

# **Industry Canada**

## **Audit of Reconciliations Procedures, Roles and Responsibilities**

### **Audit and Evaluation Branch**

**September, 2003**

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### 1.0 Executive Summary

Through sharing information with other departments, the Auditor General and the Treasury Board Secretariat, the Audit and Evaluation Branch (AEB) learned that some areas of risk in implementing the Financial Information Strategy (FIS) were in the reconciliation procedures, including roles and responsibilities, and in the financial statement format and procedures. Hence, this audit was included in the AEB 2002-2003 audit plan.

Audit criteria used in conducting the audit included the FIS Accounting and Receiver General Manuals. The review work entailed a series of interviews as well as analysis of accounting transactions to assess the degree of compliance to these policies.

This report details the audit observations and recommendations by audit objective as well as the management response. The following section provides a brief summary of the audit findings and recommendations contained in this report.

**Audit Objective #1 : Procedures for reconciliations required under FIS are available and that reconciliations are prepared and differences are resolved on a timely basis for internal accounts and the Receiver General interfaces.**

At the present time, procedures for reconciliation work are not available in formal written documentation, although staff for the most part are effectively carrying out the required procedures. The Comptroller's Branch will need to develop these written procedures. It is especially important that assignment of responsibilities, a defined schedule of work, monitoring and approval mechanisms be established to ensure that amounts reported in the departmental trial balance are accurate. The Comptroller's Branch also needs to define similar process controls for monitoring functions on suspense accounts and procedural controls over transaction approvals.

Once the new Grants and Contributions Management System (GCMS) is in place, the Comptroller's Branch should review the feasibility of implementing reconciliation processes to verify grant and contribution account balances with the Integrated Financial and Materiel System (IFMS) information.

The Comptroller's Branch should ensure that all prior year accounts balances such as those resulting from the Received Goods Ledger (GR-GL) and returned prior year cheques are cleared appropriately. It was noted during the audit that much progress had been made by the Comptroller's Branch in implementing new review processes as a result of FIS to ensure that at year end remaining account balances are accurately carried over to the new year. A business process will need to be developed to allow the clearing of old year returned or cancelled cheques in the IFMS system.

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The Comptroller's Branch has implemented most of the required controls over information reported in the Receiver General - General Ledger (RG-GL) and the Central Financial Reporting Management System (CFMRS). The accounts payable unit needs to develop a procedure to reconcile amounts recorded in IFMS with those of the CFMRS. The Comptroller's Branch should develop a system to monitor and ensure that this work is done on a regular basis.

**Audit Objective #2: Financial statements preparation procedures are being managed to produce accurate financial statements on a timely basis and a materiality level has been established to ensure that the financial statements present fairly the amounts reported.**

For the most part detailed financial reviews take place mainly at year-end. The Comptroller's Branch is working on the implementation of additional reviews for these year-end statements. The addition of a reconciliation review to ensure that the information presented in the departmental financial statement and that of the public accounts would also ensure accuracy of this information.

Finally, staff currently rely on materiality definitions as very broadly defined in the FIS accounting manual. It may be beneficial for the Comptroller's Branch to develop more structured and quantitative guidelines for staff to use, particularly for accounting accruals prepared on a monthly basis.

### **CONCLUSION:**

Overall, it was found that there are a number of reconciliation processes in place in the Financial and Materiel Management Directorate (FMMD) to cover most of the requirements of FIS and the Receiver General Manual. Some new processes will need to be developed in the accounts payable group as recommended in this report.

In most areas audited there was a requirement for clear assignment of responsibilities, a defined schedule of work, a process for monitoring, and an approval of the work undertaken. Coordination of the efforts of staff across units should be a key requirement when the Comptroller's Branch develops a set of written procedures for the reconciliation processes. We recommend that the Comptroller's Branch delineate these responsibilities, work schedules, monitoring and approval processes to ensure that financial statements are accurately reported.

Once the new Grants and Contributions Management System (GCMS) is operational, we recommend that the Comptroller's Branch should implement reconciliation procedures that it considers necessary to ensure integrity of data between the financial information contained in GCMS and IFMS.

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Finally, the implementation of additional reviews as currently underway by the Comptroller's Branch and the addition of a reconciliation of financial statements between the departmental statements and the Public Accounts will add to the accuracy of financial information presented to the public. The provision of more specific guidelines on materiality levels would assist staff in making monthly adjustments to improve the accuracy of financial information.

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### 2.0 Management Response

Below are the management responses received from the Comptroller's Branch for each of the seven recommendations.

#### Recommendation #1

*FMMD needs to document its processes and procedures for undertaking the required FIS reconciliations. This work should also ensure that responsibility for all aspects of the processes are clearly assigned to individual units so that the roles and responsibilities of each unit are clearly understood. Overall accountability and monitoring should be assigned to allow FMMD management to receive sufficient information on the status of these reconciliations on a regular basis.*

*The Comptroller's Branch must be involved in the revenue reconciliation between the branch revenue information system and IFMS. The Comptroller's Branch should provide guidance and monitor the status of these revenue reconciliations for all branches and sectors.*

#### Management Response

FMMD management is in agreement with recommendation #1. Financial Services has already responded to this recommendation by creating a web-based repository of available documentation that will serve as the foundation in the development of documented reconciliation procedures. Financial Services will develop reconciliation documentation that will focus on process in lieu of the current functional approach. Process documentation will clearly specify task ownership and frequency and will address monitoring and reporting requirements to FMMD management. This documentation will be made available to staff on the new web repository.

FMMD will commence the process documentation in September 2003. It is anticipated that it will take approximately 8-12 months to finalize and fully implement.

The Comptroller's Branch will work with other branches to address revenue reconciliations between IFMS and branch systems and to address necessary monitoring and reporting requirements. It is anticipated that reconciliation procedures and reporting will be completed by the end of FY2003-04.

#### Recommendation #2

*FMMD should develop clear corporate standards for the review of suspense account clearing and transaction approval mechanisms such as parked items. For suspense accounts, a complete list of all such accounts should be available along with a clear assignment of responsibilities for the clearing of these accounts. For all clearing and monitoring work, an appropriate schedule should be developed as well as procedures for ensuring that this work is*

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*done as required and that steps are put in place to prevent the reoccurrence of known errors.*

### **Management Response**

FMMD management is in agreement with recommendation #2. A listing of suspense accounts, roles and responsibilities, as well as monitoring, reporting and sign-off schedules will be developed. Where feasible, corporate standards will be established. A similar approach will be used to address parked invoices.

It is anticipated that the new documented procedures can be fully implemented by October 2003.

### **Recommendation #3**

*FMMD needs to review areas where outstanding balances and adjustments are required to old year transactions. In some cases, such as the Received Goods General Ledger, a one-time adjustment may be required to clear the outstanding transactions. In other cases, such as for old year returned cheques, new business processes may need to be developed as the situation is one that will continue to occur.*

### **Management Response**

FMMD management is in agreement with Recommendation #3. Outstanding GR/IR (Goods Receipts/Invoice Receipts) balances carried over from 2001-2002 were cleared during fiscal year 2002-2003. FMMD has also implemented a process to deal with old year returned cheques and all outstanding transactions have been finalized. The SPS system will be monitored on an on-going basis and the control accounts will continue to be adjusted accordingly.

### **Recommendation #4**

*Once the new GCMS system is available, FMMD should review the reconciliation procedures that it considers necessary to ensure integrity of data between financial information contained in the Grants and Contributions system and that of the IFMS.*

### **Management Response**

At this time, the new Grants and Contributions system will only deliver basic reconciliation functionality in the form of exception reporting. This report will provide assurance that transactions have successfully flowed through the GCMS/IFMS interface. More advanced reporting and reconciliation tools will only be considered in subsequent system upgrades. System enhancements will be explored pending resource availability.

### **Recommendation #5**

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*FMMD needs to establish processes to ensure that the required reconciliation of the zero balance control accounts is undertaken. Responsibility needs to be clearly assigned for undertaking this work, signing off on its completion and reporting to management on the status of the agreed to work for all the units.*

### **Management Response**

FMMD management is in agreement with recommendation #5 and will commence with a monthly reconciliation of the accounts payable control accounts immediately. Accounts will be cleared to zero by the end of each fiscal year as required by the Receiver General.

### **Recommendation #6**

*The Comptroller's Branch is in the process of implementing additional reviews of the public accounts plates and revisions to the notes of the departmental financial statements. In addition to these measures, we recommend that the Comptroller's Branch implement a reconciliation procedure between the public accounts plates and the departmental financial statements to ensure that any differences are reconciled.*

### **Management Response**

FMMD has made significant progress over the past year in the preparation of the Public Accounts Plates and the Departmental Financial Statements, which was evidenced by a smooth year-end. The implementation of many new reconciliation procedures throughout the year, coupled with new transactional testing processes has resulted in greater data assurance and the timely submission of Public Accounts and financial statement documents. In the preparation of the fiscal year 2002-03 financial documents, public accounts plates and financial statements were reconciled and are in balance. New quality assurance procedures will be documented to support the preparation of fiscal year 2003-04 results.

### **Recommendation #7**

*FMMD's review of year-end financial statement and public accounts preparation may provide the opportunity for FMMD to develop additional guidance on materiality levels for its own accounting units. This could also include the development of a set of guidelines or criteria for cases where monthly accruals would enhance the accuracy of Industry Canada's financial statement at a material level.*

### **Management Response**

FMMD agrees that a review of year-end financial statements and public accounts may provide additional guidance on materiality levels, which could assist in determining when a transaction is recorded, or the frequency of recording. This assessment will take into consideration the administrative ease in the handling of certain types of transactions and will follow the Canadian



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Institute of Chartered Accountants, Public Sector Accounting Board and Treasury Board  
Accounting Standards.

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### 3.0 Introduction

As part of its 2002-2003 audit plan, the Audit and Evaluation Branch (AEB) audited the reconciliation procedures and roles and responsibilities required to manage internal accounts and Receiver General interfaces to provide assurance that the amounts reported in the departmental financial statements are presented fairly.

### 3.1 Background

AEB learned that some areas of risk in implementing the Financial Information Strategy (FIS) were the reconciliation procedures, including roles and responsibilities, and the financial statement format and procedures. This information was obtained through sharing information with other departments, the Office of the Auditor General and Treasury Board Secretariat at the inter-departmental Internal Auditors' Working Group. Hence, AEB decided to audit this function.

### 3.2 Objectives and Scope

The objectives of the audit were to provide assurance that:

- procedures for the reconciliations required under FIS are available and that reconciliations are prepared and differences resolved on a timely basis for:
  - **Internal accounts** like control accounts, suspense accounts, internal feeder systems and accounts to track the stages of payments such as “parked”, “Paid on due date” and “awaiting cheque issue at Public Works and Government Services Canada (PWGSC)”;
  - **Receiver General interfaces** such as the Standard Payment System (SPS); Interdepartmental Settlement (IS); Banking and Cash Management System (BCMS); Payroll System - General Ledger (PS-GL); Receiver General - General Ledger (RG-GL); Central Financial Reporting System (CFMRS) - Trial ; and Receipt of Goods (GR-GL); and
- financial statements preparation procedures are being managed to produce accurate financial statements on a timely basis and a materiality level has been established to ensure that the financial statements present fairly the amounts reported.

The scope of the audit was limited to the reconciliation work undertaken by the Financial and Materiel Management Directorate (FMMD) of Comptroller's Branch. Documentation and

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reconciliation work reviewed during the audit field work phase was limited to the year end of 2001-2002 and the 2002-2003 fiscal year.

### **3.3 Methodology**

The audit work was undertaken by an initial documentation review and interviews with PWGSC staff to gather information regarding the policy and procedural requirements of the reconciliation processes from a central agency perspective. The audit program and criteria were then developed with a corresponding plan of work. Finally the detailed audit work was undertaken by interviewing staff and management with specific reconciliation responsibilities within FMMD and analysing documentation and financial information provided during this process. This report provides a summary of the key audit recommendations and management responses.

### **4.0 Summary of Audit Observations and Recommendations**

**Audit Objective #1 : Procedures for reconciliations required under FIS are available and that reconciliations are prepared and differences are resolved on a timely basis for Internal Accounts and Receiver General Interfaces.**

#### **4.1 Coordination and Assignment of Responsibilities**

It was understood prior to the audit that procedures for reconciliations were not available in formal written policies or procedures in FMMD. During the review, it was found that each of the units in FMMD did have either some form of informal written procedures or were able to demonstrate a clear system of procedures that they followed on a regular basis for reconciliation work undertaken. Thus FMMD appears to have a basis for developing policy and procedure documentation.

Within the units which had procedures established, the individual processes were found to be carried out accordingly. However, little coordination was noted across units on the overall reconciliation processes. It was found that units were undertaking their parts of the reconciliation process with little or no knowledge of what part their actions played in FMMD's overall reconciliation processes, or what such processes might be. In developing overall reconciliation processes, FMMD needs to assign clear responsibilities for the various processes and to ensure that all units understand their part of the bigger process.

According to FMMD management, the last year had been one of utilizing the lessons learned after the first full year of FIS. This has involved implementing a number of new procedures that were previously not undertaken and having to catch up on backlogs of reconciliation work that accumulated during the first full year of FIS. FMMD management feels that it is now in a position to develop a set of formal procedures that will be available to all staff regarding

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reconciliation procedures.

FMMD needs to consider how best to assign the coordination and tracking of the reconciliation and account monitoring processes in its branch. Such a role could be assigned to the Reconciliations group, where they would play a central role in tracking the status of this work and reporting to management. Another scenario would be to distribute the work completely to the various units responsible right up to the RG-GL process. However, when the responsibilities are ultimately assigned, FMMD management should ensure that it receives sufficient information on the status of its reconciliation and monitoring processes to assure itself of the completion of these important tasks.

As recommended in the recent revenue audit report under the audit objective: “Revenue reconciliations support the preparation of year-end adjustments”, the Comptroller’s Branch must be involved in the revenue reconciliation between the branch revenue information system and IFMS. The Comptroller’s Branch should provide guidance and monitor the status of these reconciliations for all branches and sectors.

***Recommendation #1: FMMD needs to document its processes and procedures for undertaking the required FIS reconciliations. This work should also ensure that responsibility for all aspects of the processes are clearly assigned to individual units so that the roles and responsibilities of each unit are clearly understood. Overall accountability and monitoring should be assigned to allow FMMD management to receive sufficient information on the status of these reconciliations on a regular basis.***

***The Comptroller’s Branch must be involved in the revenue reconciliation between the branch revenue information system and IFMS. The Comptroller’s Branch should provide guidance and monitor the status of these revenue reconciliations for all branches and sectors.***

### 4.2 Review of Internal Accounts

FMMD has implemented a number of new review and reconciliation processes over the past year as a result of lessons learned after the first full year of FIS. The accounts payable unit has implemented a review for the GR-GL and the clearing of the IS debtor suspense accounts. The revenue group and payroll group also have established processes for the review and clearing of suspense accounts. These processes have added good controls to ensure the reconciliation requirements of FIS.

#### 4.2.1 Control Accounts

The reconciliations group, within FMMD, reviews the Receiver General control accounts on a monthly basis and enters in a timely manner any adjustments required. The accounts and the

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responsibilities for these accounts are known and this important control procedure appears to work smoothly in the Reconciliations group. The review of control accounts to the CFMRS Trial Balance which is a FIS requirements appears to be functioning well.

### **4.2.2 Suspense Accounts**

Control over and responsibilities for suspense accounts were not as well implemented or assigned. During the audit it was found that a complete listing of all suspense accounts that needed to be cleared to zero and the assigned responsibilities for these accounts were not readily available.

The individual units with responsibilities to clear suspense accounts did so according to a variety of schedules. In addition, there was no corporate standard apparent for this work. Some units did the work regularly throughout the month while other groups only reviewed these accounts at year-end.

Overall there was not a clear assignment of responsibilities for these accounts or for a level of management to review their completion. Additionally there were no formal standards of performance or timetables for this work. Without an ongoing review and deadlines, there is a risk of a large backlog of work that needs to be dealt with during the critical year-end period. In addition, adjustments would not be made on a timely basis resulting in possible significant differences in monthly amounts reported to the Received General.

### **4.2.3 Parked Documents**

Another area that would benefit from the same set of controls, assignment of responsibilities and more rigorous schedules is the review of “parked” invoices. Parked invoices are requests for payment that have been initially input into IFMS but require a second level of approval (Section 33 of the Financial Administration Act and is commonly referred to as “posting”) prior to funds being released. In the payables unit a review of parked, but not yet posted, invoices is only undertaken at year end. In other units reviews are done on a more frequent basis. The implementation of a minimum standard for clearing parked items as well as a reporting or sign-off mechanism to management on the completion of this task would add a greater degree of control to the cash transaction processes.

In all cases where accounts are monitored for irregularities such as suspense accounts and un-posted parked invoices, staff should be vigilant in determining the underlying causes of the error. Once the cause of the error is found, steps should then be taken to prevent the reoccurrence of the problem.

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***Recommendation #2 : FMMD should develop clear corporate standards for the review of suspense account clearing and transaction approval mechanisms such as parked items . For suspense accounts, a complete list of all such accounts should be available along with a clear assignment of responsibilities for the clearing of these accounts. For all clearing and monitoring work, an appropriate schedule should be developed as well as procedures for ensuring that this work is done as required and that steps are put in place to prevent the reoccurrence of known errors.***

### 4.3 Outstanding Amounts due to FIS

Additional process and procedural requirements became apparent to FMMD after the completion of the first complete FIS year end in 2001-2002. Two outstanding issues were brought to the attention of the auditor by the Accounts Payable unit during the review:

- An outstanding balance (almost \$900,000 representing some 2300 transactions) remains from the 2001-2002 fiscal year in the GR-GL. The accounts payable unit had done a great deal of work in clearing the current year transactions from the GR-GL and has developed a set of procedures to monitor and keep this account clear and as up to date as possible. With this new process in place, the situation will not reoccur as items now in the GR-GL are monitored and accounted for at year-end using the PAYE process. FMMD needs to review the balance from the previous year and come up with an appropriate accounting solution to clear this outstanding amount.
- There has not been a business process developed to properly cancel old year cheque amounts. Cheques that are returned to PWGSC are automatically cancelled after 220 days if no action is taken by the department to clear them. This creates a problem for the Accounts Payable and Reconciliation Units as there is no business process to deal with these automatically cancelled cheques. As a result, to reduce the number of cheques that are cleared automatically by PWGSC, cheques are being physically retained by the Accounts Payable unit. It is not known exactly what the dollar value of these returned cheques is but staff feel that it is not a significant amount. FMMD needs to find a solution to this problem. Returned cheques that cannot be reprocessed within Industry Canada need to be returned to PWGSC for cancellation and an appropriate accounting solution found within FMMD.

***Recommendation #3: FMMD needs to review areas where outstanding balances and adjustments are required to old year transactions. In some cases, such as the Received Goods General Ledger, a one time adjustment may be required to clear the outstanding transactions. In other cases, such as for old year returned cheques, new business processes may need to be developed as the situation is one that will continue to occur.***

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### 4.4 Reconciliation Processes between IFMS and CMIS

The CMIS system would be considered to be an internal feeder system to the IFMS. Currently there are no procedures in place to reconcile amounts contained in IFMS and CMIS (or the system which will replace it) for payable transactions. A recent audit of Grants and Contributions for Advances, Receivables and Loans identified a number of issues with respect to the integrity of opening balances stored in IFMS and coding issues between CMIS and IFMS.

The CMIS system is not a financial system and as a result it has limited financial capabilities. This system is due to be replaced over the next couple of months by a new Grants & Contribution Management System (GCMS) that will have greater functionality for financial control. It is anticipated that at that time additional reconciliation procedures could be implemented between the two systems.

***Recommendation #4: Once the new GCMS system is available, FMMD should review the reconciliation procedures that it considers necessary to ensure integrity of data between financial information contained in the Grants and Contributions system and that of the IFMS.***

### 4.5 Key Controls as per the Receiver General Manual

The key controls identified in the *Receiver General Manual* were being followed for the following interfaces: Banking and Cash Management System (BCMS); the Payroll System - General Ledger (PS-GL); the Receiver General - General Ledger (RG-GL); the Interdepartmental Settlement (IS) System and the Central Financial Reporting System (CFMRS) processes.

Processes were noted as incomplete for the SPS reconciliations. The zero balance control accounts (commonly known as Control X and Control Y accounts) for the SPS were not being monitored and cleared by the payables group. It is a requirement of the Receiver General that departments undertake at least monthly a reconciliation of these control accounts to ensure that amounts recorded in IFMS and the CFMRS are accurate. When these accounts are cleared to zero, there is assurance that the departmental and central agency trial balances are in agreement.

***Recommendation #5: FMMD needs to establish processes to ensure that the required reconciliation of the zero balance control accounts is undertaken. Responsibility needs to be clearly assigned for undertaking this work, signing off on its completion and reporting to management on the status of the agreed to work for all the units.***

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**Audit Objective #2: Financial statements preparation procedures are being managed to produce accurate financial statements on a timely basis and a materiality level has been established to ensure that the financial statements present fairly the amounts reported.**

### 4.6 Review Procedures for Financial Statements

The Comptroller's Branch is currently working on a set of notes for the departmental financial statements that will comply to the current Treasury Board standards. Additionally, new procedures are being implemented for the year-end review of the Public Accounts plates to ensure that amounts are accurately reported.

As an additional control, FMMD might consider to review the Departmental Financial Statements and the Public Accounts Plates together to ensure consistency. On review of the 2001-2002 public accounts plates and the Departmental Financial statements, some large differences can be noted. For example non-tax revenue reported on the public accounts plates totalled \$955,717,587 while the departmental statement reported \$496,864,440. In the revenue audit an error was noted on the public accounts plates that accounted for a large portion of this difference. A reconciliation of any differences between the two statements would add assurance that both statements are complete and accurate.

***Recommendation #6 : The Comptroller's Branch is in the process of implementing additional reviews of the public accounts plates and revisions to the notes of the departmental financial statements. In addition to these measures, we recommend that the Comptroller's Branch implement a reconciliation procedure between the public accounts plates and the departmental financial statements to ensure that any differences are reconciled.***

### 4.7 Materiality limits in Financial Statements

According to FMMD, the materiality levels of the FIS policies are applied in Industry Canada's year end financial statements. Section 2.5 entitled *Materiality* of the FIS Accounting Manual provides broad guidelines for consideration in determining materiality and indicates that determination is mainly a matter of applying professional judgement to determine whether or not a particular item, or series of items, would make a significant enough impact on the financial statements to warrant inclusion.

The Comptroller's Branch may wish to consider if it would be beneficial to apply more specific criteria within its own units on materiality levels. There may be differences in what would be considered significant between payables, receivables and grants and contribution amounts. Additional levels of guidance over and above what are in the FIS policies might be beneficial in such a large and diverse Comptroller's Branch.



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The Comptroller's Branch currently prepares few financial adjustments on a monthly basis. Most accruals take place at year end. Payroll amounts are accrued. As noted in the revenue audit, plans were in place to accrue the large deferred revenue accrual for Spectrum auctions on a monthly basis. It was not clear that there were formal policies or guidelines on when monthly accruals should take place. Such criteria might make it easier for the Comptroller's Branch staff to identify other situations where monthly accruals might enhance the accuracy of the financial statements in a material manner.

***Recommendation #7: FMMD's review of year-end financial statement and public accounts preparation may provide the opportunity for FMMD to develop additional guidance on materiality levels for its own accounting units. This could also include the development of a set of guidelines or criteria for cases where monthly accruals would enhance the accuracy of Industry Canada's financial statement at a material level.***

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### Appendix A: Summary of Abbreviations

AEB	Audit and Evaluation Branch
BCMS	Banking and Cash Management System
CFMRS	Central Financial Management Reporting System
FIS	Financial Information Strategy
FMMD	Financial and Materiel Management Directorate
GCMS	Grants and Contributions Management System
GR-GL	Received Goods General Ledger
GR/IR	Goods Receipts/Invoice Receipts
IFMS	Integrated Financial and Materiel System
IS	Interdepartmental Settlement
PS-GL	Payroll System - General Ledger
PWGSC	Public Works and Government Services Canada
RG-GL	Receiver General - General Ledger
SPS	Standard Payment System

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