenty-four departments we surveyed were unable to provide us with summary data on financial staff qualifications.

21.49 The work described in the preceding few paragraphs will be a daunting task for departments that plan to move to FIS in 2001. The implementation of FIS-compliant financial systems and accrual accounting policies may be feasible if the momentum created by Year 2000 is maintained. However, it is important that departments not lose sight of the fact that FIS is more than systems and policies. We are concerned that

Exhibit 21.3

Connecting to Central Systems: Key Milestones

The key milestones, and related requirements, for the connection of departmental financial systems to the central systems are:

30 June

- Memorandum of Understanding with the cluster group
- Steering committee
- Project team
- Specifications
- Implementation plan
- Work started on coding

1 September

- Testing under way

November to December

- End-to-end testing started and completed

31 January

- Test result sign off and decision on 1 April implementation

Source: Public Works and Government Services Canada

departments may become complacent and not place the appropriate focus on their business needs and changes in management culture needed to reap the full benefits of FIS.

21.50 The Secretariat has asked 23 departments to connect to the new central systems in April 2000. The selection of departments was still being finalized at the beginning of August 1999.

Government officials advise that they understood the risks of going ahead even though the 30 June milestones were not met (see Exhibit 21.3). The officials further advised that implementation by at least some of the 23 departments would reduce the load in 2001, thus reducing the overall risk.

21.51 We are concerned that these departments now have less than the expected minimum time required to implement their system interfaces. This pressure on the schedule creates a very high risk that, if these compressed deadlines are not met, there will be a domino impact on the 2001 implementation schedule. The key implementation milestones for connecting to the new central systems in 2001 commence in June 2000. To maintain the necessary momentum and to ensure success, strong project and risk management will need to be continued during this process.

FIS is incorrectly seen as just an accounting exercise

21.52 We found that all of the departmental implementations of FIS are being driven by the finance and/or corporate services areas that will be responsible for providing central agencies with the accrual-based summary information required to produce the government-wide financial statements in 2001–02. To date, senior management sponsorship and program manager support are generally missing. To dispel this image of FIS as simply an accounting

exercise, we would expect to see senior sponsorship or involvement from the program areas (business side) of departments. The results of our survey indicate that 4 of 24 departments have a sponsoring group extending beyond the finance and corporate services areas. Five other departments have communicated with senior and program managers, but do not yet have their active involvement.

21.53 As a result, in most departments the current focus is on connecting the new financial systems to the FIS central systems and implementing accrual accounting policies by April 2001 to meet external reporting requirements. In all 24 of the departments we surveyed, the new financial systems have largely replaced the functionality of the “legacy” financial systems and processes. Consequently, at this time they provide limited program management information.

21.54 The financial officers in several of the departments we audited are finding it difficult to engage line managers and senior executives because it is hard to convince them of the benefits of FIS. Compelling drivers have not yet been provided to these officers to help them encourage managers and executives to change their traditional management practices.

21.55 The message that needs to be delivered to program managers is that, under the full vision of FIS, they would have more relevant, reliable and timely accrual-based financial information that can be used for:

- period-over-period comparisons and trend analysis;
- program costing information for:
 - user fees and cost recovery decisions
 - business planning
 - performance reporting
 - alternative service delivery analysis

The Secretariat asked 23 departments to connect to the new central systems in April 2000. These departments now have less than the expected minimum implementation time required.

Compelling drivers have not yet been provided to financial officers to help them encourage managers and executives to change their traditional management practices.

To date, even with new financial systems, management information continues to be poor.

- public/private partnership analysis;
- capital asset management including maintenance and rust-out prevention;
- make-versus-buy analysis;
- lease-versus-buy analysis; and
- inventory management.

21.56 However, to date, even with new financial systems, management information continues to be poor. Several departments indicated that their new “state of the art” systems have not yet been able to provide managers with meaningful reports. While financial information is generally available on a responsibility centre basis, program cost information is not usually available. For example, departments continue to be unable to provide reliable actual cost information on departmental projects such as FIS or Year 2000. Of the 24 departments we surveyed, 11 provided us with partial cost estimates for FIS. However, Secretariat officials informed us that departments have not been required to separate FIS costs, nor has there been a methodology given to departments to calculate them. The Secretariat says that a special costing project would be required to assemble and analyze FIS-related costs. We believe that capturing reliable cost information on an ongoing basis is necessary for effective decision making and should be integral to implementing FIS.

21.57 Departments and their deputy ministers should make FIS implementation a priority and make a public commitment to that effect in their departmental Report on Plans and Priorities documents in the spring of 2000.

Treasury Board Secretariat’s response:
The content of a department’s Report on Plans and Priorities is the prerogative of the deputy head. These documents are primarily intended to display commitments

to Canadians, but the Secretariat also encourages the inclusion of significant commitments to management improvement initiatives.

21.58 Departments should designate a senior-level sponsor of the FIS initiative, someone who is in a position to promote FIS beyond the finance area.

21.59 Departments should immediately establish dedicated FIS implementation teams that integrate systems, accounting and change management skills as well as program management representatives.

21.60 Departments should implement a FIS awareness communications campaign for line and senior managers, highlighting how FIS will help them manage in the future government environment.

21.61 Departments should immediately develop plans that cover all aspects of FIS implementation. These plans should include:

- a description of the department’s future financial management environment; and
- a comprehensive timetable and plan/strategy to:
 - connect the departmental financial system to the FIS central systems;
 - determine and implement appropriate accrual accounting policies and procedures needed to produce auditable departmental financial statements; and
 - move the department to the future financial management environment. This should include:
 - a gap analysis of the current versus future decision making environment and business processes;

- a communications plan to increase FIS awareness and to establish two-way consultation;
- a training analysis and plan; and
- an analysis of the human resource competency and capability.

Treasury Board Secretariat's response: The recommendations to departments in 21.58 to 21.61 are consistent with guidance issued by the Treasury Board Secretariat in January 1999, entitled Financial Information Strategy in the Canadian Federal Government: Implementation Strategy Guide. The Secretariat will monitor progress in departments.

Treasury Board Secretariat Leadership, Management and Monitoring

The Secretariat's handling of the Year 2000 problem sets a leadership precedent

21.62 Government-wide initiatives require strong leadership, particularly as deadlines approach. One such case has been the government's efforts to deal with the Year 2000 problem. The Treasury Board Secretariat took on a greater leadership role with the support of the Office of the Auditor General and the Public Accounts Committee.

21.63 In its November 1997 report on the Auditor General's Year 2000 audit work, the Public Accounts Committee recognized:

Accountability is an issue that is of greatest importance to this Committee. In terms of taking effective action and achieving satisfactory results, there is great merit in having one department, and

one individual within that department, capable of taking the lead responsibility for solving problems. Knowing who holds the responsibility means knowing who is in a position to make decisions and to act on them. It means knowing who is in charge.

21.64 During the hearings, the Committee was told that departments were responsible for ensuring that their systems were adequately prepared for Year 2000. The Treasury Board Secretariat, for its part, was responsible for providing guidance and leadership on this challenge throughout government, particularly in the search for solutions to common problems.

21.65 The Public Accounts Committee believed that this might have been an appropriate division of responsibility under normal circumstances, but that in this instance more assertive action by the Treasury Board Secretariat would be necessary. The Committee recognized that this would require the Secretariat to go beyond its usual role as a leader and a facilitator and intervene strategically where needed.

21.66 In response to the Committee's recommendations, the Treasury Board Secretariat and departments and agencies increased the priority on finding solutions to the Year 2000 problem. The Secretariat identified government-wide mission-critical systems and instituted a monthly process to report progress. Additional funding was also made available to departments to allow them to obtain the necessary Year 2000 resources.

21.67 These assertive actions by the Secretariat helped to increase the pace of departmental action in dealing with the Year 2000 problem. We raise this precedent because we believe that the Secretariat could apply some of these lessons learned in dealing with FIS in the critical months and years ahead.

Government-wide initiatives require strong leadership, particularly as deadlines approach.

Departmental implementation was planned to take place in an orderly fashion over the final three years, starting in April 1999.

Full implementation of FIS was expected to be completed by 2001–02.

While deputy ministers are responsible for the implementation of FIS within their departments, the Treasury Board Secretariat is responsible for providing the overall FIS framework.

Bumps in the road to FIS implementation

21.68 Much of the focus in the early stages of the FIS project was on the creation of an overall accounting and control framework and the development of new central systems. Departmental implementation was planned to take place in an orderly fashion over the final three years, starting in April 1999. Full implementation of FIS, including systems, accounting policies and the use of the information for management decision making, was expected to be completed by 2001–02.

21.69 Unfortunately for the FIS initiative, most departments had to move forward their implementation of new financial systems as part of their solution to the Year 2000 problem. However, without the new FIS central systems or the accrual accounting policies in place, these new departmental financial systems had to be linked to the old central accounting system using existing accounting practices. A lot of departments encountered initial reconciliation problems between their figures and those in the central systems and some of them are still working on stabilizing these interim system implementations.

21.70 In addition, planning for FIS became a low priority in departments as a result of focussing on the Year 2000 problem for their mission-critical systems. Key departmental resources were consumed on Year 2000 and were consequently unavailable for FIS planning.

21.71 With the Year 2000 problem nearing an end, the Treasury Board Secretariat and the departments are beginning to focus on getting all departmental financial systems connected to the FIS central systems and new accrual accounting policies in place, effective 1 April 2001.

21.72 As discussed in paragraph 21.42, the final, and most important, phase of FIS implementation — the use of better financial information for management decision making — is seen as longer term and requiring a change in culture.

FIS is at a critical stage — it is time to “turn up the heat”

21.73 While deputy ministers are responsible for the implementation of FIS within their departments, it is clear that the Treasury Board Secretariat and its FIS Project Office are responsible for providing the overall FIS framework, such as objectives and time frames within which departments will implement their individual components. In addition, the Secretariat is responsible for managing and reporting on the overall FIS implementation and monitoring departmental progress in implementing FIS in accordance with this framework.

21.74 These basic responsibilities of the Treasury Board Secretariat, with which we agree, are already clearly recognized and described in the government’s “FIS Book”. This document describes the objectives of the FIS project, its vision, mission and tactics as well as providing information on the governance structure. The roles and responsibilities of the Secretariat with respect to FIS are described as follows:

- “FIS is a government-wide initiative that involves central agencies and departments across government.
- “The TBS FIS Office manages and co-ordinates the development and implementation of FIS in departments and agencies under the leadership of the Deputy Comptroller General.
- “The TBS FIS Office is responsible for providing leadership across government in the implementation of the Financial Information Strategy. A key aspect of this is the complex interdepartmental co-ordination required to bring FIS to a successful conclusion.

- “The office is responsible for developing and monitoring an overall FIS Master Implementation Plan that includes all aspects of FIS. Departmental FIS readiness planning will be monitored by the FIS Office. In addition, the office is responsible for the overall FIS communications strategy...

- “...the FIS Office facilitates and co-ordinates departmental implementation. Departments will be made aware of the financial policy and systems implications required to become FIS ready. The TBS FIS Office is charged with ensuring that the necessary learning strategies and training programs are in place to make the transition to the changes resulting from the implementation of FIS.”

21.75 The government is now facing tight time frames to meet the FIS target date. Successful completion of all phases of FIS requires immediate strong leadership from the centre. We believe that the Treasury Board Secretariat FIS project management practices need to be strengthened on a priority basis as summarized below. These suggestions are consistent with the basic responsibilities of the Secretariat as set out in the FIS Book (see paragraph 21.74); the approach to handling the Year 2000 problem (see paragraphs 21.62 to 21.67); the development and implementation of new central systems by Public Works and Government Services Canada (see paragraph 21.93); and the results of a review of the shared systems initiative by the government’s Office of the Chief Information Officer (see paragraph 21.108).

21.76 FIS project management needs strengthening to move the project ahead. In late July 1999, the Treasury Board Secretariat strengthened its FIS Project Office with a dedicated senior management focus and more human and financial resources. We welcome this move because, in our view, the previous

FIS Project Office resources would not have been sufficient to effectively monitor departmental progress. Until this recent change, the FIS Project Office was staffed by a small core group consisting of three or four employees who were responsible for managing and co-ordinating the FIS project overall. We recognize that the Project Office has also drawn upon the expertise of other areas of the Secretariat when required for specific projects, such as accounting policy development and the training strategy. In addition, departmental staff have provided assistance to the FIS Project Office by sharing lessons learned. However, at this critical stage of FIS implementation, with the target date rapidly approaching, we agree that more dedicated resources are required.

21.77 We also believe that meeting the significant challenges in the coming months and years will require a more proactive central team within the Treasury Board Secretariat. The FIS Project Office needs to have additional funding for and greater influence over the implementation of FIS in departments. Some funding has recently been provided to cluster groups that are planning to build common interfaces required by participating departments in order to connect with FIS central systems in April 2000. However, the Secretariat cannot yet offer funding or human resources to departments as incentives for more action or to resolve problems at the departmental level.

21.78 The Treasury Board Secretariat needs to consider adopting an intervention capability for FIS similar to that used to deal with the Year 2000 problem. Smaller departments and agencies often lack in-house systems and policy expertise and would be very receptive to the direct help of the Secretariat. In addition, project management expertise and discipline is in short supply in government and the Secretariat could assist departments to obtain appropriate help in this area.

21.79 Overall project management needs strengthening to ensure the

The government is now facing tight time frames to meet the FIS target date.

Overall project management needs strengthening to ensure the successful implementation of FIS.

There is a need for senior government officials to get the message out on FIS.

successful implementation of FIS. Based on our review, we believe that management practices of the FIS Project Office need to include the following:

- Put in place and keep current an updated, fully integrated FIS master plan against which the FIS Project Office can manage. The FIS Project Office’s existing plan was approved in early 1997 and does not reflect current circumstances.
- Strengthen ongoing risk management for FIS overall. The FIS Project Office has participated with PWGSC in managing the risks associated with the pilot work on the new central systems and could draw on this experience to develop a similar process for FIS overall.
- Obtain documented commitments between the Treasury Board Secretariat and departments establishing objectives, time frames, plans, roles and responsibilities for all aspects of departmental FIS implementation. While the FIS Project Office expects that PWGSC will require memoranda of understanding (MOU) for the connection of departmental financial systems to the new central systems, these MOUs will be or are likely to be limited in scope and duration and to not cover all aspects of FIS implementation.
- Establish a requirement for departments to submit their departmental

FIS implementation plans and to report regularly on the status of departmental FIS implementation. Attendance at cluster group meetings is currently used by the Treasury Board Secretariat as a method of monitoring departmental action. However, these meetings focus largely on general systems implementation issues and do not provide a sufficiently detailed view of individual departmental situations.

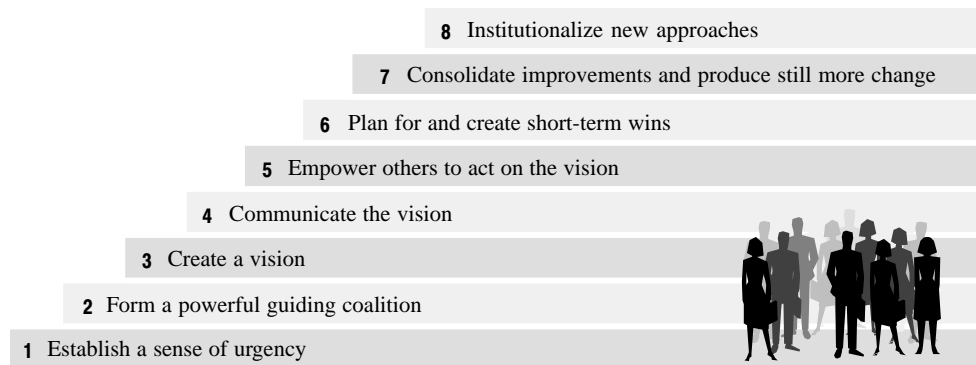
- Create a reporting framework to permit the FIS Project Office to monitor departmental implementation status and costs in a practical and constructive manner. Two surveys, one on departmental status and one on costs, have been prepared by the Treasury Board Secretariat but, as at 31 August 1999, had not yet been circulated to departments and agencies.

- Provide a change management model and assist departments that are trying to create a new management culture (see Exhibit 21.4 for one view of change management).

21.80 Selling the benefits of FIS needs to start now. There is a need for senior government officials in the Treasury Board Secretariat and in leading departments to get the message out on FIS. In particular, they need to ensure that senior management in departments and agencies fully understand FIS and its relationship to comptrollership, and the importance of placing appropriate priority

Exhibit 21.4

Key Areas of Leadership for the Implementation of Change



Source: Adapted from John Kotter’s book: Leading Change (Harvard Business School Press, 1996)

on its successful implementation. To date, there has been little promotion of FIS at senior levels. Secretariat officials told us that they plan to focus on this after the accrual appropriations issue has been resolved, currently planned for the end of 1999. As a result, the much-needed promotion of FIS at senior levels would not commence until early 2000. There is a risk that this may be too late for the 2001 target date.

21.81 Program managers and senior management in departments and agencies are looking for clear examples of the benefits of FIS. The Treasury Board Secretariat, with overall responsibility for FIS, is best positioned to help departments by determining and communicating this information government-wide. But this needs to be done now to get program and senior managers on side and to begin the change management process.

21.82 Departmental senior full-time financial officers are aware of the fact that accrual-based government-wide financial statements are to be prepared in 2001–02. As suppliers of the information required by the centre to produce these financial statements, they understand well the need for financial systems and accrual accounting policies to be in place by that time.

21.83 However, the Treasury Board Secretariat needs to continue its efforts to overcome the image of FIS as “merely an accounting exercise” and to emphasize the benefits to departmental managers. We are concerned that if the production of the financial statements in 2001–02 is seen as an objective for short-term success, this may reinforce the image of FIS as an accounting exercise. FIS, in its totality, will not succeed if it continues to be seen by program managers as simply an accounting exercise designed to improve the government’s annual financial statements rather than as a tool to provide managers with better financial information for day-to-day decision making.

21.84 **Guidance to departments needs to be finalized.** As at 31 August 1999, the Treasury Board Secretariat had not yet finalized its accrual accounting policies for FIS. We were informed by the Secretariat that the existing draft accounting standards on general accrual accounting policy and principles as well as on capital assets will be finalized by September 1999. Departments are looking for more guidance from the Secretariat on other accrual accounting issues. In this respect, Secretariat officials informed us that they expect to have an accounting manual in place by the end of December 1999.

21.85 As described in paragraph 21.109, the issue of accrual appropriations has yet to be resolved. The Secretariat plans to complete its consultations by November 1999.

21.86 The Secretariat has developed a good training framework and the first phase of training to financial officers is now under way. Further training, particularly for program managers and senior management, will be provided closer to the FIS implementation date.

21.87 **The Treasury Board Secretariat should immediately put in place, communicate throughout government and maintain an updated, fully integrated master implementation plan for the Financial Information Strategy (FIS). The plan should indicate what can be realistically accomplished by the target date of April 2001 as well as target dates for the completion of remaining aspects of FIS implementation.**

21.88 **The Treasury Board Secretariat should immediately obtain documented commitment from departments to implement all aspects of the Financial Information Strategy.**

21.89 **The Treasury Board Secretariat should obtain and review departmental FIS implementation plans.**

The Treasury Board Secretariat needs to continue its efforts to overcome the image of FIS as “merely an accounting exercise” and to emphasize the benefits to departmental managers.

The Treasury Board Secretariat has not yet finalized its accrual accounting policies for FIS.

The FIS central systems were successfully piloted in the fall of 1998 and implemented in April 1999.

21.90 The Treasury Board Secretariat should establish a reporting framework to permit the FIS Project Office to monitor departmental FIS implementation progress and costs, and to intervene if difficulties arise.

21.91 The Treasury Board Secretariat should consider providing additional funding and other resources to departments where the need for such an intervention can be clearly established.

21.92 The Treasury Board Secretariat should develop and implement a comprehensive communications plan to market FIS to senior government managers and provide guidance and consultation regarding change management and lessons learned (for example, case studies).

Treasury Board Secretariat's response:
The Treasury Board Secretariat developed a Master Implementation Plan for FIS in early 1997 and has been guided by it since then. In the summer of 1999, the Secretariat decided to increase the focus on implementation of the Strategy, in part by dedicating more resources to it. As the

implementation plan is updated, the Secretariat will consider the recommendations of the Auditor General.

FIS Central Systems

Strong risk and project management ensured successful implementation of FIS central systems

21.93 The FIS central systems were successfully piloted in the fall of 1998 and the decision to proceed with implementation was made in January 1999. Successful implementation took place on time in April 1999 and, with considerable effort by all of the parties involved, with very few problems. Public Works and Government Services Canada documented the key lessons learned from this systems implementation. These are summarized in Exhibit 21.5.

The FIS Project Office does not want a tidal wave of implementation in 2001

21.94 To reduce the number of departments connecting to the new FIS central systems in 2001, and to encourage early development of FIS interfaces for the major cluster groups, a number of departments were asked to implement their FIS-compliant financial systems for April 2000. The selection was still being finalized in early August 1999; as at 31 August 1999, 23 departments had been identified.

21.95 However, Public Works and Government Services officials advised us that, based on their experience with the pilot implementation, a minimum of nine months is needed just to implement the interfaces to the FIS central systems. Exhibit 21.3 indicates the key implementation dates identified by the Department.

21.96 As discussed in paragraphs 21.50 and 21.51, the government made a risk-based decision to proceed with the implementation at these 23 departments in April 2000.

Exhibit 21.5

FIS Central Systems: Lessons Learned

Key lessons learned from the central systems development and implementation included the following:

- Memoranda of understanding got senior management committed to the plan.
- Ongoing risk management with the active participation of the Treasury Board Secretariat and the pilot departments was critical. For example, Public Works and Government Services Canada recently identified, and is working to mitigate, a number of transition issues. These relate to the reconciliation of interdepartmental settlements by non-FIS departments and the mapping of departmental coding to the government-wide chart of accounts.
- A fully integrated project plan combining the efforts of all of the parties was important in keeping the project on track.
- Ongoing progress reporting was essential.
- Regular team meetings were held, increasing in frequency as required.
- Problem reporting and risk mitigation was carried out in a disciplined way.
- Pre-established evaluation criteria provided the various parties with clear expectations for the implementation.

21.97 In April 1999, 16 departments connected to the new central systems. Even with the 23 departments implementing FIS-compliant systems in April 2000, there remains approximately 55 to implement their FIS-compliant systems in 2001. In addition, all of the departments and agencies are required to have their accrual accounting policies implemented by April 2001.

21.98 Public Works and Government Services Canada is concerned about this large number implementing their systems and policies at one time. Officials believe that, given testing and other resource requirements, the Department can handle about 30–35 departmental implementations in any one year. This means that there is a very high risk of overload and a corresponding impact on the overall FIS schedule.

21.99 In addition, the old central accounting systems are funded only to the end of 2001–2002. A schedule delay would require the continued use of these systems at an estimated additional cost to the government of approximately four million dollars per year.

21.100 Connecting new departmental systems to new central systems represents a relatively small subset of the total systems aspects of the Financial Information Strategy. The largest part of systems implementation involves configuring the new departmental systems to meet departmental financial information needs under FIS.

Cluster Groups

The government officially endorsed seven financial systems

21.101 The Treasury Board Secretariat created a “shared systems initiative” to reduce the number of major administrative systems in use in the Government of Canada. These shared systems included systems in the human resources, financial,

material management and administrative areas. For example, the government officially endorsed seven financial systems, representing a reduction from the 30 systems in place previously, from which departments could choose based on their size and business needs.

21.102 The government created cluster groups for each of the shared financial systems where those departments that are implementing the same financial system meet to discuss systems-related issues and to develop and share common solutions.

Cluster group performance has been mixed

21.103 To date, cluster group management and progress have been mixed. We note that the Treasury Board Secretariat has recently taken action to correct the problems associated with management of the clusters. We examined the operations of the Common Departmental Financial System (CDFS), Oracle Financials and SAP cluster groups as part of this audit.

21.104 The CDFS cluster group is tightly controlled by PWGSC, its lead player and service provider. The CDFS system is FIS-compliant and provides basic financial management capability. The CDFS cluster group plans to add more functions in future releases.

21.105 The Oracle Financials cluster group consists of four departments of relatively equal size plus a number of smaller ones. These departments are working well together and have developed a five-year plan. The interim goal is for all of the departments to migrate to a FIS-compliant version of the software while working toward the ultimate goal of implementing a common application platform.

21.106 The SAP cluster group consists of 15 departments. Until early 1998 they were not well co-ordinated at the senior level. At that time, a Steering Committee was formed comprised of Assistant

Public Works and Government Services Canada is concerned about the large number of departments implementing their systems and policies at one time.

The Treasury Board Secretariat has recently taken action to correct the problems associated with management of the clusters.

We believe that the regular sharing of lessons learned and other useful information could enhance the benefits of the shared systems initiative.

Deputy Ministers from the 15 departments and co-chaired by the Deputy Comptroller General. That Committee recognized the need for stronger leadership of the cluster group and a full-time executive director, reporting directly to the Deputy Comptroller General, was recruited in early 1999.

21.107 Until recently, inter-cluster communications and sharing has been weak and ad hoc. We believe that the regular sharing of lessons learned and other useful information could enhance the benefits of the shared systems initiative.

21.108 The Office of the Chief Information Officer (CIO) reviewed the shared systems initiative, including the shared financial systems, in early 1999. The key findings of its May 1999 report noted very limited government-wide leadership, the lack of a management framework, no strategic and business planning at the corporate level, some funding issues and no ongoing monitoring of the initiative's performance. The Treasury Board Secretariat is preparing an action plan to respond to these issues and a shared systems steering committee has been established by the CIO.

Follow-up of FIS-Related Chapters and Public Accounts Committee Report

21.109 After the publication of Chapter 18 of our 1998 Report to Parliament, and the Public Accounts Committee report on that chapter, the Treasury Board Secretariat prepared a paper on accrual appropriations options that will form the basis of the consultations with stakeholders. The paper is currently being reviewed internally prior to starting external consultations. The Secretariat plans to complete its consultations in November 1999, at which time it will decide upon a future course of action.

21.110 The Public Accounts Committee recommended that the Treasury Board Secretariat monitor the progress of FIS across government, report regularly to Parliament on progress, specifying any major impediment to meeting the target date of 2001. The Secretariat indicated that it would report to Parliament through its fall Performance Report. We are not aware of any other status reports being tabled, nor of any information being provided to Parliament on impediments to completing FIS on time. In response to a request by the Committee Chairman for a FIS update, the President of the Treasury Board replied in his letter of July 1999 that "everything possible is being done to implement FIS on April 1, 2001."

21.111 The Public Accounts Committee also requested that the Treasury Board Secretariat provide Parliament, on a regular basis, with cost estimates of FIS as it is being implemented. To date, no reports on costs have been tabled. The President of the Treasury Board's July 1999 letter indicated that a cost survey has been developed. However, there is no timetable given for its completion.

21.112 In Chapter 3 of the April 1997 Report to Parliament, the Office reported on the management of the government's accounting function from a central agencies point of view. Because of its relationship to FIS, we have followed up, and are reporting here, on the government's action on the recommendations made in that chapter. The detailed recommendations from Chapter 3, the government's action and our assessment of that action are included in the Appendix. In summary, the government is in the process of implementing the Financial Information Strategy (FIS), which, through its objectives, should address many of the recommendations made in that chapter. Overall, however, we believe that the government needs to do more to address the chapter's recommendations. By doing

The Secretariat plans to complete its consultations on accrual appropriations in November 1999, at which time it will decide upon a future course of action.

so, it would be in a better position to ensure that the objectives of FIS will be achieved.

Conclusion

21.113 With a target implementation date less than two years away, departments are just starting to focus on FIS. At the time of our audit, while most departments had implemented new financial systems, they still had a lot of work to do to prepare these financial systems and to implement the accrual accounting policies to meet FIS requirements. Strategies for preparing managers to use the information provided by FIS to strengthen management decision making are not yet in place. We are also concerned that FIS is not seen as a high priority by senior managers.

21.114 In our view, the Treasury Board Secretariat, overall project manager for FIS, needs to assume a greater leadership role to bring FIS to fruition. In particular, its FIS Project Office will need to put in place and keep current an updated, overall implementation plan, use appropriate risk management capabilities, monitor implementation by departments and intervene constructively if problems arise. In addition, it will need to provide departments with required accounting policies and manuals, which are currently being developed, and assist departments in

developing an appreciation of the use of FIS in day-to-day management.

21.115 Public Works and Government Services Canada (PWGSC) effectively carried out the development and implementation of new central systems. PWGSC and its major partners, the Secretariat and Revenue Canada, worked together to conclude a successful pre-production pilot of those new systems. The Department and its partners established a detailed plan and risk management capability, monitored progress and intervened when necessary, and met key target dates.

21.116 There is some activity under way in response to our recommendations in Chapter 18 of our 1998 Report and in the Public Accounts Committee's Report on that chapter. These activities have not yet been completed and we will continue to monitor and report on progress.

21.117 In our view, it is important that the momentum created across government to deal with the Year 2000 problem now be carried forward to FIS. New financial systems and accounting rules need to be put in place within the next two years. However, victory must not be declared too early. Officials throughout government need to be encouraged to use the more businesslike and timely financial information that FIS will provide for day-to-day program management and accountability.

With a target implementation date less than two years away, departments are just starting to focus on FIS.

Officials throughout government need to be encouraged to use the more businesslike and timely financial information.



About the Audit

Objectives

The objectives of the audit were to:

- assess the state of FIS readiness in a selection of departments;
- review the management of FIS overall by the Treasury Board Secretariat;
- examine the implementation of the new central systems; and
- follow up other significant issues raised in our September 1998 chapter as well as the recommendations made in Chapter 3 of the April 1997 Auditor General's Report.

Scope

The scope of the audit included a detailed review of the implementation of FIS in seven departments — Revenue Canada, Public Works and Government Services Canada, Correctional Service Canada, Transport Canada, Finance/Treasury Board Secretariat, Fisheries and Oceans and the Department of Foreign Affairs and International Trade. In addition, as part of our annual audit of the government's summary financial statements, we conducted a survey of the status of FIS implementation at 24 of the largest departments and agencies (including the departments selected for detailed review). We also reviewed the management and plans of the SAP, Oracle Financials and Common Departmental Financial System (CDFS) financial system cluster groups.

The scope of the audit at the central agencies included a review of the management of FIS overall by the Treasury Board Secretariat as well as the completion of the central systems pilot testing and the subsequent implementation by Public Works and Government Services Canada.

Criteria

The high-level criteria for the audit were as follows:

Departments

- Departmental project approval includes consideration of risks identified and project cost estimates.
- Departmental plans consider policy, systems, reporting, audit, operational and the change management (including management support, communications, training and roles and responsibilities) implications of FIS.
- FIS implementation plans identify resources required and provide detailed project management plans, systems implementation plans, policy development plans, and change management plans.

Treasury Board Secretariat

- The Financial Information Strategy Project is managed and monitored across departments, in particular with respect to ongoing risk management, departmental readiness, training, policies and guidelines, and cost estimates.

- The Treasury Board Secretariat provides periodic updates on the FIS implementation to Parliament and the Public Accounts Committee.
- The government is following up and acting upon points raised in previous chapters on the Financial Information Strategy, including accrual appropriations.

Cluster Groups

- The cluster groups are adequately resourced, have a clear mandate, and work effectively to address common requirements.

FIS Central Systems

- The government is following up and acting upon points raised in previous chapters on the Financial Information Strategy, including the development and implementation of FIS central systems.

These summary criteria were supported by more specific sub-criteria that were used by the audit team in carrying out its field work.

The criteria for the audit were primarily drawn from the Treasury Board Secretariat Departmental Readiness Checklist, which is a generic list of implementation tasks that an interdepartmental committee prepared for use by departments. These criteria were supplemented by change management criteria drawn from published academic and industrial sources. The recommendations in the Public Accounts Committee's report to Parliament provided additional criteria related to the management of FIS overall.

Audit Team

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Appendix

Follow-up of the Recommendations in Chapter 3 of the April 1997 Report of the Auditor General to Parliament

Overall conclusion: The government is in the process of implementing the Financial Information Strategy (FIS), which, through its objectives, should address many of the recommendations made in Chapter 3 of the April 1997 Report of the Auditor General. Overall, however, we believe that the government needs to do more to address the chapter's recommendations. By doing so, it would be in a better position to ensure that the objectives of FIS will be achieved.

Recommendation	Action taken by the government	Assessment of action taken
<p>The government should strengthen its capability to analyze and interpret government-wide financial information on an ongoing basis throughout the year. (paragraph 3.72)</p>	<p>The government established a process known as the Fiscal Monitor Committee to review the monthly analysis of tax revenues. On the expenditure side, an annual Letter of Protocol formalizes the ongoing recording of significant accruals and allowances. As a result, the Monthly Statement of Financial Operations and the Fiscal Monitor are now prepared following the same modified accrual accounting policies as are used for the annual financial statements. Financial reporting therefore provides a much more accurate representation of the results of financial operations throughout the year. In addition, a senior Spending Monitor Committee meets on a weekly basis to discuss emerging spending pressures and issues supported by ongoing staff meetings and contacts with departments.</p>	<p>Action taken by the government to date, specifically in the area of government-wide expenditure analysis, does not completely address the recommendation made in the chapter. However, some progress to date has been noted. We still believe that this capability is integral to the government's ability to prepare its annual Budget, monthly forecasts of expenditures and support other important resource allocation and evaluation processes.</p>
<p>To enhance usefulness and credibility, the government should review its strategy for publishing financial statements during the fiscal year. (paragraph 3.77)</p>	<p>The government concluded that it should continue the practice of producing monthly statements. In addition, the government commenced producing its monthly statements that include more accrual accounting information and an interim statement of assets and liabilities.</p>	<p>By reviewing its strategy and concluding that no change should be made regarding the frequency of the interim financial results, the government has addressed the recommendation.</p>
<p>To improve timeliness, the financial statements during the year should be published within no more than one month after the period end. Upon full implementation of FIS, the audited financial statements included in the Annual Financial Report of the Government of Canada should be published within no more than three months after the fiscal year end, with the Public Accounts of Canada tabled in Parliament as soon as possible thereafter. Annual and monthly reporting time frames should be made public in advance so that users can know when to expect financial information. (paragraph 3.79)</p>	<p>Significant improvements in the timeliness of reporting monthly and annual financial results will be realized once the Financial Information Strategy, including state-of-the-art departmental and central financial systems, is fully implemented in 2001–02. During the three-year transition period to full accrual accounting, parallel systems and policies will need to be maintained, making it extremely difficult to realize earlier reporting, particularly relating to monthly results.</p> <p>The government is committed to following the IMF Manual of Fiscal Transparency, which recommends that monthly statements be produced no later than the 20th calendar day of the second month following.</p> <p>The latest possible release dates for the monthly <i>Fiscal Monitor</i> are now made public.</p>	<p>While the government has established reporting time frames in advance, we believe that the timeliness of the monthly financial statements could improve even before FIS accounting systems have been implemented. Opportunities exist within the current framework to publish the financial reports earlier along with our audit of them.</p> <p>The government could therefore be doing more to address this recommendation at this time.</p>

Recommendation	Action taken by the government	Assessment of action taken
<p>The government should assess the capability of accounting groups within departments and agencies to implement new systems and accrual accounting, and should provide strong functional guidance to them, particularly during the period of transition. (paragraph 3.84)</p>	<p>The Treasury Board Secretariat has issued a number of accounting policies and carried out a number of general presentations and workshops for both accounting and non-accounting groups in departments and agencies. At the workshops, the Secretariat has obtained an inventory of skill sets of employees. The information was used to develop a FIS Learning Framework including a curriculum of courses for financial and non-financial staff. The initial phase of courses designed to bolster the skills of the finance community has been developed. Work on the next phases, focussed on finance for non-financial managers, is under way.</p> <p>One of the steps in the FIS Readiness Checklist for departmental FIS implementation requires departments to perform a skills assessment on key functions, including accounting and systems. This assessment should allow departments to gauge the need for temporary engagement of private sector resources to assist in the implementation of FIS until departmental personnel have gained sufficient expertise.</p>	<p>Although the Treasury Board Secretariat has responded to the recommendation by developing a training strategy for existing employees, it is not clear whether that is the entire solution or if additional outside resources with the necessary expertise may be required. With the scarcity of accounting resources throughout government, the lead-time required and the cost of acquiring and training accounting personnel, the Treasury Board Secretariat should be doing more now to ensure that departments will be well positioned to operate in the new accrual accounting environment.</p>
<p>It continues to be our view that the government should amalgamate its central accounting function. The newly amalgamated function should be led by an individual with overall authority to address the significant challenges posed by the accounting changes now under way and address the other recommendations in this chapter (Chapter 3, April 1997). The individual should have appropriate resources and be clearly accountable and responsible for addressing these challenges in a timely manner. (paragraph 3.95)</p>	<p>The government disagreed with this recommendation and has opted to maintain its current organizational structure.</p>	<p>Although we recognize that the current arrangement is working, we continue to feel that it does not work as well as it could. Based upon the work we have performed to date, the slow pace of implementation of FIS in the departments, as well as the significant challenges still faced by the government to implement accrual accounting, we continue to recommend the amalgamation of the function.</p>