



Santé
Canada

Final Report

Audit of Budgetary Controls

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Canada 

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Executive summary

A budgetary framework is essential in fostering prudent direction of financial resources to programs and services in order to achieve departmental objectives and planned priorities. Expenditure monitoring against established budgets and financial forecasting are key processes that further support the stewardship of public funds in delivery of the organization's mandate. As such, senior management is provided with quality financial information on an ongoing basis to make informed decisions on resource reallocations for new priorities and pressures during the fiscal year.

The objective of this audit was to assess the effectiveness of the management control framework to support budgeting, expenditure monitoring and forecasting at Health Canada. The scope of the audit focused on the management control framework in place for budgeting, expenditure monitoring and forecasting at the Department during the 2012-13 planning and operating cycles. In particular, the audit assessed the processes, controls and systems aimed at ensuring that budgets are allocated on a timely basis, that expenditures are monitored in relation to plans and budgets and that financial forecasts are developed for informed decision-making.

The Department has an effective management control framework in place to support financial planning, budgeting, financial forecasting and resource reallocation. While there is a strong governance structure, clear accountability, roles and responsibilities, a multi-layered challenge and monitoring process and the Health Canada *Budget Management Framework*, there are improvements that could be made in regards to the documentation of financial risks and ensuring that the necessary forms are completed for budget transfers.

While some financial risks and related mitigation strategies are identified in the planning process, the management of these risks should be better documented in the financial situation reporting at the branch level. With respect to budgeting practices, it is important that Budget Transfer Request forms be completed in accordance with the *Budget Management Framework*.

Management agrees with the two recommendations and provided an action plan to further strengthen the management control framework to support financial planning, budgeting and financial forecasting at Health Canada.

This audit was conducted concurrently with the Office of the Comptroller General on the *Horizontal Audit of Financial Forecasting in Small and Large Departments*. Its objective and scope focused on the effectiveness of forecasting processes in departments and agencies, as well as their compliance with related government-wide requirements. The findings reported to the Office of the Comptroller General were that Health Canada has in place clear accountability, roles and responsibilities as well as tools to support effective financial forecasting; that managers with financial authorities apply the Department's financial forecasting processes and practices on a monthly basis to support decision-making on financial resource allocations; that the guidance provided by the *Budget Management Framework* and ongoing support from corporate finance ensure the timeliness of consolidated financial forecasts; and that there is monitoring of compliance with Treasury Board and Health Canada financial policies by corporate finance and

through periodic internal audits at the Department. Tabling of the Office of the Comptroller General report is scheduled for April 2014.

A - Introduction

1. Background

In accordance with the *Federal Accountability Act*, a strong accountability regime assures Parliament and Canadians that the Government of Canada is using public resources efficiently and effectively. Deputy heads are accountable to Parliament in ensuring that resources are organized to deliver departmental objectives in compliance with government policy and procedures. A budgetary framework is essential in fostering prudent direction of financial resources to programs and services in order to achieve departmental objectives and planned priorities. Expenditure monitoring against established budgets and financial forecasting are key processes that further support the stewardship of public funds in delivery of the organization's mandate. As such, senior management is provided with quality financial information on an ongoing basis to make informed decisions on resource reallocations for new priorities and pressures during the fiscal year.

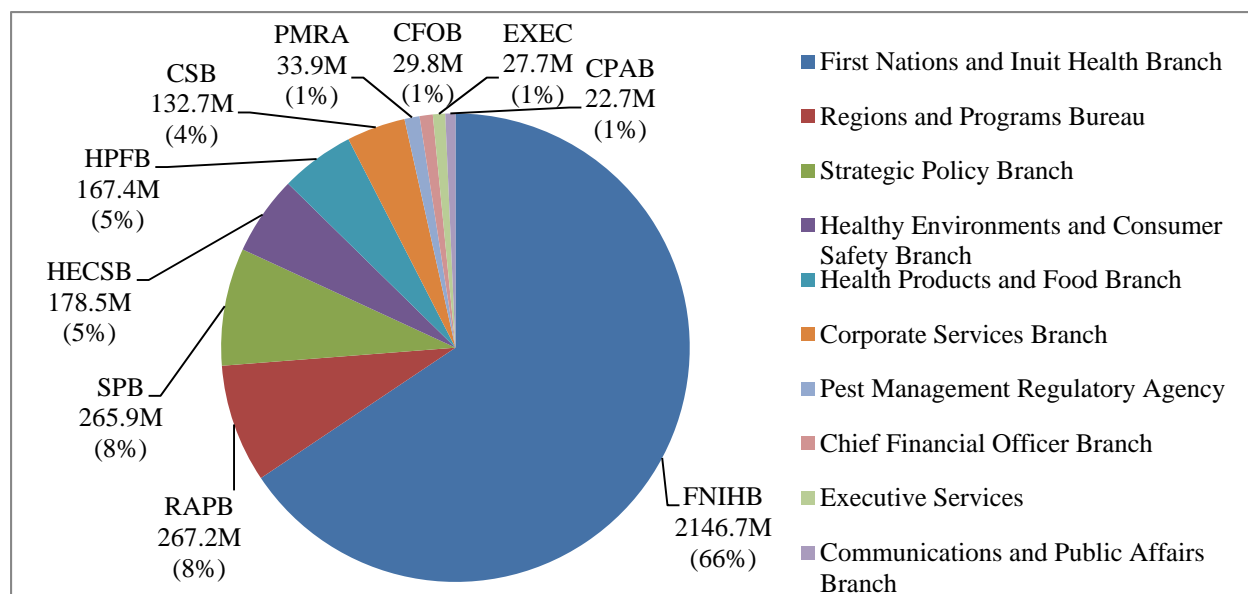
The Treasury Board's *Policy on Financial Management Governance* and *Policy on Financial Resource Management, Information and Reporting* clarify the roles and responsibilities of deputy heads in relation to budgeting, expenditure monitoring and forecasting to include:

- providing departmental leadership by demonstrating financial responsibility, transparency, accountability and ethical conduct in financial and resource management;
- ensuring the strategic planning process gives due consideration to financial risks, financial sustainability, governance, resource allocation and performance monitoring;
- ensuring effective oversight, approving the organization's financial plan and budget and making decisions based on sound analysis of reliable information; and
- ensuring timely allocation of approved budgets to managers in order that managers have reliable and timely financial information to support accountability and effective decision-making.

For 2012-13, Health Canada's initial operating budget was \$3.3 billion to support executive services, the eight branches and one agency¹:

¹ Source: Initial budget allocations by branch posted in the SAP financial system as of April 3, 2012.

Health Canada Initial Budget Allocation for fiscal -year 2012-13 (in millions)



In addition, the following table outlines Health Canada's 2012-13 initial budget allocations, revised departmental budget and expenditures by fund description²:

Health Canada's Initial Budget Allocations for 2012-13

Fund Description	Initial Budget Allocation (in thousands)	Final Budget (in thousands)	Actual Expenditures (in thousands)
Operations and maintenance – Vote 1			
Salaries and wages	\$ 886,494	\$ 833,069	\$ 827,059
Other	\$ 1,086,143	\$ 1,413,122	\$ 1,249,806
Capital – Vote 5	\$ 28,158	\$ 37,351	\$ 32,893
Grants and contributions – Vote 10	\$ 1,402,952	\$ 1,520,090	\$ 1,510,411
Less: Respendable revenue	(\$ 131,174)	(\$ 131,174)	(\$ 108,202)
Total:	\$3,272,573	\$3,672,458	\$3,511,967

In the context of the Economic Action Plan, the Department conducted a review of its operations and realigned some programs and delivery mechanisms to meet spending reduction goals set by Parliament. One of the key initiatives was undertaken with the Public Health Agency of Canada to establish the Portfolio Shared Services Partnership, which includes Health Canada's Corporate Services Branch, Communications and Public Affairs Branch, and the Accounting Operations and Materials Management functions within the Chief Financial Officer Branch. The Portfolio Shared Services Partnership brings together resources, expertise and best practices for the delivery of internal services.

² Source: Final budget and actual expenditures were taken from the 2012-2013 TBS Allotments for Public Accounts Report dated June 6, 2013.

The Departmental Resource Management Division within the Chief Financial Officer Branch, as well as branch senior financial officers and regional senior financial officers, play an integral role in budgetary monitoring, control and reporting over the initial budget allocation, forecasting, variance analysis, pressures review and reallocations processes. The supporting information technology systems include the Integrated Planning and Performance Reporting System and Management Reporting Solutions, whose financial data is sourced from the financial system, SAP. The Health Canada *Budget Management Framework*, annual departmental and branch operational plans and management variance reports are the key tools used by planners and cost centre managers for overseeing their respective resource allocations and financial management performance. In general, Health Canada applies a combined centralized approach to budgeting, expenditure monitoring and forecasting in which financial information is rolled up from operations and regions to branches and then to the Department for decision-making by senior management. Refer to **Appendix D** for an overview of key processes within the budget management framework at Health Canada.

2. Audit objective

The objective of the audit was to assess the effectiveness of the management control framework to support budgeting, expenditure monitoring and forecasting at Health Canada.

3. Audit scope

The audit focused on the management control framework in place for budgeting, expenditure monitoring and forecasting at the Department during the 2012-13 planning and operating cycles. In particular, the audit assessed the processes, controls and systems aimed at ensuring that budgets are allocated on a timely basis, that expenditures are monitored in relation to plans and budgets, and that financial forecasts are developed for informed decision-making. Key activities and processes examined included:

- establishment of initial budget allocations based on plans and priorities;
- analysis and management variance reporting of budgets;
- development and review of financial forecasts for decision making;
- management of financial pressures and lapses for in-year resource reallocations; and
- compliance with relevant government-wide policies and other requirements.

The audit also encompassed a representative sample of cost centres at various levels (branch, directorate and division) in headquarters and regions. Branches included the Health Products and Food Branch, the First Nations and Inuit Health Branch, the Regions and Programs Bureau (British Columbia and Ontario regions) and Corporate Services Branch based on the significance of their budgets and spending in capital, grants and contributions, operations and maintenance, and salaries and wages, as well as their respective spendable revenues. The involvement of the Chief Financial Officer Branch in the audit was in relation to the administrative, functional and oversight role for budgeting, expenditure monitoring and forecasting.

4. Audit approach

The audit methodology included: a review of the governance and relevant frameworks, departmental policies, directives and guidelines; testing of transactions; analysis and inquiry; and examination of evidence supporting governance, risk management and internal controls. In

particular, the audit encompassed interviews and walkthroughs with a sample of cost centre managers to validate their application of the budgeting, expenditure monitoring and forecasting practices at Health Canada.

This audit was conducted concurrently with the Office of the Comptroller General's *Horizontal Audit of Financial Forecasting in Large and Small Departments*. Its audit objective was to assess whether departments are forecasting financial information appropriately to inform decision-making. It focused on the effectiveness of forecasting processes in departments and agencies, as well as their compliance with related government-wide requirements. The components examined on behalf of the Office of the Comptroller General comprised of accountability and oversight, roles and responsibilities, tools and guidance, forecasting practices, and compliance monitoring and reporting to the central agency. The findings for Health Canada were submitted the first week of September 2013. Tabling of the Office of the Comptroller General report is scheduled for April 2014.

The audit criteria outlined in **Appendix A**, extended further than the Office of the Comptroller General's horizontal audit objective and scope to encompass budget and risk management areas. It was developed using the Office of the Comptroller General Internal Audit Sector's *Audit Criteria Related to the Management Accountability Framework: A Tool for Internal Auditors*, Office of the Comptroller General's distributed materials for the *Horizontal Audit of Financial Forecasting in Large and Small Departments* and the Treasury Board *Policy on Financial Management Governance* and *Policy on Financial Resource Management, Information and Reporting*.

5. Statement of conformance

In the professional judgment of the Chief Audit Executive, 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 that were agreed upon with management. Further, the evidence was gathered in accordance with the *Internal Auditing Standards for the Government of Canada* and the *International Standards for the Professional Practice of Internal Auditing*. The audit conforms to the *Internal Auditing Standards for the Government of Canada*, as supported by the results of the quality assurance and improvement program.

B - Findings, recommendations and management responses

1. Governance

1.1 Governance structure

Audit criterion: *A governance structure is in place to support oversight of the Department's financial plan, budget and related allocations of resources and financial forecasts.*

As per the Treasury Board's *Policy on Financial Management Governance*, "The Deputy Head is responsible for establishing a sound financial management governance structure that fosters prudent stewardship of public resources in the delivery of the mandate of the organization."

At Health Canada, the Executive Committee is the most senior decision-making, direction setting and oversight body. Standing items tabled at these committee meetings include the Corporate Risk Profile; departmental performance reports, reports on plans and priorities; departmental operational plans; monthly dashboards (programs and corporate performance); quarterly updates on departmental and branch budgets; and updates on strategic review commitments, as required.

The Executive Committee is supported by two sub-committees called: Planning and Accountability and Investment Planning. The Chief Financial Officer is the co-Chair of the Executive Sub-Committee on Planning and Accountability and the five areas of its oversight are results-based management; financial management and control; management accountability; management of grants and contributions and program management; and integrated risk management. With respect to the area on financial management and control, agenda items include the financial management framework and policies; financial accounting and systems; costing and cost recovery; internal controls and continuous monitoring; monitoring of the departmental financial situation and recommendations for the allocation/reallocation of resources; and reports to Parliament and Standing Committee on Public Accounts.

The Executive Sub-Committee on Investment Planning, chaired by the Associate Deputy Minister, provides a forum to review the departmental investment plan and its component projects. It ensures that the investment plan is aligned with business directions by ensuring oversight and providing recommendations based on departmental strategies. Specifically, it recommends strategic investments and oversees departmental resources assigned to those investments.

In fiscal year 2012-13, the Assistant Deputy Minister Revenue Management Committee was established to collectively manage revenue in a coordinated manner across branches who receive revenues collected through the Drug and Medical Device Cost Recovery Initiative. The assistant deputy ministers of the Health Products Food Branch and the Corporate Services Branch, the Chief Financial Officer, and the Senior Director General of the Regions and Programs Bureau make up this committee and oversee the Cost Recovery Initiative from a departmental lens. Areas of discussion include long-term strategic direction, methodology for revenue allocation and forecasting. The Chair is the Assistant Deputy Minister of the Health Products and Food Branch and its members meet on a quarterly basis, or as needed. It would be beneficial to

develop a formal terms of reference with a mandate, objectives and deliverables for this committee.

Further, the Corporate Services Branch, the Health Products and Food Branch, the Regions and Programs Bureau and the First Nations and Inuit Health Branch also have a branch governance structure in place that provides financial management oversight and decision-making and includes financial planning, resource allocation and funding of pressures. An overview of the budget management governance for fiscal year 2012-13 is presented in **Appendix C**.

There is a strong governance structure in place at Health Canada to support the oversight of the Department's financial plan, budget and related allocation of resources and financial forecasts.

1.2 Roles and responsibilities

Audit criterion: *Accountability, roles and responsibilities with respect to financial planning, resource allocation, budget review and forecasting are clear, communicated and understood.*

The Health Canada *Policy on Budget Management* sets the tone and foundation for effective budgetary management and financial risk management across the Department. In particular, this policy and the related detailed directions define the responsibilities and expectations of key positions that include the Deputy Head, Chief Financial Officer, assistant deputy ministers, the director generals, the directors, the cost centre managers and the senior financial officers. These documents form the basis of the Health Canada *Budget Management Framework*. Relevant roles and the *Policy on Financial Resource Management, Information and Reporting* have been integrated in the *Budget Management Framework*.

The Chief Financial Officer is responsible for ensuring effective oversight on financial plans, on the allocation of approved budgets and on resource management. The responsible functional areas that support the Chief Financial Officer in these activities are the Planning and Corporate Management Practices Directorate and the Resource Management Directorate.

The Planning and Corporate Management Practices Directorate is responsible for leading the Department's planning and reporting cycles, which are administered and managed by the Integrated Planning and Reporting Division. The key products managed by this division include the Report on Plans and Priorities, the Departmental Operational Plan and the Departmental Performance Report. While the Management Practices and Integrated Risk Division oversees the Management Accountability Framework and Integrated Risk Management Framework (used to develop the Corporate Risk Profile), and provides secretariat services for the Executive Subcommittee on Planning and Accountability.

The Resource Management Directorate houses the Departmental Resource Management Division and Financial Management Office. The Division is responsible for managing financial resources at the departmental level. Its core functions are:

- to develop the main and supplementary estimates, the interim supply, and the annual reference level updates;

- allocate initial budgets at the Branch level prior to April 1 and reflect changes in budget authorities in the financial system on a timely basis;
- ensure that the Department stays within its voted appropriations; and prepare the financial situation update for departmental dashboards and presentations.

The Office is responsible for implementing and maintaining strong financial management and accountability practices in the Department. Its direct services include financial planning and reporting, accounting and advisory assistance and financial-related training to branches and regions through branch senior financial officers and regional senior financial officers respectively. The relevant roles and responsibilities of the Resource Management Directorate are clearly described in the *Budget Management Framework*; the equivalence for the Planning and Corporate Management Practices Directorate has not been included.

Assistant deputy ministers are responsible to ensure and provide assurance to the Deputy Head and the Chief Financial Officer that the system of budget management and information within their purview of responsibility is in place and effective, utilizing standard departmental budget management processes and controls. Further, they take measures to ensure that their program activities are properly resourced, budgets and costs are appropriate to achieve program objectives based upon appropriate risk management and risk mitigation strategies, and that resources are used for their approved intended purposes to achieve results. The lower management levels have similar financial management responsibilities in supporting their assistant deputy ministers and Deputy Head.

Communication of accountability, roles and responsibilities with respect to financial management is further reinforced through annual executive performance agreements. For the audit period, the performance measures were to achieve target savings as identified in Budget 2012-13; to exercise financial and procurement delegations with prudence and probity and ensure compliance with Treasury Board and Health Portfolio regulations and policy; to demonstrate solid and effective forward planning and forecasting; and to ensure that value for money is demonstrated in all financial matters. The 2013-14 financial management results commitments further emphasized on the identification of efficiencies and reallocations of resources to deliver the best results possible. It would be beneficial that the Health Canada *Detailed Direction on Forecasting and Variance Analysis* within the *Budget Management Framework* be updated to reflect the recent change in financial management expectations from quantitative measures to qualitative measures.

Through interviews with different management levels across the organization, it was conveyed that their respective roles and responsibilities in regards to financial planning, resource allocation, budget review and forecasting in their executive performance agreements and the *Budget Management Framework* were understood.

The accountability, roles and responsibilities of managers with respect to financial planning, resource allocation, budget review and forecasting are clearly outlined, communicated and understood through the *Budget Management Framework* and executive performance agreements.

1.3 Information for decision-making

Audit criterion: Senior management is provided with regular, reliable and complete financial information for timely decision-making with respect to budgets, pressures, forecasts and financial position.

Senior management requires timely and accurate departmental financial information on expenditures to effectively support management decision-making, to assure financial management accountability and transparency, and to identify lapses and shortfalls so that funding can be reallocated to other priorities.

At the departmental level, the formal process for senior management decision-making with respect to budgets, pressures, forecasts and financial position occur during Budget Day, banking days, departmental dashboard – corporate performance updates to the Executive Committee, and departmental financial summary updates to the Executive Sub-Committee on Planning and Accountability.

The 2012-13 Budget Day consisted of three parts: branch presentations of financial plans including budget requirements, priorities, challenges, risks and pressures; a review of the Departmental Investment Plan; and a Strategic round up to deliberate on plans overriding funding challenges and opportunities with a view to setting directions, priorities and strategies for moving forward. Actions and decisions related to financial resources and pressures of branches were observed through the February 2012 records, as well as follow up Budget Day discussions in April 2012.

Two banking days were held in fiscal year 2012-13. The first, which usually occurs in June, was deferred due to the implementation of the Economic Action Plan. Banking Days begin with a recap of the financial surplus and deficit positions of the various branches. It offers branches an opportunity to identify financial risks and pressures to ensure resources are allocated to priority needs and to tap into the departmental reserve to address financial pressures that could not be internally managed and/or funding adjustments to their investment plans. In addition to the \$25 million set aside to fund investment plan priorities, a total of \$41 million out of the departmental reserve was notionally allocated to branches during the October and December banking days.

Commencing fiscal year 2013-14, the monthly presentations of the departmental dashboards to the Executive Committee were changed to quarterly for the first half of the year. About five weeks after every month close, the Executive Committee is provided with a number of graphs, tables and a brief commentary on the corporate performance and departmental financial situation. During fiscal year 2012-13, a “corporate adjustment” line was added by the Resource Management Directorate to reflect the projected financial position to year-end based on a corporate review of historical trending and analysis of salary and wages and parliamentary vote level forecasts. This practice highlights the potential availability of financial resources for decision-making purposes. Presentations of the corporate performance to the Executive Committee and resulting discussions usually occurred one to three weeks after the submission of the departmental dashboard.

As for the Executive Sub-Committee on Planning and Accountability, the discussions during fiscal year 2012-13 related to enhancing revenue management; strengthening the oversight and challenge function in the management variance reporting process; improving the quality of data in the Investment Plan management variance report; and the development of efficiency indicators.

Generally, the regular financial presentations to the Executive Committee and the Sub-Committee are for information purposes to facilitate discussions and recommendations to senior management. Senior management decisions related to initial and in-year financial resource allocations at a departmental level are reserved for the budget and banking days, although not restricted to these days. A good practice that was observed was the presentation to senior management of a financial situation summary and lessons learned of the recently completed fiscal year.

For the four branches, the branch senior financial officers provide financial situation updates by directorates and regions, including comparatives and trend analysis, to assistant deputy ministers to facilitate decisions on financial resource allocations and finalize the branch management variance reports. These monthly management variance reporting debriefs and/or presentations occurred between three to four weeks following month close in fiscal year 2012-13, which is consistent with the management variance reporting schedule and allows for the necessary program and assistant deputy minister due diligence. This is followed by the respective financial situation updates to branch governing bodies with financial management oversight. The frequency of these branch governance meetings varied from monthly to quarterly for the four branches. Documentation of branch senior management decisions related to financial resource reallocations could be improved in meeting records. Financial resource reallocations decisions from the management variance reporting process were generally observed through in-year budget transfers.

There is a formal process for senior management decision making with respect to budgets, pressures, forecasts and the financial position at the departmental level. Financial information used for decision-making is derived from the monthly management variance reporting process to ensure regularity, reliability and completeness.

2. Risk management

2.1 Management of financial risks

Audit criterion: *Mechanisms are in place to identify, address and report on financial risks that could impact effective departmental financial planning, budgeting and related monitoring and reporting.*

There is increasing pressure on organizations to demonstrate that risk identification and financial management are grounded in timely, accurate forecast and performance data on which senior management can base financial resource allocation decisions. Having a framework in place to deal with financial risks is of utmost importance for organizations to evaluate the measuring and monitoring of financial risks and mitigation strategies.

The Department has several risk management strategies in place. They include:

- environmental scans;
- the renewal of regulatory performance management;
- the monthly management variance reporting process to facilitate funding reallocations to priorities and to maximize use of available funds;
- building internal capacity of financial officers to oversee financial management activities; and
- access of the departmental reserve through Budget Day and banking days for investment plan priorities, recapitalization of depreciating assets and funding of internal pressures.

Some assistant deputy ministers are also risk-managing their funding allocations through branch and/or directorate reserves.

The Health Canada *Integrated Risk Management Framework* dated 2010 states, “Risk management is an integral part of decision-making and aims to improve the quality of decisions and use of resources at every level of management.” To facilitate risk management in the branch planning process, the Integrated Planning and Performance Reporting System allows the capture of risk information. Specifically, the Branch Operational Plan template in the system contains a risk register section for the population of financial and non-financial risks with a direct link to the corporate priority risks. Financial risks are rolled up to form branch operational plans and the Departmental Operational Plan.

Some reoccurring financial risks, including any branch level risks brought forward, were highlighted by the Resource Management Directorate in the monthly departmental financial situation updates to the Executive Sub-committee on Planning and Accountability. It was also observed that management variance reporting presentations to the Assistant Deputy Minister for one branch included a risks and challenges section; the other three branches did not contain a risk component documented in their presentations. It is important that financial risks and related mitigation strategies are formally documented in the financial situation reporting at the branch and departmental levels to ensure effective in-year monitoring and cohesive reporting of financial risks to support decision making on financial resource allocations.

A draft branch management variance report analysis template was circulated during the Chief Financial Officer Branch’s Inclusive Branch Executive Committee meeting in September 2012, which had a section for the identification of risks and mitigation strategies. It is important that the MVR process formally document the monitoring and reporting of financial risks at the branch level.

Recommendation 1

It is recommended that the Chief Financial Officer ensure that the management of financial risks are better documented in the financial situation reporting at the branch level.

Management response

Management agrees with the recommendation.

As per the *Branch Management Framework*, the senior financial officers provide decision support and strategic advice to assistant deputy ministers as appropriate on the financial risks, risk mitigation strategies as part of the monthly variance report and implications associated with budget and funding initiatives, proposals and submissions. Financial risk management will be included in the monthly branch financial situation report.

3. Internal control

3.1 Budgeting practices

Audit criterion: *A defined process is in place for the timely preparation of detailed budgets and allocation of financial resources. Financial resources are allocated to the various management levels and linked with departmental objectives and strategic priorities.*

The Departmental Integrated Operational Planning Process facilitates the preparation of branch financial and operational plans, which forms the basis of the Departmental Operational Plan. This document links branch budget allocations to departmental objectives and strategic priorities by the Program Alignment Architecture. The *2012-13 Departmental Operational Plan* sets the initial budget planning baseline for the fiscal year and reflects the Budget 2012 reductions. Even though this publication was delayed and approved by the Deputy Head in February 2013, the components of the plan were used by branch managers to guide their fiscal year 2012-13 activities.

Initial budget allocations are based on the annual reference level update, adjustments for notional budget allocations, and branch transfers through internal service agreements and budget transfer agreements. An area for improvement would be a clearer alignment of the budgets based on directorate operational plans and the available branch funding at the start of the year. As a result, financial resource allocation decisions relating to delivery capacity, funding of shortfalls/surpluses, value for money and priority alignment could be fully tied to branch operational plans.

As per the Health Canada *Detailed Direction on Initial Budget Allocations*, budget transfer agreements and internal service agreements are expected to be negotiated and approved prior to the commencement of the fiscal year and subsequently updated, as required. In fiscal year 2012-13, it was observed that some budget transfer agreements were finalized up to six months after April 1. Improvement was observed in 2013-14 due to the new approach to negotiate and approve reoccurring budget transfer agreements. The Budget Transfer Request Form is a mandatory standard document that must be completed and approved to execute in-year budget

transfers within the Department. It is important that cost centre managers adhere to the Health Canada *Budget Management Framework* requirement and that this practice be monitored by the Chief Financial Officer Branch.

With respect to initial budget allocations at the branch level to lower levels in fiscal year 2012-13, delays occurred due to the ongoing transformative changes associated with Budget 2012. Continuing into fiscal year 2013-14, ongoing transformative change took place in one branch that caused delays in the initial budget allocation for a few directorates. Government-wide expectation for initial budget allocation is not more than two months after commencement of the fiscal year (or May 30th).

Part of Health Canada's risk management strategy included the maximization of budget carry forward to build the departmental reserve for the purpose of financing investment plans, capital and internal pressures. Some branches and directorates also risk-manage their funding allocations by not devolving a portion of their budgets to program and service areas and maintaining a reserve for cash and budget management purposes. Further, monthly adjustments to budgets and forecasts related to branch reserves are manually reflected on management variance reporting attestations, which is outside of the management variance reporting tool. It is because the financial information in the management variance reporting tool is sourced from a different module in the departmental financial system than the management variance reporting attestations, where the budgetary controls are set.

There is a defined process in place for the timely preparation of budgets and the allocation of financial resources at the departmental level. There could be clearer alignment of the budgets based on directorate operational plans and the available branch funding at the start of the year and ensuring that the necessary forms are completed for budget transfers.

Recommendation 2

It is recommended that the Chief Financial Officer, in collaboration with assistant deputy ministers, ensures that budget transfer request forms are completed in accordance with the Health Canada Budget Management Framework.

Management response

Management agrees with the recommendation.

Budget transfers are completed with the appropriate authority and approvals, monitored by the branch senior financial offices. In some cases, a budget transfer is completed with a budget transfer agreement and not a budget transfer request form, which contains similar information and authorization.

The requirement for the Budget Transfer Request Form will be reviewed to be more streamlined while ensuring that proper authority, controls and accountability are in place.

3.2 *Forecasting practices*

Audit criterion: *A defined process is in place for the timely analysis of actual and budgeted expenditures and preparation of financial forecasts, including the related assumptions and costing estimates.*

The Health Canada *Detailed Direction on Forecasting and Variance Analysis* requires that monthly forecasts and management variance reporting processes are standardized for use by cost centre managers and that expected resource utilization forecasts reflect a realistic outlook of the activities to be carried out. Further, reallocation and pressures are identified promptly for resolution, are well documented and include a viable management plan of action.

The management variance reporting process occurs nine times during a fiscal year, commencing with reporting of the June financial results. Cost centre managers, with assistance from the cost centre administrators, are able to review commitments and expenditures in the departmental financial system, make the necessary adjustments, and communicate and report on financial results using the management variance reporting tool in the Management Reporting System. The monthly management variance report depicts the available financial resources in terms of revised budgets and actual expenditures to facilitate financial forecasting of net vote revenues and spending to fiscal year-end.

Assistant deputy ministers and their management teams are supported by Senior Financial Officers during the monthly management variance reporting process. The roll-up of financial forecasts up to the departmental level takes about one month.

Net vote revenues authority allows the Department to recover the cost of providing regulatory drug reviews and other health-related services. These net vote revenues are taken into consideration in determining the annual reference levels for funding the Department, which represents 4% of its \$3.3 billion initial budget. The Department's initial budget is also mainly comprised of grants and contributions (41%), salaries and wages (26%) and non-insured health benefits - operating (23%).

Forecasting is steadily being refined at the branch and departmental levels. Revenue forecasting is a critical activity for the Health Products and Food Branch given they contribute to half of the Department's net vote revenues for fiscal year 2012-13. Similarly, the First Nations and Inuit Health Branch represents approximately two-thirds of the Department's total expenditures. Business intelligence on forecasting techniques, assumptions and estimates have been developed and improved upon by centralized divisions within the key branches: the Therapeutic Products Directorate in the Health Products and Food Branch and the Non-Insured Health Benefits Directorate in the First Nations and Inuit Health Branch. Cross-branch governing bodies, such as the Assistant Deputy Minister Revenue Management Committee, provide further oversight on revenue forecasting practices. Reliable financial forecasting is a challenge when it is demand driven. In particular, when revenues fall short of forecasted and authorized amounts or when these revenues are not collected in time, funds must be covered through other appropriations within the Department.

Based on the Health Canada *Budget Management Framework*, Period 7 (October management variance report) is the critical forecast used by the Department to gauge the accuracy of financial forecasting by cost centre managers, as more meaningful data is available by that time. Government-wide expectation is between Period 6 (September management variance report) and Period 9 (December management variance report) to allow sufficient time for the reallocation of financial resources to be spent in an economical and prudent manner.

For 2012-13, the Department's consolidated Period 6 and Period 9 *revenue* forecasts were plus/minus 2% and 1% of year-end actuals respectively. Its consolidated Period 6 and Period 9 *expenditure* forecasts were both less than plus/minus 1% of year-end actuals. Greater fluctuations were observed with the four branches with their Period 6 and Period 9 *revenue* and *expenditure* forecasts ranging from plus/minus 1 to 36% of year-end actuals. The swings by fund type from deficit to surplus positions from Period 6 to Period 9 could be influenced by circumstantial factors such as supplementary allotments and the progress of the Economic Action Plan initiatives but it was not always observed in the commentary accompanying the signed management variance report attestations. Except for one branch, the other three branches had forecasted a surplus position by Period 9 that better aligned with their financial positions at year-end.

Some branch senior financial officers, branches and directorates have developed custom budget management and forecasting tools to better capture financial information and to facilitate effective forecasting, such as the reconciliation of permanent versus temporary funding against financial resources, segregation of sun setting and special purpose allotment programs, and performance of sensitivity analysis, historical comparatives, trending and burn rates. The Resource Management Directorate has also developed a management variance reporting template for submission at a branch level to better assist in the roll-up of financial situation information, which includes financial forecasts (reconciliation of the SAP-Funds Management and the SAP-Controlling financial system configurations, summaries of budget transfer agreements and allotment/vote transfers, vote authority breakdown and overall financial position summary). There is an opportunity for branches to share their developed tools and best practices for effective financial forecasting to create general standardized analytical and monitoring tools that could be benefited by all cost centre managers across the Department.

There is a defined process in place for the timely analysis of budgets, actual expenditures and commitments to facilitate forecasting and decisions on financial resource reallocations, as necessary. Assumptions and costing estimates are continuously being refined to prepare more reliable financial forecasts.

3.3 Challenge and monitoring activities

Audit criterion: *Activities are in place to monitor results against financial plans, challenge financial forecasts, review of ongoing commitments and priorities in support of resource allocations. Existing financial information systems further support managers with financial authorities in performing their monitoring and challenge responsibilities.*

Based on the Health Canada *Detailed Direction on Budgetary Monitoring, Control and Reporting*, budgetary monitoring involves ensuring that appropriated and Treasury Board

program authorities, decisions and conditions are respected and that Treasury Board and departmental financial policies are adhered to across the Department. It encompasses the actions of reviewing and validating financial input and confirming and correcting the financial information within the departmental financial system on a regular basis to ensure that management has the high quality financial information necessary for sound resource and program management decision-making.

The iterative management review, approval and certification process of monthly management variance reports, beginning with the cost centre managers, up to and including the assistant deputy ministers, ensures management's acknowledgement and acceptance of budget and financial risk management responsibilities with respect to the management variance reporting process. It also facilitates the development of reliable financial forecasts and prompt financial resource reallocations, as necessary. Significant differences in revised budgets, financial forecasts and surplus/deficit positions were observed between a number of assistant deputy minister management variance report attestations and the management variance reporting tool. These variances were observed to be related to unallocated budgets, such as branch reserves and branch adjustments due to anticipated events and historical/trending analysis. It would be beneficial that these branch adjustments and comments to revised budgets and financial forecasts be captured in the management variance reporting tool for the purpose of retaining corporate knowledge in a singular forum, as well as allow branches and the Department to quickly access and/or monitor its current or past forecasted position on a real-time basis. It would also eliminate the manual effort and time needed for the Departmental Resource Management Division to roll up branch management variance reports at a departmental level for reporting purposes so they could focus on their review and challenge activities. At this time, the management variance reporting tool is used to form the basis of branch financial situation reports and forecasts (assistant deputy minister management variance report attestations).

A review and challenge function by the senior financial officers and respective teams occur at the various branch management levels throughout the management variance reporting process. A final review and challenge function of the assistant deputy minister management variance reporting attestations is performed by the Departmental Resource Management Division at a high level using historical trending and analysis of salary and wages and parliamentary vote level forecasts. Where time permits, some additional analysis is conducted by this division outside of the monthly management variance reporting process, such as a review of long standing branch commitments. The corporate level review and challenge function supports the Chief Financial Officer, the Associate Deputy Minister, the Deputy Minister and the Executive Committee table.

As previously mentioned, the information technology system used to support the financial forecasting exercise in the Department is the Management Reporting System, in particular the management variance reporting tool therein. Information from the departmental financial system can be directly uploaded into this system. The management variance reporting tool provides a standardized forecasting process by allowing users to generate comparative reports, to quantify forecasts and to include commentary for the capture of information to support the variance analysis. It also permits the capture of comments on decisions through the review and challenge process. The nature and level of comments observed in the management variance reporting tool varied by cost centre, branch and senior financial officer. Different reports can be generated from the Management Reporting System to assist cost centre managers with the management variance

reporting process. Examples include the commitment detailed and expenditure detailed reports, the Free Balance Report, the Salary Management Report, the Actuals/Comparison Report and the Financial Situation Report.

The next phase of the Planning for Enterprise Performance Project is underway. The key objectives of this project are to leverage the existing systems, applications and products in the Data Processing Enterprise Resource Planning Financial System and Framework for Integrated Resource Management System solution-deployment model to build a more robust, sustainable and fully automated operational planning, budgeting, forecasting and reporting platform; and create a central repository of all strategic objectives, priorities, risks, expected results, deliverables, milestones, indicators and action plans for monitoring and reporting purposes.

Overall, the different levels of review and challenges within the management variance reporting process ensure that the work done to update budgets, to prepare financial forecasts and to assess surplus/deficit positions in the branches is supported. As a result, the management variance reporting process offers senior management the opportunity to reallocate financial resources to areas within branches to address funding pressures or to be added to the departmental reserve for financial resource reallocation at a higher level.

3.4 Guidance and tools

***Audit criterion:** Managers with financial authorities are provided with the necessary training, tools, resources and information to foster compliance with relevant departmental policies, directives and guidelines to support the discharge of responsibilities in the area of financial planning, resource allocation, budget review and forecasting.*

The Health Canada *Budget Management Framework*, last updated November 2010, serves as the key tool to support employees in fulfilling their roles and responsibilities with respect to financial planning, budget management and forecasting. It sets out the structure for the budget management policy instrument and related detailed directions, as well as useful guidelines, process maps, schedules and templates:

- *Policy on Budget Management;*
- Detailed Direction on Initial Budget Allocations;
- Detailed Direction on Forecasting & Variance Analysis;
- Detailed Direction on Pressures Review & Reallocations; and
- Detailed Direction on Budgetary Monitoring, Control & Reporting.

The *Budget Management Framework* is in alignment with relevant government-wide policies and guidelines. It should be periodically updated to reflect the current governance and related practices. Revisions include changes in governance, performance measures related to financial forecasting, presence of Budget Day and banking days, new management variance reporting timelines and others since its last update. Senior financial officers are also accessible to managers in providing guidance on budget and financial management matters and/or clarifications on the *Budget Management Framework*.

Another complementary tool is the departmental integrated operational planning workspace within the Business Enterprise Enabler platform with information, templates and resources to assist branch planners in linking operational plans with finances. In addition, there is the related *2012-13 Finance User Guide* dated November 2011 that highlights some of the key financial components of this process.

Some branches have developed tailored guidance to further clarify financial and budget management processes and practices for their respective programs and services. For example, the Corporate Services Branch developed the draft *Corporate Services Branch Management Framework* dated April 2013 and the First Nations and Inuit Health Branch also implemented the *Resource Management Framework* in April 2009.

The Chief Financial Officer Branch communications denoted in the *Budget Management Framework* is intended to initiate and facilitate the departmental integrated operational planning and management variance reporting processes at the Department. Follow-up email reminders from the Integrated Planning and Reporting Division and senior financial officers for their respective areas further provide instructions, current timelines and/or new templates.

Financial planning, budgeting and forecasting training is available to the Health Canada employees. Through the Departmental Integrated Operational Planning Call Letter, branch planners are advised of training available on planning in general and on the use of the Integrated Planning and Performance Reporting System to be delivered by the Planning and Corporate Management Practices Directorate. Further, successful completion of the four-part Health Canada financial signing authority online training and evaluation tests is mandatory for employees before financial authorities are granted. The related *Budget Management Framework* module therein defines roles and responsibilities and the related processes. There is a management variance reporting online course to assist its users in how to utilize the management variance reporting tool, as well as to provide an overview of the related process. This course is not mandatory. It would be beneficial to increase awareness of the management variance reporting course to all employees.

Based on some interviews with cost centre managers, it would be beneficial for refresher training on budgeting and financial forecasting techniques and good practices to enhance competencies in this area.

The *Budget Management Framework* serves as the key tool to support employees in fulfilling their roles and responsibilities with respect to financial planning, budget management and forecasting. Managers with financial authorities are further supported on an ongoing basis by the Chief Financial Officer Branch through regular communications and access to financial management advisors.

C - Conclusion

Health Canada has an effective management control framework in place to support financial planning, budgeting, and financial forecasting and resource reallocation. There are two areas that could be improved upon to further strengthen this framework.

There is a strong governance structure in place to support the oversight of the Department's financial plan, budget and related allocation of resources, and financial forecasts. The related accountability, roles and responsibilities of managers are clearly outlined, communicated and understood through the Health Canada *Budget Management Framework* and executive performance agreements.

There is also a formal process for senior management decision making with respect to budgets, pressures, forecasts and financial position at the departmental level. The documentation of decisions related to financial resource reallocations from management variance reporting debriefs/presentations to assistant deputy ministers and branch governing bodies could be improved in meeting records.

While some financial risks and related mitigation strategies are identified in the planning process, the management of these risks should be better documented in the financial situation reporting at the branch level to ensure effective in-year monitoring and cohesive reporting of financial risks to support decision-making on financial resources.

With respect to budgeting practices, there could be clearer alignment of the budgets based on directorate operational plans and available branch funding at the start of the year and budget transfer request forms should be completed in accordance with the *Budget Management Framework*. Forecasting practices are steadily being refined at the branch and departmental levels through the development of business intelligence on techniques, assumptions and estimates.

The multi-level review and challenge within the management variance reporting process ensures that the work done to update budgets, prepare financial forecasts and assess surplus/deficit positions in the branches is supported. As a result, senior management is offered the opportunity to reallocate financial resources to areas within branches to address funding pressures or to be added to the departmental reserve for financial resource reallocation at a higher level.

The *Budget Management Framework* serves as the key tool to support employees in fulfilling their roles and responsibilities with respect to financial planning, budget management and forecasting. Branches are also supported on an ongoing basis by the Chief Financial Officer Branch through communications and access to financial management advisors.

The areas of improvement that have been noted will collectively strengthen the management control framework to support financial planning, budgeting and financial forecasting at Health Canada.

This audit was conducted concurrently with the Office of the Comptroller General on the *Horizontal Audit of Financial Forecasting in Small and Large Departments*. The findings reported to the Office of the Comptroller General were that Health Canada has in place clear accountability, roles and responsibilities, as well as tools to support effective financial forecasting; that managers with financial authorities apply the Department's financial forecasting processes and practices on a monthly basis to support decision-making on financial resource allocations; that the guidance provided by *the Budget Management Framework* and ongoing support from corporate finance ensures the timeliness of consolidated financial forecasts; and that there is monitoring of compliance with Treasury Board and Health Canada financial policies by corporate finance and through periodic internal audits at the Department.

Appendix A – Specific lines of enquiry and criteria

Audit of Budgetary Controls	
Criteria Title	Audit Criteria
Line of Enquiry 1: Governance	
1.1 Governance structure ^{2, 4, 5}	A governance structure is in place to support oversight of the Department's financial plan, budget and related allocations of resources and financial forecasts.
1.2 Roles and responsibilities ^{2, 3}	Accountability, roles and responsibilities with respect to financial planning, resource allocation, budget review and forecasting are clear, communicated and understood.
1.3 Information for decision-making ^{2, 3}	Senior management is provided with regular, reliable and complete financial information for timely decision-making with respect to budgets, pressures, forecasts and financial position.
Line of Enquiry 2: Risk Management	
2.1 Management of financial risks ^{2, 3}	Mechanisms are in place to identify, address and report on financial risks that could impact effective departmental financial planning, budgeting and related monitoring and reporting.
Line of Enquiry 3: Internal Control	
3.1 Budgeting practices ^{1, 2, 3}	A defined process is in place for the timely preparation of detailed budgets and allocation of financial resources. Financial resources are allocated to the various management levels and linked with departmental objectives and strategic priorities.
3.2 Forecasting practices ^{1, 3}	A defined process is in place for the timely analysis of actual and budgeted expenditures and preparation of financial forecasts, including the related assumptions and costing estimates.
3.3 Challenge and monitoring activities ^{1, 2, 3, 4, 5}	Activities are in place to monitor results against financial plans, challenge financial forecasts, review of ongoing commitments and priorities in support of resource allocations. Existing financial information systems further support managers with financial authorities in performing their monitoring and challenge responsibilities.
3.4 Guidance and tools ^{2, 4, 5}	Managers with financial authorities are provided with the necessary training, tools, resources and information to foster compliance with relevant departmental policies, directives and guidelines to support the discharge of responsibilities in the area of financial planning, resource allocation, budget review and forecasting.

Information sources:

¹ Office of the Comptroller General Internal Audit Sector's *Audit Criteria Related to the Management Accountability Framework: A Tool for Internal Auditors* (March 2011)

² Treasury Board *Policy on Financial Management Governance* (June 2010)

³ Treasury Board *Policy on Financial Resource Management, Information and Reporting* (June 2010)

⁴ Treasury Board *Guideline on Common Financial Management Business Process 1.1: Manage Planning and Budgeting* (February 2013)

⁵ Draft TB *Guideline on the Common Business Process for 1.2: Manage Forecasting and Budget Review* (October 2011)

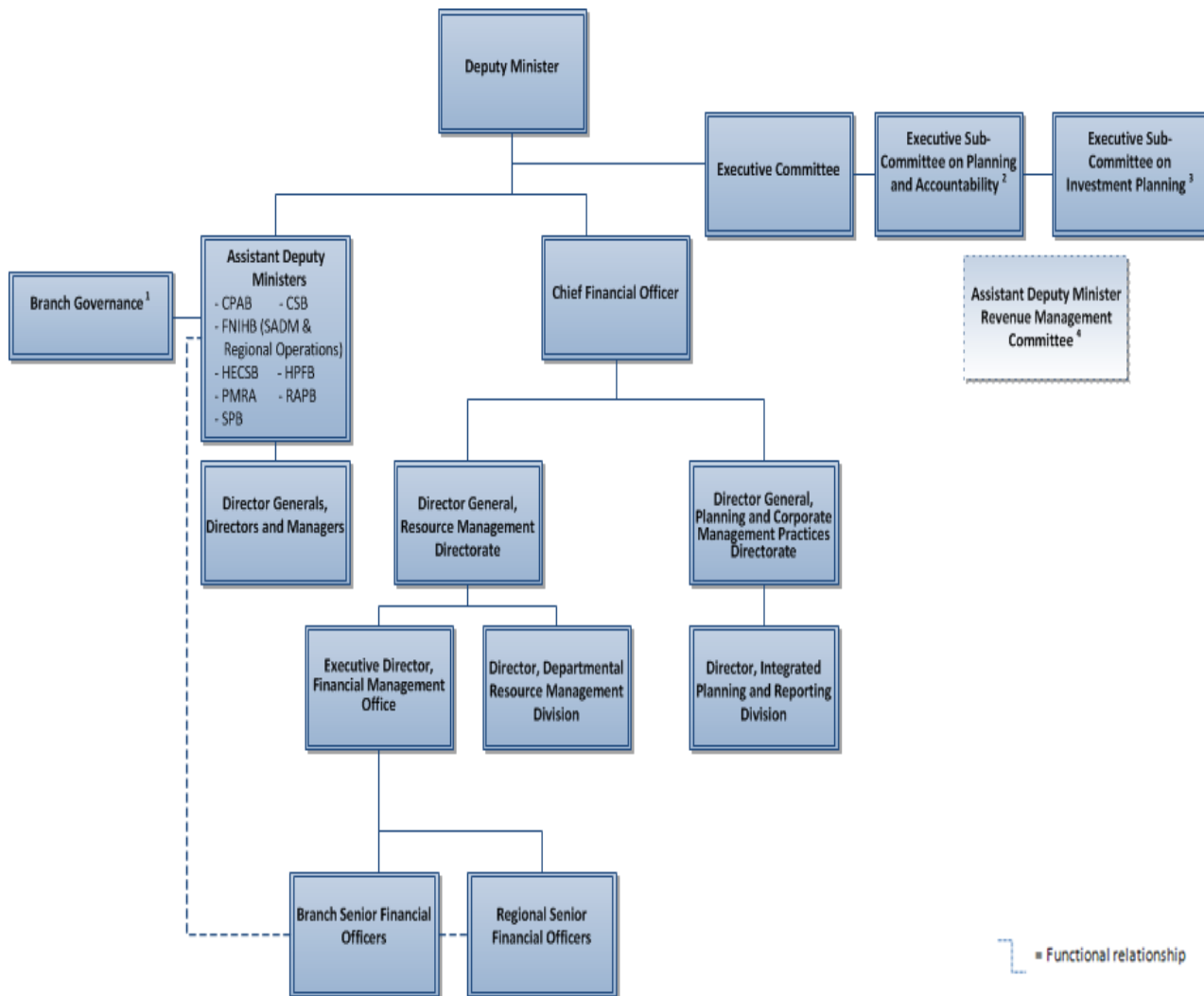
Appendix B – Scorecard

Criterion	Rating	Conclusion	Rec #
Governance			
1.1 Governance structure	S	There is a strong governance structure in place to support the oversight of the Department's financial plan, budget and related allocation of resources and financial forecasts.	-
1.2 Roles and responsibilities	S	Accountability and roles and responsibilities of managers with respect to financial planning, resource allocation, budget review and forecasting are clearly outlined, communicated and understood through the Health Canada <i>Budget Management Framework</i> and executive performance agreements.	-
1.3 Information for decision making	NMI	There is a formal process for senior management decision-making with respect to budgets, pressures, forecasts and financial position at the departmental level. The documentation of decisions related to financial resource allocations from management variance reporting debriefs/presentations to assistant deputy ministers and branch governing bodies could be improved in meeting records.	-
Risk management			
2.1 Management of financial risks	NMI	While some financial risks and related mitigation strategies are identified in the planning process, the management of these risks should be better documented in the financial situation reporting at the branch level to ensure effective in-year monitoring and cohesive reporting of financial risks to support decision-making on financial resource allocations.	1
Internal controls			
3.1 Budgeting practices	NMI	A defined process is in place for the timely preparation of detailed budgets and the allocation of financial resources. There could be clearer alignment of the budgets based on directorate operational plans and available branch funding at the start of the year and budget transfer request forms should be completed in accordance with the <i>Budget Management Framework</i> .	2
3.2 Forecasting practices	NMI	Monthly forecasting is steadily being refined at the branch and departmental levels through the development of business intelligence on techniques, assumptions and estimates. There is an opportunity for branches to share their developed tools and best practices for effective financial forecasting to create general standardized analytical tools to be made available to all cost centre managers across the Department.	-
3.3 Challenge and monitoring activities	S	The multi-level review and challenge within the management variance reporting process ensures that the work done to update budgets, prepare financial forecasts, and assess surplus/deficit positions in the branches is supported. As a result, senior management is offered the opportunity to reallocate financial resources to areas within branches to address funding pressures or be added to the departmental reserve for financial resource reallocation at a higher level.	-
3.4 Guidance and tools	NMI	The <i>Budget Management Framework</i> serves as the key tool to support employees in fulfilling their roles and responsibilities with respect to financial planning, budget management and forecasting. Branches are also supported on an ongoing basis by the Chief Financial Officer Branch through communications and access to financial management	-

Criterion	Rating	Conclusion	Rec #
		advisors.	

S	NMI	NMO	NI	U	UKN
Satisfactory	Needs Minor Improvement	Needs Moderate Improvement	Needs Improvement	Unsatisfactory	Unknown; Cannot Be Measured

Appendix C – Budget management governance



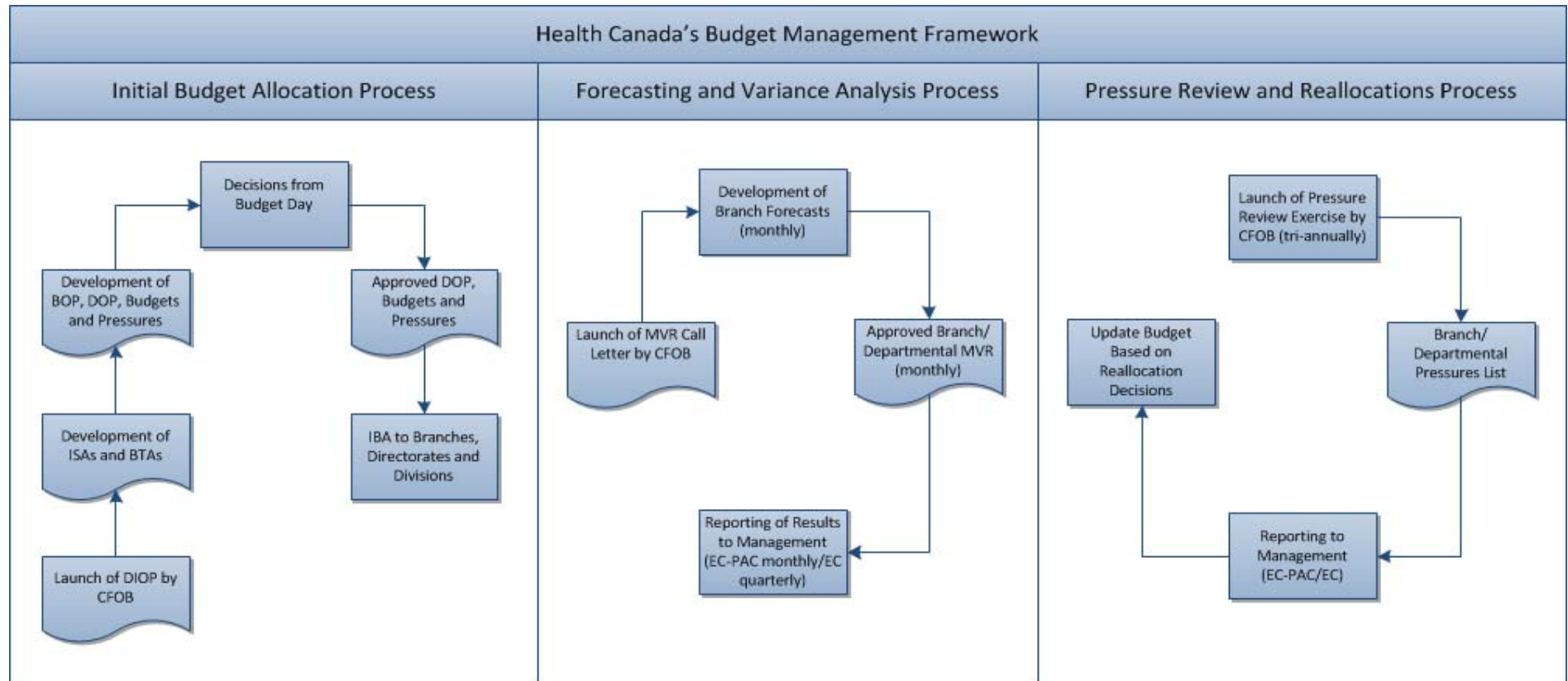
¹ Examples of branch governance: Corporate Services Branch (CSB) - Branch Executive Committee (extended BEC) and BEC-Finance Sub-committee; First Nations and Inuit Health Branch - Senior Management Committee, and SMC-Operations Sub-committee; Health Products and Food Branch (HPFB) - Branch Executive Committee, Branch Operations Sub-committee and Sound Financial Management Working Group; and Regions and Programs Bureau (RAPB) - Bureau Executive Committee and BEC-Policy and Planning Sub-committee.

² The Chief Financial Officer (CFO) is the co-Chair of Executive Sub-committee on Planning and Accountability.

³ The Associate Deputy Minister is the Chair of Executive Sub-Committee on Investment Planning.

⁴ The Assistant Deputy Minister (ADM) Revenue Management Committee is a working committee, which is made up of the ADMs of HPFB and CSB, the CFO, and the Senior Director General of RAPB.

Appendix D - Overview of key processes within the Budget Management Framework at Health Canada



List of Acronyms:

- BOP:** Branch Operational Plan
- BTA:** Budget Transfer Agreement
- CFOB:** Chief Financial Officer Branch
- DIOP:** Departmental Integrated Operational Planning Process
- DOP:** Departmental Operational Plan
- EC:** Executive Committee
- EC-PAC:** Executive Sub-Committee on Planning and Accountability
- IBA:** Initial Budget Allocation
- ISA:** Internal Service Agreement
- MVR:** Management Variance Report