Audit of Financial Management Governance

Audit Report

Office of Audit and Evaluation
March 2015

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Executive Summary

What we examined

Financial management governance includes practices that ensure strong financial management of public resources, reinforce the principles of probity and prudence, and contribute to better decision making.

This audit provides assurance to the President of Shared Services Canada (SSC) and the Departmental Audit and Evaluation Committee that SSC's financial management governance framework for the stewardship, management and oversight of public resources was effectively designed and working as intended.

The scope of this audit included the activities undertaken by the Finance group (Director General, Finance and Deputy Chief Financial Officer (DCFO)). The audit focused on the requirements of the Treasury Board (TB) Financial Management Policy Framework, specifically:

- the *Policy on Financial Management Governance*;
- the *Policy on Internal Control*;
- the *Policy on the Stewardship of Financial Management Systems*; and
- the *Policy on Financial Resource Management, Information and Reporting*.

The testing period covered April 1, 2012, to May 31, 2013.

Why it is important

Canadians expect the federal government to be well managed and to be accountable for the prudent stewardship of public funds, the safeguarding of public assets and the effective, efficient and economical use of public resources. Good financial management is a cornerstone of sound overall management, and it is therefore important for senior management to confirm that appropriate financial management practices are in place and operating effectively.

What we found

Some management practices were adequate while others required improvement. Throughout its fieldwork, the audit team found examples of properly designed controls that were being applied effectively by SSC. This resulted in the following positive findings:

- The Chief Financial Officer (CFO) organization established an organization chart and defined roles and responsibilities. The latter were described in detail in the position description for the Senior Assistant Deputy Minister (SADM), Corporate Services (CS) and CFO. In addition, the Treasury Board of Canada Secretariat approved the SADM CS and CFO position description.
- SSC established a governance structure for decision making, which included the Senior Management Board (SMB), the Corporate Management Committee and the Investment Review Board.
- The Department implemented the Financial Management Advisor (FMA) model. The FMAs were the hub that responded directly to inquiries from responsibility centre managers and disseminated information from the CFO's organization.
- TB submissions were reviewed and signed off by both the DCFO and the CFO. Sign-off was supported by a documented review process, which had been communicated to responsibility centre managers.

- A financial situation report was prepared and presented to the SMB on a monthly basis. The report was supported by a defined process using templates and instructions that were communicated monthly.

This audit was conducted early in SSC's first full fiscal year. At this early stage of organizational maturity, we expected that the Department would be in the process of creating a framework and establishing financial management practices to ensure resources were available and that statutory requirements were met. During the audit, we identified the following opportunities for improvement, which would help the finance function transition from the start-up phase of its evolution to a more managed state:

- The Financial Management Framework and the Internal Control over Financial Reporting assessment approach had not been approved by the SMB and had yet to be communicated or fully implemented.
- The reliability and timeliness of financial information for decision making could be improved, specifically with respect to the accuracy and currency of commitment information and the extent to which the account structure reflects SSC's operations.
- A mechanism is needed to identify and proactively plan for the use of available funds in order to take advantage of those funds and deliver on the Department's priorities.

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Yves Genest
Chief Audit and Evaluation Executive

Background

1. The Government of Canada established Shared Services Canada (SSC) on August 4, 2011, to modernize how the federal government manages its information technology (IT) infrastructure in order to better support the delivery of programs and services to Canadians.

2. SSC's mandate is to leverage economies of scale across the Government of Canada, so that federal organizations have access to reliable, efficient and secure IT infrastructure services, for the best price possible. SSC had four branches, each responsible for supporting one of its four main business lines:
   - Transformation, Service Strategy and Design (TSSD);
   - Projects and Client Relationships (PCR);
   - Operations; and
   - Corporate Services (CS).

3. CS was led by the Senior Assistant Deputy Minister (SADM), CS and Chief Financial Officer (CFO). The Director General (DG), Finance, and Deputy Chief Financial Officer (DCFO) was responsible for the financial management portion. Together, the SADM CS and CFO and the DG, Finance and DCFO oversaw the following areas:
   - Accounting Operations;
   - Corporate Accounting and Financial Control;
   - Financial Management Advisory Services;
   - Financial Policies and Systems;
   - Resource Management; and
   - Treasury Board of Canada Secretariat (TBS) Liaison, Costing and Strategic Analysis.

4. SSC's financial management governance structure included the following committees:
   - Senior Management Board (SMB) – The SMB provided strategic direction, set priorities and exercised broad oversight. Membership included the President, SADMs, Assistant Deputy Minister and the Chief Operating Officer.
   - Corporate Management Committee (CMC) – The CMC ensured excellent business practices and resource management throughout SSC as well as the delivery of internal services and support. Membership included the SADM CS, and CFO, SADMs and DG-level managers.
   - Investment Review Board (IRB) – The IRB supported rigorous and transparent investment management and investment decisions. Membership included the DG, Finance and DCFO, the Chief Information and Security Officer, and other DG-level managers.

Objective

5. The objective of this audit was to provide assurance that SSC's financial management governance framework for the stewardship, management and oversight of public resources was effectively designed and working as intended.

Scope

6. The scope of this audit included the activities undertaken by the Finance group (DG, Finance, and DCFO). The audit focused on the requirements of the Treasury Board

(TB) Financial Management Policy Framework, specifically:

- the *Policy on Financial Management Governance*;
- the *Policy on Internal Control*;
- the *Policy on the Stewardship of Financial Management Systems*; and
- the *Policy on Financial Resource Management, Information and Reporting*.

7. The testing period covered April 1, 2012, to May 31, 2013.

Methodology

8. The following approaches were used during the audit:

- Interviews with key management personnel in Finance and Operations;
- A review of relevant documentation (e.g. committee minutes, financial situation reports, frameworks) related to financial management and governance practices; and
- Testing of a judgmental sample of TB submissions and delegation of financial authorities training.

Statement of Assurance

9. Sufficient and appropriate procedures were performed and evidence gathered to support the accuracy of the audit conclusion. The audit findings and conclusion are based on a comparison of the conditions that existed as of the date of the audit against established criteria agreed upon with management. This engagement was conducted in accordance with the Internal Auditing Standards for the Government of Canada and the International Standards for the Professional Practice of Internal Auditing. A practice inspection has not been conducted.

Detailed Findings and Recommendations

10. In the course of the audit, a number of good management practices were noted:

    - The CFO's organization established an organization chart and defined roles and responsibilities. The latter were described in detail in the position description for the SADM CS and CFO. In addition, TBS had approved the SADM CS and CFO position description.
    - SSC established a governance structure for decision making, which included the SMB, the CMC and the IRB.
    - SSC implemented the Financial Management Advisor (FMA) model. The FMAs were the hub that responded directly to inquiries from responsibility centre managers and disseminated information from the CFO's organization.
    - TB submissions were reviewed and signed off by both the DCFO and the CFO. Sign-off was supported by a documented review process, which had been communicated to responsibility centre managers.
    - A financial situation report was prepared and presented to the SMB on a monthly basis. The financial situation report was supported by a defined process using templates and instructions that were communicated monthly.

11. This audit was conducted early in SSC's first full fiscal year. At this early stage of organizational maturity, we expected that SSC would be in the process of creating a framework and establishing financial management practices to ensure resources were available and that statutory requirements were met. During the audit, we identified opportunities for improvement that would help the finance function transition from the start-up phase of its evolution to a more managed state. The details are provided in the following paragraphs.

Key Documentation

12. As a new organization, SSC needed to create foundational documents that set the tone for departmental financial management and stewardship. Specifically, a Financial Management Framework (FMF) was needed to establish how the CFO provides leadership and oversight, which is a requirement of the TB *Policy on Financial Management Governance*.

13. At the time of this audit, the CS drafted an FMF. The stated objective of the framework was to ensure that a robust financial management accountability structure existed. The framework also articulated policy requirements, governance structures, processes and enablers that, when applied effectively, could contribute to the effectiveness and efficiency of program and service delivery across the Department. Accountabilities and responsibilities for the President, the CFO, senior departmental executives, departmental managers, financial officers, the Departmental Audit and Evaluation Committee and the Chief Audit and Evaluation Executive were summarized in the framework and were described in detail in the appendix to the framework. The details of the responsibilities and obligations of each of the key players were aligned with the FMF-specific policy requirements.

14. The SMB had not yet approved the FMF. In addition, the framework had not been communicated or fully implemented. Without senior management endorsement of the FMF, there is a risk that the CFO's organization is misaligned with senior management priorities.

15. The President and the CFO were required to sign off on the Statement of Management Responsibility including the Internal Control over Financial Reporting (ICFR) on an annual

basis, in accordance with the TB *Policy on Internal Control*. Furthermore, the CFO was required to take appropriate measures to support the President's sign-off on the Statement of Management Responsibility, in accordance with the TB *Policy on Financial Management Governance*. SSC developed an approach to documenting and testing the ICFR with the intention of completing the program over a four-year period. SSC had not begun documenting and testing controls but planned to begin doing so during 2013–2014. The ICFR assessment approach had been approved by the DG, Finance, and DCFO. However, the SMB had yet to approve the approach at the time the audit fieldwork was completed. Lack of approval of the ICFR assessment approach could delay implementation of the ICFR program. In addition, the completion of the ICFR assessment will help to ensure that high-risk internal control gaps are identified and addressed.

> **Recommendation 1**
>
> The Chief Financial Officer should ensure the Senior Management Board approves the Financial Management Framework and the Internal Control over Financial Reporting assessment approach as well as ensure that both are fully implemented and communicated.

Management Response

Financial Management Framework

Accepted

The FMF was developed to articulate the appropriate context for sound financial management, investment planning and internal controls within SSC, consistent with the *Financial Administration Act* and TB financial management and investment planning policy instruments.

The FMF describes the key responsibilities and requirements of the President as Accounting Officer, the CFO, senior departmental executives, departmental managers, financial officers, the Departmental Audit and Evaluation Committee and the Chief Audit and Evaluation Executive for effective financial management, investment planning, internal control and oversight.

The FMF also outlines the policy requirements, governance structure and processes and enablers that, when applied to program management, will lead to positive financial, investment and business results.

Following its presentation to the CMC and the SMB, the FMF was approved by SMB and signed in January 2014.

Internal Control over Financial Reporting

Accepted

In accordance with the TB *Policy on Internal Control*, each department is required to perform an annual assessment of its ICFR and report the results in an Annex that accompanies the departmental financial statements, which are published on its website. The Annex on ICFR describes the ICFR assessment approach and the assessment progress made annually.

SSC's assessment of the ICFR will be implemented over a period of four years, which is consistent with the expectations of the Office of the Comptroller General and the length of time taken by other federal government departments in implementing the TB *Policy on Internal Control*. The ICFR assessment work is ongoing and should be substantially completed within this four-year period.

> **Management Action Plan (MAP) Implementation Status (as of July 15, 2014)**
>
> Auditor's Assessment of Implementation: Level 4 (75%) – Substantial Implementation
>
> Financial Management Framework
>
> The FMF was presented to the CMC in February 2013 and to the SMB in July 2013. The FMF was subsequently approved and signed by SSC senior management.
>
> To assist in the implementation of the FMF, a communication strategy was approved and financial management training was provided to managers with delegated authorities. Training on financial management has been provided to most of SSC's delegated managers, and plans have been established to provide training on an ongoing basis to the remaining managers.
>
> The implementation and communication of the FMF is considered complete.
>
> Internal Control over Financial Reporting
>
> The ICFR assessment approach was approved by the SMB and subsequently approved by the President and CFO of SSC through its inclusion in SSC's 2012–2013 Departmental Financial Statements.
>
> The Internal Control Management Framework (ICMF), which will focus on ICFR and include key components such as roles and responsibilities, links to policy instruments, a definition of the departmental system of internal control and the ICFR assessment approach, is currently under development by SSC. A draft of the ICMF is expected to be presented to the CMC in the third quarter of 2014–2015.

Decision Making Information

16. The TB *Policy on Financial Resource Management, Information and Reporting* requires the deputy head (DH) to ensure effective oversight of the financial plan, budget and related allocation through ongoing monitoring of the use of financial resources. The TB *Policy on Financial Management Governance* requires the CFO to support the DH in exercising his or her financial management oversight activities.

17. We found that SSC had defined a forecasting process where management reviewed current expenditures, commitments and forecasted expenditures and compared the total to the budget. The result of this calculation was a forecasted surplus or deficit. While forecasts are, by their very nature, estimates and not exact, management is expected to be able to forecast results within an acceptable margin of error, usually five percent of the budget.

18. Given that SSC was in its first fiscal year and was still developing its business intake process, management experienced some challenges associated with the migration and capture of financial information. As would be expected in the early stages of establishing a finance function, SSC's processes were still evolving, and standardization among the different business units had not yet been achieved. In addition, given that operations continued to evolve, there was a need to update the chart of accounts to reflect the current operational structure. Though Finance was working with Operations to align the chart of

accounts with the operational structure, SSC had not yet reached a steady state with respect to its chart of accounts.

19. In the course of preparing monthly financial reports, SSC management identified issues with the reliability of financial information, specifically: the chart of accounts was not aligned with operational activities, and information on the commitment of funds was inaccurate. Consequently, forecasting was challenging, and it was difficult to measure whether funds were available to finance planned projects.

20. Without accurate, complete and current financial information, there is a risk that financial reports are erroneous and not representative of the organization's financial reality, which could negatively affect management's ability to forecast. As a result, management cannot confidently identify available funds for spending, which could lead to a lapsing or over-expenditure of funds.

Recommendation 2

The Chief Financial Officer should continue to work with Operations to ensure that the chart of accounts is aligned with operational activities.

Management Response

Accepted

SSC's chart of accounts complies with the mandatory TBS requirement that all departments establish a chart of accounts enabling the collection of financial information in the format required by the federal government and central agencies. SSC's chart of accounts is aligned with its operational structure and the Department's Program Alignment Architecture (PAA) and supports performance management as well as internal and external reporting requirements.

MAP Implementation Status (as of July 15, 2014)

Auditor's Assessment of Implementation: Level 5 (100%) – Full Implementation

The chart of accounts for SSC has been revised to ensure alignment with SSC's new PAA and operational activities starting in 2014–2015, principally through reviews and updates of the Functional Areas, Internal Orders and General Ledger Accounts.

A process has been implemented for FMAs to consult with their clients, including the Operations Branch, to gather change requests for the chart of accounts and submit them for action. This ensures that clients' operational requirements are met.

Recommendation 3

The Chief Financial Officer should implement quality assurance activities to ensure that all contracts and commitments are correctly entered into the financial system.

Management Response

Accepted

2012–2013 and the early part of 2013–2014 consisted of a transition period to establish SSC as a stand-alone department and to consolidate contracts and related processes that SSC inherited from 43 partnering departments. This presented challenges in recording contractual commitments during this transition period.

Large volumes of contractual obligations were transferred from 43 partner departments to SSC in various stages of development and with varying levels of documentation. Time and effort were required to validate these contractual obligations and correct deficiencies where necessary before they could be entered into SIGMA.

Different departments followed different contracting practices and, when these contracts were transferred, SSC had to consolidate the information. A transition period was required to consolidate and standardize contract processes.

Another challenge that affected financial coding and commitments recorded was the evolving organizational structure to meet changing requirements. In 2013–2014, SSC aligned the chart of accounts to reflect operational requirements. For more details, refer to the Management Action Plan under Recommendation 2.

To establish new contracts, SSC uses a Request for Acquisition Services (RAS) process to engage its Procurement Officers. It is at this stage that management ensures coding validity and the availability of funds. Upon the approval of the RAS, Procurement and Vendor Relationships Directorate (PVRD) enters the details into SIGMA.

SSC is committed to continuous improvement by studying best practices across government and industry, as well as leveraging technology to standardize data entry, where possible.

MAP Implementation Status (as of July 15, 2014)

Auditor's Assessment of Implementation: Level 4 (75%) – Substantial Implementation

The electronic Request for Acquisition Services (eRAS) system implemented by the PVRD supports a formal, standardized process to create, approve and action procurement requests. This standardized process includes the commitment of funds for procurement requests within the SIGMA financial system.

Automated input controls have been built into the eRAS system and the SIGMA financial system, which ensure the completeness of the information provided for each RAS submitted.

Manual verifications by PVRD staff, such as RAS Intake Desk Officers, Procurement Officers and Procurement Team Leaders, are also in place to ensure the completeness and accuracy of the RASs submitted and the commitments entered in the financial system.

Furthermore, processes have been implemented to identify and follow-up on a regular basis on potential duplicate commitments in the financial system. However, there was no evidence that a process has been established to ensure that unresolved potential duplicate commitments are escalated and addressed in a timely manner.

Recommendation 4

The Chief Financial Officer should standardize processes and provide training to those responsible for entering commitment and contract information in the departmental financial management system.

Management Response

Accepted

2012–2013 and the early part of 2013–2014 consisted of a transition period to establish SSC as a stand-alone department and to consolidate contracts and related processes that SSC inherited from 43 partner departments. This presented challenges in recording contractual commitments during this transition period.

Large volumes of contractual obligations were transferred from 43 partner departments to SSC in various stages of development and with varying levels of documentation. Time and effort were required to validate these contractual obligations and correct deficiencies where necessary before they could be entered into SIGMA.

Different departments followed different contracting practices and, when these contracts were transferred, SSC had to consolidate the information. A transition period was required to consolidate and standardize contract processes.

Another challenge that affected financial coding and commitments recorded was the evolving organizational structure to meet changing requirements. In 2013–2014, SSC aligned the chart of accounts to reflect operational requirements. For more details, refer to the Management Action Plan under Recommendation 2.

To establish new contracts, SSC uses a Request for Acquisition Services (RAS) process to engage its Procurement Officers. It is at this stage that management ensures coding validity and the availability of funds. Upon the approval of the RAS, PVRD enters the details into SIGMA.

SSC is committed to continuous improvement by studying best practices across government and industry, as well as leveraging technology to standardize data entry, where possible.

> **MAP Implementation Status (as of July 15, 2014)**
>
> <u>Auditor's Assessment of Implementation: Level 4 (75%) – Substantial Implementation</u>
>
> The eRAS system implemented by PVRD supports a formal, standardized process to create, approve and action procurement requests. This standardized process includes the commitment of funds for procurement requests within the SIGMA financial system.
>
> Training and guidance is provided to staff responsible for entering contracts and commitments into the SIGMA financial system. This is achieved principally through mandatory SIGMA training, as well as user guides and mentoring systems. While most PVRD employees with access to the financial system had either completed the mandatory SIGMA training or possessed prior experience with the system, some PVRD employees have not yet completed the training. Furthermore, training on departmental financial coding has not yet been provided to PVRD employees responsible for entering contracting commitments in the financial system.
>
> PVRD also supports FMAs and Cost Centre Managers in their financial reporting and forecasting responsibilities by providing guidance on contractual commitments on an as-requested basis.
>
> Processes have been implemented to identify and follow-up on a regular basis on potential duplicate commitments in the financial system. However, there was no evidence that a process has been established to ensure that unresolved potential duplicate commitments are escalated and addressed in a timely manner.

Prioritization of Funding Proposals

21. According to the TB *Policy on Financial Management Governance*, the CFO is expected to show leadership in overall financial management and stewardship of the Department, which includes providing advice and support to senior departmental managers. In this respect, SSC implemented the FMA model. The FMAs were the hub that responded directly to inquiries from responsibility centre managers and disseminated information from the CFO's organization. The DCFO and her team were working closely with managers on key initiatives such as developing TB submissions in conjunction with the PCR Branch. The DCFO team was also working with the TSSD Branch to develop the costing approach for the Department.

22. Project funding proposals were treated as individual requests on a first-come, first-served basis rather than being assessed within the broader Transformation agenda. The DCFO drafted a presentation for the SMB that outlined a proposed framework for prioritizing proposals and supporting project funding decisions.

23. With the resolution of issues involving the chart of accounts and the inaccurate commitment information, funds had become available. However, management was not able to take advantage of these funds, as there was insufficient time to identify and implement new projects before the end of the fiscal year. In interviews, managers said the Department needed a mechanism to proactively plan for the use of available funds in order to take advantage of those funds as they became available.

24. Without a mechanism to proactively plan for the use of funds as they become available, there is a risk that priorities could go unfunded and that funds could lapse at the end of the fiscal year.

Recommendation 5

Senior Departmental Managers, in cooperation with the Chief Financial Officer, should develop a mechanism to proactively plan for available funds and ensure that requests for funding are consistent with the broader transformation initiative of the Department.

Management Response

Accepted

2012–2013 consisted of a transition period to establish SSC's procedures and processes. There was a delay in obtaining the funding once the project or initiative had been approved through the proper governance.

In early 2013–2014, a revised process was established which in fact reduced the delays in providing funding for the approved projects and initiatives. A new report was produced in order to show the link to the Transformation agenda which was regularly presented at both governance committees, the Senior Project and Procurement Oversight Committee (SPPOC) and the Investment Review Board (IRB). In 2013–2014, the funding allocation for the approved projects and initiatives was done through the IRB meetings which accelerated the process.

MAP Implementation Status (as of July 15, 2014)

Auditor's Assessment of Implementation: Level 5 (100%) – Full Implementation

The elements of a Priority Framework for Investment and Projects, which includes a new project selection and approval process as well as project funding priorities, were presented to the SMB and subsequently implemented through SSC's governance and business processes.

Processes have been established to ensure funding requests are aligned with SSC's Transformation agenda through project oversight and approval by the SPPOC and through funding allocation approval by the IRB for SPPOC-approved projects. Funding decisions are communicated to the SMB through the presentation of financial situation reports. Departmental Reserve Status Updates at the IRB meetings and IRB Updates at the SPPOC meetings help support the proactive planning of available Reserve funds.

Conclusion

25. Overall, SSC's financial management governance framework for the stewardship, management and oversight of public resources was effectively designed and working as intended.

26. The CFO's organization established an organization chart and defined roles and responsibilities. SSC established a governance structure for decision making and implemented a financial management model that provided for a direct response to inquiries from responsibility centre managers. TB submissions were reviewed and signed off by the DCFO and the CFO, who were supported by a documented review process that had been communicated to responsibility centre managers. A financial statement report was prepared on a monthly basis and supported by a defined process and instructions that were communicated adequately.

27. There were weaknesses in the approval of key documentation. The Department was in the process of developing key documents. The FMF had not been approved by the SMB and had yet to be communicated or fully implemented at the time of the audit. In addition, the departmental ICFR assessment approach had yet to be approved and implemented at the time of this audit.

28. There were issues with the reliability of financial information. Specifically, the chart of accounts was not aligned with operational activities and information on the commitment of funds was inaccurate.

29. The Department did not have an effective mechanism with which to proactively plan for the use of funds as they became available.

Management Response and Action Plans

Recommendation 1

The Chief Financial Officer should ensure the Senior Management Board approves the Financial Management Framework and the Internal Control over Financial Reporting assessment approach, as well as ensure that both are fully implemented and communicated.

MANAGEMENT RESPONSE – Financial Management Framework
Accepted The Financial Management Framework (FMF) was developed to articulate the appropriate context for sound financial management, investment planning and internal controls within SSC, consistent with the *Financial Administration Act* and Treasury Board financial management and investment planning policy instruments. The FMF describes the key responsibilities and requirements of the President as Accounting Officer, the Chief Financial Officer (CFO), senior departmental executives, departmental managers, financial officers, the Departmental Audit and Evaluation Committee (DAEC) and the Chief Audit and Evaluation Executive for effective financial management, investment planning, internal control and oversight. The FMF also outlines the policy requirements, governance structure and processes and enablers that, when applied to program management, will lead to positive financial, investment and business results. Following its presentation to the Corporate Management Committee (CMC) and the Senior Management Board (SMB), the FMF was approved by SMB and signed in January 2014.

MANAGEMENT ACTION PLAN (Financial Management Framework)	POSITION RESPONSIBLE	COMPLETION DATE
The FMF was presented to the CMC on February 6, 2013, and approved with a few modifications. Subsequently, the FMF was presented to the SMB on July 24, 2013.	Director General, Finance, and Deputy Chief Financial Officer	July 2013
To assist in the implementation of the FMF, a communication strategy was developed and approved.		September 2013
The final FMF was formally signed by the SMB.		January 2014
Ongoing communication and information sessions and financial management training for all SSC delegated managers.		March 2014

MANAGEMENT RESPONSE – Internal Control over Financial Reporting		

Accepted

In accordance with the Treasury Board (TB) *Policy on Internal Control*, each department is required to perform an annual assessment of its Internal Control over Financial Reporting (ICFR) and report the results in an Annex that accompanies the departmental financial statements, which are published on its website. The Annex on ICFR describes the ICFR assessment approach and the assessment progress made annually.

SSC's assessment of the ICFR will be implemented over a period of four years, which is consistent with the expectations of the Office of the Comptroller General (OCG) and the length of time taken by other federal government departments in implementing the TB *Policy on Internal Control*. The ICFR assessment work is ongoing and should be substantially completed within this four-year period.

MANAGEMENT ACTION PLAN (Internal Control over Financial Reporting)	POSITION RESPONSIBLE	COMPLETION DATE
During 2012–2013, the CFO approved the ICFR assessment approach, which was presented to the DAEC in January 2013 for feedback. Subsequently, the ICFR assessment approach was communicated to, and approved by, the SMB in August 2013. In addition, the ICFR assessment approach was communicated in the Annex on ICFR that accompanies SSC's departmental financial statements for 2012–2013, which was approved by the President and the CFO in August 2013. The Annex on ICFR was also reviewed by the OCG and was considered to meet their expectations.	Director General, Finance, and Deputy Chief Financial Officer	August 2013
Governance over the ICFR assessment will ensure that applicable departmental managers and employees are effectively engaged. To achieve this, an Internal Control Management Framework (ICMF) is being developed which will address the roles and responsibilities of SSC's officers and governing bodies; link to complimentary policy instruments; define the departmental system of internal control; and highlight the approved ICFR approach. The focal point of the ICMF will be the ICFR.		2nd quarter 2014–2015
An Assessment Plan, which will implement the approved ICFR assessment approach, is being developed. Reporting on the results of the Assessment Plan will be done annually through SSC's Annex on ICFR. The Annex on ICFR is also communicated to the DAEC.		2nd quarter 2014–2015

MANAGEMENT ACTION PLAN IMPLEMENTATION STATUS (AS OF JULY 15, 2014)

Auditor's Assessment of Implementation: Level 4 (75%) – Substantial Implementation

Financial Management Framework

The FMF was presented to the CMC in February 2013 and to the SMB in July 2013. The FMF was subsequently approved and signed by SSC senior management.

To assist in the implementation of the FMF, a communication strategy was approved and financial management training was provided to managers with delegated authorities. Training on financial management has been provided to most of SSC's delegated managers, and plans have been established to provide training on an ongoing basis to the remaining managers.

The implementation and communication of the FMF is considered complete.

Internal Control over Financial Reporting

The ICFR assessment approach was approved by the SMB and subsequently approved by the President and CFO of SSC through its inclusion in SSC's 2012–2013 Departmental Financial Statements.

The ICMF, which will focus on ICFR and include key components such as roles and responsibilities, links to policy instruments, a definition of the departmental system of internal control and the ICFR assessment approach, is currently under development by SSC. A draft of the ICMF is expected to be presented to the CMC in the third quarter of 2014–2015.

Recommendation 2

The Chief Financial Officer should continue to work with Operations to ensure that the chart of accounts is aligned with operational activities.

MANAGEMENT RESPONSE
Accepted SSC's chart of accounts complies with the mandatory Treasury Board of Canada Secretariat requirement that all departments establish a chart of accounts enabling the collection of financial information in the format required by the federal government and central agencies. SSC's chart of accounts is aligned with its operational structure and the Department's Program Alignment Architecture (PAA) and supports performance management as well as internal and external reporting requirements.

MANAGEMENT ACTION PLAN	POSITION RESPONSIBLE	COMPLETION DATE
The Chief Financial Officer has consistently worked closely with the Operations Branch to ensure that the chart of accounts is aligned with SSC's operational structure as the Department evolves to execute its mandate and deliver services most effectively. There is a normal time lag, as significant changes to the chart of accounts cannot be implemented during the fiscal year but at the beginning of the next fiscal year. For example, during 2012–2013, the chart of accounts was amended to take effect at the beginning of 2013–2014 to reflect the realignment of the operational structure from individual client departments to a portfolio basis. During 2013–2014, a chart of accounts database review was undertaken and the use of the Functional Area and Internal Order coding was reviewed in great detail to ensure the chart of accounts structure was properly aligned with the Department's PAA and operational requirements. In addition, SSC's PAA has been revised for 2014–2015, and changes to align the chart of accounts accordingly have been implemented to take effect on April 1, 2014.	Director General, Finance, and Deputy Chief Financial Officer	April 1, 2014

MANAGEMENT ACTION PLAN IMPLEMENTATION STATUS (AS OF JULY 15, 2014)
Auditor's Assessment of Implementation: Level 5 (100%) – Full Implementation The chart of accounts for SSC has been revised to ensure alignment with SSC's new PAA and operational activities starting in 2014–2015, principally through reviews and updates of the Functional Areas, Internal Orders and General Ledger Accounts. A process has been implemented for Financial Management Advisors to consult with their

clients, including the Operations Branch, to gather change requests for the chart of accounts and submit them for action. This ensures that clients' operational requirements are met.

Recommendation 3

The Chief Financial Officer should implement quality assurance activities to ensure that all contracts and commitments are correctly entered into the financial system.

Recommendation 4

The Chief Financial Officer should standardize processes and provide training to those responsible for entering commitment and contract information in the departmental financial management system (SIGMA).

MANAGEMENT RESPONSE
Accepted 2012–2013 and the early part of 2013–2014 consisted of a transition period to establish SSC as a stand-alone department and to consolidate contracts and related processes that SSC inherited from 43 partner departments. This presented challenges in recording contractual commitments during this transition period. Large volumes of contractual obligations were transferred from 43 partner departments to SSC in various stages of development and with varying levels of documentation. Time and effort were required to validate these contractual obligations and correct deficiencies where necessary before they could be entered into SIGMA. Different departments followed different contracting practices and, when these contracts were transferred, SSC had to consolidate the information. A transition period was required to consolidate and standardize contract processes. Another challenge that affected financial coding and commitments recorded was the evolving organizational structure to meet changing requirements. In 2013–2014, SSC aligned the chart of accounts to reflect operational requirements. For more details, refer to the Management Action Plan under Recommendation 2. To establish new contracts, SSC uses a Request for Acquisition Services (RAS) process to engage its Procurement Officers. It is at this stage that management ensures coding validity and the availability of funds. Upon the approval of the RAS, Procurement and Vendor Relationships Directorate (PVRD) enters the details into SIGMA. SSC is committed to continuous improvement by studying best practices across government and industry, as well as leveraging technology to standardize data entry, where possible. Actions to address this situation are described below.

MANAGEMENT ACTION PLAN	POSITION RESPONSIBLE	COMPLETION DATE
In 2012–2013, the RAS process was manual and paper-based. SSC implemented an online RAS system to	Director General,	July 2013

ensure that managers verify information prior to recording in SIGMA and to minimize human errors. The RAS system has built-in quality assurance processes to ensure that steps are not missed and mandatory information is entered.	Procurement and Vendor Relationships	
With regard to the entry of contractual commitments in SIGMA based on an authorized RAS, all Procurement Officers were trained on SIGMA, departmental financial coding and business processes.		October 2013
As part of the monthly reporting process, Cost Centre Managers must review and confirm contractual commitments, including financial coding. Financial Management Advisors (FMA) assist Cost Centre Managers during this review and adjustments are made as necessary.		April 2013 and Ongoing
Contractual commitments are entered first as a purchase requisition commitment and followed by a purchase order commitment. A Quality Assurance Process was implemented to ensure that any duplicate entries are removed in a timely manner.		October 2013

MANAGEMENT ACTION PLAN IMPLEMENTATION STATUS – RECOMMENDATION 3 (AS OF JULY 15, 2014)

Auditor's Assessment of Implementation: Level 4 (75%) – Substantial Implementation

The electronic Request for Acquisition Services (eRAS) system implemented by PVRD supports a formal, standardized process to create, approve and action procurement requests. This standardized process includes the commitment of funds for procurement requests within the SIGMA financial system.

Automated input controls have been built into the eRAS system and the SIGMA financial system, which ensure the completeness of the information provided for each RAS submitted.

Manual verifications by PVRD staff, such as RAS Intake Desk Officers, Procurement Officers and Procurement Team Leaders, are also in place to ensure the completeness and accuracy of the RASs submitted and the commitments entered in the financial system.

Furthermore, processes have been implemented to identify and follow-up on a regular basis on potential duplicate commitments in the financial system. However, there was no evidence that a process has been established to ensure that unresolved potential duplicate commitments are escalated and addressed in a timely manner.

MANAGEMENT ACTION PLAN IMPLEMENTATION STATUS – RECOMMENDATION 4
(AS OF JULY 15, 2014)

Auditor's Assessment of Implementation: Level 4 (75%) – Substantial Implementation

The eRAS system implemented by PVRD supports a formal, standardized process to create, approve and action procurement requests. This standardized process includes the commitment of funds for procurement requests within the SIGMA financial system.

Training and guidance is provided to staff responsible for entering contracts and commitments into the SIGMA financial system. This is achieved principally through mandatory SIGMA training, as well as user guides and mentoring systems. While most PVRD employees with access to the financial system had either completed the mandatory SIGMA training or possessed prior experience with the system, no plans were identified with regard to providing the training to the remaining PVRD employees who have not yet completed the training. Furthermore, training on departmental financial coding has not yet been provided to PVRD employees responsible for entering contracting commitments in the financial system.

PVRD also supports FMAs and Cost Centre Managers in their financial reporting and forecasting responsibilities by providing guidance on contractual commitments on an as-requested basis.

Processes have been implemented to identify and follow-up on a regular basis on potential duplicate commitments in the financial system. However, there was no evidence that a process has been established to ensure that unresolved potential duplicate commitments are escalated and addressed in a timely manner.

Recommendation 5

Senior Departmental Managers, in cooperation with the Chief Financial Officer, should develop a mechanism to proactively plan for available funds and ensure that requests for funding are consistent with the broader transformation initiative of the Department.

MANAGEMENT RESPONSE
Accepted 2012–2013 consisted of a transition period to establish SSC's procedures and processes. There was a delay in obtaining the funding once the project or initiative had been approved through the proper governance. In early 2013–2014, a revised process was established which in fact reduced the delays in providing funding for the approved projects and initiatives. A new report was produced in order to show the link to the Transformation agenda which was regularly presented at both governance committees, the Senior Project and Procurement Oversight Committee (SPPOC) and the Investment Review Board (IRB). In 2013–2014, the funding allocation for the approved projects and initiatives was done through the IRB meetings which accelerated the process.

MANAGEMENT ACTION PLAN	POSITION RESPONSIBLE	COMPLETION DATE
In the last fiscal year, a new mechanism was established for funding requests related to the Transformation Plan, new initiatives and projects. A Priority Framework for Investments and Projects was approved by the Senior Management Board (SMB) in late June 2013. The SPPOC is responsible for providing direction in setting priorities and approving transformational and project funding requirements. The SPPOC instructs the IRB on approved projects, and the IRB reviews all funding requests, performs a challenge function and approves allocation from the Departmental Management Reserve, if all criteria have been met. The IRB financial decisions are presented at the SMB through the monthly Financial Situation Report. To facilitate the process, the information is provided to the committees in a standard format by stakeholders who request funds. Regular updates on financials are tracked and monitored by the Finance Directorate and communicated to the SPPOC and the IRB members. The funding and related financials are tracked by project and initiative.	Director General, Finance, and Deputy Chief Financial Officer	July 2013

MANAGEMENT ACTION PLAN IMPLEMENTATION STATUS – RECOMMENDATION 5 (AS OF JULY 15, 2014)
Auditor's Assessment of Implementation: Level 5 (100%) – Full Implementation The elements of a Priority Framework for Investment and Projects, which includes a new project selection and approval process as well as project funding priorities, were presented to the SMB

and subsequently implemented through SSC's governance and business processes.

Processes have been established to ensure funding requests are aligned with SSC's Transformation agenda through project oversight and approval by the SPPOC and through funding allocation approval by the IRB for SPPOC-approved projects. Funding decisions are communicated to the SMB through the presentation of financial status reports. Departmental Reserve Status Updates at the IRB meetings and IRB Updates at the SPPOC meetings help support the proactive planning of available Reserve funds.

Annex A: Audit Criteria

ROLE OF THE CFO	
1.1	The role, responsibilities and mandate of the CFO are well defined, clearly communicated and effective.
1.2	The CFO develops, communicates and maintains the departmental FMF and provides support to the President.
1.3	There is a process for ensuring that the CFO organization signs off on all financial and related reports, submissions (e.g. TB submission, Memorandum to Cabinet) and disclosures.
1.4	The CFO organization provides functional leadership to the financial management community.
1.5	The CFO organization provides functional guidance and advice (including a challenge function) to managers, and maintains financial management services that meet their needs.
GOVERNANCE	
2.1	Effective oversight bodies are established, and roles and responsibilities are clearly defined and communicated.
PLANNING, BUDGETING AND FORECASTING	
3.1	A defined process is in place for developing the annual budget of the organization, and the budget is approved by the President.
3.2	A defined forecasting process is in place (including an analysis of variances) to support effective oversight of budget and resource allocation.
INTERNAL CONTROL	
4.1	Delegated financial authorities are established and communicated.
4.2	The CFO has developed a process/framework to support the DH's sign-off on the Statement of Management Responsibility including ICFR.
MANAGEMENT REPORTING AND ADVICE	
5.1	Managers have reliable and timely financial information that supports accountability and effective decision making.
EXTERNAL FINANCIAL REPORTING	
6.1	Quarterly financial reports are prepared, signed and submitted in accordance with Treasury Board Accounting Standard 1.3.

Annex B: Acronyms

Acronym	Name in Full
CFO	Chief Financial Officer
CMC	Corporate Management Committee
CS	Corporate Services
DCFO	Deputy Chief Financial Officer
DG	Director General
DH	Deputy Head
eRAS	Electronic Request for Acquisition Services
FMA	Financial Management Advisor
FMF	Financial Management Framework
ICFR	Internal Control over Financial Reporting
ICMF	Internal Control Management Framework
IRB	Investment Review Board
OCG	Office of the Comptroller General
PAA	Program Alignment Architecture
PCR	Projects and Client Relationships
PVRD	Procurement and Vendor Relationships Directorate
RAS	Request for Acquisition Services
SADM	Senior Assistant Deputy Minister
SMB	Senior Management Board
SPPOC	Senior Project and Procurement Oversight Committee
SSC	Shared Services Canada
TB	Treasury Board
TBS	Treasury Board of Canada Secretariat
TSSD	Transformation, Service Strategy and Design