

Chapter 13

**Assessment of Financial Management
Capabilities in Departments**

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Assessment of Financial Management Capabilities in Departments

Main Points

13.1 Our audit assessed the financial management capabilities in five government departments against the criteria established in the Financial Management Capability Model published in April 1999. We found that in each department gaps remain between current expectations for financial management and the existing capabilities of the departments. The capabilities needed to meet current expectations are consistent with those we have described in the Control Level of the Financial Management Capability Model.

13.2 We also noted that departments are at the initial stages of developing the capabilities needed to meet the requirements of the government's Financial Information Strategy and the Modernization of Comptrollership initiative. These capabilities are consistent with the capabilities described in the Information Level of the Financial Management Capability Model.

13.3 Based on the level of financial management capabilities in the departments that we audited, the challenges to be met in improving financial management are substantial. Only one department is close to meeting all the government's current expectations and none currently have the capabilities needed to meet the goals of the Financial Information Strategy and Modernization of Comptrollership initiative. Put simply, it will be very difficult to make government more businesslike if stronger financial information is not well integrated into both day-to-day management and accountability reporting to Parliament. The achievement of these capabilities throughout government will require the strong commitment and sustained support of the Treasury Board Secretariat, Privy Council Office and deputy ministers.

13.4 Our Office has expressed concern about the need to improve financial management in government for a number of years. Similarly, the Public Accounts Committee has noted, "There has been a common call for improvements in financial information to support government decision making." We have noted an increase in the number of initiatives being undertaken and a heightened sense of urgency to develop strong financial management capabilities. The government and the departments themselves have much to do in this area. The success of Results for Canadians — A Management Framework for the Government of Canada, the Financial Information Strategy and the Modernization of Comptrollership initiative will depend on this action.

Background and other observations

13.5 Financial management is an important component of what financial and program managers in departments and agencies do in delivering programs and services and exercising stewardship over the resources entrusted to them. An integrated and systematic approach to financial management allows managers to have the information to make sound decisions, manage risks well, and account properly for the use of public resources. Until recently, financial management has focussed on controlling budgets and processing transactions. Today's rapidly changing environment makes it urgent for the government to implement effective financial management.

13.6 We noted that departments had not implemented adequate monitoring of the effectiveness of their control frameworks. Such monitoring, together with providing assurance to senior management that control mechanisms are operating as designed, is an important component of sound management, particularly in a period of significant change that accompanies the implementation of new financial systems.

13.7 One of the most common gaps that we found in departments was the limited ability to combine or integrate financial and operational (non-financial) information. This gap has clear implications for individual

departments and the government as a whole. First, if departments cannot integrate this information, they cannot give Parliament and the Canadian public a realistic picture of how much it has actually cost to produce a given result or deliver a given level of service. Second, without integrated information, senior management cannot readily forecast the downstream costs of major decisions — for example, a decision to increase or decrease the level of service of a program.

13.8 We also found that departments had not established a clear vision or strategy for the transformations that are to take place — an essential first step in managing the changes. Similarly, departments have not determined the skills and capacities that are needed to carry out these changes or whether there is a gap between what is needed and what they currently possess. We also noted that departments had not implemented specific measures against which progress in developing strong financial management capabilities can be tracked.

The response of the Treasury Board Secretariat, on behalf of the government and the five departments audited, is included at the end of this chapter. The response indicates that the recommendations are consistent with the current improvement plans and government expectations of sound management practices.

The responses of Canadian International Development Agency, Environment Canada, Fisheries and Oceans, Health Canada and Transport Canada are included in the case studies in the chapter. The responses indicate an intent to address the gaps identified and that in many cases initiatives are already under way.

Introduction

13.9 A long-standing strategic priority of the Office of the Auditor General of Canada has been to encourage better financial management in government and improve the role it can and should play. Accordingly, in 1997 the Office began a study of the current and future financial management requirements of federal government departments and agencies. The study's objective was to build a modern framework that would describe the key elements that departments and agencies need to institute effective financial management. The framework would also provide a basis for assessing the current state of the financial management capabilities of these organizations.

13.10 The result of the study, the Financial Management Capability Model (the Model), was published in April 1999. This document sets out the Office of the Auditor General's expectations for financial management and is the basis on which this audit and future audits in this area will be conducted.

13.11 Financial management is described in the Model as consisting of three elements: Risk management and control, information, and management of resources.

- **Risk management and control.** An organization must be able to identify the risks it faces (anything that could interfere with its ability to achieve its established objectives). It must also establish a framework for managing and controlling those risks. An important part of the control framework is the communication of the purpose, values and ethics of the organization.

- **Information.** The organization must have procedures to manage and protect the integrity of its data and to produce the type of information that managers need to conduct their business and account for how well they have discharged their

responsibilities. The organization must also be able to deliver this information when it is needed. The information element includes the management of information systems and financial and operational (non-financial) performance information.

- **Management of resources.** This element of financial management focusses on enabling the organization to manage and direct its resources toward achieving its objectives economically and efficiently. Linkages to strategic planning, analysis and support for decisions are also included in this element.

13.12 Clearly, financial management does not exist in isolation. Rather, it works in concert with other important components of the organization's management. Indeed, these three elements of financial management overlap and relate to the other elements of management. Ultimately, good financial management is essential to good overall management.

Objectives of financial management

13.13 All managers in government are entrusted with public resources, which they use to deliver programs and services. They have a responsibility to manage those resources with prudence and probity and due regard to economy, efficiency and effectiveness. They must also account for the way in which they have used the resources. Financial management is an important component of what financial and program managers in departments and agencies do in delivering programs and services and exercising stewardship over the resources entrusted to them. The essential objectives of financial management are summarized in Exhibit 13.1.

Focus of the audit

13.14 The objective of this audit was to assess the financial management capabilities in selected departments

A long-standing strategic priority of the Office of the Auditor General of Canada has been to encourage better financial management in government.

Financial management is an important component of delivering programs and services and exercising stewardship over resources.

The Financial Management Capability Model identifies five progressive “capability levels” that represent well-defined stages toward developing a mature financial management regime.

against the criteria established in the Financial Management Capability Model.

13.15 The Model describes the essential elements of effective financial management. It sets out a path that an organization can follow to develop progressively more sophisticated financial management practices. It also shows the steps to be taken in progressing from a level of financial management typical of a start-up organization to the strong, effective, financial management capabilities associated with a mature and complex organization.

13.16 We have identified five progressive “capability levels” in the

Model (see Exhibit 13.2). Each level represents a well-defined stage toward developing a mature financial management regime. The Control Level of the Model describes current expectations for financial management based on established Treasury Board guidelines, Receiver General directives and the *Financial Administration Act*. The Information Level generally describes the capabilities departments will need to achieve the goals of the government’s Financial Information Strategy. The Managed and Optimizing Levels describe capabilities that will be needed to support the government’s Modernization of Comptrollership initiative. The

Exhibit 13.1

Objectives of Financial Management

Provide support for decision making. Financial management provides managers with the information and knowledge they need to support operational decisions and to understand the financial implications of decisions before they are made. It also enables managers to monitor their decisions for any potential financial implications and for lessons to be learned from experience, and to adapt or react as needed.

Ensure the availability of timely, relevant and reliable financial and non-financial information. Financial management gives managers the information that either forms the basis for calculating financial information, or is used for management control and accountability purposes.

Manage risks. Financial management enables an organization to identify, assess and consider the financial consequences of events that could compromise its ability to achieve its goals and objectives and/or result in significant loss of resources. Financial management is an important component of risk management and needs to be considered with the full range of business risks, such as operational and strategic risks as well as social, legal, political and environmental risks.

Use resources efficiently, effectively and economically. Financial management is necessary to ensure that an organization has enough resources to carry out its operations, and that it uses these resources with due regard to economy, efficiency and effectiveness.

Strengthen accountability. Financial management is essential for an organization to understand and demonstrate how it has used the financial resources entrusted to it and what it has accomplished with them.

Provide a supportive control environment. Financial management contributes to promoting an organizational climate that fosters the achievement of financial management objectives — a climate that includes commitment from senior management, shared values and ethics, communication and organizational learning.

Comply with authorities and safeguard assets. Financial management is essential to ensuring that an organization carries out its transactions in accordance with applicable legislation, regulations and executive orders; that spending limits are observed; and that transactions are authorized. It also provides an organization with a system of controls for assets, liabilities, revenues and expenditures. These controls help to protect against fraud, financial negligence, violation of financial rules or principles and losses of assets or public money.

Source: Office of the Auditor General of Canada Financial Management Capability Model — Application Guide, April 1999

sophistication of the capabilities may vary among organizations, depending on the nature, risk and complexities of the organizations.

13.17 Each capability level in the Model consists of a set of key process areas (see Exhibit 13.3). When an organization has met all of the key process areas associated with a given level of financial management capability, it may be considered to have achieved that level. Essentially, these key process areas are the building blocks that determine the financial management capability of an organization.

13.18 The five departments in which we conducted assessments were:

- Canadian International Development Agency

- Environment Canada
- Fisheries and Oceans
- Health Canada
- Transport Canada

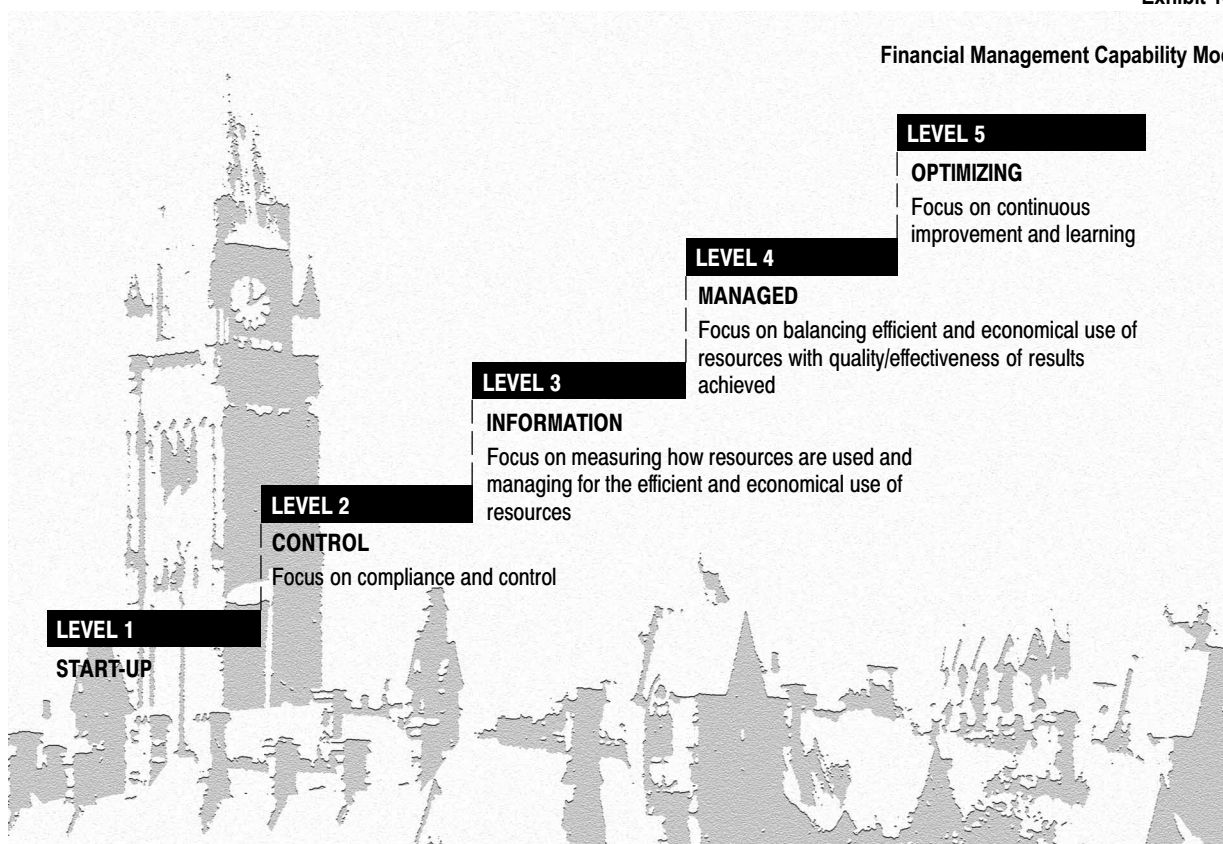
Case studies reporting on the results of our assessments are included at the end of the chapter.

13.19 As part of our work, we also reviewed the results of the comptrollership capacity checks carried out by the Treasury Board Secretariat in the following five departments:

- Agriculture and Agri-Food Canada
- Human Resources Development Canada
- Indian and Northern Affairs Canada
- National Defence
- Natural Resources Canada

Exhibit 13.2

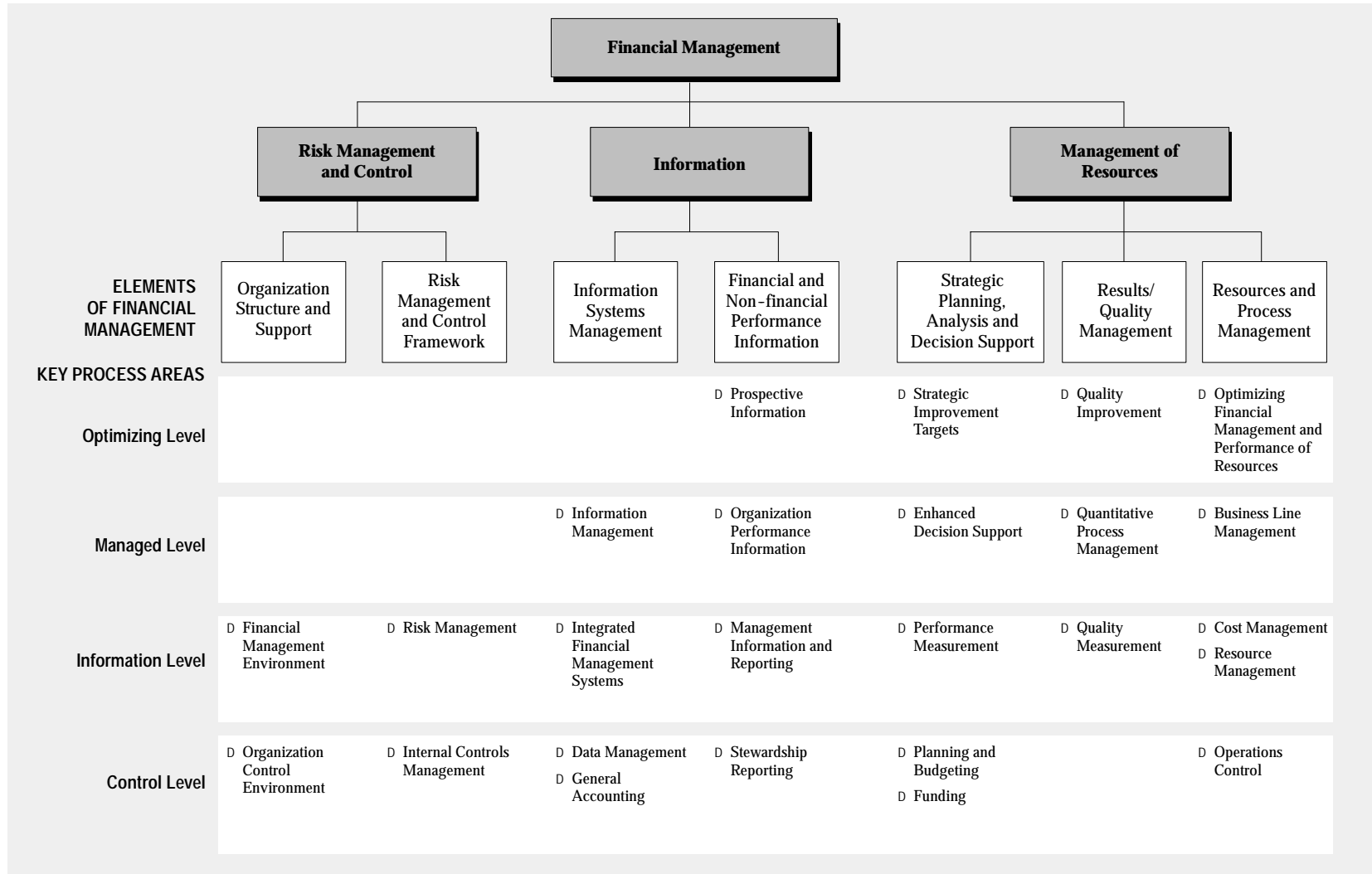
Financial Management Capability Model



Source: Office of the Auditor General of Canada Financial Management Capability Model, April 1999

Exhibit 13.3

Key Process Areas Linked to Elements of Financial Management



Source: Office of the Auditor General of Canada Financial Management Capability Model — Application Guide, April 1999

13.20 The capacity checks, part of the Modernization of Comptrollership initiative, were conducted as management self-assessments. Accordingly, the results reflect the views of departmental managers and are not the product of independent audit work. We have reviewed the results of the departmental managers' self-assessments, led by the Treasury Board Secretariat, to compare them with the results of our audit work. Further details on the audit are in **About the Audit** at the end of the chapter.

Observations and Recommendations

The Changing Expectations for Financial Management

13.21 In both the private and public sectors, stakeholders' expectations of financial officers, program managers and financial management are changing. For example, financial management specialists in the private sector are now expected to find ways to reduce the administrative costs of the organization and to offer strategic advice and analysis.

13.22 In the public sector, an ever-increasing need for stronger financial management capabilities has accompanied fundamental changes in government. These changes include:

- new ways of delivering services and programs: departments are entering into innovative arrangements with the private sector or other governments and often charging user fees. These new arrangements require departments to generate and integrate more sophisticated and complex financial and operational (non-financial) information to support decision making and to account for the results achieved;
- downsizing: despite reductions in supervisory, program and functional support (including finance and internal

audit), it is still essential to maintain control over the organization's operations;

- movement from a command-and-control orientation: there is a move toward a new orientation where central standards allow more discretion over control processes and the operational approaches used;
- risk taking based on a risk management framework; and
- a shift from a government-wide centralized accounting system to departmental systems.

13.23 At the same time, parliamentary discussion of these issues is increasing. For example, the Standing Committee on Finance, in its report *Challenge for Change — A Study of Cost Recovery*, indicated an interest in knowing such things as how well user charges approximate efficient pricing and whether cost recovery has resulted in underfunding of cost recovery programs and overfunding of others. It also expressed an interest in performance standards to demonstrate how well cost recovery is operating.

13.24 Clearly, responding to these changes and issues will demand strong financial management capabilities in departments.

Government initiatives will require strong financial management capabilities

13.25 In its management framework, *Results for Canadians*, and through such initiatives as the Modernization of Comptrollership and Financial Information Strategy, the government has begun a number of efforts that are designed to improve both the management of the federal public service and the accountability of departments.

13.26 *Results for Canadians — A Management Framework for the Government of Canada* establishes an agenda for changes in the way that

Responding to the changes taking place in government will demand strong financial management capabilities.

Effective financial management can benefit Parliament, departments and Canadians.

departments and agencies manage and deliver their programs and services. The framework includes four key commitments:

- a citizen focus on designing, delivering, evaluating and reporting on activities;
- a clear set of values to guide management in the public service;
- a focus on results and reporting them in a simple and understandable way; and
- a focus on linking the costs of initiatives with results to ensure responsible spending.

13.27 Of these, the commitment to responsible spending is of particular importance to this audit as it establishes a

requirement for strong financial management capabilities.

13.28 The key expectations of these initiatives and the government's management framework are highlighted in Exhibit 13.4.

Benefits of Sound Financial Management

Effective financial management can benefit Parliament, departments and Canadians

13.29 Establishing effective financial management capabilities is not an end in itself. As noted earlier, a key objective of financial management is to strengthen accountability for how departments deliver their programs.

Exhibit 13.4

Key Expectations of Government

Results for Canadians – A Management Framework for the Government of Canada

The key expectations of the commitment to responsible spending are:

- to produce information on program costs and results required for sound decision making to ensure responsible spending;
- to provide financial and non-financial performance information to link costs with actual or expected results;
- to provide, on a government-wide basis, integrated, cross-departmental information on expenditures and results; and
- to provide assurance that departmental management frameworks that support due diligence and stewardship of public resources are in place and working.

Modernization of Comptrollership

The key expectations are:

- to integrate financial and non-financial information;
- to identify and manage the risks of the organization; and
- to ensure that appropriate control systems are in place.

Financial Information Strategy

The key expectations are:

- to implement modern financial systems throughout government;
- to implement full accrual accounting and budgeting; and
- to enhance the government's decision making and to improve organizational performance through the strategic use of financial information.

Sources: Treasury Board Secretariat, Results for Canadians – A Management Framework for the Government of Canada; The Modernization of Comptrollership in the Government of Canada; Financial Information Strategy

13.30 Effective financial management allows an organization to link financial information and performance information. By linking these two kinds of information, an organization can demonstrate what has been accomplished with the resources consumed or used. This is important information for all interested parties, including Parliament, the Canadian public and departments themselves. However, to produce this information, departments need to develop stronger and more sophisticated financial management capabilities than they now have. Some of the benefits of strong financial management capabilities are outlined in Exhibit 13.5.

Assessment of Financial Management Capabilities — Control Level

13.31 Organizations that have the capabilities associated with the Control Level of the Financial Management Capability Model are able to ensure that adequate resources are available, assets are safeguarded, data are reliable, and transactions are monitored and controlled and conducted with prudence and probity. Organizations at the Control Level are able to meet statutory and regulatory reporting requirements.

13.32 As well, organizations that have institutionalized the key process areas for this level will have established a control

framework, and mechanisms to ensure that control practices are repeatable and sustainable. When these basic controls are operating as intended, they will help the organization to control or reduce risks and to produce complete and accurate financial and operational data.

13.33 The Control Level of the Model describes an organization that has complete, timely and accurate financial and operational data, and that can carry out its basic stewardship responsibilities and meet its reporting obligations. The capabilities described in the Control Level link directly to Treasury Board policies and guidelines.

13.34 To reflect the capabilities of the Control Level, an organization must have mastered the eight key process areas associated with that level. It is important to recognize the interdependencies among the various key process areas in establishing effective financial management capabilities.

Departments need to monitor their control systems more closely

13.35 Internal control systems are essential to managing an organization. Even at the most basic level, they need to provide management with reasonable assurance that:

- transactions are recorded completely and accurately and on a timely basis;

Capabilities at the Control Level ensure that adequate resources are available, assets are safeguarded, data are reliable, transactions are processed accurately, and organizations are able to meet statutory reporting requirements.

Stakeholders	Desired Outcomes of Strong Financial Management Practices
Canadians	<ul style="list-style-type: none"> • Information on costs of services received is available. • There is improved information for the scrutiny of government spending.
Parliament	<ul style="list-style-type: none"> • There are informed decisions about allocation of resources to meet government policy objectives.
Departments	<ul style="list-style-type: none"> • Information is available on resources required to manage operations and deliver programs at reasonable cost that meet the needs of Canadians. • Decisions are made with relevant, understandable and reliable information. • Information is available for accountability to key stakeholders.

Exhibit 13.5

Benefits of Strong Financial Management Capabilities

Departments had limited capabilities for monitoring and reporting on the effectiveness of their departmental control systems.

- assets are safeguarded and protected from fraud and losses of all kinds; and
- resources are received and used in accordance with applicable laws and regulations.

13.36 An element of the Financial Management Capability Model — and indeed of sound management practices — is the expectation that management will have established systematic mechanisms for monitoring and reporting on the effectiveness of its system of internal controls.

13.37 Monitoring provides relevant information to management and supports the department's annual letter of representation on the adequacy of its internal controls. A department submits this letter to the Receiver General as part of preparing its annual public accounts statements.

13.38 We found that the departments included in our audit had limited capabilities for monitoring and reporting on the effectiveness of their departmental control systems. Similarly, departments could not demonstrate the work that they had done to support their annual representation on having maintained an adequate and effective system of controls throughout the period. Departments incur unnecessary risks by not adequately monitoring and reporting on the effectiveness of their departmental control framework. These risks increase as departments decentralize the operation of their financial systems to program managers. We also noted that the internal audit function needs to broaden and strengthen its capacity to provide assurance on departmental control frameworks.

13.39 **Departments should strengthen their capabilities for monitoring and reporting on the effectiveness of departmental control systems.**

The accuracy and timeliness of financial data are of concern

13.40 Of paramount importance for any financial system is that managers view the financial data that the system produces as relevant, reliable and timely.

13.41 Each of the departments included in our audit has implemented, or is in the process of implementing, a new departmental financial system. These systems were designed to enable departments to deal with Year 2000 issues and to meet the objectives of the government's Financial Information Strategy.

13.42 In the departments included in our audit, program managers expressed concerns about the timeliness and accuracy of the financial data from the department-wide systems. To compensate, many managers maintain separate or supplementary books and records (commonly referred to as "black books"). A major impact of maintaining and using supplementary systems is the cost associated with the time and effort required to design, implement and maintain them. Although we did not try to estimate the cost of maintaining supplementary systems, considerable resources are being used.

13.43 The implementation of the new department-wide systems has introduced extensive change within departments. Departments have decentralized the operation of their department-wide systems to program managers in the various departmental business lines, who are now responsible for recording departmental transactions. More effort will be needed to ensure that all managers clearly understand how the systems operate and what their responsibilities are for assuring the completeness and accuracy of financial and operational (non-financial) data.

13.44 **Departments should provide additional training and support to**

managers and staff on the operation of the departmental financial systems.

13.45 Departments should strengthen their capabilities for monitoring the accuracy and timeliness of financial data and the effective linkage to operational data.

Assessment of Financial Management Capabilities — Information Level

13.46 The capabilities at the Information Level (Level 3) of the Financial Management Capability Model are essential to many of the current initiatives of the federal government. They focus on the integration of the organization's financial and operational systems, and on the practices and procedures necessary to provide information that can be used to manage resources efficiently, economically and with prudence and probity.

13.47 An organization at the Information Level will be able to both measure and manage its risks. As well, it can tailor management practices within its various operating units to manage and reduce its risks in a cost-effective manner. The organization can also generate information on the cost of producing a product of a given quality or delivering a service at a given level.

13.48 A key aspect of the Information Level is the changing role of the finance function. The role has begun to move away from performing only the traditional accounting functions to performing as a team player and providing support to operational managers. Finance staff work with operational managers to develop a financial structure that provides them with cost-effective controls and information that meets their day-to-day needs (for example, information on the cost of departmental programs).

13.49 Critical to achieving this level of capability is a climate that institutionalizes financial management practices throughout the organization. This requires senior management to explicitly demand and promote effective financial management and demonstrate its value to the organization and to the government as a whole. Such a culture is developed by formalizing financial management policies and practices across the organization and supplementing them with appropriate training and a system of rewards, recognition and sanctions that reinforces the culture.

13.50 To demonstrate the capabilities of the Information Level, an organization must have mastered the eight key process areas associated with that level. We found that departments we examined have initiatives under way to develop Information Level capabilities. To support these efforts, departments must strengthen and maintain the capabilities of the Control Level in order to provide a strong foundation upon which more advanced capabilities may be established.

A vision and strategy for financial management are needed within departments

13.51 A first step toward dealing with the capability gaps in departments is to develop a clear vision of how financial management should integrate with an organization's management practices, and how financial management should support the organization. Given the nature and extent of changes taking place within government and the critical importance of financial management, we looked to see if departments had established such a vision, together with a clear strategy for instituting effective financial management. Such a strategy and vision provide an important vehicle for communicating the changes that the organization is trying to implement.

13.52 We found that while some elements of such a vision and strategy are

Capabilities associated with the Information Level ensure that risks are managed, financial and non-financial systems are integrated, and resources are managed efficiently, effectively and economically.

Departments have initiatives under way to develop Information Level capabilities.

While some elements of a vision and strategy are in place, others are missing.

Departments have to determine the competencies and skills they need for the future.

in place, others are missing. For example, although departmental financial information strategies address issues related to new systems and accrual accounting, they do not clearly address issues related to the third component of the Financial Information Strategy that deals with the integration of financial and operational information. In our view, this is an important element that needs to be addressed if substantive progress is to be made in developing strong financial management capabilities.

13.53 An important part of such a vision and strategy is the clear articulation by departments of the capabilities that they require and the levels of sophistication they wish to establish for these capabilities.

13.54 **As a first step in dealing with gaps in financial management capabilities, departments should have a clear vision of how financial management is intended to support the organization's management practices, together with a strategy for achieving the vision. Departments, in conjunction with Treasury Board Secretariat, should determine the capabilities and levels of sophistication needed.**

Competencies and skills needed for the future are yet to be determined

13.55 Another important prerequisite for establishing effective financial management practices in departments is to ensure that staff have the appropriate knowledge, ability and skills needed to carry out their responsibilities.

13.56 The criteria set out in the Model include an expectation that departments audited would have identified the capabilities and skill sets needed to successfully implement the government's initiatives, assessed their current capabilities, and developed a strategy for closing any gap between the two. However, we found that although managers had indicated a need for their departments to improve and strengthen the

financial management skills of staff, only two departments had identified the core competencies required to meet their current and future human resource needs. We noted that none of the departments had assessed their current financial management competencies or developed a strategy for obtaining or developing the skill sets required to achieve an appropriate level of financial management capability.

13.57 Departments also need to be able to attract and retain competent financial management staff. In each of the departments included in our audit, financial managers commented on the difficulties that they have experienced in this area. Managers noted high turnover rates of approximately 30 percent and a difficulty in staffing vacant positions. Although the departments were able to provide anecdotal reasons for these difficulties, none had analyzed in a systematic manner why they were occurring. Departments will have to do this analysis as a first step toward identifying the underlying causes of these staffing problems. We have reported similar concerns in 1999, Chapter 21, Financial Information Strategy: Departmental Readiness.

13.58 We also noted that, through the FORD program of the Treasury Board Secretariat, departments have been able to recruit recent university graduates into the financial community of the federal government. While departments expressed satisfaction with the recruits obtained through this program, they have concerns about their inability to retain the recruits over the long term. Departments have not systematically tracked the reasons for the high rate of turnover.

13.59 **Departments and the Treasury Board Secretariat should develop strategies and plans to ensure that the government can attract and retain financial staff with the appropriate skills, knowledge and experience needed to carry out their responsibilities.**

Departments should assess their current capabilities and develop a strategy for closing any gaps between the capabilities required and those they presently have.

Financial and non-financial systems need to be integrated

13.60 One of the key capabilities of the Information Level of the Financial Management Capability Model is the ability to support the management of an organization's resources through the use of financial and operational (non-financial) information in strategic planning, analysis and decision making. As part of our audit, we assessed the progress being made by departments toward achieving this capability.

13.61 One of the key attributes of an organization at the Information Level is its ability to provide consistent and comparable financial information, with appropriate linkages to operational information, that meets the needs of managers. This information provides a basis for developing performance indicators and cost and quality measures. It can also be used to support and demonstrate the extent to which the organization has used its resources effectively.

13.62 As noted earlier, each of the departments included in our audit has installed a new financial system, some quite recently. We noted that while these systems have the potential to allow departments to develop integrated information, progress to date has been limited. We also noted that the departments have in place various systems that capture similar types of information and, in some instances, that cannot communicate with each other.

13.63 The need to integrate financial and operational information is a long-standing concern in government. Although the departments included in our

audit have implemented new financial systems, they have indicated that they have only just begun the task of integrating financial and operational information.

13.64 **Departments should ensure that systems integration plans meet the third objective of the government's Financial Information Strategy, the integration of improved financial information into day-to-day decision making by departmental managers.**

Performance measures to assess the effectiveness of the finance function need to be strengthened

13.65 As noted earlier in the chapter, the finance function within government is going through considerable change. Many government initiatives that depend upon strong financial management capabilities for their success are presenting significant challenges to the finance function as it tries to implement these initiatives.

13.66 One component of managing the change is a clear vision of the transformations that are to take place. Such a vision, along with a strategy for realizing it, needs to be accompanied by performance measures for the finance function. These performance measures should:

- clarify, communicate, and focus on the strategic objectives;
- serve as a basis for making continuous improvements; and
- indicate whether the strategies have resulted in improved performance and the realization of the vision.

13.67 As part of our audit, we reviewed the performance measures that the finance groups had established for themselves. In general, we found that these measures focussed on the transactional level — for example, the number of days required to issue a cheque. Although such relatively low-level indicators reflect an important

Departments have only just begun the task of integrating financial and operational information.

element of what the finance function does within an organization, they do not provide a measure of how well the finance group is doing in supporting the changes required by such government initiatives as the Financial Information Strategy and the Modernization of Comptrollership. Such measures might include, for example, the relative use of finance resources for transaction processing compared with business support, or the level of understanding by program managers of their financial management responsibilities.

13.68 We also reviewed the performance agreements established for the senior financial officer and the senior full-time financial officer in the departments included in our audit. We noted that these agreements followed the structure established by the Treasury Board Secretariat, and that all included ongoing and key commitments. The Treasury Board Secretariat requires that each commitment have one or more performance indicators. Some of the commitments we reviewed lacked the necessary performance indicators. Most of the commitments and the related performance indicators in the agreements we reviewed were vague. They did not, in our opinion, lend themselves to measuring performance in a quantifiable way, as required by Treasury Board guidelines.

13.69 **Departments should ensure that effective performance measurement indicators are established to accompany the vision and strategy for financial management that will support the organization's management practices.**

13.70 **Performance agreements for senior financial officers and senior full-time financial officers should include specific, measurable commitments to guide the finance group and the department in assessing progress on the changes required by the government's Financial Information**

Strategy and the Modernization of Comptrollership initiative.

Results of the Treasury Board Secretariat's Work

13.71 As part of its Modernization of Comptrollership initiative, the Treasury Board Secretariat carried out comptrollership capacity checks in five departments. The objective of the checks was to provide the Secretariat and the departments with a baseline assessment of existing comptrollership capacities. These assessments provide a point of reference from which departments can develop action plans to enhance their comptrollership capabilities. They also provide a baseline against which future progress can be measured.

13.72 Although the Treasury Board Secretariat used a different approach from that of the Office of the Auditor General in carrying out its work, there is a strong correlation in the scope of the two methodologies. A key distinction between the two is the self-assessment approach of the comptrollership capacity checks.

13.73 We noted some common findings related to the basic capabilities of the Control Level. These include accounting practices that generally comply with government requirements and a need for increased monitoring of departmental control systems.

13.74 We also noted some areas of difference. For example, while our audit indicated program managers' concerns about the completeness, timeliness and accuracy of financial data, the departments included in the capacity check self-assessments indicated that financial data were accessible, timely and accurate.

13.75 We noted a strong correlation between the two approaches in the observations related to the Information Level capabilities. These include the following:

- Departments need to define the competencies required of managers, assess current competencies, and develop a strategy to close any gaps.
- Departments are at the initial stages of developing such capabilities as risk management.
- There is limited integration between financial and operational systems.
- Cost management practices are not formalized.
- Departments are at various stages of evolution in developing corporate performance measures.

13.76 These assessments are an important first step in strengthening financial management capabilities. They provide a basis from which departments are expected to develop improvement strategies; they also provide a baseline against which future progress may be measured and reported. Such reporting could be in their annual Report on Plans and Priorities or Departmental Performance Report.

13.77 The Treasury Board Secretariat should ensure that departmental action plans prepared in response to the results of its assessments establish specific deliverables and time frames against which it can monitor the progress of departments in closing the identified gaps.

13.78 The Treasury Board Secretariat should report on its plans and progress in strengthening financial management capabilities.

Key Challenges for Sustained Progress

13.79 In its Nineteenth Report to the House (1998), the Public Accounts Committee noted that on many occasions “there has been a common call for improvements in financial information to support government decision making.”

While our current audit noted a number of positive initiatives and an increased sense of urgency, much remains to be done. If the initiatives are to be successful and result in strong financial management capabilities, there are a number of key challenges that need to be addressed. These challenges, which are described in greater detail below, include:

- sustaining initiatives over time;
- developing strategies to implement effective financial management;
- implementing a changing role for finance;
- increasing the consistency of departmental practices;
- providing stronger assurance on departmental control frameworks;
- increasing confidence in departmental information systems;
- linking financial and operational planning; and
- supporting performance measures.

13.80 Sustaining initiatives over time.

In the past, and indeed today, many of the important government-wide initiatives have been led by the Treasury Board Secretariat. While this leadership is important, it is not enough. As the Office has previously reported, similar initiatives have been undertaken in other jurisdictions. A common thread in their success was strong political demand for the change in management philosophy, together with monitoring of progress achieved. The strong commitment and sustained support of the Treasury Board Secretariat, Privy Council Office and deputy ministers, as well as ministers and Parliament will be needed to advance financial management capabilities within government.

13.81 Managing the types of challenges noted above and meeting the objectives of the government’s management framework and recent management initiatives will

The needed changes will not occur quickly; in the absence of clear plans and strategies for change management, as well as sustained pressure, they may not occur at all.

An integrated strategy is needed to provide clear direction and co-ordination for departmental initiatives.

require significant cultural changes within government. Such changes include, among others, the need to integrate financial information into decision making, the need to implement and use accrual accounting and accrual appropriations, and the need to better understand the role that financial management can and should play in the organization. These changes will not occur quickly; in the absence of clear plans and strategies for change management, as well as sustained pressure, they may not occur at all.

13.82 The departments included in our audit have undertaken a number of actions in support of the government's initiatives that are designed to improve their financial management capabilities. A key challenge for them will be to maintain the momentum behind these actions and to ensure that they are fully and effectively implemented.

13.83 Departments need a climate that supports and encourages good financial management practices. Given the significant changes taking place in government and within departments, this will be a particular challenge.

13.84 Developing a strategy to implement effective financial management. We noted that many initiatives that support effective financial management are currently under way in departments. However, in many instances these initiatives are being approached on an individual basis, without a clear articulation of the linkages among them. A corporate strategy is needed to provide clear direction and co-ordination for these initiatives.

13.85 In developing such strategies, departments need to ensure that they have the human resource capabilities needed to make the change effort successful and to deliver their programs effectively. This is of particular concern, given the demographics of the financial community

and the difficulties the government is experiencing in attracting and retaining financial specialists.

13.86 Departmental strategies need better linkages both within and between levels, as capabilities in one level provide a foundation for those in the next level. Linkages within levels are critical for the development of the capabilities needed to support the management and delivery of departmental programs.

13.87 Establishing a changing role for finance. Clearly, the finance function within departments needs to play an active leadership role and move beyond the traditional role of functional support. This requires a proactive approach to working with program managers to ensure that they are provided with appropriate analysis and decision-making support.

13.88 Implementing consistent practices. Our audit noted that in most departments, a range of financial management practices exists across departmental business lines. For example, there are different approaches to developing plans and budgets and classifying basic data. The use of different practices makes it difficult to aggregate information on a departmental basis and meet the information needs of departmental managers. Corporate systems and practices need to ensure a consistent approach to financial management.

13.89 Providing assurance on departmental control frameworks. At the Control Level, departments need strong mechanisms for providing assurance to senior management and central agencies that the departmental control framework is working as intended.

13.90 Increasing confidence in departmental information systems. In most of the departments included in our audit, we found that many program managers expressed a lack of confidence in departmental information systems. This

was due to several factors, including concerns over the accuracy or timeliness of financial data and the inability of systems to provide information in a format that was useful to them. Increased confidence in departmental information systems is necessary to eliminate the inefficiencies created when managers maintain their own records and books of account.

13.91 Linking financial and operational planning, monitoring and reporting. Most financial and operational systems and processes are typically independent and rarely linked. Planning for financial resources is often independent of planning for operational results. Similarly, information systems track financial information independently of information on results.

13.92 Departmental information has to meet the various requirements of corporate, business line, regional and operational managers in addition to serving the accountability requirements of Parliament and Canadians.

13.93 Supporting performance measurement with rewards and recognition. Essential to any transformation are performance measures that allow an organization to measure and report on the progress being made and to determine whether the desired changes in behaviour are occurring. Our audit noted that the departments had not yet developed such performance measures for tracking the transformation of the finance function in responding to the challenges of the Financial Information Strategy and the Modernization of Comptrollership initiative. Equally important is the need to reinforce the desired changes and link them to the achievement of established objectives.

Conclusion

13.94 The government has a number of important initiatives under way that are

designed to improve the management of the federal public service. Essential to many of these initiatives is the need for strong, effective financial management.

13.95 Our audit noted gaps in some of the basic financial management capabilities that are required to meet the government's current expectations. These gaps need to be addressed so that departments can develop the more advanced capabilities needed to support the requirements and goals of the key government initiatives.

13.96 Although departments and central agencies have begun the process of developing the capabilities necessary to support the government's Financial Information Strategy and the Modernization of Comptrollership initiative, significant challenges remain. We believe that with sustained effort, departments can develop the necessary capabilities.

13.97 The most significant challenge will be to institutionalize in departments a strong appreciation of the role that financial management can and should play in day-to-day decision making. Such a cultural change will require the strong commitment and sustained support of the Treasury Board Secretariat, Privy Council Office and deputy ministers to develop and maintain departmental financial management capabilities.

Treasury Board Secretariat's response: The Government of Canada has placed a high priority on the modernization of comptrollership, including the strengthening of financial management capabilities in departments and agencies. This is one of the six priorities set out in Results for Canadians — A Management Framework for the Government of Canada. The Modernization of Comptrollership initiative builds on a number of activities under way across government and is led by the Treasury Board Secretariat and a group of pilot departments.

The strong commitment and sustained support of the Treasury Board Secretariat, Privy Council Office and deputy ministers are needed to develop and maintain departmental financial management capabilities.

There are a number of common findings between the Office of the Auditor General's review of financial management capabilities in the five departments it examined and the results of comptrollership assessments completed by the Treasury Board Secretariat and the first group of pilot departments. There are also some differences, as noted in this chapter. Overall, the Auditor General's recommendations are consistent with the current improvement plans and expectations that have been established for sound management practices in the government's management framework.

We are confident that the government has good systems of financial controls and that these controls are generally working; however, we agree with the Auditor General that certain improvements are necessary. The Treasury Board Secretariat is actively pursuing these improvements. For example, steps are being taken to

continue the implementation of the Financial Information Strategy, to strengthen the internal audit and evaluation functions across government, and to redefine the approach to central monitoring of departmental activities. These enhancements to internal controls are being implemented in a balanced way to support delegation of authority and encourage innovation at the front line while reinforcing appropriate accountability.

The government's overall strategy for implementation of the Modernization of Comptrollership initiative will build on the findings of the Auditor General's work and the capacity assessments done in pilot departments. Priorities for improvements have been established in these departments and implementation will be monitored to ensure that the expected results are achieved.



About the Audit

Objective

The objective of this audit was to assess the financial management capabilities in selected departments.

Scope

The five departments in which we conducted assessments were:

- Canadian International Development Agency
- Environment Canada
- Fisheries and Oceans
- Health Canada
- Transport Canada

As part of our audit, we also reviewed the results of the comptrollership capacity checks undertaken by the Treasury Board Secretariat in the five pilot departments. These were:

- Agriculture and Agri-Food Canada
- Human Resources Development Canada
- Indian and Northern Affairs Canada
- National Defence
- Natural Resources Canada

Criteria

The criteria used during the audit are from the Financial Management Capability Model published by the Office in April 1999.

The Model is a framework for strengthening financial management through many small evolutionary steps. It illustrates the stages through which an organization can evolve as it defines, implements, measures, controls and improves its financial management processes.

The detailed criteria are set out in the key process areas in the five levels of the Model. The five levels are the following:

- The Start-Up Level describes the financial management capabilities of a start-up organization that has not yet established its key policies and practices.

- The Control Level focusses on establishing the controls needed to safeguard assets and to ensure that data are reliable and operations are monitored and controlled. This level generally describes the capabilities that are needed to meet current financial management requirements.
- The Information Level focusses on integrating an organization's financial and operational (non-financial) systems, practices and procedures to provide information that can be used to manage resources in an efficient and economical manner. This level reflects the capabilities that will be needed to meet the requirements of the government's Financial Information Strategy.
- The Managed Level focusses on using information to balance the competing objectives of using resources efficiently and economically and achieving high-quality and effective results.
- The Optimizing Level focusses on continuous improvement and learning.

The focus of our audit work was on determining the extent to which departments met the requirements of the Control and Information levels. These are the capabilities that are consistent with the requirements of the government's Financial Information Strategy and Modernization of Comptrollership initiative.

Audit Team

Assistant Auditor General: Doug Timmins

Directors: Bruce Sloan, William Bradshaw and Gordon Stock

Brian Brisson

Willy Guiriba

Joyce Ku

Christine Kelly

Rod Newcombe

Bill Reid

For more information, please contact Bruce Sloan.

Canadian International Development Agency

Background

The Canadian International Development Agency (CIDA) is responsible for supporting sustainable development in developing countries. The Agency's six program priorities focus on developing basic human needs, women in development, infrastructure services, human rights, democracy and good governance, private sector development and the environment.

CIDA's budget in 1999-2000 was \$1.8 billion. Expenditures are made in the form of grants, contributions and other transfer payments. These payments are made to Canadian and developing country institutions, provincial governments and their organizations and agencies, non-governmental organizations, and Canadian private sector firms, for specific development projects, programs and activities.

CIDA operates in a complex and changing environment where its priorities are affected by unforeseen environmental events and the complexity of projects being delivered in underdeveloped countries. CIDA also operates in an environment where changing foreign policy directions and emergency situations require actions to be taken quickly.

Over the past year, CIDA has undergone a significant number of changes. These include numerous organizational changes, new senior management appointments, and the implementation of new enterprise-wide systems. Each of these changes affects how CIDA does its business. In such a changing environment, it is essential that CIDA have the capabilities that support sound financial management practices.

Scope of our work

We focussed our work on the Human Resources and Corporate Services Branch, the Policy Branch, the Africa and the Middle East Branch of the Bilateral Program, the Asia Branch of the Bilateral Program, the Multilateral Programs Branch, and the Performance Review Branch. Our work was carried out at CIDA headquarters.

Summary assessment

CIDA has substantially met the requirements of four of the eight key process areas of the Control Level of the Financial Management Capability Model. While the Agency has established many of the basic financial management capabilities, we found that there remains a gap between current expectations for financial management and the Agency's existing capabilities. We noted that the capabilities related to internal controls management, data management, planning and budgeting, and operations control need to be strengthened.

We also noted that the Agency has a number of initiatives that are designed to develop the capabilities of the Information Level of the Model. These capabilities are generally those that departments will need in order to meet all of the objectives of the government's Financial Information Strategy and Modernization of Comptrollership initiative.

Listed below are certain strengths that we noted during our audit. We have also described specific weaknesses related to the Control Level.

Strengths

Organization control environment. CIDA has clearly defined its mission and vision, and staff have a strong commitment and understanding of the Agency's mandate and their role in the achievement of its mission. CIDA encourages consultation and has used surveys and other mechanisms for several years to obtain feedback from its employees and key stakeholders.

Integrated financial management systems. CIDA is developing an integrated enterprise-wide system that is designed to reduce the number of systems and provide users with both financial and non-financial information. The Agency recently implemented several modules in its enterprise-wide system for financial, project, material and results-based management. Following the initial implementation of a new financial system on

1 June 1999, CIDA reacted quickly to identify and correct data integrity problems. This enabled the Agency to have reliable financial information to monitor year-end budgets.

Performance measurement. CIDA has implemented a results-based management system to collect results information primarily for reporting purposes. Senior management has demonstrated commitment to results-based management by developing policy, frameworks and tools, and by providing training and assigning staff to support operational managers at both the corporate and branch levels. Recently, the Agency released a tailored, results-based management module within its new enterprise-wide system to collect and track results information systematically across the Agency.

Weaknesses

Internal controls management. Although CIDA has numerous control mechanisms, there is no documented corporate internal control framework. There is limited ongoing monitoring to ensure that controls are effective and operating as designed. No performance measures are in place to monitor the effectiveness of the internal control framework, and limited independent review is conducted to ensure that controls meet the Agency's needs. Internal audit needs to strengthen its capacity to provide assurance on the adequacy of agency control systems.

Data management. Although considerable effort was dedicated to the data reconciliation and clean-up exercise, there is a lack of processes to regularly monitor data integrity and ensure that it is maintained. Users find the new financial system cumbersome to use and difficult to obtain information from. While key control mechanisms for data management have not been fully developed, the responsibility for data management has been assigned to the newly created position of Chief Informatics Officer. Without the ability to provide high-quality data on a continuous basis, information generated for reporting and decision-making purposes will not be reliable or useful.

Canadian International Development Agency (continued)

Planning and budgeting. We found that managers spend considerable time developing various plans throughout the year. CIDA has many planning processes for resource allocation and business planning that are independent. For example, development of branch strategic plans is independent of the resource allocation process. We found that none of these individual planning processes have been documented; nor has CIDA developed a corporate planning framework to provide a holistic view of how the various planning processes fit together. Branches have varied approaches to developing plans, and the content is considerably different. We also noted that CIDA has not been able to produce a

corporate strategic plan that communicates its corporate performance targets to staff.

Operations control. We found that CIDA manages its financial budgets, but they are monitored in isolation of operational results. For instance, the project performance review process is not linked with the mid-year resource reallocation process. This weakens CIDA's ability to analyze variances and their implications. Since the implementation of its new financial system, managers and finance do not have key monitoring reports, such as account aging reports and financial status reports to enable appropriate monitoring of resources. Manual records have been

maintained to supplement this requirement. A process for monitoring and managing internal operations needs to be developed to ensure consistent and efficient practices in the event that key individuals leave.

Department's response: *The Canadian International Development Agency (CIDA) is enhancing its financial management framework to better respond to the government's Modernization of Comptrollership initiative and Financial Information Strategy. The actions undertaken to date firmly demonstrate our commitment to achieving the stated objectives. Action plans are being developed to address the areas in need of improvement.*

Environment Canada

Background

Environment Canada is responsible for the preservation and quality of the natural environment and renewable resources (including water, migratory birds and other non-domestic flora and fauna); carrying out meteorological services; enforcement of the rules of the Canada-U.S. International Joint Commission; and co-ordination of federal environmental policies and programs.

The Department had a budget of approximately \$548 million for 1999-2000, distributed over its four business lines: Clean Environment, Nature, Meteorological Service of Canada, and Management, Administration and Policy.

Environment Canada has undergone significant changes in recent years. While the Department's basic mandate has not changed since it was established in 1971, the range and nature of the issues and challenges it faces have evolved considerably.

Scope of our work

We concentrated our efforts on the Meteorological Service of Canada and the Clean Environment business lines, and the Corporate Services Branch from the Management, Administration and Policy business line. Our audit included the departmental headquarters and the National Capital, Pacific and Yukon, and Ontario regions.

Summary assessment

Environment Canada has substantially met the requirements of four of the eight key process areas of the Control Level of the Financial Management Capability Model. While the Department has established some of the basic financial management capabilities, we found that a gap remains between current expectations for financial management and the Department's existing capabilities. We noted that capabilities related to internal controls management, data management, planning and budgeting, and operations control need to be strengthened.

We also noted that the Department is at the initial stages of developing the capabilities of the

Information Level. These capabilities are generally those that departments will need to meet all of the objectives of the government's Financial Information Strategy and Modernization of Comptrollership initiative.

Listed below are certain strengths that we noted during our audit. We have also described specific weaknesses related to the Control Level.

Strengths

Organization control environment.

Environment Canada has developed and published its Management Framework, which describes its vision, mission, responsibilities, accountabilities and the results expected from its four business lines.

Quality measurement. In critical operational areas, the Department has quality measurement processes that are mature and of a high standard. For example, at the Canadian Meteorological Centre the quality of the forecasting system is measured routinely and compared with that of other international weather centres.

Weaknesses

Internal controls management. Important components of internal control are in place but the Department does not have an overall internal control framework, an important vehicle for communicating managers' responsibilities for internal control. In addition, there is no clearly established process for monitoring internal controls, and few performance measures are in place to monitor the effectiveness of internal controls. Formal processes are required to support the assurance on the operation of controls provided by senior managers in their letters of representation. We also noted that the Department does not comply with Treasury Board policies on asset management: the data capture of new assets is not up-to-date, and inventories are not performed to confirm asset records. Internal audit needs to strengthen its capacity to provide assurance on the adequacy of the departmental control systems.

Data management. Although Environment Canada has some of the elements of data management, it has not effectively implemented

its data management policy and no corporate mandate has been assigned to ensure the integrity of corporate data. The Department has a defined structure for financial data. Managers consider financial information to be accurate but not timely or easily accessible. In addition, managers claim that information from the asset system does not serve their needs. In many instances, program managers have developed their own local systems to track their operational information without corporate guidance on systems development practices. A corporate approach to data management for both financial and non-financial data will be required to establish a common systems architecture in the Department.

Planning and budgeting. Environment Canada has some of the elements needed for this key process area. While the Management Framework used by the Department provides a business-line structure that supports the planning and budgeting process, Environment Canada has not fully documented how the various financial and operational planning processes are integrated. The Department has not developed standardized corporate tools to support consistent workplanning, and managers do not use the same terminology in their preparation. In addition, managers are not consistently required to establish even basic output measures of expected performance unless the unit is in its start-up phase. Corporate systems need to be developed or improved to provide greater consistency to the planning process and a mechanism for the aggregation of information on all activities.

Environment Canada has not prepared a Long-Term Capital Plan since 1990, although one is required by the Treasury Board every five years. To compound this problem, asset records are not up-to-date and inventories of these assets have not been performed, as required by Treasury Board regulations. As part of Program Review, and to meet other requirements to reduce expenditures, the Department chose to reduce its capital budget from \$80 million to \$24 million. Environment Canada recognizes that it faces a significant rust-out problem, and managers believe that they do not have sufficient funds to replace deteriorating assets on a life-cycle basis.

Environment Canada (continued)

Operations control. We noted that the Department exercises strong commitment control. A primary concern, however, is that managers do not have the information, relating financial and non-financial measures, that they need to make decisions. To compensate for weaknesses in corporate financial systems, individual managers have developed their own workplanning and monitoring processes and often keep a duplicate system to track operations and expenditures. Problems arise in the aggregation of information from these unique systems, resulting in a gap in management information and a risk that the

Department may not make optimum use of its resources. Mid-level managers expressed concern that appropriate information is not available to them.

Department's response: *Environment Canada is moving forward with the implementation of its Modern Management Agenda, which addresses issues of capacity building and renewal of the financial management functions in the Department. A detailed implementation plan is being prepared and will be presented to Environment Canada senior management in fall 2000. In addition,*

substantial progress has been made in the last few years with the implementation of a new financial system, the establishment of a detailed implementation plan for the Financial Information Strategy, and the development of a Management Information Blueprint. These initiatives will support improvements in performance information, risk management and strengthened control systems as well as lay the foundations to enable the Department to systematically capture and use financial, human resources and performance information at the corporate and business line levels.

Fisheries and Oceans

Background

Fisheries and Oceans is responsible for developing policies and programs in support of Canada's economic, ecological and scientific interests in oceans and freshwater fish habitat; conserving Canada's fisheries resources in marine and inland waters and promoting their sustainable use; and providing safe, effective and environmentally sound marine services responsive to the needs of Canadians in a global economy.

Fisheries and Oceans spends more than \$1.4 billion annually. The largest part of these expenditures relates to the Canadian Coast Guard activities. The Coast Guard's activities include Marine Navigation Services; Marine Communications and Traffic Services; Icebreaking Operations; and Rescue, Safety and Environmental Response. As well, the Coast Guard operates a fleet of vessels in support of the Department's other primary business lines: Fisheries and Oceans Science, Habitat Management and Environmental Science, Hydrography, Fisheries Management and Harbours.

Our findings should be viewed in the context of the major changes that the Department has undergone in the past few years. In 1995-96, as part of the government's Program Review exercise, Fisheries and Oceans almost doubled in size with its merger with the Canadian Coast Guard, transferred from Transport Canada.

Within the last four years, the Department has introduced new financial and human resource information systems. It continues to deal with government-wide issues such as the Universal Classification System, the Financial Information Strategy and the Modernization of Comptrollership initiative. Finally, during this period, there has been a high turnover in senior management. When combined, these factors have limited the Department's ability to solidify its financial management foundation and move forward with confidence. However, the Department is making progress and has several projects under way that are designed to further improve its financial management capability.

Scope of our work

In examining Fisheries and Oceans, we concentrated our efforts on four business lines: Fisheries Management; Hydrography; Harbours; and Rescue, Safety and Environmental Response. The audit included the Newfoundland and Pacific regions and

departmental headquarters. Our Office is currently completing a separate audit of the Coast Guard's fleet management. Financial management issues as they pertain to the fleet will be included in our December 2000 Report.

Summary assessment

Fisheries and Oceans has substantially met the requirements of five of the eight key process areas of the Control Level of the Financial Management Capability Model. While the Department has established many of the basic financial management capabilities, we found that a gap remains between current expectations for financial management and the Department's existing capabilities. We noted that the capabilities related to internal controls management, data management, and planning and budgeting need to be strengthened.

We also noted that the Department has a number of initiatives that are designed to develop the capabilities of the Information Level of the Model. Capabilities at this level are generally those that departments will need to meet all of the objectives of the government's Financial Information Strategy and Modernization of Comptrollership initiative.

Listed below are certain strengths that we noted during our audit. We have also described specific weaknesses related to the Control Level.

Strengths

Organization control environment.

Fisheries and Oceans has developed and instituted a strategic plan, and vision and mission statements that are well known and communicated to all employees throughout the Department. During the past year, drafts of these documents have been used for the first time to guide the planning and budgeting process. The departmental structure is well defined and documented.

Financial management environment.

Fisheries and Oceans has implemented a comprehensive financial management training and reference tool to disseminate accounting policies, procedures and common forms on a Department-wide basis. "Finance and Administration 101" on the Department's Intranet serves as both a training module and reference source. The tool is designed to reduce errors and help in applying financial and administrative practices consistently in all regions and program areas.

Weaknesses

Internal controls management. Although the Department has developed an internal control framework, it has neither communicated the framework throughout the Department nor ensured that controls are operating effectively. No performance measures are in place to monitor the effectiveness of the framework, and limited independent review is conducted to ensure that controls meet the Department's needs. Internal audit needs to strengthen its capacity to provide assurance on the adequacy of departmental control systems.

Data management. While individual transactions are usually correct (for example, cheque amounts have been calculated correctly), the allocation and distribution of expenditures are neither accurate nor timely. As a result, program managers do not believe that they have the financial information they need to manage their programs. Many of the Department's information systems rely on program areas to input source data. In certain cases, the data are not being accurately input on a timely basis. Two consequences of this are decreased efficiency and an inability to aggregate information at a departmental level. To compensate for these weaknesses in financial data, many departmental managers maintain separate books and records.

Planning and budgeting.

The Department has recently developed a long-term capital plan and an inventory of its real property assets; these two initiatives were overdue. However, the Department has yet to establish the optimum complement of assets that will be needed to deliver its programs economically and effectively.

Department's response: *Fisheries and Oceans agrees with many of the observations in this chapter. The Department has substantially met the requirements of five of the eight key process areas, but acknowledges that work remains to be done in the remaining areas, particularly if such key priority initiatives as Results for Canadians, the Financial Information Strategy and the Modernization of Comptrollership initiative are to be successfully implemented. The Financial Management Capability Model is a framework for strengthening financial management through many small, evolutionary steps. While a fully mature financial management regime cannot be achieved overnight, Fisheries and Oceans is committed to finding the ways and means to continually improve its key process areas.*

Health Canada

Background

Health Canada's mission is to help the people of Canada maintain and improve their health. Its mandate covers three broad areas — national health policy and systems, including health care; health promotion and protection, including prevention of disease, illness and injury; and First Nations and Inuit health.

Health Canada's planned spending for fiscal year 1999-2000 was about \$2 billion. These expenditures were made to support Health Canada's primary business lines: Management of Risks to Health; Promotion of Population Health; Aboriginal Health; Health System Support and Renewal; Health Policy, Planning and Information; and Corporate Services.

Within the last four years, Health Canada has had to deal with government-wide initiatives such as Year 2000 readiness, the Universal Classification System, the Financial Information Strategy and Modernization of Comptrollership. As well, the pressures on Canada's health care system have increased in recent years.

During our audit, Health Canada implemented a new financial system as part of its Year 2000 readiness and to strengthen its financial management capabilities.

Scope of our work

We focussed our work on the following areas of the Department: Corporate Services Branch; Medical Services Branch; Health Protection Branch; and Information, Analysis and Connectivity Branch. The audit included departmental headquarters and the Central Region.

Summary assessment

Health Canada has substantially met the requirements of three of the eight key process areas of the Control Level of the Financial Management Capability Model. While the Department has established many of the basic financial management capabilities, we found that a gap remains between current expectations for financial management and the Department's existing capabilities. We noted that the capabilities related to internal controls management, data management, general accounting, planning and budgeting, and operations control need to be strengthened.

We also noted that the Department has a number of initiatives that are designed to develop the capabilities of the Information Level of the Model. These capabilities are generally those that departments will need in order to meet all of the objectives of the government's Financial Information Strategy and Modernization of Comptrollership initiative.

Listed below are certain strengths that we noted during our audit. We have also described specific weaknesses related to the Control Level.

Strengths

Organization control environment.

Health Canada has a clearly defined mission and vision. Staff have a strong commitment and understanding of the Department's mandate and their role in achieving the mission.

Financial management environment.

Health Canada has developed a Policy Centre on its Intranet to disseminate accounting policies and procedures on a Department-wide basis. This access to the Department's policies serves as a reference source and is designed to reduce errors and to help ensure that financial and administrative practices are applied consistently in all regions and program areas.

Weaknesses

Internal controls management. Although important components of internal control are in place in Health Canada, a departmental control framework is neither firmly established nor well documented. Strengthened monitoring by management of the effectiveness of the control framework, including reporting against performance measures, is needed to ensure that the controls are effective and operating as designed. Internal audit needs to strengthen its capacity to provide assurance on the adequacy of the departmental control systems.

Data management. We noted the lack of accuracy and timeliness of financial data (e.g. salary data) recorded in the Department's previous financial systems. As a result, many program managers do not believe that they have the financial information they need to manage their programs. During the audit, the Department introduced a new financial system that is designed to strengthen the accuracy and timeliness of financial data. In the early stages of its implementation, we noted that users found the new system cumbersome to use and difficult to obtain information from. Additional effort is needed to train system users, and to ensure that they understand the operation and capabilities of financial systems and their responsibilities to record and monitor transactions in a timely fashion. The Department also needs to address the remaining system problems that affect the accuracy of some salary data.

General accounting. We noted that Health Canada has not been able to reconcile

either its new financial system or its previous system to the Receiver General's central accounting system. Such a reconciliation is an important step for verifying and ensuring the integrity of the financial data in departmental systems. The consequences of this weakness include non-compliance with Receiver General directives and an inability for the past two years to complete the Public Accounts reporting requirements on time.

Planning and budgeting. Formal and systematic planning and budgeting practices are carried out at the corporate level to support the appropriation process. However, we noted that at the branch and directorate levels there is no up-to-date operational planning framework in place; as a result, planning is generally not performed in a consistent manner across the organization. The Department needs to update its departmental planning processes to facilitate the integration of the various planning mechanisms currently being used.

Operations control. A primary concern is that many managers do not have the information, relating financial with non-financial measures, that they need to manage and monitor their programs. To compensate for weaknesses in corporate financial systems, many individual managers have developed their own duplicate systems to track operations and expenditures. A consequence of this is decreased efficiency and the inability to aggregate information at a corporate level.

Department's response: *Effective 1 April 1999, Health Canada successfully implemented a new financial system with vastly improved capabilities. Fully utilizing all the capabilities of the new system will take time and a sustained investment in training. To date, over 2,500 employees have been trained. Many of the concerns expressed in the case study are consistent with what has been addressed or is being addressed as part of a financial management improvement plan. Health Canada has placed a high priority on strengthening its financial management capabilities; this is indicated by its investment in a new financial system, the effort in employing more qualified staff, the plan to implement the Financial Information Strategy, the steps being taken to strengthen the internal audit capacity, and its expectations for sound management practices embodied in the concepts of modern comptrollership and reflected in the Department's financial management improvement plan.*

Transport Canada

Background

Transport Canada is responsible for most of the transportation policies, programs and goals set by the government to ensure the safety, efficiency and accessibility of the national transportation system.

Transport Canada's planned net program spending for the fiscal year 1999-2000 was \$901 million. These expenditures are aimed at providing the best possible transportation for Canada and Canadians and supporting the Department's primary business lines: Safety and Security, Programs and Divestiture, Policy, and Departmental Administration.

Scope of our work

We examined the Department's four business lines and conducted our work in the Ontario region and at departmental headquarters in Ottawa.

Summary assessment

Transport Canada has substantially met the requirements of seven of the eight key process areas of the Control Level of the Financial Management Capability Model. While the Department has established most of the basic financial management capabilities, we found that a gap remains between current expectations for financial management and the Department's existing capabilities. We noted that capabilities related to internal controls management need to be strengthened to provide assurance to senior management that the control framework is working as intended.

We also noted that the Department is at the initial stages of developing the capabilities of the Information Level. These capabilities are generally those that departments will need to meet all of the objectives of the government's Financial Information Strategy and Modernization of Comptrollership initiative.

Various organizational units in the Department perform elements of risk management, quality measurement and cost

management. However, these capabilities are not undertaken within the context of departmental frameworks that are designed to provide a consistent approach across the organization.

Listed below are certain strengths that we noted during our audit. We have also illustrated a specific weakness related to the Control Level.

Strengths

Organization control environment.

Transport Canada has a well-defined and documented organizational structure, and staff demonstrate a thorough understanding and awareness of departmental vision, mission and values at both departmental and branch levels.

General accounting. Transport Canada is moving toward implementation of the accrual accounting component of the Financial Information Strategy on 1 April 2001. The Department introduced an accrual-based accounting environment with the implementation of its IDFS financial system. While the accrual system works well, the Department expends significant effort and resources to reconcile differences between its accrual systems and the cash basis of accounting that is required for reporting to Parliament. Implementation of accrual appropriations would alleviate this task.

Risk management. Transport Canada has introduced risk management practices within significant operational activities. These practices are having an impact on critical decisions within the Department and are furthering efforts to optimize allocation of resources and improve safety. Although the Department does not yet have a Department-wide risk management framework, it expects that it will soon finalize such a framework.

Performance measurement. Transport Canada has recently instituted a corporate

performance measurement framework that identifies specific outcomes and relates them to corporate objectives. These measures are tracked and monitored on a continuing basis.

Weakness

Internal controls management.

Important components of internal controls are in place. We noted that management needs to increase monitoring of the control framework's effectiveness and strengthen the internal audit function. Internal audit provides limited assurance to senior management that the control framework is working as intended.

Department's response: *Transport Canada is pleased that the Office of the Auditor General recognizes the Department's strengths with respect to its financial management capabilities. As part of good management practice, the Department has a number of ongoing processes and initiatives to support management decision making. Following the divestiture of many of its operations, Transport Canada has taken steps to strengthen its internal audit capacity. For example, previous and current internal audits examine matters such as financial and administrative processes and practices, grants and contributions, and lease agreements.*

Transport Canada is committed to sound financial management. The audit confirms our understanding of areas where improvements may be made, and provides guidance on where the Department may focus its future efforts. The audit observations will be taken into consideration as part of Transport Canada's Comptrollership Modernization Initiative. The Department will also continue to strengthen its internal audit function to better monitor and provide assurance on the Department's financial, administrative and management controls. For example, Transport Canada is developing a comprehensive, risk-based audit program to assess expenditure items and agreements. This audit program will include periodic audits of Transport Canada's expenditures, contracts, third-party agreements, and administrative and management practices.