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Audit of the Financial Information Strategy - Capital Asset Management Library and Archives Canada

Prepared for
Library and Archives Canada

Prepared by
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1.0 Executive Summary

With the introduction of the Financial Information Strategy (FIS) there are requirements for understanding the costs associated with the management of capital assets. In particular, the life cycle impact to acquire, operate, store and dispose of capital assets must be known since the Government of Canada regularly reports to the House Standing Committees on the Industry and Public Accounts. Accrual and life cycle costing will lead to improved accountability and stewardship in the management of capital assets and the use of government funding.

The LAC has a policy for the capitalization and amortization of capital assets which is consistent with Treasury Board policy and Generally Accepted Accounting Principles. In the case of the LAC, a tangible asset is capitalized if the initial purchase cost is in excess of a \$3,500 threshold. Moveable assets are defined as: telecommunications equipment; computer systems; computer software; vehicles; machinery; and, equipment.

Since the implementation of the FIS and the merger of the National Library of Canada and the National Archives of Canada, an audit of capital assets has never been conducted. Audit Services Canada (ASC) was engaged to provide assistance to the LAC in conducting an audit of capital asset management in accordance to the Financial Information Strategy. The audit fieldwork took place between March and June 2006. The objectives were to evaluate the extent that moveable capital assets were properly recorded in the financial system and to assess the degree that financial information was used in planning and decision-making at the LAC. To evaluate these objectives, samples were selected for documentation review, asset inspection and survey analysis from the AMMIS system at the LAC as at February 2006.

A sample of documents was reviewed to verify the presentation, valuation, and ownership assertions made by the LAC for moveable capital assets. This sample represented approximately \$9.3 million of assets which was 29% of the total moveable capital assets at the National Capital Region. From the results of this examination, we were unable to identify any material discrepancies between the information recorded on the sample documents with the information stored in AMMIS.

To evaluate the existence and completeness assertions made by the LAC, samples of assets were inspected. The sample of assets to verify the 'existence' assertion represented about 33% of all responsibility centres. There were discrepancies identified when we evaluated the existence of assets recorded in AMMIS as follows:

- twenty percent of the sample assets recorded in AMMIS were sent for disposal and should have not been recorded in the system;
- thirty-seven percent of the sample assets were improperly recorded in the AMMIS system. These assets were located in buildings other than locations recorded in AMMIS or the responsibility centres with custodianship of the assets were improperly recorded in AMMIS; and,

- forty-three percent of the sample assets had missing data or incorrect data recorded under the data fields representing serial number, manufacture names or model numbers.

These discrepancies have no financial impact but may affect information used for internal planning purposes.

An additional sample was selected while site visits were conducted to match back to the AMMIS database to verify the 'completeness' assertion made by the LAC. There were no anomalies identified when we evaluated the completeness of assets recorded in the AMMIS system.

Furthermore, a survey of responsibility managers at the National Capital Region with custodianship of assets was conducted. The survey responses received represented approximately \$27 million in historical cost of assets which was 85% of the total moveable capital assets at the National Capital Region. The results were as follows:

- seventy-two percent of survey respondents stated that financial information was easily accessible to management for decision-making; and,
- fifty percent of the survey respondents stated that they had a strategic plan for the replacement of moveable capital assets for their responsibility centres while twelve percent stated that they had a partial strategic plan and thirty-eight percent stated that they did not have a strategic plan.

In conclusion, based on the audit results, in our opinion the moveable capital assets recorded in the AMMIS system as at February 2006 represented fairly, in all material respect, the moveable capital assets at the LAC. The discrepancies observed did not have a material financial impact on the financial statements at the LAC; however, they may affect the information used for internal planning purposes. To minimize future discrepancies, we recommend the following:

- review the assignments for the custodians of assets and documentation to ensure proper safeguarding;
- conduct periodic audits to ensure compliance to policies and procedures;
- review whether the communication of policies and procedures are sufficient; and,
- develop policies and procedures for the physical labeling of assets.

As well, we conclude that financial information was being used in the planning and decision-making at the LAC for the most part. To increase the use of financial information we recommend the following:

- Finance and Materiel Management should regularly provide information to responsibility centre managers to minimize the variations in information sources; and,
- a corporate and individual capital asset plans should be developed and updated regularly for the replacement of assets.

2.0 Background

Assignment History

The Corporate Performance and Information Division of the Library and Archives Canada (LAC) developed a three-year Internal Audit and Evaluation Plan and Budget to address risks and provide audit and evaluation products that will be of value to the Institution. Through a consultation process with key stakeholders from the LAC and a risk assessment exercise, the need for the Audit of Capital Asset Management to be conducted between fiscal years 2005/2006 and 2006/2007 was identified. This audit links to the department's strategic objective to ensure Canada's documentary heritage is safeguarded and organized for current and future generations.

Audit Services Canada (ASC) was engaged to provide assistance to the LAC in conducting a two-phased audit. The first phase of the audit carried out between July and October 2005 defined the scope of work based on risks for the second phase of the audit. An audit planning memorandum report was produced in the first phase of the audit for execution during the second phase of the audit.

Results identified in this audit planning memorandum had defined the audit of capital asset management as both the Audit of the Financial Information Strategy and the Audit of Preservation Equipment at the LAC.

Both audits are related and information obtained in the audit of the Financial Information Strategy, as it relates to capital assets, will be useful in the Audit of Preservation Equipment. The audit of preservation equipment will evaluate the management control framework such as capacity planning, prioritization and budgeting which differs from a compliance audit approach used in auditing the Financial Information Strategy. Nevertheless, there is a linkage between both audits. The overall goal of the Financial Information Strategy is to encourage the use of financial information for decision-making while the audit of preservation equipment will examine the extent to which financial information is used in decision-making and planning.

This report relates to the Audit of the Financial Information Strategy – Capital Asset Management. A separate project was conducted for the Audit of Preservation Equipment.

The Financial Information Strategy

With the introduction of the Financial Information Strategy (FIS) there are requirements for understanding the costs associated with the management of capital assets. In particular, the life cycle impact to acquire, operate, store and dispose of capital assets must be known since the Government of Canada regularly reports to the House Standing Committees on the Industry and Public Accounts. As such, Parliamentarians are interested in the progress being made by departments in the management of these assets.

At this point, the historical cost of capital assets, less accumulated amortization, are being reported on the Statement of Financial Position while the annual amortization expense are being reported on the Statement of Operations. As a result, the Department's Statement of Operations will reflect the portion of capital assets consumed during any given year. As such, accrual and life cycle costing will lead to improved accountability and stewardship in the management of capital assets and the use of government funding.

The infrastructure has been implemented by the federal departments in April 2001, but the decision to adopt accrual accounting for the budget and appropriation has not been made. Once this second "wave" of the FIS to implement accrual budgeting and appropriation has been made, the Government accounting will be based on full accrual accounting.

The LAC has a policy for the capitalization and amortization of capital assets which is consistent with Treasury Board policy and Generally Accepted Accounting Principles. In the case of the LAC, a tangible asset is capitalized if the initial cost is in excess of a \$3,500 threshold¹.

Capital assets can be categorized as real properties and moveable assets. Real properties include land and buildings, while moveable assets are defined as: telecommunications equipment; computer systems; computer software; vehicles; machinery; and equipment. Capital assets do not currently include intangible assets such as copyrights, trademarks, patents, land easements and rights of way. Collection heritage, also known as "works of art," are not considered as assets for capitalization and amortization.

Since the implementation of the FIS and the merger of the National Library of Canada and the National Archives of Canada, an audit of capital assets has never been conducted. Capital Assets support the business of the LAC and there are abundant individual assets and composite assets in excess of \$3,500. These moveable assets include:

- An estimated replacement value of \$1.5 million acquired by the Security, Safety and Emergency Management;
- Computer equipment, software and audio-visual equipment acquired by all branches;
- Preservation and digital equipment acquired by the Digital Media Preservation Technology Branch; and
- Storage shelves, especially at the Federal Record Centres.

Real properties are currently under the ownership of PWGSC. These buildings would represent capital leases to the LAC rather than moveable assets.

The risk that an individual moveable asset, in excess of \$3,500, is recorded improperly is low. The risks reside in errors in recording:

- Composite assets which are individual items that are purchased separately but function as a whole;

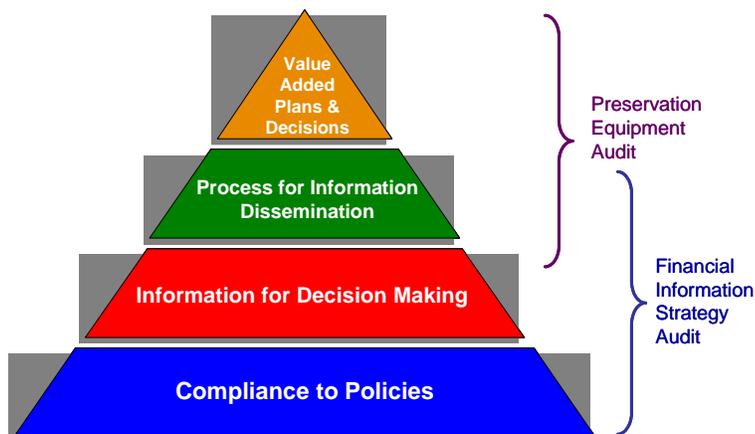
¹ The LAC changed the capitalization threshold to \$10,000 on April 1, 2006. For the purpose of the audit, the \$3,500 capitalization threshold applies.

- Assets that have been partially or fully depreciated;
- Betterments (improvements) made to old/depreciated assets; and
- Software assets (especially business applications).

3.0 Methodology

The methodology for the Audit of Capital Asset Management consisted of two separate audits. The first audit related to the Financial Information Strategy while the second audit examined preservation equipment at the LAC. Information obtained in the audit of the Financial Information Strategy was used to audit preservation equipment.

The audit of the Financial Information Strategy assessed the Department's: compliance to established policies; usage of relevant financial and non-financial information for decision making; and, establishment of a process for information dissemination. The overall goal was to evaluate the degree that strategic plans and decisions were 'value-added' to the Department.



Objectives

The specific objectives for the audit of the Financial Information Strategy were:

- To ensure that moveable assets were properly recorded in the financial system of the LAC; and,
- To assess the degree to which financial information was used in planning and decision-making at the different functional areas of the LAC.

Scope

The scope of the work included an audit of all moveable assets in the National Capital Region from all functional areas. Some interviews were conducted to evaluate moveable capital assets maintained outside of the National Capital Region. The audit fieldwork took place between March and June 2006.

Audit Criteria and Procedures

Methodology		
Objectives	Criteria	Procedures Implemented
<p>To ensure that moveable assets are properly recorded in the financial system of the LAC.</p>	<ul style="list-style-type: none"> • Moveable capital assets have been disclosed in accordance with Generally Accepted Accounting Principles. • A moveable capital asset is recorded at an appropriate carrying value. • A moveable capital asset is owned by the LAC. • All moveable capital assets have been recorded in the systems at the LAC. • Moveable capital assets recorded in the system actually exist at the LAC. 	<ul style="list-style-type: none"> • The AMMIS database used to contain information on capital moveable assets was analyzed using a computer assisted audit tool and technique and a random sample was selected for testing. • Documentation of sample items was reviewed and assets were vouched (matched) to the list of sample items. • Some assets were selected and vouched (matched) back to the system. • The financial system of the LAC was reviewed. • Interviews were conducted as necessary.
<p>To assess the degree to which financial information is used in planning and decision-making at the different functional areas of the LAC.</p>	<ul style="list-style-type: none"> • Financial information is easily accessible to management for decision-making. • Strategic plans take into account financial information. 	<ul style="list-style-type: none"> • Interviews were conducted and documents were reviewed from different functional areas. • A survey of a selected sample of responsibility managers was conducted.

4.0 Audit Results

The overall goal of the FIS is to provide better financial information for decision-making since the departmental financial statements can reveal the cost of program delivery. More effective stewardship and accountability of capital assets will result as managers focus on asset management because of their increased visibility on the Statement of Financial Position. As such, to evaluate this goal at the LAC, two audit objectives were established as follows:

- Objective 1 - To ensure that moveable assets are properly recorded in the financial system of the LAC; and,
- Objective 2 - To assess the degree to which financial information is used in planning and decision-making at the different functional areas of the LAC.

To measure the first objective, the audit procedures included documentation review and asset inspection. The second objective was evaluated using a survey as an audit procedure. Samples were selected for the documentation review, asset inspection and survey from the AMMIS system. The AMMIS system stores detailed information on moveable capital assets. Data from the AMMIS is subsequently entered into the FreeBalance financial system to record expenses such as amortization. Information from FreeBalance is used to produce the financial statements at the LAC. If information in AMMIS is inaccurate, the financial statements would also be incorrect. As such, data in AMMIS as at February 2006 was analyzed and samples extracted for testing using a computer assisted tool to evaluate the accuracy of the data.

The results for the documentation review, asset inspections and survey are described in this section.

Results from Documentation Review

A sample of moveable capital assets at the National Capital Region was selected to verify the following assertions made by the LAC:

- Presentation - Moveable capital assets have been disclosed in accordance with Generally Accepted Accounting Principles;
- Valuation - A moveable capital asset is recorded at an appropriate carrying value; and,
- Ownership - A moveable capital asset is owned by the LAC.

The sample of assets represented approximately \$9.3 million in historical cost² of assets which was 29% of the total moveable capital assets at the National Capital Region. More details of the sample are described in Appendix A and the results from the documentation review are described subsequently.

² Historical cost refers to the initial/original purchase price of an asset.

Documentation Status

The LAC uses moveable capital assets that were purchased from year 1950 onwards. Assets that were selected in the sample were purchased between year 1985 and 2005. Original source documents do not exist for 70% of the sample assets which represented \$6.5 million of the \$9.3 million value in the sample. These source documents do not exist because prior to the implementation of the Financial Information Strategy, assets were expensed rather than capitalized in the financial statements. As such, there were no requirements to retain original source documents beyond the timeframe stipulated in the Treasury Board policy for documentation retention. To evaluate sample assets purchased prior to 1999, documents produced internally by the LAC to estimate the cost of the assets were examined. From the results of this examination, we were unable to identify any discrepancies between the information recorded on these internal documents with the information stored in AMMIS. For the remaining 30% of the sample assets, original source documents did exist and the results of the evaluation are described subsequently.

Presentation of Assets

There were no anomalies identified when we evaluated the presentation of assets made by the LAC. The description and amortization subclass recorded in AMMIS matched the description of assets in the original source documents.

Valuation of Assets

The anomaly identified when we evaluated the valuation of assets made by the LAC has minimal financial impact on the financial statement. Only one sample asset was overstated by \$1,095 in the FreeBalance financial statement of the LAC while the historical costs of the remaining sample assets were correctly recorded. In addition, there were no discrepancies observed when comparing the recorded years when amortization began for the sample assets.

Ownership of Assets

There were no anomalies identified when evaluating the ownership of assets. All sample assets recorded in AMMIS were properly owned by the LAC.

Results from Asset Inspections

While conducting site visits at various responsibility centres at the National Capital Region, a sample of assets was selected to verify the following assertions made by the LAC:

- Existence - Moveable capital assets recorded in the AMMIS system actually exist at the LAC; and,
- Completeness - All moveable capital assets have been recorded in the AMMIS systems at the LAC.

The sample of assets to verify the 'existence' assertion represented approximately \$481,326 in historical cost of assets of the total \$31.88 million in moveable capital assets at the National Capital Region. This sample consisted of about 33% of all responsibility centres in the population subject to sampling. An additional sample was selected while site visits were conducted to match back to the AMMIS database to verify the 'completeness' assertion made by the LAC. More details of the sample are contained in Appendix B and the results from the asset inspections are described below.

Existence of Assets

There were anomalies identified when we evaluated the existence of assets recorded in AMMIS. Twenty percent of the sample assets recorded in AMMIS were sent for disposal and should have not been recorded in the system. There is no financial impact of these assets in the financial statement because there were no recorded net book values.

In addition, thirty-seven percent of the sample assets were improperly recorded in the AMMIS system. These assets were located in buildings other than locations recorded in AMMIS or the responsibility centres with custodianship of the assets were improperly recorded in AMMIS. There are no financial impact resulting from these discrepancies but information for internal planning purposes may be affected.

Furthermore, there were discrepancies observed in the recorded serial numbers, manufacturer names and model numbers of forty-three percent of the sample assets. These assets either had missing data or incorrect data recorded under the data fields representing serial number, manufacture names or model numbers. These discrepancies have no financial impact but may affect information used for internal planning purposes.

Completeness of Assets

There were no anomalies identified when we evaluated the completeness of assets recorded in the AMMIS system. Sample assets selected during our site visit were recorded in the AMMIS system as capital assets when their costs exceed the capitalization threshold. Likewise, when assets selected did not exceed the capitalization threshold, they were not recorded in the AMMIS system as a capital asset.

Results from Survey

A survey of responsibility managers at the National Capital Region with custodianship of assets was conducted to measure two criteria as follows:

- Financial information is easily accessible to management for decision-making; and,
- Strategic plans take into account financial information.

Survey respondents were also asked to provide suggestions for the:

- Improvement of financial information for decision-making.

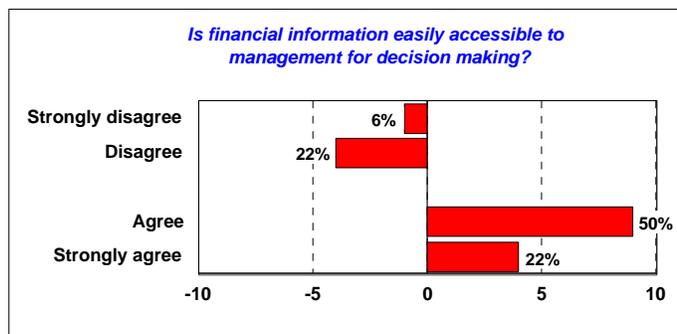
The survey responses received represented approximately \$27 million in historical cost of assets which was 85% of the total moveable capital assets at the National Capital Region. More details of the sample are contained in Appendix C and the results from the survey responses are described below.

Financial information is easily accessible to management for decision-making

Seventy-two percent of survey respondents stated that financial information was easily accessible to management for decision-making while twenty-eight percent did not.

There was a variation in the manner in which responsibility managers obtain their financial information for decision-making. Information was obtained from either of the various sources as follows:

- Administrative staff (3 respondents);
- Manufacturers and suppliers (2 respondents);
- Freebalance (3 respondents);
- Financial clerk, financial advisor or Materiel Management (3 respondents);
- Corporate services and the department's intranet site;
- Budget reports and finances of the division;
- Director General or Director (2 respondents); and,
- Individuals created the information themselves (2 respondents).



Some responsibility managers have stated that it would be more efficient to have view access to the assets and financial information themselves rather than rely on another source. Others have suggested that information was not always presented in the format that facilitated decision-making and having more information on asset cost would be valuable.

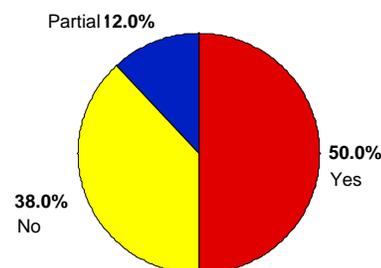
Strategic plans take into account financial information

Fifty percent of the survey respondents stated that they had a strategic plan for the replacement of moveable capital assets for their responsibility centres while twelve percent stated that they had a partial strategic plan in place and thirty-eight percent stated that they did not have a strategic plan.

For those survey respondents who have a strategic plan:

- Forty-five percent stated that the plans included the replacement of assets for only their responsibility centres while fifty-five percent stated that the plans included the replacement of assets for other responsibility centres, the Branch level or the Corporate level;
- The time horizon covered by the plans ranged between three to five years of asset replacement; and,
- Financial information in the plan was derived mostly from vendors/manufacturers.

Do you have a Strategic Plan for asset replacement?



Better financial information for decision-making

To improve the reporting and recording capital asset inventories, the following suggestions were provided by survey respondents:

- Continue communication between Material Management and Information Technology Branch is important. AMMIS has very limited reports but the database management system allows for ad-hoc queries. Allowing access to the database management systems has been very helpful to ensure the Information Technology Branch receives useful reports. More variety of reports at the standard user interface would be useful. Provide proper inventory tracking controls in AMMIS, for the life-cycle of the asset (change management), would be useful;
- Have a link from AMMIS to a procurement module (e.g. automated purchase order form);
- Provide training/explanations on AMMIS reports;
- Provide annually a detailed list of all assets;
- Provide better explanations and guidances, especially for new employees who might not have experience in capital asset management. For example, provide explanations and guidances for everyday users and less from an accountant's perspective;
- Have system that is: easily accessible to administrative personal; very user friendly; and, allows vital information to be recorded; and,
- Increase the capitalization threshold to \$10,000 instead of \$3,500.

5.0 Conclusion

Key to protecting Canada's cultural heritage is the proper management of capital assets used to acquire, preserve and diffuse cultural heritage assets. This requires the adequate recording of moveable assets which affects the planning and decision-making at the LAC. As well, program management must fully utilize financial information in their activities for capital assets to ensure 'value added' planning and decision-making. Better financial information for decision-making and more effective stewardship and accountability of capital assets are essentially the overall goals of the FIS.

The audit objectives were to evaluate the extent that moveable capital assets were properly recorded in the financial system and to assess the degree that financial information was used in planning and decision-making at the LAC.

Based on the results of the audit, in our opinion the moveable capital assets recorded in the AMMIS system as at February 2006 represents fairly, in all material respect, the moveable capital assets at the LAC. The discrepancies observed do not have a material financial impact on the financial statements at the LAC; however, may affect the information used for internal planning purposes. To minimize future discrepancies, we recommend the following:

- review the assignments for the custodians of assets and documentation to ensure proper safeguarding;
- conduct periodic audits to ensure compliance to policies and procedures;
- review whether the communication of policies and procedures are sufficient; and,
- develop policies and procedures for the physical labeling of assets.

As well, we conclude that financial information is being used in the planning and decision-making at the LAC for the most part. To increase the use of financial information we recommend the following:

- Finance and Materiel Management should regularly provide information to responsibility centre managers to minimize the variations in information sources; and,
- a corporate and individual capital asset plans should be developed and updated regularly for the replacement of assets.