



Western Economic Diversification Canada    Diversification de l'économie  
de l'Ouest Canada

# **AUDIT OF GOVERNANCE AND PERFORMANCE**

**WESTERN ECONOMIC DIVERSIFICATION CANADA**

**Audit, Evaluation & Ethics Branch**

**April 2008**

**TABLE OF CONTENTS**

|  |           |
|--|-----------|
| <b>ACKNOWLEDGEMENTS</b>                          | <b>1</b>  |
| <b>1.0 EXECUTIVE SUMMARY</b>                     | <b>2</b>  |
| <b>2.0 INTRODUCTION</b>                          | <b>4</b>  |
| <b>3.0 OBSERVATIONS AND RECOMMENDATIONS</b>      | <b>8</b>  |
| <b>i) Governance and Strategic Direction</b>     | <b>9</b>  |
| <b>ii) Resourcing Strategic Priorities</b>       | <b>13</b> |
| <b>iii) Delivering and Monitoring Priorities</b> | <b>16</b> |
| <b>iv) Reporting Performance Results</b>         | <b>18</b> |
| <b>Conclusion</b>                                | <b>19</b> |
| <b>4.0 ABOUT THE AUDIT</b>                       | <b>20</b> |
| <b>ACRONYMS - GLOSSARY</b>                       | <b>22</b> |
| <b>REFERENCES</b>                                | <b>23</b> |

## **Acknowledgements**

The Audit, Evaluation and Ethics branch (AEE) would like to acknowledge the full support of senior management and the participation and interest of staff in this audit. The sincere and honest contributions provided by staff reflect the importance placed on this audit. This audit has provided a considerable amount of business knowledge that is relevant for this audit and future audit studies. It is anticipated that the results of this audit will add value, provide the department with assurance on its governance and performance practices and highlight opportunities for continued management excellence.

## **1.0 Executive Summary**

**1.1** The Governance and Performance audit is an internal audit assurance report on governance<sup>1</sup> and performance management controls existing at Western Economic Diversification Canada (WD) for the period April 2006 to September 2007. The audit topic is identified in the WD Audit Universe and the 2007-08 Risk Based Audit Plan. The audit examined evidence of management controls of governance and accountability frameworks and their integration at the strategic level<sup>2</sup>. The audit examined the extent to which existing management controls for governance and performance meet the standards and criteria established by the Treasury Board of Canada Secretariat (TBS).

### **Findings**

**1.2** The audit found that management is fulfilling its responsibility to control and direct the work of the department through the Deputy Minister, regional Assistant Deputy Ministers and functional managers. WD is committed to improving performance measurement and results reporting. This is demonstrated in investments like “Project Gateway”, project management software that among other things tracks project performance, and the development of the Management, Resources and Results Structure (MRRS) that is progressing on schedule.

**1.3** The audit work identified opportunities for improvement, which if implemented, will enhance departmental governance and performance reporting. The challenge often was the lack of formalized documentary evidence to support the control process described to auditors. The opportunities for improvement identified were assessed as low to medium risk after giving due consideration to significance, potential impact, and the continuous improvement efforts already under way. The audit observations are outlined under the following themes:

- i. Governance and Strategic Direction;
- ii. Resourcing Strategic Priorities;
- iii. Delivering and Monitoring Priorities; and
- iv. Reporting Performance Results.

---

<sup>1</sup> Governance refers to the process and structure for overseeing the direction and management of an organization so that it carries out its mandate and objectives effectively. Good governance is important to maximize performance, satisfy clients, prevent financial mismanagement, and help to achieve the organization mandate (Auditor General of Canada – 2004 Report).

<sup>2</sup> Strategic level for this audit refers to activities and documentation at the Management Committee level (Executive Committee, Regional & Headquarters Management Teams, Directors’ level and/or functional head Managers) i.e. expected: actions, knowledge, duties, roles, responsibilities, tools, resources; and information, that are expected to be disseminated, communicated and/or information expected to be available to the strategic level manager/director either as an individual function head; or collectively actions or documentation expected as a management team

## *Audit of Governance and Performance*

### **What we examined**

- 1.4** The audit focused on examining the extent to which existing management controls for governance and performance meet Treasury Board standards and audit criteria. The audit assessed the effectiveness of management coordination, the communication of initiatives, and the strategic direction to maximize performance.

### **Audit importance**

- 1.5** WD plays a significant role in terms of federal government funding and accountability since it administers over \$250M annually in grants and contributions. As a department with only 380 employees, WD cannot rely alone on the accessibility and involvement of senior management. WD also needs a strong control framework to help achieve its strategic objectives. The Federal Accountability Act (FedAA) reinforces the accountability of the Deputy Minister and the importance of strong internal controls. This audit will provide assurance and opportunities for improvement in the areas of governance and performance controls and processes at WD.

### **Conclusion**

- 1.6** In summary, controls established for governance and performance by management are effective in design and are operating satisfactorily. Based on internal audit standards and criteria selected, sufficient audit work has been completed and analyzed to support the conclusion that governance and performance controls framework for which WD management is responsible is appropriate for WD's size and risks.
- 1.7** In accordance with the Government of Canada internal auditing standards and the nature of the subject matter under audit, a reasonable assurance is provided that relevant and reliable management controls exist at WD to result in good governance and performance.
- 1.8** In addition, opportunities for improvement have been identified in this report where those controls can be strengthened in order to mitigate risk and contribute to management excellence.

## **2.0 Introduction**

- 2.1** Initially created as a special operating agency in 1987, WD was established as a federal department, through the *Western Economic Diversification Act, 1988*. The department's mandate is to promote the development and economic diversification of western Canada (Manitoba, Saskatchewan, Alberta and British Columbia) and to advance the interests of western Canada in national economic policy, program and project development and implementation. It also plays a significant role in the west by taking lead roles in many government initiatives that bring together partners from private and not-for-profit sectors, municipal and provincial governments, other federal departments and academic institutions. WD has evolved to meet changing expectations and it is building on its successes. WD has earned recognition in a broad diversity of industries besides the energy sector in western Canada.
- 2.2** WD's Headquarters is located in Edmonton, Alberta. It has four regional offices in Edmonton, Winnipeg, Saskatoon, Vancouver and a liaison office in Ottawa. A regional satellite office exists in Calgary. The Deputy Minister is located in Edmonton, and Assistant Deputy Ministers are located in Vancouver, Edmonton, Saskatoon, Winnipeg and Ottawa. The organizational chart is depicted in Exhibit 1. As a regional development agency, WD works closely with the government of the day to align its strategic priorities and outcomes with government priorities as outlined in Speeches from the Throne, Budgets and other policy directions.

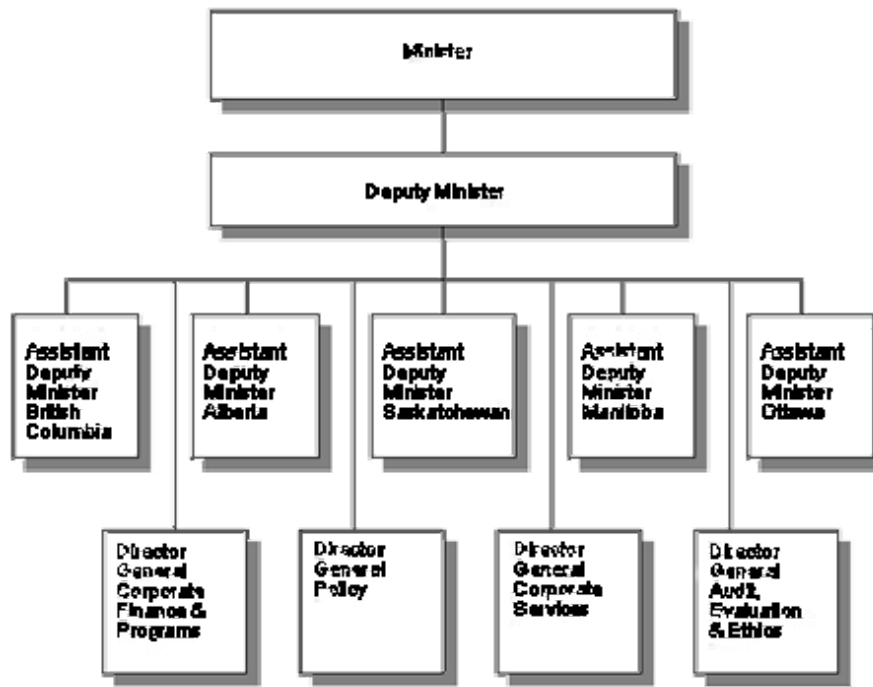
### **Audit context and risks**

- 2.3** Comparatively a small federal department with 380 employees, WD is a significant department in terms of federal government funding and accountability because it administers over \$250M annually in grants and contributions for the development and economic diversification of western Canada.
- 2.4** In 2006, the Government introduced two key documents, namely:
- 1) The Federal Accountability Act (FedAA); and
  - 2) A new Policy on Internal Audit.
- 2.5** A direct impact of the FedAA is that the Deputy Minister is designated as WD's Accounting Officer. The Deputy Minister can be called in front of Parliamentary Committees on a number of subjects, including the internal controls within the department. As a result of the new Policy, holistic opinions will soon be required on internal controls, risk management and governance.
- 2.6** This audit assessed whether the existing management structures and corresponding systems are sufficient to provide strategic direction and to demonstrate accountability for results achieved. Therefore, this audit focused on

## *Audit of Governance and Performance*

examining evidence supporting strategic governance and performance. The results of this audit will support the Chief Audit Executive, in part, to render a future holistic opinion on governance, controls and risk management processes in place at WD.

**Exhibit 1: Western Economic Diversification Canada Organization Structure**



Source: WD Departmental Reports: 2007-08 Reports on Plans and Priorities

### **Scope of the audit**

- 2.7** The audit examined evidence of good<sup>3</sup> governance and accountability processes, and their integration at strategic levels of the organization. The audit assessed the capacity and readiness of WD's modern management practices in response to recent federal government management initiatives for achieving results. The audit examined documentary evidence of management practices for linkages.
- 2.8** Government of Canada internal auditing standards were used. In conducting and reporting on the audit, emphasis was placed on factual evidence, analyzing the evidence, and its collaboration and documentation. The audit analyzed conditions with objectivity and against risk exposure, significance, cause and probable effect. Recommendations were selected based on risk exposure, significance, and actionable added-value points that will contribute to management excellence.

<sup>3</sup> "Characteristics of Good Governance", Canadian Comprehensive Audit Foundation, CCAF-FCVI Inc. Accountability, Performance Reporting, Comprehensive Audit - An Integrated Perspective, Chapter 2. Ottawa: CCAF-FCVI Inc, 1996.

## *Audit of Governance and Performance*

- 2.9** The audit period covered control frameworks in existence from the period of April 1, 2006 to September 30, 2007. The audit covered all regional offices, including the Ottawa liaison office and corporate headquarters. Fieldwork was completed in September 2007 and a draft report produced in October 2007. The consultation and finalization phase of the audit was delayed until April 2008 as a result of changes in internal audit priorities. This report has been updated to reflect any relevant supplementary evidence that occurred between October 2007 and April 2008. The effectiveness of such evidence has not been evaluated for purposes of this report. However, this will be covered as part of any follow up or future audit work.
- 2.10** Management controls being tested in this audit are enablers to the achievement of performance expectations. The audit did not assess the quality and adequacy of information in transactional documents supplied since the scope was limited to control frameworks and information summarized at the strategic level of management. Also, while certain elements of the audit might align to the principles and concepts in the federal government's Management Accountability Framework (MAF), this is not an audit of MAF. MAF is a broader and global accountability framework, but it is not a control framework.

### **Audit criteria**

- 2.11** The audit criteria were drawn from multiple sources including: WD's enabling legislation, WD's Visioning exercise, TBS Internal Audit Policy, Government of Canada internal auditing standards, TBS Management Accountability Framework (MAF), TBS Core Management Controls, Results for Canadians – Modern Management, CCAF-FCVI "Characteristics of good governance", TBS Report on Plans and Priorities and Departmental Performance Report guidelines, Office of the Auditor General of Canada reports and TBS internal audit database. The audit was based on the following criteria:
- i. The systems and practices should ensure that WD's strategic decisions and priorities are linked to its Western economic mandate;
  - ii. WD corporate systems and practices should provide for periodic reassessment of the value and continuing relevance of the Western economic and policy agenda;
  - iii. Evidence that strategic directions and decisions are made after thorough analysis of the operating environment and regional priorities, options, risks, and results impact;
  - iv. Resource allocations are adequate and reflect priorities and/or changing needs;
  - v. WD's strategies and priorities are communicated consistently to staff on a timely basis through the various appropriate authorities and networks;
  - vi. Staff roles and responsibilities are aligned to organizational plans, priorities and performance.

## *Audit of Governance and Performance*

- vii. Performance and lessons learned information are collected and used to improve operations and accountability reporting to stakeholders.

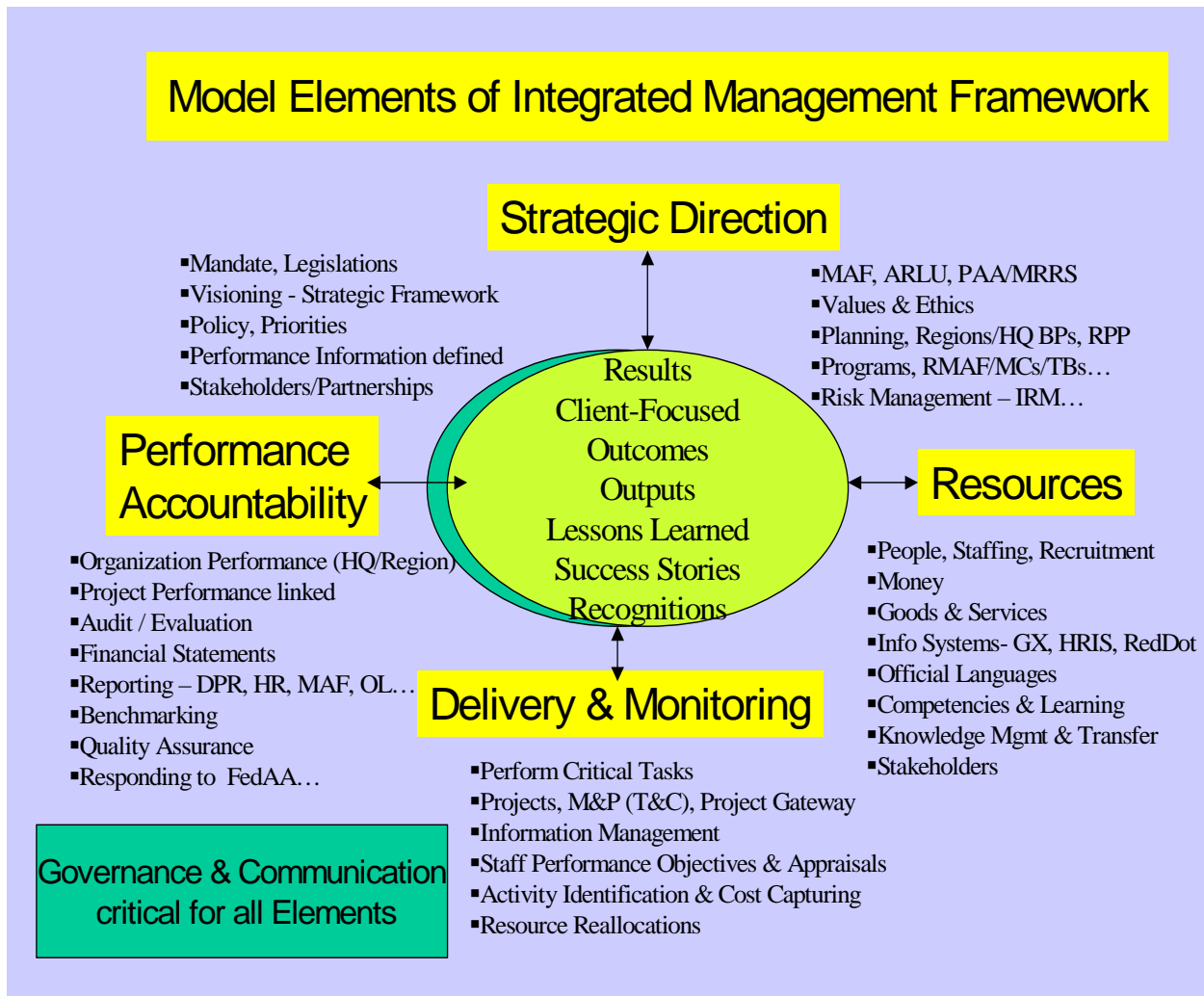
### **Audit expectations**

**2.12** For the purpose of this audit and future use, WD Audit, Evaluation and Ethics branch developed a model Integrated Management Framework for Performance (Exhibit 2). The model outlines four broad integral suites of management processes and controls. The intertwined topics need to be governed, integrated, communicated and monitored in order to meet clients' expectations and achieve corporate results. Underneath the four broad topics are a mixture of strategic, operational and transactional level elements of legislation, activities, policies, documents, and practices critical for a federal department's success. The auditors selected the four highest elements of the model as the lines of inquiry and examined governance at the strategic level, namely:

- i. Strategic direction;
- ii. Resourcing strategic priorities;
- iii. Delivering and monitoring priorities; and
- iv. Performance accountability.

The audit examined documentary evidence of governance practices for linkages to performance. The auditors did not audit all the elements in the model since the focus of the audit was at the strategic level of the organization. The audit expectations have been summarized in the observations and recommendations section under each line of inquiry.

**Exhibit 2: A model Integrated Management Framework for Performance**



## **3.0 Observations and Recommendations**

### **i) Governance and Strategic Direction**

*Audit expectations were:*

- That management has an appropriate framework in place to set strategic direction, operational plans, objectives and priorities;
- That committees and/or teams are empowered to support governance and oversee strategic direction and mandate;
- That an appropriate organization structure for WD's size clarifies authorities, responsibilities and the duty to report;
- That processes are in place to monitor financial and operational performance on an ongoing basis;
- That performance results [lessons learned] are collected and fed back into the planning process; and
- That the Executive Committee / Regional Management request and receive sufficient, complete, timely and accurate information to allow for effective monitoring of management's objectives, strategies and results

### **Management Controls and Structure**

- 3.1** At the heart of management structure is the Deputy Minister, who chairs the departmental Executive Committee. The Executive Committee's mandate is to provide overall strategic and management oversight to all departmental activities and to set priorities to achieve WD's strategic outcomes. The Executive Committee also provides the Deputy Minister advice and support. The Executive Committee generally operates under a consensus approach in a professional and respectful manner. This atmosphere, in turn, enables candid discussions in the setting of strategic direction, operational plans, priorities, resource allocation and outcomes. Items like financial management, human resource management and performance reporting are constantly reflected in agendas and records of decision.
- 3.2** WD has a defined governance-management structure for decision-making, responsibility, and accountability. Long-term goals and strategic outcomes are aligned with government priorities. Accountability for achievement of strategic outcomes at the program activity level is shared by the Assistant Deputy Ministers and regional operations and program delivery work towards achieving those strategic outcomes. This is evidenced by roles and responsibilities assigned by the Deputy Minister and/or the Executive Committee to senior management and are reflected in their performance agreements and regional business planning objectives.

## *Audit of Governance and Performance*

- 3.3** Appropriate teams and committees exist to support the Executive Committee. These committees exist at both the corporate level and at the regional level.
- 3.4** Although the department still has a strong regional-based organization structure, there is ample evidence that the department is moving away from regional autonomy towards consolidated western initiatives and harmonized delivery models. This is demonstrated through initiatives like Stronger West, International Trade and other pan western projects.
- 3.5** Management recognizes that WD is a smaller sized organization. It has adopted the philosophies of accessibility, flexibility, results focus and action management. This management philosophy enables the talented, professional and dedicated staff to participate in various aspects of the decision-making process. This management-staff interaction and collaboration is seen as a strength and advantage and has been an integral reason for WD's success to date. The action management mentality motivates staff to take advantage of being a small organization in a much bigger and more complex government environment.
- 3.6** In the past, the small size and informal atmosphere at WD has resulted in less documentation of some strategic processes such as comprehensive terms of reference for the Executive Committee and some permanent senior committees. In the fall of 2007, work was completed to design a standard terms of reference template for senior committees, including the Executive Committee.
- 3.7** Agenda management and best use of senior management's limited time is an important consideration. Executive Committee agendas examined included both strategic and operational items. There are two schools of thought here. Some members of senior management strongly believe in the matter of managing government grants and contributions programs, sometimes the small details are important and become material. Others indicated that some of the material dealt with at the Executive Committee meetings should be for information only so that more time is spent on strategic agenda items.
- 3.8** Regional Directors General of Operations provide direct support to regional ADMs and form a critical community that links strategic and operational issues. The Director Generals' group meets regularly through structured videoconference meetings on a number of topics. The Director Generals' group could assist the Executive Committee in freeing up time to focus on strategic issues. However, based on current practices, this will need better agenda management, coordination with Executive Committee agendas, and regular participation by Directors General, and not just their delegates. Regular participation by Directors General would help improve the overall quality of decisions and analysis, and recommendations to the Executive Committee.

## *Audit of Governance and Performance*

**3.9** While the Executive Committee does keep minutes of all in person meetings, minutes for some of the meetings held by telephone conferences were not available. Minutes are a critical record of discussions and any decisions rendered.

**Recommendation #1:** The Executive Committee is effective but with the recent application of so many emerging demands, it is suggested that the Executive Committee consider a self-assessment and further delegation of some duties.

**Recommendation #2:** In the fall of 2007, terms of reference were established for the Executive Committee and seven other senior management committees. Senior management needs to assess the purpose, membership, roles and responsibilities of all of these committees in relation to each other to determine if the current committee structure is effective in helping the department achieve its objectives.

**Recommendation #3:** Other committees need to be empowered to deal with operational level issues in order to free up time for the Executive Committee to tackle change management and strategic and emerging challenges on a timely basis. Monitoring and feedback to senior management could be achieved with structured appointment of champions from the Executive Committee to enhance effectiveness.

### **Roles, Responsibilities and Accountability**

**3.10** WD's staff is aware of their roles and responsibilities, as evidenced by their job descriptions and is articulated in their annual performance agreements. Some regions have tied staff performance agreements to the regional business plans for accountability. However, the linkages to the department's strategic outcomes are not always clear or well understood at the staff level. Ideally, linkages from the department's strategic objectives, through business plans and both executive and staff performance agreements should be clear and evident.

**3.11** Organizational restructuring was last done in 2001, driven by a change in the priorities and strategies. The department recently went through a Visioning<sup>4</sup> exercise in order to focus on its mandate and refocus priorities. To date, no review of the existing organizational structure has taken place to assess whether the department can efficiently and effectively deliver on its modified priorities.

**3.12** The Policy Branch in headquarters is set up to give overall strategic guidance to the department. In the past, there were no regional or headquarters branch business plans until the regions started doing them four years ago. Policy Branch used to prepare medium and long-term strategic frameworks for the department as

---

<sup>4</sup> "WD's renewed vision ensures that core programs and projects are clearly focused on economic objectives and outcomes, and that our activities and investments achieve measurable and lasting economic benefits for Western Canada.... I believe that these initial decisions on principles and funding policies will enable us to fulfill our mandate and remain relevant and effective as a catalyst and champion of economic growth and competitiveness in western Canada" (Carol Skelton, Minister of Western Economic Diversification – November 1, 2006, All Staff speech)

## *Audit of Governance and Performance*

a whole. However, a gap exists as to who is responsible for planning, even though all of the regions have added some planning capacity. As it stands now, one headquarters branch is responsible for the preparation of departmental planning and reporting documents (e.g., RPP, DRP), another is responsible for providing environmental scanning, and the regions are responsible to develop business plans.

**3.13** Under the current organization structure, the Chief Financial Officer (CFO) also operates as the Corporate Director General of Programs. In this age of modern management and increased accountability in the federal government, all CFO's have seen their financial roles and responsibilities expanded. Under the proposed Treasury Board Policy on Financial Management Governance, the Deputy Minister will need to ensure that if the CFO is assigned additional non-financial roles and responsibilities, that these do not compromise the integrity, independence and financial management responsibilities of the CFO or the ability of the CFO to have the focus necessary to fulfill his or her responsibilities as CFO. The modern comptroller needs to be a focused and strategic advisor to the Deputy Minister.

**3.14** It was observed that unlike some other small to medium organizations in the federal government, WD has not centralized all of its internal support services. These services include finance, human resources, administration, information management, information technology and communications, to name a few. An organization should do a periodic review of its current internal services organizational structure to ensure that the structure supports the most effective and efficient achievement of the department's strategic objectives.

**Recommendation #4:** All levels of the organization need to be aware of their accountabilities in terms of the department's strategic outcomes. Stronger linkages are needed between the strategic outcomes, business plans and all performance agreements.

**Recommendation #5:** Now that the visioning exercise has been completed and approved, it is an opportunity to re-visit the organization structure and make changes if found necessary to better achieve WD's redefined objectives.

**Recommendation #6:** Stronger clarity on roles and responsibilities as well as greater integration of all existing elements of strategic planning is needed. In this regard, accountability for all elements of departmental planning needs to be fully clarified and assigned to a single executive lead.

**Recommendation #7:** WD should review its current internal services organizational structure to ensure that the structure supports the most effective and efficient achievement of the department's strategic objectives.

## *Audit of Governance and Performance*

### ii) Resourcing Strategic Priorities

*Audit expectations were:*

- That management uses integrated information received to provide clear direction on how resources are allocated and monitored to achieve WD's plans; and
- That an effective and integrated strategic planning process exists to enable senior management to allocate and/or re-allocate scarce resources based on strategic priorities, needs and any changing needs.

### Planning and Integrated Information

**3.15** Having the right quantity and quality of information is critical for senior management in making sound decisions. As a regular course of business, the Executive Committee and regional management groups regularly review updates on the usage of financial and human resources across the department.

**3.16** Exhibit 3 is a table of historical financial lapses at WD over the recent past three years. The cumulative sum of lapses the last five years compared to periods earlier shows a declining trend. However, on a year-to-year basis over the last three years, there is no systematic trend of decline or increase as demonstrated in the table below.

**Exhibit 3: Recent History of Funding Lapses**

| Year | Operating and Maintenance (O&M) – Vote 1 in \$ 000's |       |           | Transfer Payments – Vote 5 Grants and Contributions |       |            |                               |        |            |
|------|--|-------|-----------|---|-------|------------|-------------------------------|--------|------------|
|      |  |       |           | Core Programs in \$ 000's                           |       |            | Non-Core Programs in \$ 000's |        |            |
|      | Allocation   | Lapse | % to Vote | Allocation  | Lapse | % of Lapse | Allocation                    | Lapse  | % of Lapse |
| 2005 | 45,655   | 4,588 | <10%      | 132,362   | 39    | 0%         | 211,851                       | 77,957 | <37%       |
| 2006 | 43,983   | 1,083 | <3%       | 110,226   | (775) | (1%)       | 238,745                       | 91,524 | <39%       |
| 2007 | 49,009   | 7,515 | <15%      | 128,095   | 4,836 | <4%        | 191,932                       | 22,600 | <12%       |

**3.17** There are a number of factors that contribute to financial lapses:

- Large project delays tied to external factors that result in lapses in a particular fiscal year (but not over the life of the project);
- Quality of forecasting information provided by Assistant Deputy Ministers and managers to the Chief Financial Officer;
- The resource allocation methodologies (and linkages to strategic priorities);
- Limited operational and non-financial activity information to collaborate financial information;

## *Audit of Governance and Performance*

- The reliability and timeliness of information provided to Executive Committee and senior management in order to make meaningful reallocations;
- The rigour of follow-up with managers on the forecasts provided (where and when it is provided); and
- Supplementary funding received late in the year without an appropriate plan to implement and spend within that fiscal year.

**3.18** The Chief Financial Officer has instituted a number of mitigating strategies beginning 2007-08:

- Draft guidance document entitled “Operating Budget Management Framework”;
- Consideration of looking at non-financial operational drivers that impact on lapses; and
- A comprehensive A-base review that was completed in 2005 to address resource allocation issues.

In January 2008, the Corporate Finance and Programs branch initiated a Resource Allocation Fine Tuning exercise. The intent is to work with each of the regional offices to find ways to review resource allocations more effectively. The actual effectiveness of this initiative has not been assessed in this audit due to its recent introduction.

**3.19** Financial and human resource allocations are linked to the 2005 A-base review. They are not linked to an overall corporate business plan that in turn is linked to the department’s strategic priorities that are modified as priorities change. The 2008-09 allocations resulting from the Resource Allocation Fine Tuning exercise represent the first change in allocation levels since 2005.

**3.20** Some other federal departments have implemented successful controls and processes to minimize lapses each fiscal year. Examples of controls they used include: forward planning, collaborative operational data tools like expenditure or activity cost capturing, rigorous quarterly reviews and reallocation exercises, and periodic costing of organizational charts. WD could benefit from the additional rigour that other departments have implemented. Without any changes, WD risks having forecast information that indicates that budgets are on track until it is too late in the year to effectively reallocate to other priorities.

**3.21** The quality of forecasting is a shared responsibility among financial and non-financial managers. Under the proposed Treasury Board Policy on Financial Management Governance, the roles and responsibilities of the Chief Financial Officer and Assistant Deputy Ministers as they relate to sound financial management will be spelt out with much greater clarity than is currently found in existing policies.

## *Audit of Governance and Performance*

**Recommendation #8:** Current forecasting assumptions and methodologies could use more independent rigorous challenge and non-financial collaborative information to substantiate financial forecasts. A rigorous mid-year financial forecast analysis, and regularly thereafter, which are collaborated with concrete operational information and opportunities for reallocation, will contribute to alleviate the lapses. Further analysis of methods used by other successful departments might assist to identify best practices could be adopted.

### **Integration of Resources and Strategic Direction**

- 3.22** Strategic direction and objectives are established in the RPP and regional business plans. In 2007-08, WD prepared its first corporate business plan. The plan was completed after the conclusion of the audit field work, so the auditors did not assess the plan. All of WD's plans are reviewed periodically for relevance through the formal strategic executive planning activities, staff town halls and executive meetings. The TBS driven RPP is considered WD's strategic plan. For strategic direction, consideration is given to government priorities, identified risks and client needs as evidenced in the consultative Visioning exercise undertaken in 2006. Based on minutes reviewed, the Executive Committee often discusses potential new strategies to keep WD relevant and aligned with government priorities.
- 3.23** At the regional level, strategic direction is communicated at meetings and reinforced through the regional business plans prepared by each region. The regional plans are aligned to the RPP. Starting in the 2007-08 fiscal year, all of the four regional plans have used an identical approach and format in preparing business plans. This is commendable. The regional activities are linked to the PAA outcomes. This approach has communicated identical messages to all regions and contributes towards the achievement of overall corporate objectives. Regional managers and staff are actively involved in the preparation of their regional plans through regional management team meetings and staff meetings and use of standardized templates.
- 3.24** The 2007-08 RPP and regional business plans were reviewed for evidence of reallocation of resources to new and emerging strategies like pan-western initiatives, international trade, and others. From this review, there is only a modest increase in the new vision priority areas. However, a sample review of project approvals by the Programs Branch between January and August 2007 indicates that there is a focus on the visioning exercise objectives. A few new initiatives are mentioned as emerging priorities, without corresponding resource increments. The Stronger West, pan-western initiatives and international trade were examples found.

## *Audit of Governance and Performance*

**Recommendation #9:** Seventy five percent of those asked support the thinking that there is room for a comprehensive strategic plan beyond what is prepared in the RPP. A corporate strategic plan will assist in articulating the department's operational priorities and strategies as well as mandate, mission and outcomes. It will make the strategic plan user-friendlier for staff and interested stakeholders instead of a document tailored for central agency purposes. A comprehensive strategic plan also becomes an invaluable tool for senior management in monitoring progress on priorities when there are mid-year and periodic reviews.

**Recommendation #10:** Dedicated resources need be reallocated to new priority initiatives and tracked for performance measurement.

### **iii) Delivering and Monitoring Priorities**

*Audit expectations were:*

- That management has established a control environment by way of action management plans and communication mechanisms to provide advice to the Minister, internal staff and the public on key priorities and periodic changes;
- That management has documented evidence of objective and collaborative mid-term feedback in order to monitor progress being made against strategic priorities; and
- That there is coordination among research, and effective policy development to result in congruent operational activities and outcomes.

### **Action Management and Communication**

**3.25** A Visioning exercise was done in 2006 that included significant outside stakeholder input. This exercise has helped to direct the department to focus on its mandate of economic development and to re-prioritize its strategies. A Strategy Framework was issued after the Visioning exercise that communicated the department's new focus and provided guidance as a first step. Implementation has recently begun by way of policy development to move the strategy forward. The gap between development and implementation was driven by two major factors: changes in government priorities and an education period for stakeholders.

**3.26** There are a number of negative consequences when priority-setting exercises are not followed up with timely implementation and steady communication on progress and/or necessary delays. This communication has to be both external and internal to the department. During the audit, a number of managers and staff expressed confusion around the delays in implementation and felt disconnected from the exercise.

## *Audit of Governance and Performance*

- 3.27** It was evident in the audit examination that in the past, documentary evidence about progress on priorities had been fed back to senior management mainly through the annual RPP and DPR exercise and selective ad-hoc topic presentations. A rigorous and comprehensive mid-year or quarterly review of collaborative operational and finance information to assess priority progress and re-alignment, where warranted, was not easy to grasp. In the absence of a comprehensive strategic plan, using the annual required TBS focused RPP and DPR as the predominant monitoring evidence of progress on priorities is risky and untimely.
- 3.28** It was ascertained that about 90% of communication resources are devoted to external communications and serving the Minister and MPs. WD has received outstanding reviews for the excellent services in Parliamentary communications. Government and internal communication policies are followed and activity results are demonstrated by quarterly output data. Valuable education of new and continuing MPs has taken place and communication on the external front continues to be enriched and has raised the profile of WD. However, the branch is challenged with the limited balance of its capacity in communicating strategic direction effectively to internal staff and as well, corporate publications appears to be dwindling.

### **Research, Policy and Operations Coordination**

- 3.29** Although program delivery extends over four provincial jurisdictions, WD remains a relatively small federal department with a fairly specific mandate of economic diversification in the west of Canada. In terms of results, WD has three strategic outcomes that drive all of its activities. Policy at all levels of the department should support those strategic outcomes.
- 3.30** During the audit, respondents acknowledged the challenges of both integrating policy across the department and also integrating policy and program delivery. Despite those challenges, the role of policy at headquarters, in the regions, and in the liaison office in Ottawa needs to be examined, integrated and complementary.

**Recommendation #11:** WD needs to review the respective roles of those who support policy work at headquarters, in the regions and in Ottawa to ensure resources are coordinated and aligned with supporting achievement of strategic outcomes. Research criteria need to be developed for the department as a whole and made available to regions.

**Recommendation #12:** Implementation of the visioning exercise should be a priority of the Executive Committee while information gathered is still relevant and useful. As part of that implementation, concentrated efforts on both internal and external communications will be needed and communication encouraged as everybody's responsibility.

#### **iv) Reporting Performance Results**

*Audit expectations were:*

- That management has a defined picture of success and performance information at the strategic level whilst providing strategic direction;
- That relevant information on results (internal, service and program results) is gathered and used to make departmental decisions; and
- That reporting is balanced, transparent, reliable, and easy to understand

**3.31** The department's planning and reporting functions continue to improve and are more integrated to support governance-management as evidenced in the last RPP and DPR. Significant improvements were made the last two years to create an appropriate PAA and linkages to outcomes. The management, results and resource structure (MRRS) exercise is progressing well with the input of multi-disciplinary contributors that will enhance reporting. Periodic upgrades to "Project Gateway," a micro-level project management software that among other things tracks project performance is progressing in the right direction.

**3.32** Some key performance reporting challenges that WD faces include:

- i. Attribution of current activities to long term economic development results;
- ii. Adequate information management systems to collect indicators; and
- iii. Suitable and measurable performance indicators.

**3.33** WD needs suitable and measurable performance indicators that describe the impact of its activities towards achievement of its three strategic outcomes. In order to achieve that goal, WD is currently undertaking two major initiatives: a significant upgrade to its information management system that collects performance indicators and a substantial review of its performance indicators as part of its MRRS Policy implementation work.

**Recommendation #13:** WD needs to complete its ongoing work on the development of performance indicators that are linked to the department's strategic outcomes. The progress on the information management system is noteworthy; however, the department must collect the correct performance indicators in the system to be fully effective and get the appropriate return on investment.

**Conclusion**

- 3.34** In summary, controls established for governance and performance by management are effective in design and are operating satisfactorily. Based on internal audit standards and criteria selected, sufficient audit work has been completed and analyzed to support the conclusion that governance and performance controls framework for which WD management is responsible is appropriate for WD's size and risks.
- 3.35** In accordance with the Government of Canada internal auditing standards and the nature of the subject matter under audit, a reasonable assurance is provided that relevant and reliable management controls exist at WD to result in good governance and performance.
- 3.36** In addition, opportunities for improvement have been identified in this report where those controls can be strengthened in order to mitigate risk and contribute to management excellence.

## **4.0 About the audit**

### **4.1 Audit objectives**

- 1) To provide assurance as to how sound the WD governance framework is, its integration at the broad level to maximize results and whether it lines up to authorities, performance, program management and grants and contributions as a way of doing business for a stronger West and a stronger Canada;
- 2) To determine whether WD periodically reassesses the appropriateness of its business lines, programs and activities and whether its strategic decisions are made with adequate consideration of risks, options, stakeholders and potential impacts supported by documentary evidence of linkages and communication;
- 3) To assess whether the strategic level elements identified in the model integrated management framework (Exhibit 2) mapped by WD Audit, Evaluation and Ethics branch, are sound to enable WD measure and report on results and impacts of its efforts; and
- 4) To identify opportunities for continuous improvement in WD modern management practices, in order to mitigate risk and add value to the organization.

### **Scope and approach**

#### **Planning**

- 4.2** The audit planning work started April 2007 and audit examination ended in September 2007. The auditors reviewed WD 2006-07 Corporate Risk Profile (CRP), Audit, Evaluation and Ethics risk-based audit plan for 2007 - 2008 and previous WD audit reports of relevance in assessing risk. Materials on the Internet, Intranet and manuals about WD were reviewed in order to acquire deeper knowledge of the business and identify risks. A model Integrated Management Framework for Performance (Exhibit 2) was developed based on the business knowledge and preliminary discussions and walk through with selected staff. Materials from Treasury Board Secretariat, Office of the Auditor General reports, Institute of Internal Auditors were utilized in selecting audit criteria and developing audit questions. Based on knowledge gained of WD and its challenges, we examined selected management controls and assessed risk.

#### **Methodologies and sampling**

- 4.3** Collaborative evidence was gathered through interviews with a cross-section of senior management and managers in all locations and functions. The 56 people interviewed formed 15% of total WD staff population and comprised of managers-and-above and six key functional staff members (Exhibit 3). Presentations were given to the Audit Committee and regional management

## *Audit of Governance and Performance*

teams. Data was gathered and analyzed through review of documents, including WD's mandate, visioning initiative, RPP, DPR, regional business plans, financial statements, periodic reports, policy and procedure binders, organization charts, intranet, internet and external references.

- 4.4** Emerging themes from the interview notes were summarized, analyzed for interpretation and evaluated for significance, effects, impact and risk exposure. The analysis included review or verification of evidence and support documentation where available in order to validate the themes. Evidence on the themes was compared against audit criteria and expectations in assessing observed conditions. Opportunities for improvement determined were put through the WD Corporate Risk Profile lens. Risks were assessed for impacts and effects or likelihood of any unacceptable exposure. Comparatives between regions were done. Benchmarking was done for different areas of the audit using available information from three other federal regional development agencies, National Research Council, Industry Canada, Canadian International Development Agency, OAG Reports for 2002 to 2007, and Treasury Board Secretariat audit database.

### **Exhibit 4: Staff Interviewed by function**

| <b>Function</b>                                | <b>Number of staff interviewed</b> |
|--|------------------------------------|
| Deputy Minister and Assistant Deputy Ministers | 6                                  |
| Policy, Planning and Research                  | 11                                 |
| Operations and Programs                        | 20                                 |
| Finance  | 9                                  |
| Communications                                 | 4                                  |
| Corporate Services (includes HR and IMT)       | 5                                  |
| Audit, Evaluation and Ethics                   | 1                                  |
| <b>Total</b>                                   | <b>56</b>                          |

### **Audit team**

|                  |                       |
|------------------|-----------------------|
| Donald MacDonald | Chief Audit Executive |
| John Hagan       | Project Leader        |
| Kathy Locke      | Senior Auditor        |
| Amarjit Mundi    | Senior Auditor        |
| Stella Okyere    | Executive Assistant   |

## *Audit of Governance and Performance*

### **Acronyms - Glossary**

|      |  |
|------|--|
| ADM  | Assistant Deputy Minister                              |
| ARLU | Annual Reference Level Update, budget according to TBS |
| BP   | Business Plans   |
| CAE  | Chief Audit Executive                                  |
| CFO  | Chief Financial Officer                                |
| DAEC | Departmental Audit and Evaluation Committee            |
| DG   | Director General                                       |
| DM   | Deputy Minister  |
| DPR  | Departmental Performance Report                        |
| EC   | Executive Committee                                    |
| G&C  | Grants and Contributions                               |
| HQ   | Headquarters, Edmonton                                 |
| IIA  | Institute of Internal Auditors                         |
| IMT  | Information Management Technology                      |
| IRM  | Integrated Risk Management Framework                   |
| MAF  | Management Accountability Framework (TBS)              |
| MC   | Memorandum to Cabinet                                  |
| MRRS | Management, Resource and Results Structure             |
| O&M  | Operations and Maintenance funds, including Salaries   |
| PAA  | Program Activity Architecture                          |
| PPX  | Policy, Planning and External Relations                |
| RDA  | Regional Development Agency                            |
| RMAF | Risk-based Management Accountability Framework         |
| RPP  | Report on Plans and Priorities                         |
| TB   | Treasury Board of Canada                               |
| TBS  | Treasury Board of Canada Secretariat                   |
| TOR  | Terms of Reference                                     |

## References

1. Western Economic Diversification Canada. 2007-08 RPP, 2006-07 RPP, 2005-06 RPP, 2005-06 DPR, 2004-05 DPR, and Internal Audit Reports. Ottawa: TBS, n.d.
2. WD Departmental Reports:  
[http://wdnet/knowledge\\_warehouse/dep\\_reports\\_e.asp#Parliament](http://wdnet/knowledge_warehouse/dep_reports_e.asp#Parliament)
3. Western Economic Diversification Canada. Intranet Knowledge Warehouse
4. WD Visioning Initiative: [http://wdnet/workplace/vision\\_e.asp](http://wdnet/workplace/vision_e.asp)
5. Office of the Auditor General of Canada. 2004 Report of the Auditor General of Canada to the House of Commons Chapter 1, 1.20. Vol. 1. Ottawa: Queens Printer, 2004.
6. Office of the Auditor General of Canada. 2002 to 2007 Reports of the Auditor General of Canada to the House of Commons. Ottawa: Queens Printer, n.d
7. Treasury Board of Canada Secretariat. Core Management Controls draft. Ottawa: TBS, n.d.
8. TBS Office of Comptroller General website:  
[http://publiservice.tbs-sct.gc.ca/organisation/ocg-bcg\\_e.asp](http://publiservice.tbs-sct.gc.ca/organisation/ocg-bcg_e.asp)
9. Canadian Comprehensive Auditing Foundation, CCAF-FCVI Inc. Accountability, Performance Reporting, Comprehensive Audit - An Integrated Perspective, Chapter 2. Ottawa: CCAF-FCVI Inc, 1996.
10. Canadian Food Inspection Agency and KPMG Consult. Capacity Assessment of Modern Management Practices. Ottawa: TBS, 2002.
11. Canadian Space Agency. Audit of the Management Framework and Implementation of Project Approval. Ottawa: TBS, 2003.
12. Public Service Commission. Audit of the Management Framework Atlantic Regional Office. Ottawa: TBS, 2001
13. Canadian International Development Agency. 2007-08 RPP, 2005-06 DPR, and Internal Audit Reports. Ottawa: TBS, n.d.
14. National Research Council. 2007-08 RPP, 2005-06 DPR, and Internal Audit Reports. Ottawa: TBS, n.d
15. Industry Canada. 2007-08 RPP, 2005-06 DPR, and Internal Audit Reports. Ottawa: TBS, n.d.
16. Economic Development Agency of Canada for the Region of Quebec. 2007-08 RPP, 2005-06 DPR, and Internal Audit Reports. Ottawa: TBS, n.d.
17. Atlantic Canada Opportunities Agency. 2007-08 RPP, 2005-06 DPR, and Internal Audit Reports. Ottawa: TBS, n.d
18. Agriculture Canada. 2007-08 RPP, 2005-06 DPR, and Internal Audit Reports. Ottawa: TBS, n.d
19. Department of Justice. 2007-08 RPP, 2005-06 DPR, and Internal Audit Reports. Ottawa: TBS, n.d
20. National Energy Board. 2007-08 RPP, 2005-06 DPR, and Internal Audit Reports. Ottawa: TBS, n.d