Finance

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Main points

Our chapter for the Department of Finance (Finance) has three parts.

Part A reports the results of our audits of special purpose funds and agencies with years ending December 31, 2002 and the Municipal Employees' Pension Commission (Commission) for the year ended December 31, 2001.

We were unable to form an opinion on the adequacy of the Commission's processes to safeguard its assets. We could not do so because the appointed auditor did not complete its work due to problems with the computer system upgrade. The Commission did not have adequate project management processes to manage the upgrade of its pension computer system. Because of the delays in completing the upgrade, the Commission was unable to prepare financial statements for the year ended December 31, 2001 until February 2003.

Also, the Commission needs to establish processes to review the actuary's work.

Part B reports the results of our audit of the project management processes to manage phase one of the MIDAS system. MIDAS is a new computer system that replaces the Government's central financial and human resources system.

For the most part, we found that Finance had adequate project management processes to implement phase one. We make two recommendations to improve Finance's practices for managing development of the MIDAS system. Finance needs to track and monitor all the project's costs including other departments' costs associated with the MIDAS project. Also, for future phases, Finance needs a written contingency plan to deal with the possibility that the project, or a particular phase of it, is over budget, late, or lacks quality. The project steering committee should approve the contingency plan.

Part C describes the steps taken by Finance to increase the capacity of departments to report results.

Finance has taken several important steps to increase the capacity of departments to report results. In 2003, Finance established a multi-year timetable for improving plans and reports and prepared guidelines for improving annual reports. Finance is also working to establish a web site to share best practices for performance management and reporting. This is good progress.

Finance

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Introduction

The Department of Finance (Finance) helps the Government manage and account for public money. As part of these duties, Finance administers and is responsible for several special purpose funds and agencies.

Special purpose funds and agencies

Finance is responsible for the following special purpose funds and agencies:

Year ended December 31

Extended Health Care Plan
Extended Health Care Plan for Certain Other Employees
Extended Health Care Plan for Retired Employees
Extended Health Care Plan for Certain Other Retired Employees
Municipal Employees' Pension Commission
Public Employees Deferred Salary Leave Fund
Public Employees Disability Income Fund
Public Employees Dental Fund
Public Employees Group Life Insurance Fund
Saskatchewan Pension Plan
Sask Pen Properties Ltd[1]

Year ended March 31

General Revenue Fund (GRF)
Fiscal Stabilization Fund[2]
Members of the Legislative Assembly Superannuation Plan[3]
Public Employees Benefits Agency Revolving Fund
Public Employees Pension Plan
Public Service Superannuation Plan
Saskatchewan Pension Annuity Fund

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[1] Our office has been denied access to this agency since December 31, 1993 (see Chapter 8 1999 Fall Report – Volume 2 for further discussion of the matter).
[2] Finance does not prepare financial statements for this Fund. As required by *The Fiscal Stabilization Fund Act,* a schedule of transfers and accumulated balance appears in Public Accounts Volume 1.
[3] Effective September 1, 2002, this Plan was disestablished.

Our audit conclusions and findings

This chapter contains our audit conclusions and findings on the special purpose funds and agencies with years ending December 31, 2002 except for the Municipal Employees' Pension Commission. We will report our conclusions and findings on this pension plan for the year ended December 31, 2002 in a future report.

We also report on the Members of the Legislative Assembly Superannuation Plan for the period April 1, 2002 to September 1, 2002, the date this pension plan was disestablished.

In our 2002 Fall Report – Volume 2, we reported on the funds and agencies for the fiscal years ending on or during the year to March 31, 2002 except for the Municipal Employees' Pension Commission for the year ended December 31, 2001. We have now completed this audit and report our conclusions and findings in this chapter.

Our Office worked with Deloitte & Touche LLP, appointed auditor for the Saskatchewan Pension Plan, and KPMG LLP, appointed auditor for the Municipal Employees' Pension Commission. We used the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Appointed Auditors* (to view this report see our web site at http://www.auditor.sk.ca/rrd.html).

Our office, Deloitte & Touche LLP and KPMG LLP formed the following opinions:

In our opinion, where we have completed our work (the audits not completed are the Municipal Employees' Pension Commission and SaskPen Properties Ltd. both for the year ended December 31, 2002):

- **the financial statements for Finance's special purpose funds and agencies are reliable;**

- **Finance's special purpose funds and agencies had adequate rules and procedures to safeguard and control their assets except where we report otherwise in this chapter; and**

- **Finance's special purpose funds and agencies complied with authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this chapter.**

Municipal Employees' Pension Commission

The Municipal Employees' Pension Commission (Commission) is responsible for the administration of *The Municipal Employees' Pension Act*. The Commission manages the Municipal Employees' Pension Plan (Plan).

The Plan provides retirement benefits to some employees of school divisions and regional colleges and all employees of regional public libraries, and other local authorities within Saskatchewan. The Plan consists of a defined benefit component, a money accumulation component (closed to new members effective July 1, 1973), and annuity underwriting activities. The Public Employees Benefits Agency (PEBA) provides day-to-day management for the Plan.

In 2001, the Plan received contributions of $13.5 million from municipal employees and $13.5 million from municipal employers. At December 31, 2001, the Plan held assets of $965.5 million and had liabilities of $853.1 million. The Plan's financial statements are included in the Commission's 2001 Annual Report.

Background

To fulfil our responsibilities to the Legislative Assembly, on October 1, 2001, we wrote to KPMG LLP that we intended to rely on its work and reports using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors.* On November 19, 2001, KPMG LLP acknowledged our planned reliance on its work and reports.

We discussed the timing for the audit completion with both Commission management and KPMG LLP. Management told us the Plan's financial statements would be delayed because of the pension computer system upgrade. Based on management's time commitment, KPMG LLP agreed it would complete its audit and provide us with its reports by June 3, 2002.

KPMG LLP did not provide those reports in June 2002. KPMG LLP told us it did not complete its work on the Commission's rules and procedures to safeguard and control its assets because the Commission's pension system was changing and management was busy resolving problems relating to the system upgrade. In addition, management had not prepared the Plan's financial statements due to problems with the system upgrade. Management also needed more time to gather relevant data for the actuarial valuation needed to prepare its financial statements.

For these reasons, we could not report on the adequacy of the Commission's rules and procedures to safeguard its assets, compliance with authorities, or the Plan's financial statements for the year ended December 31, 2001. On November 1, 2002, we informed KPMG LLP and management that we would begin our work to understand the problems with the system upgrade and why the Commission was unable to complete its 2001 financial statements. We began our work ten months after the year-end.

Timely evaluation of an agency's rules and procedures is important. It is not possible to evaluate an agency's rules and procedures for a certain period several months after the period. Projection of any evaluation of an agency's rules and procedures to a past period is subject to the risk that procedures may not be the same or the degree of compliance with them may have increased or decreased.

Accordingly, we report on the reliability of the Plan's financial statements for the year ended December 31, 2001 and the Commission's compliance with the authorities governing the Plan's activities for that year. We also report findings of the work we did in November 2002. Because of the reasons described above, we are unable to form an opinion on the adequacy of the Commission's rules and procedures to safeguard and control its assets for the year ended December 31, 2001.

Adequate project management practices needed

The Commission did not have adequate project management processes to upgrade the pension computer system. The Commission needs to establish and document its rules and procedures for managing significant information technology projects.

Agencies face a challenging and difficult task when developing and implementing new information technology (IT) systems. IT industry experience shows that most new systems do not meet user requirements, cost more than expected, and are late. To reduce these risks, agencies need rules and procedures to inform, train, and guide staff on good project management practices. Also, to ensure project teams follow approved policies and procedures, agencies need to set up effective project management processes. For project management criteria see exhibit 1 on page 75 of Part B of this chapter.

In 1999, the Commission approved upgrading its pension computer system to meet its current and future information needs. The Commission estimated the upgrade would cost approximately $800,000 and would be operating by January 1, 2001. The system began operating in May 2002 and the actual cost was within budget.

To ensure the upgraded system calculated pensions correctly, the Commission needed advice from its consulting actuary. We expected the Commission to have agreements with its consulting actuary and the developer. Written agreements document the work the actuary and the developer would do, expected completion time, and costs the Commission would pay. The Commission had agreements with the project developer and the actuary. However, these agreements did not fully set out the roles and responsibilities of each party. When project managers do not document expectations, roles, and responsibilities, there is a risk that contractors may not perform as expected and delay the project's completion.

We also expected the Commission would have a process to ensure the new system calculated pensions accurately and the contractor completed the upgrades on time. Such a process would also include a plan to address any risks that could result in delays in completing the project and how to deal with those risks.

The Commission regularly monitored the costs, the progress of the project, and the risks in developing and implementing the upgraded pension system. However, the Commission did not have a plan to resolve risks that could delay the completion of the project.

The Commission's actuary did not complete the required work to test the pension calculation formula for the new system. Therefore, the Commission hired another actuary to complete that work. This delayed the completion of the new system. Because the pension calculation formula in the new system was not complete, the Commission used manual procedures to calculate retiring members' pensions.

The Commission should establish a process to identify the lessons learned from this project including what went wrong, and what it could do to improve its project management processes. Such an exercise would help avoid similar problems in future projects.

1. **We recommend that the Commission establish rules and procedures for managing future significant information technology projects.**

Management told us that the Commission plans to establish rules and procedures for managing future significant projects.

Timely financial statements needed

The Commission did not prepare the Plan's financial statements for the year ended December 31, 2001 until February 2003. Although the system began operating in May 2002, the system did not have the data necessary for its actuary to value the Plan's pension obligations until July 2002. The actuary completed his work in February 2003.

The Commission needs timely annual financial statements to fulfil its responsibilities to the Legislative Assembly and plan members. Without appropriate financial statements, neither the Assembly nor plan members can assess the performance of the Commission and the Plan.

To ensure timely preparation of financial statements, the Commission needs complete and accurate books and records. The Commission did not have complete and accurate records of the Plan members' data. The Commission's actuary needed the Plan member's data (e.g., number of active and retired members, members' age, salary, years of service, accumulated members' contributions, etc.) to value the Plan's pension obligations.

Generally, pension plans seek an actuarial valuation of pension obligations when there are significant changes to the Plan, actuarial assumptions, or their employee group. Pension plans also need an actuarial valuation to ensure that the assumptions used in calculating the pension obligations continue to be reasonable. In 2001, the Commission asked its actuary to value pension obligations because of recent changes to the Plan and because the Commission wanted to ensure that the actuarial assumptions continued to be reasonable. Also, the *Municipal Employees' Pension Act* requires the Commission to have an actuarial valuation of its pension obligations every three years. The Commission had an actuarial valuation of its pension obligations in 1998.

To value the Plan's pension obligations, the actuary needed relevant members' data. The Commission could not provide members' data to its actuary. The Commission could not do so because its new pension system was not operational and it did not have other processes to update members' data. The delays in providing the required data to the actuary contributed to delays in preparing the Plan's financial statements.

In July 2002, the Commission provided the relevant data to its new actuary. The actuary, however, needed more information from the Commission to reconcile the data the Commission provided for 2001 to the data used by the previous actuary in the 1998 valuation. The actuary received the required information in October 2002 and completed the valuation of the Plan's pension obligations in February 2003.

In addition, *The Tabling of Document Act, 1991*, required the Commission to give its 2001 annual report to the Assembly by May 31, 2002. The annual report must contain the financial statements. The Commission gave its 2001 annual report to the Assembly on March 19, 2003.

Accordingly, the Commission did not comply with *The Tabling of Documents Act, 1991*.

2. **We recommend that the Commission ensure that its books and records are adequate to prepare timely financial statements.**

3. We recommend that the Commission provide its annual report to the Legislative Assembly by the date required by law.

Management told us that the Commission plans to ensure its books and records are adequate to prepare timely financial statements. Management also told us that the Commission has now given its 2002 Annual Report to the Legislative Assembly.

Rules and procedures needed to assess actuarial valuations

The Commission needs to establish and document rules and procedures to review its actuary's work.

As stated earlier, pension plans need periodic actuarial valuations of their pension obligations to prepare their financial statements. To calculate the pension obligations, actuaries use data that pension plans provide. Management is responsible to ensure the data it provides to the actuary is complete and accurate. Management is also responsible to ensure the data that the actuary uses for the calculation is the data provided.

Actuaries can use various methods to value pension obligations. However, generally accepted accounting principles (GAAP) require pension plans to use a specific method to calculate their pension obligations for their financial statements. Accordingly, management must have processes to review the actuary's valuation to ensure the actuary used the appropriate method to determine pension obligations. Management must also ensure that the experience gains or losses calculated by the actuary are reasonable.

The Commission told the actuary the method to use to calculate the Plan's pension obligations. The actuary, however, used a different method. Because the Commission did not have rules and procedures to review the actuary's work, management did not review the actuary's work to ensure the actuary had used the appropriate method to calculate the pension obligations. Nor did management ensure that changes in the pension obligations from the previous year were reasonable.

KPMG $_{LLP}$ made the Commission aware that the actuary used a different method to calculate the pension obligations. Management then reviewed the work and questioned the actuary about the method used. The actuary did additional work to calculate the pension obligations under the method required by GAAP. Management reviewed this work.

4. We recommend that the Commission establish and document rules and procedures to review the actuary's work.

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MIDAS project

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Introduction and background

The Department of Finance (Finance) operates a central financial and human resources system for all government departments. The system has operated since 1985 and Finance has upgraded the system several times.

Finance is replacing its current system with Enterprise Resource Planning (ERP) software[1] called Oracle Financials. Finance plans to implement Oracle Financials over four phases. Finance named the new system the MIDAS system ("Multi-Informational Database ApplicationS").

The MIDAS system is a significant investment in information technology (IT) by the Government. Finance expects the new system to benefit all departments by improving the management of financial information. The departments will be able to obtain better information for improved decision-making. Finance plans to complete all four phases of the project by April 1, 2006.

Treasury Board approved phase one in 2001. This first phase includes general ledger, accounts payable, revenue recording, budgeting, forecasting, cash management, and financial management information. The budget for phase one was $6 million in 2001-2002 and $7 million in 2002-2003, which covers the cost of buying and implementing the software. The budget for phase one does not include costs borne by other departments. Finance implemented phase one on April 1, 2003.

Audit objective and criteria

This chapter describes our audit of the project management processes used by Finance to implement phase one of the MIDAS system.

Large IT projects are inherently risky and require strong project management controls. These controls help ensure the project:

- ♦ is done on time (time management);
- ♦ is done on budget and includes all costs (cost management);

[1] Enterprise Resource Planning software integrates a large number of functions across an entire organization into one piece of software. This allows all of the various units within the organization (in this case departments and branches) to more easily share information and communicate with each other.

- meets Finance's and the departments' needs (scope management); and
- uses quality standards including independent quality reviews (quality management).

This audit provides the Legislative Assembly and the public with our assessment of how well Finance is managing this major IT project.

We report this audit in two parts. In Chapter 9B of our 2002 Fall Report – Volume 2, we described the audit and outlined the criteria we used to assess Finance's processes. These criteria will be useful to other government agencies in managing their IT and other projects. In this chapter, we describe the results of our audit.

Our audit objective was to assess whether Finance has adequate project management processes to implement phase one of the MIDAS system. We assessed Finance's project management processes up to March 19, 2003.

Auditors use criteria to evaluate matters that they audit. Exhibit 1 sets out the main criteria that we used to audit the processes Finance is using to implement the MIDAS system. We based the criteria upon international standards, literature, and reports of other auditors (see selected references). In particular, we used the Project Management Institute's *A Guide to the Project Management Body of Knowledge* as the management framework to support the criteria.

We discussed the criteria in Exhibit 1 with key people at Finance. They agreed that the audit criteria are clear, reasonable, and attainable.

Exhibit 1—Audit criteria

To implement the MIDAS project, Finance should have:

1. adequate processes to maintain management and stakeholder commitment to the project;
2. adequate processes to track and report on the realization of the project's benefits; and
3. adequate project management practices and reports.

Adequate project management practices include integration management, scope management, time management, cost management, quality management, human resource management, communications management, risk management, and procurement management (see Exhibit 2).

Audit conclusion and findings

We found that Finance had adequate project management processes to implement phase one of the MIDAS system, except for the two matters covered by our recommendations.

We make two recommendations to improve the project management practices for the MIDAS project.

1. We recommend that Finance track and monitor all of the project costs including other departments' costs associated with the MIDAS project.

2. We recommend that for future phases of MIDAS, Finance develop a written contingency plan to deal with the possibility that the project, or a particular phase of the project, is over budget, late, or lacks quality. The project steering committee should approve the written contingency plan.

We describe our findings under the three criteria set out below. The findings are also applicable for other significant development projects in government.

Criterion 1 – Adequate processes to maintain management and stakeholder commitment

We expect Finance to have project management processes to obtain and maintain strong senior management commitment to the MIDAS project. We expect senior management will:

1. *ensure that the project fits within Finance's strategic plan;*
2. *be held accountable for the success of the project;*
3. *establish a strong project team with adequate resources to carry out the project; and*
4. *expect clear communication and reporting throughout the project.*

Our review of other jurisdictions and current literature suggests that senior management commitment is the most common, and perhaps the most important, feature of successful projects. Senior management demonstrates commitment by actively overseeing and promoting the project. Management commitment is enhanced when management is held accountable for the success of the project. Having senior management promote the importance of the MIDAS system to other departments and agencies helps maintain commitment.

What we found

Finance has adequate processes to maintain management and stakeholder commitment and meets the four criteria above.

The project has adequate commitment of senior management. The co-sponsors of the project are the Deputy Minister of Finance and the Provincial Comptroller. Finance seconded an individual to coordinate key items with the user departments. This helps to ensure that Finance can implement the project on time and that the project meets the needs of the users.

Criterion 2 – Adequate processes to track and report on the realization of the project's benefits

We expect Finance:

1. *to have a process to quantify and track project benefits throughout the project and after implementation; and*
2. *to base these benefits on a strong business case that is consistent with Finance's and the Government's vision, strategic goals, and objectives.*

The benefits outlined should be measurable and management should report annually on the achievement of the benefits. The benefits should include ensuring that the project meets user needs. The business case should outline the full costs of the project and compare the costs to the expected benefits. A project is not complete until the benefits are realized.

What we found

Finance has adequate processes to track and report on the realization of the project's benefits except that Finance does track the full costs of the project. For example, the user departments provide staff for user acceptance testing, conversion, and the project committees. Finance does not track these costs and include them in the overall cost of the project. Without knowing the total costs of the project, there is insufficient information to compare the costs to the benefits. Therefore, Finance should track and monitor all of the costs, including other departments' costs, associated with the MIDAS project.

The project documentation outlines the expected benefits. All project participants (i.e., project team members, department coordinators, steering committee members, and users in the departments) can easily access the project documentation. This allows the project participants to become familiar with the project's expectations and work towards achieving them. The documentation also specifies how Finance will measure the benefits. The project management office is responsible to ensure this is done. At April 2003, Finance has implemented phase one. As such, Finance has not had time to complete its measurement of how well the project met its expected benefits.

We plan to follow up and report on Finance's progress on measuring, tracking, and reporting the benefits of MIDAS.

Criterion 3 – Adequate project management practices and reports

We expect Finance to have good project management systems and practices to control the implementation of the MIDAS project as outlined by the nine areas in Exhibit 2.

Good project management practices include planning and reporting progress against the plan. The project teams should have the necessary experience, skills, and leadership to manage the project. The project team also needs to manage risk, ensure quality work, and communicate progress and successes. Good project management systems and practices help ensure that project teams meet deadlines, contain costs, and meet requirements.

What we found

Finance has adequate project management practices, except that Finance does not have a written contingency plan for the project. We describe the results in detail below for each of the areas in Exhibit 2.

<u>Time and Cost Management</u>

The budget for phase one did not have any money for contingencies. Also, Finance had no written contingency plan if phase one of the project was not completed by April 1, 2003. This lack of contingency plan is a significant risk to the Government as it needs a system to carry on operations after April 1, 2003. Finance tells us that they have plans to deal with budget, timing, or quality issues. However, these plans are not documented. For future phases of MIDAS, Finance should develop a written contingency plan to deal with the possibility that the project, or a particular phase of the project, is over budget, late, or lacks quality.

<u>Scope Management</u>

MIDAS is a complex project that affects a large portion of the Government. Significant challenges to managing a project of this size exist. To help ensure a successful project, Finance divided the MIDAS into four phases. Each phase has a specific set of deliverables and implementation date. The success of each phase is independent of future phases. Finance designed the first phase of MIDAS to function without completing future phases. Evaluations are planned to be done at the end of each phase. These evaluations will determine if the next phase should continue and if any changes are needed in the scope or approach. This approach reduces the risks of the MIDAS project.

Quality Management

Projects such as MIDAS need an independent quality review to help ensure the project is completed on time, on budget, and meets user needs. The MIDAS project has undergone periodic quality assessments. The consulting firm implementing MIDAS does these quality assessments. The assessors from the consulting firm were not part of the MIDAS project team. Although the assessments were not fully independent, they were still valuable for the project team in providing suggestions for improvement and for highlighting the risk areas.

Finance set up a project management office (PMO) that is independent of the project manager. The project manager oversees the project and is responsible for the project. The PMO monitors the project and reports periodically to the project sponsors and the project manager. The PMO ensures that the project team properly identifies critical issues and follows up to ensure that the project team appropriately deals with the issues. Having an independent PMO oversee the project provides a good second check on the status of the project. This helps to reduce the project’s risk.

The PMO monitors and reports on most key indicators of project management practices except the project’s costs. The project manager monitors the project’s cost and provides periodic status reports to the project sponsors and to the steering committee. The PMO should also monitor the costs for the project and include the results in its periodic status reports.

Communication Management

Finance developed a communication plan and has held many information sessions: to show what MIDAS will do; to obtain input from the users on the design of the new system; and to ensure the system will meet the needs of the departments. Finance is also publishing a newsletter to keep stakeholders up-to-date.

Risk Management

Finance reduced some of the risks associated with a large project such as MIDAS by incorporating some good practices into its project.

- Finance seconded a number of employees from other departments with Oracle Financials experience to assist in the development of the MIDAS system.
- The MIDAS team developed a detailed training program that delivers user training at the most appropriate time and recognizes that the implementation will take place during the fiscal year-end, which will be a busy period for staff in the departments.
- Finance is using a computer program to assist them in documenting the new system and training the users.
- The PMO has a process to identify project risks and issues to ensure a timely response by the project team.
- The PMO uses a risk management summary document to track the project risks and ensure that they are reduced.

Human Resource Management

Finance contracted with an external party to provide consultants with experience in implementing Oracle Financials to assist them. Each sub-project team has an external consultant and an employee as co-team leads. This facilitates the knowledge transfer from the consultants to Finance's employees.

Procurement Management

The MIDAS project did three significant request for proposals (RFP). We reviewed in detail the evaluation of the RFP for a contractor to operate and maintain the MIDAS computer system at the contractor's site. For our review of the RFP process, we assessed if Finance:

1. adequately planned the evaluation;
2. appropriately carried out the evaluation; and
3. appropriately selected the supplier.

We found the RFP process was adequate. An individual from the Purchasing Branch of the Saskatchewan Property Management Corporation (SPMC) observed the evaluation process and provided input where required and helped to ensure that the RFP process was adequate. However, as well as having SPMC involved, the process could be improved by providing written guidelines on evaluating RFP's to the evaluation team. Evaluation team members are selected based on their expert knowledge of the subject area involved in the tenders, but they do not require tender evaluation skills. The evaluation team would be able to refer to the written guidelines to assist them in evaluating the RFP's.

Integration Management

The project manager was responsible to ensure that all key elements of the project were properly co-ordinated. Also, Finance seconded an individual to coordinate key items with the user departments. This helps to ensure that Finance can implement the project on time and that the project meets the needs of the users.

Future work

We plan to audit the project management practices for the second phase of MIDAS. We also plan to examine Finance's progress on measuring, tracking, and reporting the benefits of MIDAS.

Exhibit 2—Project management framework

The three general criteria of a strong project management climate are:

- management commitment to the project;
- the project's ability to achieve its objectives and benefits; and
- good project management systems and practices.

We will audit to these criteria based on the risk and scope of our project. We will use the Project Management Institute's standard titled *A Guide to the Project Management Body of Knowledge* as the management framework to support the above three criteria.

1. *Integration management* – the processes required to ensure that the various elements of a project are properly co-ordinated.

2. *Scope management* – the processes involved in determining what the users need, how the needs will be met and verifying if they are met.

3. *Time management* – the processes to plan, schedule, and control the project's activities to help get the project done on time.

4. *Cost management* – the processes to plan, estimate, and control the project costs.

5. *Quality management* – the processes needed to evaluate if the project is managed well and meets the stakeholders' needs.

6. *Human resource management* – the processes required to make the most effective use of people involved in the project, including stakeholders. This includes change management, training, and staffing.

7. *Communication management* – the processes, including the organizational structure, used to ensure the timely and complete creation, movement, and storage of information.

8. *Risk management* – the processes to identify, evaluate, plan, and respond to risks.

9. *Procurement management* – the processes to decide what to contract for tendering and selecting the best contractor; and negotiating, managing and closing the contract.

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Building capacity to report results

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Introduction

In 1998, the Government initiated the "Performance Management and Accountability Project" to change the way that departments manage and report to the public. The Government asked the Department of Finance (Finance) to lead implementation of the resulting accountability framework.

The accountability framework anticipates that departments report both their plans and their results to the public in "performance reports." The performance reports would explain the Government's action plans and their costs. Performance reports would also compare these plans to the results achieved in the prior year, showing what the Government actually spent to achieve that level of results. Telling the public about planned and actual results improves accountability for public money.

The "performance management" part of the Government's accountability framework is also important. The framework ensures that managers get better information. Performance reports clearly compare plans to actual results and show the cost of achieving those results. This information helps managers to focus on objectives that need more attention. Performance reports help managers to make decisions that increase the likelihood of achieving the Government's objectives.

In our 2000 Fall Report – Volume 3 (Chapter 1C, pp. 43-57), we highlighted four best practices that Finance should use to build the capacity of departments to report performance. To build departments' capacity to report performance Finance needs to:

1. sustain commitment, at the highest leadership levels, to report the results of the Government's performance;
2. promote a government-wide learning culture to improve public performance reporting;
3. establish processes and information systems that facilitate performance reporting; and
4. establish processes to ensure that public performance reports are credible.

The role of the Provincial Auditor is to monitor how the Government manages and accounts for public money. We monitor how Finance implements its accountability framework to ensure it improves what departments report to senior managers and the public. At regular intervals, we assess the progress of Finance in building the capacity of departments to report their plans and results.

This update highlights some of the Government's progress in building the capacity of departments to report results. We describe the progress of Finance in acting on our recommendations about promoting a learning culture to report performance. This learning culture must extend across all departments.

Learning culture—a follow-up of recommendations

In our 2002 Spring Report (Chapter 10, pages 93-108), we reported how Finance builds capacity to report results by promoting a learning culture. Managers need a range of new skills for performance management and reporting the results of public sector activities. For example, managers who learn to interpret data will more easily explain results to the public.

We concluded that in 2001, Finance adequately supported a learning culture to improve public performance reporting by departments with two exceptions. We noted the lack of a multi-year timetable to improve performance reports and the absence of electronic access to best practices for improving these reports.

On October 24, 2002, the Standing Committee on Public Accounts agreed with our recommendations. We asked Finance to confirm its progress related to these recommendations. This update highlights progress to April 2003.

Multi-year timetable to improve reports

In our 2002 Spring Report, we recommended that Finance give departments a multi-year timetable with targets for incremental improvement in performance plans and reports of results.

In July 2002, nine of the 17 departments gave the Assembly their planned operating results for the year ended March 31, 2003. Finance expects these nine departments to release their results compared to those plans in 2003.

In April 2003, Finance gave the deputy ministers of all departments a multi-year timetable to improve their reports of plans and results. The timetable sets out incremental ways that departments must improve their reports to the public for each year from 2003 to 2006.

We commend Finance for setting out the direction of intended change. Announcing target dates by which departments should achieve specific improvements is an important step. This timetable allows some departments to move ahead more quickly as they become ready. It also allows other departments time to resolve complex issues and to learn from others.

Communicate best practices

In our 2002 Spring Report, we recommended that Finance should establish a web site or intranet among departments. Finance needs a cost-effective way to communicate best practices. A web site or intranet would help Finance to share best practices for performance management and innovations in performance reporting.

In early 2003, Finance outlined the information that would be most helpful to departments. By summer 2003, Finance expects to have a web site providing easy access to performance management and reporting, and links to other useful web sites.

The personnel that departments assign to create performance reports often change or their duties are re-assigned. This makes it costly to transfer knowledge from person to person or through training sessions. We encourage Finance to carry out its plans to use a web site to share best practices about performance reporting.

The progress of Finance in promoting a learning culture should encourage government departments to improve their performance reports. We anticipate that Finance will continue to strengthen its support of a learning culture for performance management and reporting.

Reporting results

In addition to establishing a learning culture, the Government is addressing other ways to increase the capacity of departments to report performance. In particular, Finance has made excellent progress to produce guidelines for departmental annual reports and plans to explore the issue of departmental financial statements.

We have reviewed Finance's guidelines for annual reports. We think these guidelines will be an important step toward improved public performance reports.

Finance based its annual report guidelines on the reporting principles set out by the CCAF-FCVI, a national organization of public sector managers and auditors.[1] In December 2002, CCAF-FCVI published *Reporting Principles: Taking Public Performance Reporting to a New Level*. These reporting principles are the most current Canadian guidelines about how to report results in the public sector. The CCAF-FCVI consulted with public sector managers who prepare reports, auditors, and legislators to reach a consensus on these principles.

Finance expects all departments to begin to use the new guidelines to prepare their annual reports for 2002-03. It will take significant effort by all departments to realize the full benefit of these changes in performance reporting. The guidelines are expected to be fully implemented over the next several years.

When the guidelines are fully implemented they will require the reporting of non-financial and financial results. Reports of results improve information for decision-makers and provide better accountability. However, currently departments do not produce financial statements. We have discussed the need for departmental financial statements with Finance. Finance told us it plans to explore this issue in 2004.

Future work

We will continue to monitor how Finance builds the capacity of departments to measure and report their results to managers, legislators and the public. We plan to report on the progress of this important initiative in future reports.

[1] The CCAF-FCVI is a non-profit research and education foundation that supports capacity development for the public sector in the areas of governance, accountability, management, and audit.