



# Audit of budgeting and forecasting: Appendices

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## Appendix A: About the audit

### Audit objective and scope

The audit objective was to assess the adequacy and effectiveness of the budgeting and forecasting activities performed by branches and regions to prevent material over or underspending.

The audit scope covered April 2019 to October 2021.

The audit examined:

- processes related to budgeting and forecasting performed by branches and regions through their directorates and project OPIs/OCIs, including the maintenance of the budget and forecast throughout the year
  - This included identifying potential lapses or overspending in a timely manner and taking action to re-allocate funds and submit re-profiling requests
  - Oversight of budget estimates and assumptions as well as periodic forecasts by branches or regions and FCMB
  - RCMs submitting timely information to enabling functions (Human Resources, Procurement, IT, etc.) and receiving timely support from them to meet budgeted commitments
- timely communication between all key stakeholders including internal and/or external stakeholders, as required for the development of budgets and forecasts.
- analyzed branches, regions and/or projects with lapses and/or over spending from fiscal year 2019 to 2020, 2020 to 2021.
- reviewed activities performed between the period April 1, 2021, to October 30, 2021, to support the transition to the one year appropriation model.

Given the work undertaken over the last several years related to budgeting and forecasting, the scope excluded the following work done by FCMB as the functional lead of budgeting and forecasting at the agency:

- Development of tools and templates by RMD

- Elements of the process managed by FCMB (ARLU, notional budget, call letters, roll-up of branch and regional Financial Situation Reports for committee, etc.)
- Integrated Business Planning processes beyond the development of the initial budget

Due to limitations surrounding the COVID-19 pandemic, there was no planned travel during this audit. However, various branches and regions were contacted for interviews and/or documentation.

## **Risk assessment**

A preliminary risk assessment was conducted to identify areas of highest risk and to prioritize the areas of focus for the audit. This assessment was based on interviews with key stakeholders, review of relevant documentation, and walkthroughs of the budget allocation and forecasting processes and systems. As a result of this assessment, the following key risks related to the B&F were identified and used to develop the audit objective, scope and criteria:

- B&F processes may not be implemented and executed to effectively and efficiently manage financial resources
- Responsibility centre and project managers may not receive timely support from enabling functions to meet their budgeted commitments (i.e., Human Resources, procurement, IT)
- Communication may not occur promptly and transparently with internal stakeholders to support effective development of budgets and timely and accurate forecasting activities
- Branch and regional budgets and forecasts (including base and project funding) may be developed based on unrealistic assumptions and

estimates, and without sufficient verification or challenge to determine their reasonableness

- Responsibility centre managers may not have adapted processes required to adjust to the one year appropriation model or may not be flexible in the development of their budgets and forecasts to ensure success in meeting the agency's financial objectives

## Approach and methodology

The examination phase of this audit was performed using the following approach:

- Review of documentation related to the budgeting and forecasting processes
- Interviews with various individuals involved in budgeting and forecasting processes in the branches and regions
- Walkthroughs of budgeting and forecasting systems and sub-processes
- Analytical procedures and analysis of data from the agency's budgeting and forecasting systems
- Testing a sample <sup>15</sup> of regional and branch budgets and forecasts, including base and project funding to assess whether key elements of the process were followed and to understand the root cause of budget and forecast variances

## Audit criteria

The following lines of enquiry and audit criteria were developed in alignment with the *Committee of Sponsoring Organizations of the Treadway Commission* (COSO) Principles of Effective Internal Control and also to take

into consideration elements of the Treasury Board's *Policy on Financial Management*.

Line of enquiry	Audit criteria
<b>1. Budgeting and forecasting activities in the branches and regions</b>	<p>1.1 Branches and regions develop annual budgets in adherence to established processes</p> <p>1.2 Branches and regions use valid and accurate information to develop and manage forecasts in adherence to established processes</p> <p>1.3 Branches, regions and enabling services plan and collaborate to effectively manage workload and deliver on budgeted commitments</p>
<b>2. Communications</b>	<p>2.1 Relevant information is shared on a timely basis amongst key stakeholders to support the development of accurate budgets and forecasts.</p>

## Appendix B: Stakeholders

### Planning and resource management directorate (PRMD)

Manage and lead the budgetary allocation and forecasting processes within the agency.

### Cost centre managers (CCMs)

Accountable for identifying funding and resource requirements to develop budgets and inform in-year forecasting activities, as well as recording

expenditures as they are incurred by their cost centres (includes program, project and initiative leads).

### **Financial management advisors (FMAs)**

Support CCMs in conducting and reporting on their financial management responsibilities, including contributions to budget and maintenance of forecasts. FMAs report to FCMB.

### **Branch planning and/or resource management units or regional finance (BPMU/RMU)**

Specific units <sup>16</sup> that provide financial and strategic advice and support and report to leads (VPs, RDGs <sup>17</sup>).

### **Office of primary interest (OPI) or functional lead**

Branch and/or RDG specifically assigned with responsibility and accountability to manage and deliver on a project or initiative outcome; also responsible for distributing funding to the OCIs and for monitoring the progress in delivering results.

### **Office of collateral interest (OCI)**

Branch and/or RDG who is implicated in or associated with the performance and/or production of a project/initiative outcome.

### **Enabling services**

agency functions that provide internal services to CCMs, facilitating the delivery of planned expenditures (staffing, procurement, IT, etc.).

### **Financial and investment management committee (FIMC)**

Executive governance body responsible for providing oversight of the CBSA's financial management, including quarterly review of the agency's financial situation, which details progress against budgets and forecasts.

# Appendix C: Previous audits and reviews

The challenges identified in this report have been raised over the years in other reports and at agency governance discussions. Since these items remain as on-going risks causing budget and forecast variances, previous corrective actions may not have been sufficient to address the issues. Some of the audits and reviews that highlighted the issues include:

## **Internal Audit and Program Evaluation Directorate's Internal audit of compensation processes and controls (2021) <sup>18</sup>**

The audit found that the systems used in the HR-to-Pay process do not always facilitate the end-to-end process without errors. However, the agency does not own CAS or Phoenix, as such it can only raise concerns to the relevant systems owners, while internally identifying and monitoring discrepancies with the HR data.

## **Assessment of pay administration (2021)**

This external assessment identified the following challenges impacting the accuracy of the salary expenditures data within CAS and Phoenix:

- a. data integrity issues
- b. salary system issues, and
- c. lack of an accountable stakeholder responsible for the end-to-end process oversight of pay administration <sup>19</sup>, hindering process integration and coordination to address challenges

## **Internal control's (FCMB) evaluation of the B&F financial control framework (2020)**

The evaluation had observations related to the following:

- a. the budget being allocated based on prior year results instead of against current year strategic plans and upcoming operations
- b. insufficiently detailed costing templates with limited understanding and oversight, and
- c. poor salary forecasting related to systems issues

## **Internal Audit and Program Evaluation Directorate's Internal audit of project management (2020) 20**

The audit found the following issues would have an impact on the B&F processes :

- a. there were delays in entering time sheets and incorrect coding of work done
- b. delays in salary reporting
- c. possible understatement of costs
- d. failure to account for project interdependencies, and
- e. limited consultation/timely engagement with FMAs and internal service providers

## **Internal Audit and Program Evaluation Directorate's Review of the functional management model (2020)**

The review team advised that RDG, Business Line VP and DG roles and responsibilities related to operational and financial decision-making, and management of in-year budget – i.e. allocation/re-allocation processes and authorities – need to be revised

# **Appendix D: List of acronyms**

### **B&F**

Budgeting and Forecasting

### **CAS**

Corporate Administrative System

### **CBSA**

Canada Border Services Agency

### **CCM**

Cost Center Manager

### **FCMB**

Finance and Corporate Management Branch



**FIMC**

Financial and Investment Management Committee

**FMA**

Financial Management Advisor

**FY**

Fiscal Year

**HRB**

Human Resources Branch

**IT**

Information Technology

**O&M**

Operations and Maintenance

**PRMD**

Planning and Resource Management Directorate

**RDG**

Regional Director General

**TBS**

Treasury Board Secretariat of Canada

**VP**

Vice-President

## Footnotes:

- 15 The internal audit team selected cost centers by analyzing budget variances and forecast variances and identifying those who were, in a surplus variance position, in a deficit variance position; or were on-par.
- 16 The extent to which these units exist or are involved in B&F activities varies across all areas.
- 17 Regional Directors General are responsible for managing the operational service delivery of the three functional branches within their respective region on behalf of the Vice-Presidents.
- 18 Internal Audit and Program Evaluation Directorate's internal audit of compensation processes and controls
- 19 Roles and responsibilities are outlined in the Guideline on Financial Management of Pay Administration
- 20 Audit of project management

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