

Supporting Improvements in the Quality of Financial Information

Daniel Paquette



Daniel Paquette

Daniel Paquette is a director with the Office of the Auditor General of Canada responsible for the audit of the Public Accounts of Canada. He is also responsible for directing the performance audits relating to the Public Accounts and oversight of the Office's planning for audits of departmental financial statements. Previously, he was responsible for the audit of large crown corporations, implementation of new audit tools and methodology, and quality assurance of financial audits.

For the last four years, the Office of the Auditor General of Canada has published a series of chapters in the Auditor General's Reports discussing various matters related to departments' and agencies' use of financial information for financial decision making. The first of these chapters was in the December 2002 Report; followed by a chapter in March 2004 and another in February 2005. The next chapter will be published in late spring, in the Auditor General's 2006 Status Report. All of these chapters have been derived from the audit of the summary financial statements of the Government of Canada. That is, the main source of audit evidence and information for these chapters comes from the financial attest audit the Office does for the Public Accounts of Canada.

These chapters have also been published during interesting times for those in the financial management community in government. Many changes aimed at strengthening public sector management have recently been introduced, others are under way, and even more are contemplated. These changes include such things as the re-establishment of the Office of the Comptroller General, the appointment of Charles-Antoine St-Jean as Comptroller General, announcements related to the position of departmental comptrollers and the professionalizing of internal audit, and the government's intentions to produce audited financial statements for departments and agencies. The Office of the Auditor General has been supportive of these initiatives to strengthen comptrollership and oversight of financial results. But it takes more than statements of intentions to change. As with any major change, leadership, a "raison d'être," and sustained momentum are essential.

Why are these chapters important?

First, financial information is an integral part of the government's activities, and this

information must therefore be of the highest quality. Second, improving financial information has been one of the government's more recent initiatives. For example, the government has spent considerable time and effort introducing the concept of accrual accounting at the departmental level. This type of financial information is considered more complete financial information for decision making. Finally, the quality of financial information is dependent upon the presence of good internal financial controls that, in turn, contribute to the soundness of actions taken by management. In other words, managers use internal financial controls to manage informational risks and achieve their objectives.

But, as already noted, achieving any of this could not reasonably be expected without strong financial staff, examining and overseeing the results. For that reason, three main themes have been established for the chapters and this article: the quality of internal financial control systems, people, and financial information.

The status of internal financial control systems

For the past few years, the Office of the Auditor General has been completing a series of controls assessments in departments and agencies and monitoring progress. The objective was to determine whether these systems helped ensure the quality of financial information for financial reporting and, ultimately, for financial decision making.

Unfortunately, in some departments the audit work continued to find the same weaknesses that were found when the assessments were started in 2001. In some departments and agencies there is still work to be done to address the weaknesses identified in their internal financial control systems. Consequently, the chapters conclude that departments and agencies have been

slow at improving their internal financial control systems, which has increased the risk of error in the financial information used for decision making.

To clarify the nature of the control weaknesses identified, they have been regrouped into five principal categories: electronic security controls, monitoring controls, control features optimization, processing controls, and selected authorities' controls. The table below is an overview of these weaknesses without attribution to any department or agency.

When the chapter first reported these control weaknesses, it noted that most of the weaknesses could be resolved within a reasonable period of time. Thus, it was expected that the audit work would find that more progress had been achieved. However, certain entities have failed to give priority to addressing these weaknesses. It was also reported that certain departments and agencies that successfully addressed some of the identified weaknesses did so by improving some of their quality assurance functions that review selected transactions to ensure accuracy and compliance with significant authorities.

The question of people and leadership

Simply talking about information and controls isn't enough. Someone must champion the cause. Consequently, leadership and direction from central agencies and by departments and agencies themselves is

Common weaknesses found in many internal financial control systems that need particular attention

Financial systems and processes	Weaknesses	Explanation and implications
Electronic security controls	<ul style="list-style-type: none"> User access rights and privileges reflect incompatible duties. Super user accounts are not sufficiently controlled. Users have wider system access than required. Significant numbers of generic user IDs. Best practices for key security parameters are not being enforced. 	<p>Electronic security controls are used to control user access rights and privileges within an electronic financial information system. Lapses in or inadequate electronic security controls could lead to unauthorized access, which can then allow for accidental or intentional corruption or loss of information. This can also result in the compromising of the integrity of system tables and structures or in the production of erroneous reports by the systems.</p>
Monitoring controls	<ul style="list-style-type: none"> Security administration function does not follow best practices. Reconciliation of accounts is not being done on a timely basis. Review of clearing and suspense accounts is not timely. Policies and procedures for monitoring accounts are not always in place—for example, review of unusual or high-risk transactions and review of key performance measures such as “receivables aging.” 	<p>The security administration function is shared among many users and is not controlled. There are no formal policies and best practices in place, leaving this position at risk.</p> <p>Monitoring controls engage senior management in analyzing the reasonableness of financial information. Differences identified or matters observed must not only be highlighted but also investigated and analyzed, and corrective action taken.</p> <p>A lack of monitoring controls allows errors to go unnoticed, thereby compromising data accuracy and validity as well as increasing the risk of loss and/or corruption of data.</p>
Control features optimization	<ul style="list-style-type: none"> Many controls features inherent in the new financial systems are not being used. 	<p>Many new financial systems have control features directly integrated within various modules and these controls help improve the accuracy of financial information.</p> <p>Not taking full advantage of these financial control features results in lost opportunity to increase efficiency and effectiveness of the operations. Options not optimized include functionalities to ensure each payment is matched to a requisition and evidence of receipt of goods/services and report generation. Not using built-in controls could reduce the consistency of the application of the controls.</p>
Processing controls	<ul style="list-style-type: none"> Segregation of duties is inadequate. Documentation on policies and procedures is not being prepared/reviewed. Quality assurance of the account verification process is limited. 	<p>Also, new financial systems are often used to simply compile results produced from existing systems. In some cases, two or more systems are operating where integration may be possible. This approach adds to the complexity and cost of maintaining financial information. There is also additional room for error if separate systems are maintained.</p> <p>Modern control frameworks should allow for proper integration of processing controls within an overall control framework. Processing controls, however, are less systematic and less comprehensive in their application than electronic controls, but nevertheless help improve the quality of financial information.</p> <p>The absence of strong processing controls such as quality assurance reviews increases the risk that data values will remain unchecked, be omitted, or result in duplicate information or other errors.</p>
Selected authorities controls	<ul style="list-style-type: none"> Payments are being certified without consideration of all key financial authorities such as ensuring the existence of proper documentation of having received the goods. 	<p>Section 34 of the Financial Administration Act requires that proper authorization be obtained and that goods or services be received before any payment is made. Section 33 of the Act requires that proper authorization be obtained prior to any requisition for a payment out of the Consolidated Revenue Fund and the subsequent charge against appropriations.</p> <p>Without proper controls, the government does not have assurance that payments are made only for goods or services that have been received.</p>

essential. In fact, the chapters have reported that having individuals at the executive table with a background and training in financial matters, including accounting, will help meet this goal to strengthen comptrollership and oversight of financial information, and champion the cause. The

Office of the Comptroller General’s initiatives will hopefully address these issues.

In particular, it is stated in the chapters that to support the progress being made in this area the Comptroller General should continue to fully explain the significance of the announcements regarding the role of

departmental comptrollers, their accreditation, and their reporting relationship within the department or agency and to the Comptroller General’s Office. In this regard, it is understood that consultations with the senior financial community are ongoing and that significant community- and capacity-

building initiatives are beginning.

The use of financial information for decision making

The Office of the Auditor General has been, and will continue to be, very supportive of the government's decision to move to the accrual basis of preparing financial information. It is believed that accrual-based financial information provides better information about the full cost of programs, helps improve accounting for the stewardship of assets, and assists managers in understanding the full extent of their short- and long-term financial obligations.

However, the introduction of improved financial information in departments and agencies was never intended solely for the purpose of preparing year-end financial results and the summary financial statements of the Government of Canada. Although such information has been incorporated in the preparation of the government-wide budget and periodic monitoring of government-wide results, it was expected that departments and agencies would have integrated such information into their normal decision-making processes and interim financial reporting activities. In other words, it was expected that accrual financial information would be used by departments

and agencies throughout the year.

As part of the audit work that was done for the chapters, there were discussions about the role of accrual financial information with certain senior financial officials in departments and agencies. Based on those discussions and other audit work, it was concluded that those departments and agencies use accrual financial information mostly at year-end, when preparing financial information for inclusion in the summary financial statements of the government.

Furthermore, senior financial officials in those departments and agencies supported the assessment that without a consistent use of accrual financial information throughout all aspects of government financial operations (i.e. budgeting, appropriations and reporting), there is little need for this type of information other than as part of the year-end summary financial statement reporting process.

More work is still needed

Although the government continues to make progress in advancing the preparation and use of financial information in departments and agencies and in improving the quality of the systems supporting that information, it is disappointing that more

work is still needed to resolve several outstanding issues. The government's challenge is to ensure that all departments and agencies focus on the different types of control weaknesses and determine how to effectively implement the changes in their management processes so their financial information is improved. The spring chapter to be tabled as part of the Auditor General's 2006 Status Report will provide more information on these matters and the ongoing assessment of the progress being made by the government and individual departments and agencies.

The financial management community should also get actively involved and consider the need for plans in their respective departments that look at the following questions. Are their proper systems for financial control and sufficient resources available for preparing and reporting financial information? If not, what needs to be done? How can one improve the quality and use of the accrual financial information to aid decision making?

Hopefully, if everyone directs attention to these issues, the quality of financial information used in government will significantly improve. ■