



Library and Archives  
Canada

Bibliothèque et Archives  
Canada

# **Internal control over financial reporting Statement, assessment summary and action plan**

For the fiscal year  
ending March 31, 2012

**Summary of the assessment of effectiveness of the system of internal control over financial reporting and the action plan of Library and Archives Canada for fiscal 2011–2012**

*Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting*

## Note to the reader

With the new Treasury Board *Policy on Internal Control*, effective April 1, 2009, departments are now required to demonstrate the measures they are taking to maintain an effective system of internal control over financial reporting (ICFR).

As part of this policy, departments are expected to conduct annual assessments of their system of ICFR, establish action plan(s) to address any necessary adjustments, and attach a summary of their assessment results and action plan to their *Statements of Management Responsibility*.

Effective systems of ICFR aim to achieve reliable financial statements and to provide assurances that:

- transactions are appropriately authorized
- financial records are properly maintained
- assets are safeguarded from risks such as waste, abuse, loss, fraud and mismanagement
- applicable laws, regulations and policies are followed

It is important to note that the system of ICFR is not designed to eliminate all risks, but rather to mitigate risk to a reasonable level with controls that are balanced with and proportionate to the risks they aim to mitigate.

The system of ICFR is designed to mitigate risks to a reasonable level based on an ongoing process to identify key risks, assess the effectiveness of associated key controls and adjust as required, as well as monitor the system in support of continuous improvement. As a result, the scope, pace and status of departmental assessments of the effectiveness of their system of ICFR will vary from one organization to another, based on risks and taking into account their unique circumstances.

This annex is unaudited.

## **1. Introduction**

This document is appended to the 2011–2012 *Statement of Management Responsibility Including Internal Control Over Financial Reporting* of Library and Archives Canada (LAC). As required by the Treasury Board *Policy on Internal Control* (in effect since April 1, 2009), this document presents, for the first time, summary information on the measures taken by LAC to maintain an effective system of internal control over financial reporting (ICFR). More specifically, it provides information on the assessments undertaken by LAC finance services to March 31, 2012, the progress made, the results and related action plans, and the financial data that provides an understanding of the control environment at LAC.

### **1.1 Powers, mandate and program activities**

Detailed information on the powers, mandate and activities of LAC can be found in the [Departmental Performance Report](#) and the [Report on Plans and Priorities](#).

### **1.2 Financial highlights**

LAC's 2011–2012 financial statements can be found at [About Us – Library and Archives Canada](#), and information about Canada's Public Accounts can be found at [Public Accounts of Canada 2011 / Receiver General for Canada / PWGSC](#).

- Total expenses were \$159 million.
- Total revenues were \$0.5 million.
- Capital assets represent 84% (\$38,404,000) of all LAC assets (\$45,885,000). Accounts payable and expenses due and accrued make up more than 29% (\$9,393,000) of total liabilities (\$25,491,000).
- LAC uses an information technology (IT) system that is indispensable in the preparation of its financial reports.

### **1.3 Service agreements relevant to the financial statements**

LAC relies on other organizations to process various transactions that are recorded in its financial statements:

- Public Works and Government Services Canada administers the payment of salaries and the procurement of goods and services, as well as local services.
- The Treasury Board of Canada Secretariat provides LAC's finance services with information used to calculate various accruals and allowances, such as the accrued severance liability and the employer's share of health and dental insurance premiums.
- The Department of Justice provides LAC with legal services.
- Human Resources and Skills Development Canada provides services related to the employer's share of workers' compensation benefits.

## 1.4 Important changes in fiscal 2011–2012

**Investment plan and project management** – LAC presented an investment plan to Treasury Board to replace the long-term investment plan that expired March 31, 2011. This plan outlines a proposal to transfer the custody of certain assets from Public Works and Government Services Canada to LAC. The investment plan also specifies that under the new *Policy on the Management of Projects*, LAC has expressed the desire not to assess its organizational project management capacity before the projected review of the plan, no later than spring 2014. In the interim, the Strategic Planning, Infrastructures and Operations Branch is coordinating the implementation of the *Policy on Investment Planning* and project management policies. The implementation of these two policies will contribute to better resource management at LAC.

- **Modernization** – The modernization initiative will allow LAC to examine and implement innovative and realistic processes to achieve the mandate to evaluate and acquire documentary heritage in any format and to preserve and provide access to it. In tandem with this initiative, LAC has implemented a strategic planning initiative for the realignment of its resources, to fulfill its mandate and meet the challenges posed by the emergence of digital material. LAC is currently working to establish novel ways to strategically allocate its resources by planning investments to achieve its modernization objectives. The strategy it plans to adopt will take the demographic and economic situation of the organization into account and leverage new methods, including partnership agreements.
- **Quarterly financial statements** – For the first time in 2011–2012, LAC submitted quarterly financial statements in response to recent changes to the *Financial Administration Act* and the entry into effect of the new Treasury Board accounting standard (TBAS 1.3) *Departmental and Agency Quarterly Financial Report*. The quarterly financial report is complementary to the existing departmental year-end report; it increases transparency and provides parliamentarians with timely information related to departmental expenses.

## 2. LAC's control environment relative to ICFR

LAC's focus is to ensure that risks are well managed through a responsive, risk-based control environment that allows for continuous improvement and innovation.

The system of ICFR at LAC is conducive to the healthy control environment described in the organization's entity-level controls. These entity-level controls are designed to provide:

- a control environment designed to allow for effective ICFR
- an effective risk-assessment process that identifies, analyzes and manages risks related to financial reporting, within the ministerial risk management framework
- an effective information and communications system that identifies and captures information to keep the ICFR system up-to-date and communicates it in a timely fashion to the appropriate stakeholders
- an effective monitoring system to detect and remediate deficiencies in the system of ICFR

## 2.1 Positions, roles and key responsibilities

Below are LAC's key positions and committees with responsibilities for maintaining and reviewing the effectiveness of its system of ICFR.

**Deputy Head** – As accounting officer, the Deputy Head of LAC assumes overall responsibility and leadership for the measures taken to ensure the effectiveness of the internal control system. In this capacity, the Deputy Head chairs the Departmental Audit Committee and the Management Board.

**Chief Financial Officer (CFO)** – The CFO reports directly to the Deputy Head. The CFO provides leadership for the coordination, consistency and focus of the design and maintenance of an effective and integrated system of ICFR, including its annual assessment.

**Senior managers** – The senior managers in charge of program delivery at LAC are responsible for maintaining and reviewing the effectiveness of the aspects of the system of ICFR that fall within their scope.

**Chief Audit Executive (CAE)** – The CAE report directly to the Deputy Head. The Internal Audit function uses a disciplined, evidence-based approach to assess and improve the effectiveness of risk management, control and governance processes. It helps ensure that the organization achieves its objectives efficiently and in a way that demonstrates informed ethical and accountable decision-making.

**Departmental Audit Committee (DAC)** – The role of the DAC is to provide objective advice and recommendations to the Deputy Head regarding the sufficiency, quality and results of assurance on the adequacy and functioning of the department's risk management, control and governance frameworks and processes (including accountability and auditing systems). The DAC was created in 2009 and has three external members. Each external member is engaged for a term of four years, with the possibility to serve for one extra term.

**Governance committees** – LAC governance committees are involved in establishing and monitoring the linkages between activity-level and organization-level objectives. The Management Board, chaired by the Deputy Head and Librarian and Archivist of Canada and Chair, Heads of Federal Agencies, is the organization's decision-making body which acts like a "board of directors" by providing overall governance, strategic direction, and organization-wide decision-making support for the Deputy Head and Librarian and Archivist of Canada and Chair, Heads of Federal Agencies. The Management Board is supported by subcommittees, including the Senior Management Committee which is charged with examining, approving and monitoring the organization's risk profile and its internal control system, in particular the evaluation of the system of ICFR and related action plans.

## 2.2 Key measures instituted by LAC

LAC's control environment also provides for a set of measures to help employees effectively manage risks through increased awareness, relevant knowledge and tools, and professional skill development. These measures include:

**Corporate risk profile** – LAC's corporate risk profile sets out a comprehensive strategy for managing risk. It contains a list of the highest priority corporate-level risks for the organization, as well as mitigation strategies to help ensure these risks are well managed. Every year, the organization identifies activities or threats that may prevent it from achieving its objectives and develops strategies to mitigate those risks. Corporate risk management enables LAC to realign its resources or priorities to help ensure its continued success.

**Risk-based audit plan** – The CAE of LAC develops an annual risk-based audit plan (RBAP) based on an analysis of organizational risks, in consultation with the organization's senior management. This plan, which is instrumental to LAC's system of ICFR, is also submitted to the Office of the Comptroller General of Canada. The results of internal audit assessments, identified in the RBAP, are submitted to the Departmental Audit Committee and recommended for approval by the Deputy Head and Librarian and Archivist of Canada and Chair, Heads of Federal Agencies. In 2011–2012, the internal audit function at LAC has completed five internal audits according to the 2011–2014 RBAP.

**Human resources management (HR)** – In compliance with Public Service Renewal, the financial management capacities of LAC managers and financial experts are sustained through a general HR approach that integrates HR planning with business planning and includes recruitment, development and retention strategies to attract, equip and retain the talent the organization needs, including in the area of financial management.

**Communication and training** – LAC's General Communications Directorate has implemented a communications strategy. A performance and learning plan is drawn up annually. In co-operation with the Canada School of Public Service and other training providers, LAC offers basic courses in key areas of management, including financial management. Some courses are mandatory, especially for finance managers and staff.

**Delegated authorities, legislation, regulations and policies** – LAC's CFO periodically updates and communicates to all staff a matrix of all authorities delegated across the organization. Mandatory requirements flowing from legislation; regulations and policies are systematically communicated to new employees as applicable and periodically reinforced through various awareness opportunities and learning events. Specimen signature cards for delegated signing authority related to financial operations are also available in electronic format. LAC has also set out detailed explanations of its guidelines related to the powers described in sections 32, 33 and 34 of the *Financial Administration Act* and compliance with these provisions.

**Internal control system** – LAC has a division that reports to the Assistant Chief Financial Officer, supported by an advisory committee dedicated to internal control. This division documented the institution’s main business processes, risks and related key controls in order to support the management and oversight of its system of ICFR, including evaluating design effectiveness. This documentation is critical to increasing the awareness and understanding of employees at all levels with regard to risks and key controls, as well as to supporting continuous improvement.

### **3. Assessment of LAC’s system of internal control over financial reporting**

#### **3.1 Assessment baseline**

To meet the requirements of the *Policy on Internal Control*, LAC must be able to maintain the effectiveness of the system of ICFR with the objective of providing reasonable assurance that:

- transactions are appropriately authorized
- financial records are properly maintained
- assets are safeguarded
- applicable laws, regulations and policies are followed

In doing so, departments will assess the design and operating effectiveness of their systems of ICFR to support continuous improvement.

**Design effectiveness** means ensuring that key control points are identified, documented and in place, and that they are aligned with the risks (that is, that the controls are proportional to the risks they seek to mitigate) and that any remediation is addressed. This includes mapping key processes and information technology (IT) systems to the main accounts by location, as applicable.

**Operating effectiveness** means that key controls have been tested over a defined period and that any remediation is addressed.

This testing covers all levels of departmental controls, both at the entity level and at the level of business processes and IT general controls.

**Continuous improvement** means that all essential roles related to the ongoing oversight and effectiveness of the ICFR are defined; that an integrated systematic oversight approach is in place, including periodic risk-based evaluations; that remediation and related re-evaluations are executed in a timely fashion; and that appropriate communications and training are offered to the staff.

#### **3.2 LAC’s assessment methodology**

Following the assessment of readiness to support the implementation of the *Policy on Internal Control* in fall 2010, LAC set up a team with the primary responsibility of implementing this policy.

In October 2010, LAC’s team for the implementation of the *Policy on Internal Control* conducted a risk assessment based on its financial statements to determine the key business processes that pose the greatest risks for the organization and the users of its financial statements. Key business processes are specific processes that include financial transactions processing.

The key processes that underwent assessment were the following:

- salaries
- payables and disbursements
- purchases
- capital assets and amortization
- sales, receipts and receivables

As such, for each business process, LAC's team for the implementation of the *Policy on Internal Control*:

- gathered information and documentation on processes and locations, as well as risks and controls related to ICFR, including relevant policies and procedures
- mapped out key processes with the identification and documentation of key risk and control points on the basis of materiality, volumes, complexity, geographic dispersion, susceptibility to loss/fraud, areas subject to audit observations, past history and external attention
- tested the design effectiveness of the system of ICFR

Moreover, LAC's team for the implementation of the *Policy on Internal Control* recorded and evaluated its entity-level (organizational) controls and the general controls of its IT infrastructure.

Entity-level controls are defined as general organizational controls that set the "tone from the top" of the organization. The following areas were reviewed:

- risk management
- governance
- information and communications
- oversight activities

IT general controls are defined as the central financial system and IT infrastructure controls used in the entire organization to support financial transactions.

LAC's team for the implementation of the *Policy on Internal Control* is now following a rotational ongoing monitoring schedule to ensure that all ICFR systems remain up-to-date and effective. Process documentation, including narratives and descriptions of all key controls, is updated and validated periodically by process owners.

#### **4. LAC assessment results**

Using the assessment methodology described above, LAC's team for the implementation of the *Policy on Internal Control* established a basic architecture of key control points based on processes and principal IT systems.

In assessing its key controls, LAC's team for the implementation of the *Policy on Internal Control* has focused on testing design effectiveness as a pre-requisite to testing operational effectiveness.

By March 31, 2012, LAC's team for the implementation of the *Policy on Internal Control* had completed design effectiveness and operational effectiveness analysis and audits for all entity-level controls.

LAC's team for the implementation of the *Policy on Internal Control* had also completed design effectiveness and operational effectiveness audits for five of its twelve business processes.

Finally, LAC's team for the implementation of the *Policy on Internal Control* had begun to assess the design effectiveness of its IT general controls.

The assessment results are presented in the subsections below.

#### **4.1 Design effectiveness of key controls**

In its design effectiveness testing, LAC's team for the implementation of the *Policy on Internal Control* reviewed the documentation (including validation by process owners) and verified whether process and IT system documentation is in place and corresponds to actual practice. Remediation requirements were identified for every process listed in section 3.2. Design effectiveness testing also included ensuring appropriate alignment of each key control with the associated risks.

As a result of this testing, LAC's team for the implementation of the *Policy on Internal Control* identified the following improvement recommendations:

##### **Entity-level controls**

- institute a formal quarterly monitoring process by the Departmental Audit Committee or the Management Board for risks identified in the integrated risk profile
- institute an annual assessment of specific IT risks
- institute a formal process by which deviations from the *Values and Ethics Code for the Public Service* are put on the Departmental Audit Committee's agenda for discussion and follow-up
- conduct an annual evaluation of the IT business continuity plan and resumption plan to determine the key players and their responsibilities

##### **Business process controls**

Certain weaknesses were identified on the level of the following business processes:

- salaries
- payables and disbursements
- purchases; sales, receipts and receivables

Other than the delay in the implementation of a revenue control measure, all other weaknesses were corrected before March 31, 2012.

##### **IT general controls**

The lack of documentation on general controls for the following financial systems made it impossible to determine the design effectiveness of their key controls at a reasonable effort:

- FreeBalance
- PBHC
- Online Pay
- HRIS

## **4.2 Operating effectiveness of key controls**

### **Entity-level controls**

In 2010–2011, LAC’s team for the implementation of the *Policy on Internal Control* tested the operational effectiveness of key controls which allowed all identified controls to be verified.

The operational effectiveness of key controls testing concluded that these controls are working effectively, but that improvements in documentation could be made in certain respects.

### **Business process controls**

In 2011–2012, LAC tested the functional effectiveness of the key controls in its five most important processes. Overall, the tests revealed that they are effective, but attention should be paid to the following items:

- salaries process sub-control related to documentation for removing an employee from the payroll system
- revenue process sub-control related to pending receivables and the work documentation completed for sales and payment transaction auditing and reconciliation

### **IT general controls**

Given the impossibility of testing the design effectiveness of the information technology general controls due to gaps in the documentation, no operational effectiveness testing was undertaken in 2011–2012.

## **5. LAC action plan**

The senior management at LAC is committed to sustaining and continuously improving its system of ICFR, including ongoing monitoring to ensure that the key controls meet the expectations of management and stakeholders and that they mitigate associated risks appropriately.

LAC’s team for the implementation of the *Policy on Internal Control* will continue the ongoing monitoring and rotational testing of the operating effectiveness of its ICFR and will report the results of this activity in this annex yearly. In addition, when new programs are introduced or significant internal control process changes occur, LAC will ensure that adequate controls, adapted to the organization’s risks, are implemented and fully documented.

## **5.1 Progress as of March 31, 2012**

LAC's team for the implementation of the *Policy on Internal Control* completed its work on the following items:

- examination and reporting of entity-level controls related to governance, risk management, and oversight, information and communications activities
- assessment of design and operational effectiveness of entity-level controls
- examination and reporting, as well as design and functional testing of controls related to the following financial transaction processes: salaries; payables and disbursements, purchases, capital assets and amortization, sales, receipts and receivables
- application of remediation measures based on design effectiveness test results for controls related to the five business processes listed above

## **5.2 Action plan for the next fiscal year and subsequent years**

**By the end of fiscal 2012-2013, LAC's team for the implementation of the *Policy on Internal Control* intends to:**

- institute its five-year risk-based control plan
- pursue the documentation and verification of IT general controls
- pursue the documentation and verification of key business process controls
- continue to apply remediation measures based on observations

	2012–2013				2013–2014				2014–2015 and subsequent			
	Documentation	Design	Business process	Remediation measures	Documentation	Design	Business process	Remediation measures	Documentation	Design	Business process	Remediation measures
<b>Entity-level controls</b>				•		•	•	•				•
<b>Business process controls</b>												
Salaries				•					•	•	•	
Purchases				•					•	•	•	
Payables				•					•	•	•	
Capital assets				•					•	•	•	
Sales				•					•	•	•	
Accrued liabilities	•	•	•					•				
Capital assets – work in progress					•	•	•					•
Value of the collection	•	•	•					•				
Benefits	•	•	•					•				
Budget and projections					•	•	•					•
Subsidies and contributions					•	•	•					•
Production of financial statements	•	•	•					•				
<b>IT general controls</b>												
Validation of pre-conversion HRIS/PeopleSoft data	•	•	•		•	•	•					•
Validation of pre-conversion FreeBalance/SAP	•	•	•		•	•	•					•
People Soft					•	•	•					•
SAP					•	•	•					•