# Internal Audit

Audit of the Inventory Control Framework

June 2010

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# Executive Summary

## Background

At the meeting of the Audit Committee in August 2009, Elections Canada's Chief Audit Executive proposed that the audit plan for 2009–2010 be amended to add an audit of the control framework for the election supplies inventory. The proposal was recommended for approval by the Audit Committee and approved by the Chief Electoral Officer. This recommendation was in response to observations made by the Office of the Auditor General at the time of the audit of the agency's past financial statements.

This report sets out the results of the audit on the design and implementation of the election supplies inventory controls. The audit team sought to determine whether the inventory control framework at Elections Canada was adequate to ensure that the agency's objectives were met and to reduce inventory-related risk, as well as whether it could support an external, controls-reliant financial statements audit.

The control framework is the process designed and executed by those charged with governance and management, and by other personnel, to provide reasonable assurance that the agency's objectives will be met with regard to the reliability of its financial and management information on the election supplies inventory.

## Audit Objectives

The purpose of the control framework audit for the election supplies inventory is to provide an independent assessment and assurance to senior management that:

- the inventory control framework is adequate and appropriate for Elections Canada
- existing controls were properly implemented
- appropriate roles and responsibilities, including the segregation of duties, have been established
- the procedures for ensuring accuracy of the information in the financial system are adequate
- physical inventory requirements are properly justified, considering operational needs and technology options

## Scope of the Audit

The audit assessed the inventory control framework at the Elections Canada Distribution Centre, located at 440 Coventry Road in Ottawa, where most of the agency's election supplies are warehoused. It covered only internal controls related to election supplies for the fiscal year 2009–2010. Promotional items and office supplies are recorded as expenditures when they are procured and are not included in this audit.

## Conclusion

Overall, the audit showed that Elections Canada has appropriate processes, practices, procedures and controls in place to manage the inventory of election supplies. However, some control weaknesses were noted during the audit:

- Documentation of the election supplies inventory control framework is inadequate. In order for the controls to be adequate and function properly, their documentation must be up to date.
- The documents do not always contain proof that the controls were performed. This increases the risk that controls will not be applied properly and makes it difficult to ensure adequate monitoring by management of the controls as a whole.
- The movement of inventory is not always recorded in a timely manner. This can lead to errors in financial and management information on the inventory of election supplies.
- A policy of cyclical and periodic counts, including a full count at fiscal year-end, should be established.
- Inventory management should be reviewed to consider the cost-benefits of different technology options for modern inventory management.

Remedying these control weaknesses would improve management of the election supplies inventory and the quality of financial and management information on that inventory. It would also facilitate auditing the inventory for the purposes of the agency's financial statements.

The recommendations can be grouped into four categories. Documentation and changes required to controls are of an operational and short-term nature; development and strategic analysis are of a strategic nature and are applicable in the longer term.

| Documentation | Changes to Controls |
|---|---|
| R1 – Control framework | R2 – Proof of controls |
| R13 – Segregation of duties | R3 – Control over purchase orders |
| R14 – Types of access to the SMS | R4 – Accounting for the movement of inventory |
| R15 – Periodic reconciliation | R7 – Adjustments to the inventory |
| R16 – Active monitoring | R8 – Risk of access |
| | R11 – Location of items in inventory |
| **Development** | **Strategic Analysis** |
| R5 – Inventory at the returning offices | R17 – Analysis of technology options and modes of delivery |
| R6 – Entering internal and external orders | R18 – Analysis of data regarding returns |
| R9 – Policy on inventory counts | |
| R10 – Complete year-end inventory count | |
| R12 – Processing returns | |

The key conclusions and recommendations for each audit objective are presented below.

**Design of the Inventory Control Framework**

There is a control framework in place for the election supplies inventory, but it needs to be improved and reinforced. To this end, the agency must:

- review and document the inventory control framework, including the roles and responsibilities of those involved in the process
- ensure that the documents used to manage the inventory contain proof that the controls have been performed

**Implementation of Internal Controls**

Generally, there are internal controls in place for election supplies, and those controls are functional. However, to further improve the performance of the controls, the agency must:

- ensure that the items received are indeed those ordered, by checking the packing slips against the original purchase orders
- review the procedures for recording the movement of inventory
- ensure that lots and kits are removed from the inventory system only when used
- ensure that orders for internal and external clients are removed from the Supplies Management System (SMS) only when the supplies are shipped
- make all necessary adjustments to reflect changes (obsolete items, returns) before the fiscal year-end count
- reassess the risk associated with employees other than Elections Canada employees having access to the warehouse
- establish a policy on cyclical and periodic counts, and follow up the results of those counts
- perform a full count at each fiscal year-end
- ensure that the SMS indicates all locations for each item in stock
- review the procedures for processing the return of election supplies

**Clarification of Roles and Responsibilities, Including the Segregation of Duties**

Roles and responsibilities relating to the inventory control framework are not clearly defined. In order to further improve the performance of internal controls, the agency must:

- reinforce the segregation of duties relating to inventory and introduce compensating controls where necessary
- complete the update of the different types of access in SMS

**Accuracy of Information in the Financial System**

Monitoring of the inventory control framework must be improved. To this end, the agency must:

- document the periodic reconciliation process and promptly follow up any problems
- ensure that the monitoring program for inventory-related activities reports any identified problems and risks in a timely manner

**Justification of Physical Inventory Requirements**

The process for analyzing inventory requirements must be improved. To this end, the agency must:

- analyze new technology options currently available for the inventory management system and the delivery of election supplies
- analyze post-election returns of election supplies to validate requirements

# 1. Introduction

## 1.1 Background

In order to carry out its mandate, Elections Canada must assemble a sufficient inventory of election supplies prior to each election. These supplies consist primarily of publications and forms used by returning officers and documents for distribution to political parties and candidates.

The Distribution Centre on Coventry Road has had to maintain a constant state of readiness over the past five years because of the frequency of elections. Some operations have overlapped – for instance, processing returns from the offices of returning officers while, at the same time, assembling supplies for the next election. This has caused a significant increase in workload and, by that very fact, a higher risk of error. In addition, legislative amendments such as Bill C-31[1] have resulted in the reprinting of manuals and other documents, again increasing the volume of inventory-related activities. In view of this situation, the agency has begun a review of its inventory management and the inventory count process.

The Office of the Auditor General (OAG), which has been auditing Elections Canada's financial statements since 2003–2004, has in the past pointed out weaknesses in the control framework for the election supplies inventory, including a lack of segregation of duties and the absence of compensating review or monitoring mechanisms. The OAG again raised these points at the time of the 2008–2009 financial statements audit. In response to the OAG's observations, Elections Canada initiated certain inventory audit operations. It conducted partial counts in May, June and November 2009 as well as a full count of election items in stock at March 31, 2010.

## 1.2 Objectives

The purpose of the audit of the inventory control framework was to determine whether:
- the inventory control framework is adequate and appropriate for Elections Canada
- existing controls were properly implemented
- appropriate roles and responsibilities, including the segregation of duties, have been established
- the procedures for ensuring accuracy of the information in the financial system are adequate
- physical inventory requirements are properly justified, considering operational needs and technology options

## 1.3 Scope of the Audit

The audit assessed the inventory control framework at the Distribution Centre located at 440 Coventry Road in Ottawa, where most of Elections Canada's supplies are warehoused. It covered only internal controls relating to election supplies for the fiscal year 2009–2010. Promotional items and office supplies are recorded as expenditures when they are procured and are not included in this audit.

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[1] *An Act to amend the Canada Elections Act and the Public Service Employment Act*, S.C. 2007, c. 21.

## 1.4  Methodology

Our audit was based on the approach of the Institute of Internal Auditors and the CICA Handbook. We conducted interviews with management and key employees involved with inventory. We then identified and documented, on behalf of management, the key control activities related to the identified processes, the control objectives for those activities and the related financial statement assertions. We also identified the process owners as well as those responsible for performing the key controls.

It was necessary to evaluate all of the inventory control designs and ensure that the controls had been implemented. To evaluate each design, we considered whether that control, individually or in combination with others, made it possible to prevent or detect misstatements and to effectively correct them in a timely manner.

We also tested the design and implementation of key control activities. The audit team considered the design of each control before deciding whether its implementation should be examined. Improperly designed controls may represent a material weakness in the agency's internal control framework, and the audit team made a note of such controls in order to share them with management and the Audit Committee.[2]

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[2] Chapter 5141.121, CICA Handbook – As soon as practicable, the auditor should make the audit committee or equivalent aware of material weaknesses in the design or implementation of internal control that have come to the auditor's attention. As soon as practicable, the auditor should also make management at an appropriate level of responsibility aware of such weaknesses. [JAN. 2006]

# 2. Statement of Assurance

In my professional judgment as Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinion provided and contained in this report. The opinion is based on a comparison of the conditions, as they existed at the time of the audit, against pre-established audit criteria that were agreed with management. The audit opinion is applicable only to the entity examined, as described in the Scope of the Audit section of this report.

# 3.  Description of the Election Supplies Inventory

The inventory of election supplies consists of publications and forms used by returning officers to conduct an election as well as documents for distribution to political entities (including candidates). Election supplies include individual items as well as items that are assembled into kits and lots, which must be prepared and delivered to the 308 returning officers in time for an election. During a general election, more than 800 tons of supplies must be sent to the offices of returning officers.

Election supplies are warehoused at the Distribution Centre on Coventry Road in Ottawa. Elections Canada also uses private warehouses that meet the required security standards. In line with operational needs, the election supplies are sometimes sent to the returning officers in advance and stored locally.

The Supplies Management System is used to manage and account for the election supplies. The SMS was specifically designed for Elections Canada's inventory needs. The information stored in the SMS is used to provide the value of inventory for the financial statements.

In the 2009–2010 financial statements, the balance sheet indicates an inventory value of $8.2 million. The election supplies inventory is stated at average cost, and this cost is considered an expense when the supplies are used in an election.

# 4. Overall Assessment

## 4.1 Audit Conclusion

Generally, the audit showed that Elections Canada has appropriate processes, practices, procedures and controls in place to manage the inventory of election supplies. However, some control weaknesses were noted during the audit. Key observations are as follows:

- Documentation of the election supplies inventory control framework is inadequate. In order for controls to be adequate and perform properly, their documentation must be up to date.

- The documents do not always contain proof that the controls were performed. This increases the risk that a control will not function properly and makes it difficult to ensure adequate monitoring by management of controls as a whole.

- The movement of inventory is not always recorded in a timely manner. This can lead to errors in financial and management information on the inventory of election supplies.

- A policy of cyclical and periodic counts, including a full count at fiscal year-end, should be established.

- Inventory management should be reviewed to consider the cost-benefits of different technology options for modern inventory management.

Remedying these control weaknesses would improve management of the election supplies inventory and the quality of financial and management information on that inventory. It would also facilitate auditing the inventory for the purposes of the agency's financial statements.

## 4.2 Score Card

| Criterion | Rating | Explanation | Recommendation |
|---|---|---|---|
| **Objective 1** | | **Design of the Inventory Control Framework** | |
| Election supplies inventory control framework | **Y** | <ul><li>The audit showed that there is an inventory control framework in place.</li><li>Several controls should be reviewed to ensure that there is appropriate proof that the controls were performed.</li><li>There is insufficient monitoring by management of the effectiveness of the controls that are in place.</li></ul> | R2 – Proof of controls |
| Complete, up-to-date documentation of controls | **R** | <ul><li>The documentation of the inventory controls is inadequate and incomplete.</li></ul> | R1 – Documentation of the control framework |

| Criterion | Rating | Explanation | Recommendation |
|---|---|---|---|
| **Objective 2** | | **Implementation of Inventory Controls** | |
| Receiving and warehousing election supplies | **Y** | ▪ Generally, there are adequate controls for the receipt and warehousing of election supplies.<br>▪ The packing slip should be checked against the original purchase order to confirm the quantity and items received.<br>▪ Documents relating to the order should contain proof that the controls were performed. | R3 – Control over purchase order |
| Costing election supplies | **G** | ▪ Election supplies are stated at average cost.<br>▪ There are adequate controls for the calculation of average cost. | |
| Assembling items into kits and lots | **B** | ▪ Several controls were noted for the assembly of kits and lots.<br>▪ Documents should include appropriate proof that the controls have been performed.<br>▪ Procedures connected with the movement of inventory should be reviewed in order to ensure that such movement is recorded in a timely manner and that inventory information is accurate. | R4 – Accounting for the movement of inventory |
| Shipping election supplies | **Y** | ▪ There were very good controls noted for the shipping of election supplies to returning officers.<br>▪ Documents should include appropriate proof that the controls have been performed.<br>▪ A function should be added in the SMS to keep track of supplies being stored in the offices of returning officers.<br>▪ Procedures should ensure that shipments are recorded in the SMS when they are removed from inventory. | R5 – Inventory at the returning offices<br><br>R6 – Entering internal and external orders |
| Maintaining a perpetual inventory system | **B** | ▪ The SMS is the inventory management system. Generally, it has adequate functionalities for inventory management.<br>▪ Reviews that could result in inventory adjustments should be made before the final count.<br>▪ Management should reassess the risk associated with the fact that employees other than Elections Canada employees have access to the warehouse. | R7 – Adjustments to the inventory<br><br>R8 – Risk of access |
| Accounting for election supplies | **O** | ▪ Management conducts cyclical, partial counts.<br>▪ There should be adequate follow-up of the | R9 – Policy on inventory counts |

| Criterion | Rating | Explanation | Recommendation |
|---|---|---|---|
| | | causes of identified errors.<br>■ An annual count should be conducted at fiscal year-end.<br>■ The SMS should indicate all locations for each item in inventory. | R10 – Complete year-end count<br><br>R11 – Location of items in inventory<br><br>R12 – Processing returns |
| **Objective 3** | | **Roles and Responsibilities, and the Segregation of Duties** | |
| Roles and responsibilities | **B** | ■ Roles and responsibilities relating to internal controls should be documented, and staff should be informed of them. | |
| Segregation of duties | **Y** | ■ The segregation of duties is not always adequate.<br>■ Where the size of an organization does not allow for a complete segregation of duties, an adequate compensating control should be implemented. | R13 – Segregation of duties |
| Segregation of Supplies Management System duties | **B** | ■ The update of the different types of access to the SMS should be completed. | R14 – Types of access to the SMS |
| **Objective 4** | | **Accuracy of Information in the Financial System** | |
| Active monitoring of internal controls | **O** | ■ Internal controls should be actively monitored.<br>■ Monitoring activities should be documented, and roles and responsibilities defined.<br>■ The monthly reconciliation should be deemed complete when the identified discrepancies have been resolved. | R15 – Periodic Reconciliation |
| Addressing problems and risks | **Y** | ■ Informal follow-up procedures were noted.<br>■ Problems and risks identified should be reported in a timely manner. | R16 – Active monitoring |
| **Objective 5** | | **Technology Options and Justification of Inventory Requirements** | |
| Technology options | **Y** | ■ Research has been initiated into technology options for inventory management.<br>■ A cost-benefit analysis of available technology options should be conducted.<br>■ The agency should look into alternative forms of delivery that make use of modern technology. | R17 – Analysis of technological options and modes of delivery |
| Operational needs | **B** | ■ There is a complex system in place for analyzing election supply requirements for | R18 – Analysis of data regarding |

| Criterion | Rating | Explanation | Recommendation |
|---|---|---|---|
| | | each electoral district, but it is not properly documented.<br><br>■ An analysis of post-event returns should be conducted to validate election supply requirements. | returns |

| Satisfactory | Needs Minor Improvement | Needs Moderate Improvement | Needs Significant Improvement | Unsatisfactory | Unknown / Cannot Be Measured |
|---|---|---|---|---|---|

# 5. Observations and Recommendations

This section presents observations, conclusions and recommendations for each audit objective.

## 5.1 Design of the Inventory Control Framework

### 5.1.1 Election Supplies Inventory Control Framework

An effective risk-based control framework should be in place for the inventory of election supplies. It should be maintained, monitored and reviewed, with timely corrective measures taken when problems are detected.

The control framework as defined by COSO and CICA has the following five components:
- control environment
- entity's risk-assessment process
- information system, including related business processes, relevant to financial information, and communication
- control activities
- monitoring of controls

Our analysis covered inventory management, receiving, shipping, warehousing, assembly, cyclical and periodic counts, financial reporting and monthly and year-end procedures.

According to our analysis and observations, the inventory control framework at Elections Canada is generally adequate and appropriate, but has some weaknesses. The principal weaknesses that were noted are as follows:
- Documentation of the controls is neither up to date nor complete.
- Several controls do not include proof that they were performed.
- Some controls are not adequately performed or are not performed by the appropriate people.
- There is insufficient monitoring by management of the activies and controls related to the election supplies inventory.

To ensure accuracy of information produced by the systems, appropriate controls must be created and documented, and control activities must be adequately monitored. The control framework should be reviewed and documented to ensure the occurrence, completeness and accuracy of financial and management information on the inventory of election supplies.

### 5.1.2 Documenting Internal Controls

A consulting firm documented the operational processes for inventory in 2006, and the Finance Sector updated the documentation in 2008. Included in the documentation is a description of the Distribution Centre's activities in relation to receiving, shipping and assembling election supplies. It also includes information on the Supplies Management System, periodic physical

counts, high-risk and obsolete items, post-election returns of election supplies, orders pending, inventory adjustments and monthly and fiscal year-end procedures.

The information in the documentation is neither complete nor up to date. There is a description of operational processes, but no mention of any internal control. The roles and responsibilities of those involved in each process are not clearly defined. There is no indication of what internal control must be performed at each step of the process or who is responsible for performing it.

The audit team obtained descriptions of procedures for each inventory-related activity – that is, receiving, warehousing, shipping, assembly or inventory counts. These descriptions are relatively up to date and enumerate the steps to be taken for each activity, but contain no indication of the key internal controls.

The audit team therefore produced a narrative description of the different steps in the process, pointing out existing controls and those that are missing. Management should update the description at least once a year and regularly follow up to ensure that controls are indeed being performed and are effective. Moreover, the roles and responsibilities of those involved in the process should be documented.

To comply with the Treasury Board Policy on Internal Control, all organizations must have a documented control framework for each business process. When controls are not documented, there is a higher risk that they will not be known or will be incorrectly applied, thereby compromising the quality of financial and management information on the inventory.

We also noted that, for several control activities, there is no proof in the documents (purchase order, report, reconciliation, etc.) that the controls were performed. The lack of such proof increases the risk that a control will be not performed and makes adequate monitoring of controls more difficult.

*Recommendations*
1. The inventory control framework should be reviewed and documented to ensure the occurrence, completeness and accuracy of financial and management information on the inventory of election supplies.

*Management Response*

**Responsibility:** Director, Field Personnel Readiness

We agree with this recommendation.

The Field Personnel Readiness Directorate will review and document all processes and verify all existing inventory management controls. The Directorate undertakes to add any missing controls that are needed to ensure the accuracy of financial and management information.

Target date: June 30, 2011

2. Documents used to manage the inventory should contain proof (signature, initials, date, explanation of analysis, etc.) that the controls were performed.

*Management Response*

**Responsibility:** Director, Field Personnel Readiness

We agree with this recommendation.

The Field Personnel Readiness Directorate has initiated a review of the control framework. The Directorate will also ensure that there is appropriate proof that the controls set out in the control framework have been performed. This process change will be documented.

Target date: June 30, 2011

## 5.2 Implementation of Internal Controls

In order for election supplies to be recorded in accordance with the accounting standards in the CICA Handbook, the audit team ensured that the controls were designed so that, individually or in combination with other controls, they would allow the following assertions to be made for all inventory-related activities:

- Occurrence: Transactions and events that have been recorded have occurred and pertain to the entity.
- Completeness: All transactions and events that should have been recorded have been recorded.
- Accuracy: Amounts and other data relating to recorded transactions and events have been recorded appropriately.
- Cut-off: Transactions and events have been recorded in the correct accounting period.
- Classification: Transactions and events have been recorded in the proper accounts.

Controls must be designed to ensure that material misstatements are prevented, or detected and effectively corrected. Controls may be automated or manual. A deficiency in internal control on its own may not be sufficiently important to constitute a significant deficiency. However, a combination of deficiencies affecting the same account balance or disclosure, relevant assertion, or component of internal control may increase the risks of misstatement to such an extent as to give rise to a significant deficiency.

### 5.2.1 Receiving and Warehousing Election Supplies

The Distribution Centre is responsible for procuring all election supplies required to conduct an election. More than 800 tons of items are assembled for distribution to the offices of returning officers. Much of that material must be ordered, then received and warehoused at the Distribution Centre.

When supplies are delivered to the Distribution Centre, the employees verify the following:

- the supplies delivered do, in fact, belong to Elections Canada

- the items received are indeed those ordered by Elections Canada
- the quantity received is the quantity ordered
- the items are not damaged
- the receipt of the shipment is properly recorded in the SMS

Generally, proper controls have been developed and implemented to this end. However, in some cases, there is no proof of the performance of the controls.

In order for shipments of supplies received to be fully recorded in the inventory system, the items received must exactly match those ordered and must be properly entered in the SMS. The audit team noted that the original purchase order from the procurements section is not checked against the packing slip to confirm that quantities of each item received match the quantities ordered. This control should be performed, and the person in charge of receiving should initial the copy of the purchase order. Moreover, the purchase order should be kept with the copy of the packing slip and provided to the clerk for entering into the SMS.

*Recommendation*
3. The packing slip should be checked against the original purchase order to ensure that the proper quantities and the proper items were received. The purchase order should contain proof that the control was performed.

*Management Response*

**Responsibility:** Director, Field Personnel Readiness

We agree with this recommendation.

The Field Personnel Readiness Directorate has begun adding proof (initials of person in charge of receiving) on the purchase order to confirm that the correct quantities and the correct items were received. This process change will be documented.

Target date: Effective immediately.

The team at the Distribution Centre ensures that the items received do, in fact, belong to Elections Canada by checking the packing slip from the supplier. The receiving clerk then ensures that the goods are not damaged. If any items are damaged, they are returned to the supplier. A control is then performed to ensure that the quantity received matches the quantity shown on the purchase order. We observed good control over the entering of shipments received into the SMS, with proof of performance and supervision recorded on the packing slip.

In auditing the controls over receiving, we noted that, in the following cases, the documents contained no proof (e.g. signature or handwritten comment) that they had been checked:
- Two different counts are made of the quantity received, and the counts are recorded on the packing slip, but the slip is not initialled as proof that the control was actually performed.

- The packing slip is signed by the person who received the shipment, but there is no explanation of the controls performed by that person.

The lack of proof that a control was performed increases the risk that it will not be. This could result in problems going undetected and could lead to errors. Monitoring the controls also becomes more difficult.

*Recommendation (see Recommendation 2, under section 5.1)*

## 5.2.2 Costing Election Supplies

In order to assess the accuracy of financial information on the inventory, we reviewed the procedures for costing election supplies. Our audit did not include election-supplies procurement procedures. Election supplies are stated at weighted average cost. The cost is charged to the results for the period during which the items are used. In the financial statements for the year ending March 31, 2010, election supplies in inventory were valued at $8.2 million.

The average cost of all election supplies in inventory is calculated as follows:
- Individual items: The average cost of an item is reassessed only when the item is received. When items are received, the real cost of the item is extracted from FreeBalance and used with current inventory data to calculate the new weighted average cost.

- Kits: The weighted average cost of a kit is reassessed each time the weighted average cost of an item in that kit is recalculated.

- Lots: The weighted average cost of a lot is reassessed each time the weighted average cost of an item or kit in the lot is recalculated.

When a new item is entered into the SMS, the purchase price is posted manually. A single person is assigned to this duty, and that person ensures that the original cost entered into the SMS matches the initial invoice. Subsequently, each time the amount is changed, an entry is created in the costing verification table, indicating the fluctuation in inventory. The Summary Inventory table is adjusted accordingly.

We consider the controls over the calculation of average cost to be adequate.

## 5.2.3 Assembling Items into Kits and Lots

In order to distribute the documents, forms and other supplies required for an election to the returning officers, the items in inventory are assembled into kits and lots. Lots contain individual items and/or kits, and kits contain individual items.

The inventory of election supplies is compiled in the Supplies Management System in three different ways: by item, by kit and by lot. When procured, items are entered into the system as items in inventory and are warehoused at the Elections Canada Distribution Centre.

Lots and kits are assembled from the individual items warehoused at the Distribution Centre. In the SMS, items assembled into kits and lots are removed from the Items in Inventory category

and added to the Kits in Inventory or Lots in Inventory category. Item quantities, by kit or lot, are determined for each electoral district based on electoral geography data or other information provided by the returning officers and business sectors involved.

We noted that there are strong controls over the assembly of kits and lots, and that they are properly implemented. We witnessed the assembly of 50 kits and were satisfied with the controls in place. There are sufficient steps for verifying that the items required are adequately assembled (item number, number of items, revision date, distribution unit). Several counts are done to ensure that the proper quantity of items is used, and there is excellent supervision to ensure adequate assembly of the items.

Once the assembly is complete, the person in charge of the operation completes the Assembly Report. This person records the quantities assembled, the date, the number of employees involved in the assembly process and the number of hours spent on the operation, then initials the report. The report is then submitted for entry into the system. Next, an inventory control sheet is completed and the inventory system is updated to reflect the assembly process by removing the individual items assembled and adding the assembled kits and lots. The person in charge of these steps then initials the inventory control sheet as proof that the assembly has been recorded in the system.

There is nothing in the report to indicate that several counts have been made to ensure that the quantity of each item was correct. The lack of such proof increases the risk that the control will not be performed and makes it more difficult to adequately monitor controls.

*Recommendation (see Recommendation 2, under section 5.1)*

We observed that it is common for items to be removed from the SMS as soon as the kit/lot composition sheet is provided to those responsible for assembling the items. It is also common for items to be physically removed from the shelves and from the inventory system weeks before the kits and lots are assembled. If items are removed from the SMS before they are removed from the shelves at the warehouse, the cut-off for assembly transactions and their classification may be distorted, leading to a risk of errors. Items should be removed from the items inventory and added to the kits or lots inventory only when they are removed from the physical inventory and taken to the assembly table.

*Recommendation*
4. Procedures for recording the movement of inventory should be reviewed so that such movements are recorded only when the change in inventory takes place, in order to ensure adequate financial and management information.

*Management Response*

**Responsibility:** Director, Field Personnel Readiness

We agree with this recommendation.

The Field Personnel Readiness Directorate is currently reviewing and documenting procedures for recording the movement of inventory for the assembly of kits and lots, in order to ensure the accuracy of the physical inventory and of the financial information in the SMS.

Target date: September 30, 2010

## 5.2.4  Shipping Election Supplies

There are two main categories for shipping election supplies: shipments to the offices of returning officers, and orders from internal and external clients made through the Supplies Management System.

**Shipments to the Offices of Returning Officers and to Political Entities**

*Predetermined shipments distributed to all electoral districts*
Shipments for all 308 offices of returning officers are sent out in accordance with a pre-established shipping schedule. These shipments consist of election supplies assembled into kits and lots. Each shipment may contain numerous lots and kits. During a general election, each returning officer generally receives four shipments containing a total of some 30 lots and kits.

These shipments are prepared in accordance with the Distribution Centre's assembly procedures, placed in monotainers, then stored at the Distribution Centre or in independent storage facilities until they are shipped to the electoral districts. The independent storage facilities belong to a private company and the level of security is very high. The lots are not removed from the SMS inventory at this step, as they are not yet being used for an election.

At the time indicated in the shipping schedule for the general election, the lots are shipped to the offices of the returning officers. They are then automatically removed from the SMS inventory and included in the expenses, even though they are not yet being used. There is no other way for the SMS to manage this situation.

Removing election supplies from the inventory system as soon as they are sent to the offices of returning officers is not in keeping with the classification principle for accounting operations, and distorts the inventory amount. To offset this problem, the finance group performs a manual correction in order to return those lots and kits into the inventory in the ledgers.

We noted that a number of good controls are in place for the assembly of the lots and kits placed in monotainers. They are the same controls used for counting the quantities to be included in the lots and kits discussed in the section on assembly (see section 4.2.3). Apart from a lack of proof that the counts have been done, we noted that the controls in this regard are properly applied.

*Shipments to various stakeholders*
For operational reasons, it is sometimes necessary to send shipments to stakeholders other than returning officers (e.g. all candidates in a given province or all financial agents of the political parties' electoral district associations).

**Orders from Internal and External Clients Made Through the Inventory System**

This refers to individual orders initiated in the SMS under the following groups:

*External orders*
Orders made by the public are initiated by authorized staff in the Enquiries group. Items in inventory such as empty ballot boxes, atlases, maps and unused voting screens are sold at cost to municipalities, schools, universities, parliamentarians and students.

*Internal orders*
Authorized staff in each division of Elections Canada, including those involved with operations, administration, communications and finance, can access the SMS and place an internal order with the Distribution Centre.

*Orders arriving directly from returning officers*
Returning officers can place orders in the SMS over the intranet. The SMS is controlled by the operations and material officer, who is responsible for approving the orders.

**Conclusion**

In general, we found that good controls are in place for the shipment of election supplies, and that shipping transactions are adequately recorded in the systems.

However, we noted a lack of proof that some control activities had indeed been performed. We also noted that, in some situations, the transactions are not recorded at the proper time. The lack of proof that a control is performed increases the risk that the control will not be performed. Problems can then go undetected and lead to errors, and it becomes more difficult to monitor the functioning of controls.

The fact that some inventory removal transactions are not recorded at the appropriate time distorts the cut-off and classification of transactions, and can lead to errors in financial and management information on inventory.

*Recommendations (see Recommendation 2, under section 5.1)*
5.  An additional function should be added in the SMS to make it possible to identify the lots and kits that have been shipped to the offices of returning officers without having to remove them immediately from the inventory system. These lots and kits should be removed from the inventory system only when they are used.

*Management Response*

**Responsibility:** Director, Field Personnel Readiness

We agree with this recommendation.

The functions of the "lot release" process will be reviewed and analyzed to determine the SMS's technological capability with a view to adding a function in the SMS to identify lots that have been shipped without removing them from the inventory system. The lots and kits shipped prior

to an election would accordingly be removed from the inventory system only when the election was called.

Target date: September 30, 2011

6. We recommend a two-step process for orders made by internal and external clients through the inventory system: 1) once the order is authorized in the SMS, the quantity would be committed; 2) once the quantity is shipped, it would be removed from the SMS.

*Management Response*

**Responsibility:** Director, Field Personnel Readiness

We agree with this recommendation.

A technology impact analysis is under way to identify the changes needed to the SMS in order to be able to remove the quantity in inventory from the SMS when internal and external orders are shipped.

Target date: September 30, 2011

## 5.2.5  *Maintaining a Perpetual Inventory System*

**Overview**

The Supplies Management System was designed to help Elections Canada manage the election supplies needed to conduct an election. To implement accrual accounting as required by the Financial Information Strategy (FIS), a cost calculation module was added to the system in 2001.

According to our findings, the SMS provides management with the information needed for decision making. It is easy to use, and management can obtain relevant reports for inventory management. The current system provides detailed information on all the supplies used by Elections Canada, and separately identifies items for internal use, such as office supplies managed by Administration, and the election supplies needed to conduct an election or used by parliamentarians.

Since the SMS is used to manage both election supplies and (non-election) office supplies, the system prompts users to indicate, when making a new entry, whether it is for election or non-election supplies. As the accounting treatment is different in the two cases, it is essential that this step be properly completed. To be sure of this, management should conduct periodic reviews for the different "types" of supplies.

We noted that such a review is conducted annually, but not necessarily at the best time. Any review that can result in an inventory adjustment in the SMS should be made before the final count at fiscal year-end.

Not adjusting the book inventory before the annual count increases the risk of non-election supplies being mistakenly included in the account balance in the financial statements. When that happens, classification problems may go undetected and lead to errors, resulting in an inadequate classification of transactions.

*Recommendation*
7. Any review that may result in an inventory adjustment in the SMS should be conducted before the final count at fiscal year-end.

*Management Response*

> **Responsibility:** Director, Finance and Contracting
>
> Management agrees with this recommendation and will implement it during the current fiscal period.
>
> Target date: March 31, 2011

## Roles and Responsibilities

*Operations*
The chief of material management and procurement is responsible for all updates to the list of SMS users. Each change is made upon the approval of a user's supervisor. There are different types of access to the SMS, which are normally managed by type of employee.

The chief of material management and procurement is also responsible for ensuring that sufficient quantities of election supplies are available in a timely manner in anticipation of an election.

*Administration*
The Administration Directorate is responsible for managing non-election supplies (e.g. envelopes, paper for internal use). Those supplies are used on an ongoing basis throughout the fiscal year. Because non-election supplies are not covered by the present audit, we did not analyze the related business process.

*Distribution Centre*
Elections Canada's election supplies inventory is physically located at 440 Coventry Road in Ottawa, where the SMS is also accessible. Access to the Distribution Centre is tightly controlled by a security guard and electronic access cards at the entrance. All visitors are required to sign in at the entrance and be accompanied by Distribution Centre staff inside the building.

There are three locked premises on the first floor and three on the second floor. Sensitive items such as tax receipts, blank ballots, special ballots and promotional items are stored in those locations. We noted, however, that employees other than Elections Canada employees have access to the Distribution Centre's warehouse. Although sensitive items are stored in locked cages, there is still some risk of lost inventory caused by employees other than Elections Canada employees.

Elections Canada also uses other storage facilities, managed by private companies, to store post-event returns from offices of returning officers pending the processing of those returns, to store monotainers pending delivery to electoral district offices, and to store surplus supplies as required. There is a high level of security at those facilities.

*Recommendation*
8.  The risk associated with employees other than Elections Canada employees having access to the warehouse should be reassessed.

*Management Response*

**Responsibility:** Director, Field Personnel Readiness

We agree with this observation.

The Distribution Centre has locked facilities for high-risk, attractive items such as blank ballots, candidates' receipts and the list of electors.

The organization is aware that RCMP and building maintenance personnel have access to common areas on the second floor of the Distribution Centre, where Elections Canada stores low-risk or unattractive items (ballot boxes, voting screens and VIC collection boxes). Elections Canada is prepared to manage this risk.

## 5.2.6  Accounting for Election Supplies

The periodic inventory count, which is usually conducted annually or semi-annually, consists of counting the inventory items, comparing the results with the inventory system data and reconciling the differences by adjusting the data to properly reflect the actual inventory. That count can also help to identify causes of errors and to make necessary adjustments to the control.

For its part, the cyclical count is designed to count a limited number of inventory items at a regular frequency until all the items have been counted at least once in the year. The cyclical count differs from the periodic count in that its objective is to identify the causes of errors and correct them at the source. It also ensures a more frequent count of items that require it.

There is no written policy on periodic and cyclical counts, but management's objective is to conduct a cyclical count of each item at least once a year. There have been fewer counts in the last years because of the recent succession of minority governments. In 2009–2010, Elections Canada conducted 60 cyclical counts, involving only 36 percent of items. The agency did, however, conduct a number of periodic counts, including a partial count in November 2009 and a full count of inventory items for the 2010 fiscal year-end, excluding kits and lots.

The lack of cyclical counts increases the risk that discrepancies will not be quickly detected and corrected. In addition, the lack of full counts increases the risk that election supplies will not be exhaustively, adequately and accurately accounted for, and that financial and management information on the inventory will be inadequate.

*Recommendations*

9.  Elections Canada should establish a written policy on cyclical and periodic counts, follow up the results of those counts and undertake corrective measures for significant discrepancies.

*Management Response*

**Responsibility:** Director, Field Personnel Readiness

We agree with this recommendation.

The Field Personnel Readiness Directorate undertakes to review and document procedures for cyclical counts of election supplies with a view to conducting a count of every item in inventory at least once a year, according to operational requirements. The Directorate also plans to follow up and document significant discrepancies.

Target date: December 31, 2010

10. To ensure the inventory amount is accurate at fiscal year-end, an annual count should be conducted at that time.

*Management Response*

**Responsibility:** Director, Field Personnel Readiness

We agree with this recommendation.

The Field Personnel Readiness Directorate undertakes to review and document procedures for fiscal year-end counts. The Directorate also plans to follow up on and document significant discrepancies, and make any necessary adjustments.

Target date: March 31, 2010

### Location of items in the Distribution Centre

The audit team found that no plan of the warehouse is available at the Distribution Centre, and that it is not always easy to discover where items are stored. For example, boxes with one item number can be found in one row on one floor of the warehouse, while boxes with the same item number can be found in another row on the same floor or on another floor. The fact that all locations for a given item number are not indicated in the system increases the risk that the inventory list is incomplete, and makes the employees' work more difficult. Although the location of items is indicated in the SMS, we found that such information was often inaccurate or did not mention that an item could be found in two different locations.

*Recommendation*

11. The Supplies Management System should indicate all the locations for each item to ensure sound inventory management and a complete inventory list.

**Responsibility:** Director, Field Personnel Readiness

We agree with this recommendation.

At present, there is a report that indicates the exact physical location of all items in inventory. However, we feel it is important to impress upon employees the importance of following such procedures and conducting a periodic follow-up on changes in the location of inventory items.

Target date: September 30, 2010

### Obsolete inventory management

Responsibilities are not clearly defined regarding the treatment of obsolete inventory. During our audit, we were unable to clearly identify who would authorize a deletion in the system or the disposal of obsolete inventory. No documentation is available for that role. This situation could lead to a shortage of appropriate inventory for an election or to unnecessary storage expenses.

### Return of election supplies

There is no policy on post-event returns of election supplies. Processing returns in the system can take up to six months. A number of reasons were given to explain that turnaround time, including a lack of space at the Distribution Centre, a lack of staff, and the priority given to preparations for the next election. The longer time frame for processing returns inevitably causes errors in terms of the real value and quantity of supplies in inventory, which can distort the information in the financial system and result in additional expenses.

*Recommendation*

12. The procedures for processing the return of election supplies should be reviewed to ensure sound inventory management and adequate inventory accounting.

*Management Response*

**Responsibility:** Director, Field Personnel Readiness

We agree with this recommendation.

As a general rule, all election supplies returned to the Elections Canada Distribution Centre by returning officers are processed as soon as they are received, then restocked. It can take up to six months to fully complete this process.

All supplies that can be reused in a subsequent electoral event are restocked and an adjustment is made in the SMS. All supplies considered obsolete are sent to a recycling facility and all materials of a sensitive nature are retained for an extended period of time (as provided for in the *Canada Elections Act*) or disposed of in a secure manner.

When a minority government is elected, processing the returning officers' returned election supplies is less pressing, with priority being given to procuring and assembling election supplies for the next general election, which could be called at any time.

We propose a review of procedures for processing the return of election supplies, to be conducted by an inventory management consultant, with a view to identifying alternative approaches for processing such returns following the election of a minority government.

Target date: December 31, 2010

## 5.3   Roles and Responsibilities, and the Segregation of Duties

### 5.3.1  Roles and Responsibilities

The responsibility for implementing an appropriate and effective control framework falls to Elections Canada's managers. Internal controls must be designed so as to establish the roles and responsibilities of the different people involved in the inventory processes.

We found that the roles and responsibilities for the inventory control framework are not clearly established, nor well-understood by everyone or adequately documented. This increases the risk that the control framework will not work effectively, thus causing errors.

*Recommendation (See Recommendation 1, under section 5.1)*

### 5.3.2  Segregation of Duties

The rationale for the segregation of duties is to ensure that errors are detected and to limit the risks of irregularities or errors being concealed. It is important to organize duties in such a way that, for a given operation, one individual cannot be in a position to commit omissions, errors or fraud and conceal them in the normal course of his or her duties.

Elections Canada must avoid assigning incompatible duties to the same person, including:

- retention of election supplies
- authorization of operations relating to those election supplies
- recording of related transactions
- performance of the duty
- control

Intentional or not, the risk of error is higher when the same person performs incompatible duties.

We discovered an inadequate segregation of duties in the following situations:

- Some employees assigned to the warehouse have access to the physical inventory and can also enter changes in the SMS.

- Some employees with the authority to initiate cyclical counts have access to the physical inventory and can also enter adjustments resulting from those counts in the SMS.

Elections Canada is a small agency, with limited staff, which may sometimes make segregation of duties more difficult. In such cases, management needs to exercise increased monitoring and put in place appropriate compensating controls.

*Recommendation*
13. Elections Canada should reinforce the segregation of duties for inventory-related activities and put in place compensating controls when the segregation of duties is not possible.

*Management Response*

**Responsibility:** Director, Field Personnel Readiness

We agree with this recommendation.

Segregation of duties will also be addressed in the review of the control framework. We have begun to update and document procedures relating to the segregation of inventory management duties. Procedures related to receiving shipments have been updated and documented. For example, the person in charge of receiving is no longer doing the entry of the information from the shipments in the SMS.

Target date: June 30, 2011

### 5.3.3 Segregation of Duties in the SMS

The chief of materiel management and procurement is responsible for all updates to the list of SMS users. Each change is made upon the approval of a user's supervisor. There are different types of access to the SMS, which are normally managed by type of employee.

The audit team noted that several types of access are available, but there is no directive indicating what type of access should be granted for each type of employee. An update of the different types of access by type of employee is under way, in order to better limit access to the various SMS functions.

*Recommendation*
14. The update of the different types of access by type of employee should be completed, in order to limit access to the various SMS functions to authorized employees.

*Management Response*

**Responsibility:** Director, Field Personnel Readiness

We agree with this recommendation.

The Directorate will complete the update of the different types of users and the different types of access currently in effect. This review will make it possible to ensure the proper segregation of duties.

Target date: December 31, 2010

## 5.4 Accuracy of Information in the Financial System

The audit team assessed the relevance of monitoring activities on inventory control to ensure the accuracy of financial and management information on election supplies.

Our analysis of the procedures in place indicated that the monitoring activities in question are insufficiently documented. In addition, it may not be possible to communicate or correct some of the problems or risks identified in that area in a timely manner.

### 5.4.1 Management Follow-up and Control of Procedures

To ensure the accuracy of information produced by a financial system, it is important not only to establish good controls, but also to adequately monitor those controls.

The audit team found that inventory control monitoring and follow-up procedures are in place, but are insufficiently documented. A number of procedures are not documented and cannot be identified. Consequently, it is very difficult for management to determine whether the procedures or policies are respected. It is also difficult to properly identify the roles and responsibilities of each employee and of management. Sound documentation of the monitoring process would facilitate each person's task, and the roles and responsibilities would be much clearer. This would allow for adequate follow-up on the various controls in place.

Our interviews with Finance Directorate employees involved with inventory control allowed us to confirm that management conducts a follow up and performs controls for some procedures to ensure that the financial information produced by the system is accurate. This includes monthly inventory reconciliation, which covers purchasing, shipping, returns, adjustments and obsolete items. As such, a process is in place to reconcile the FreeBalance system and the SMS. However, the problems identified in the reconciliation are not always subject to a quick follow up.

Internal control monitoring activities should also be documented, as should inventory control monitoring procedures, with the roles and responsibilities of all affected employees clearly defined.

*Recommendation*
15. The periodic inventory reconciliation process should be documented, and all problems identified through the reconciliation should be subject to a timely follow-up.

*Management Response*

**Responsibility:** Director, Finance and Contracting

Management agrees with this recommendation. The periodic reconciliation process will be documented by December 31, 2010.

Additionally, timely follow-up on problems identified through the periodic reconciliation has already been implemented, and a description of this process will be incorporated into the aforementioned documentation.

Target date: December 31, 2010

## 5.4.2  Identification and Communication of Risks and Problems

To ensure the active monitoring of controls, it is important to have procedures in place not only to validate that controls are working properly, but also to address problems or opportunities for improvement as quickly as possible.

Moreover, to ensure effective risk management, Elections Canada's management must be able to detect and assess major risks that could have an impact on Elections Canada's objectives. Risk information must be circulated quickly within the organization so that those involved can take appropriate action.

Elections Canada does not currently have a formal program of active inventory control monitoring and follow-up. Nor is there any documentation on how to flag a risk or problem affecting the inventory system. Unless risks and problems are communicated to those involved, in a timely manner, it will be more difficult for management to make the appropriate decisions.

*Recommendation*
16. A monitoring program for financial information on the election supplies inventory should be put in place, and should flag identified problems and risks in a timely manner.

*Management Response*

**Responsibility:** Director, Finance and Contracting

Management agrees with this recommendation. An active monitoring program covering the financial information related to the election supplies inventory will be established and documented by March 31, 2011. In the interim, periodic spot checks will continue to be undertaken.

Target date: March 31, 2011

## 5.5  Justification of Physical Inventory Requirements

For sound inventory management, it is important to have the right quantity of election supplies available at the right time and in the right place. Elections Canada should conduct periodic analyses of its operational requirements to maintain an adequate inventory of election supplies.

In addition, new technology options should be considered, such as downloadable electronic documents.

## 5.5.1 Technology Options and Operational Requirements

Changes in technology open up new opportunities. A periodic review should be conducted of the cost-benefits of available technology options to ensure that the current inventory management system is the most suitable for Elections Canada's needs.

A review of the inventory management system has been undertaken, and the last draft of that review was dated July 2008. That study concluded that the SMS covers a full procurement cycle, but lacks a number of key modern inventory management components. Some components of the current system could be improved, but the study did not indicate which ones, nor the cost-benefits of the proposed alternatives. Given the ongoing state of election readiness, no actions related to that project were under way at the time of the audit.

In this context, Elections Canada has not been able to study or implement any alternative forms of election supplies delivery. Some technology options have been considered, but no plan was in place at the time of the audit for implementing them. Management has expressed its intention of addressing the issue of inventory reduction next year, through the use of electronic forms. The objective would be for returning officers to access some forms electronically and print them in their offices. This would help reduce the cost of election supplies storage and delivery, and would reduce the risk of storing outdated supplies.

Elections Canada could take advantage of some new technology options for inventory management that would make the process more efficient and cost-effective. It would be worthwhile for management to examine the current inventory management system and weigh the cost-benefits of that system against other available, modern options. Moreover, using modern technology solutions like electronic documents could reduce inventory requirements and help reduce the number of obsolete items in inventory.

*Recommendation*
17. Management should analyze available technology options for inventory management and election supplies delivery. That analysis should assess the cost-benefits of the various options and determine whether it would be in Elections Canada's interest to implement them.

*Management Response*

**Responsibility:** Director, Field Personnel Readiness

We agree with this recommendation.

The Directorate's operational plan states that a competitive bidding process will be launched in the coming months to retain the services of a firm specializing in warehouse management systems with a view to identifying different innovative technology options for inventory management.

Target date: March 31, 2011

A more thorough analysis of existing forms will be conducted with a view to converting the forms to electronic format, in order to reduce the quantity of material that would be shipped to returning officers in preparation for and during the 42nd general election.

Target date: Ongoing until the procurement of materials begins for the 42nd general election.

## 5.5.2  *Justification of Inventory Operational Requirements*

A good inventory management system allows orders to be generated and ensures that procurement proceeds effectively and efficiently. It is important to order the right quantity of each item in inventory at the right time. In addition, there must be controls in place to obtain an appropriate justification for items in inventory. These controls can be automated or manual, and must be documented.

The reports available in the inventory system are often used to justify purchasing or inventory requirements. A system must be able to generate reports on how items are used, historical transactions, trends, costs, requirements and restocking, as well as various reports to help justify procurement and/or inventory replenishment.

We noted that some procedures and controls currently in place are used to justify inventory requirements. For example, the Supplies Management System can generate a large number of reports, such as on inventory quantities and quantities required for lot and kit assembly. Those reports are used to determine the quantities required for assembling supplies for the next election and the quantities to order. Manual controls and signature approval are also used to ensure procurement requirements and authorization. We also found a number of electronic access, purchase order generation and electronic management approval controls in the system. All of these controls help to justify inventory requirements.

We also found some weaknesses with respect to documentation of the justification, inventory requirements and information on returns and ratios.

**Documentation of the Procurement Process**

There was no written and documented procurement process at the time of the audit. There was, however, a draft internal document explaining the major steps in the procurement process, which had been prepared with the assistance of external consultants. That document has never been revised and approved by management. Moreover, it does not explain how a supply or inventory order is generated, and how it must be justified.

In our observation, the order generation process seems complex, requiring numerous complex reports and calculations for inventory replenishment. A number of manual and automated steps must be completed to successfully purchase election or other supplies. The more stages there are in a process, the higher the risk of error. The lack of directives and documentation on how to proceed also increases the risk of error, unnecessary purchases or supply shortages.

Documentation clearly explaining how to proceed and setting out the roles and responsibilities of employees involved would better ensure an adequate justification of requirements for the election supplies inventory.

**Return of Election Supplies**

Using information on the return of election supplies would greatly assist managers in determining the right quantity of material to send to each returning officer. According to our observations, no ratio or information is available on post-event returns of items. Elections Canada is aware that numerous items are returned by returning officers, but has no information with regard to quantities or percentages of returned items.

The return of supplies may indicate that inventory requirements were not properly assessed at the outset. Overpurchasing can result in unnecessary storage costs and even costs for obsolete items.

Information on the return of election supplies would be very useful in calculating quantities required for a general election. Such information would help to confirm whether the calculation formulas currently used are appropriate or whether they require adjustment.

*Recommendation*
18. An analysis should be conducted of post-event returns to validate the accuracy of identified requirements for election supplies.

*Management Response*

**Responsibility:** Director, Field Personnel Readiness

We agree with this recommendation.

An analysis is under way of data pertaining to materials returned by returning officers and restocked following the last general election. We are planning to develop a rigorous process for analyzing returns of election materials following the 41st general election in order to identify items shipped in excessive quantities.

It will be important to incorporate some risk management into our future assembly operations, based on the results of this analysis.

Target date: Ongoing until the procurement and assembly of materials begins for the 42nd general election.

# 6. Conclusion

This audit was conducted in response to observations made by the Office of the Auditor General in relation to the audit of Elections Canada's financial statements. We would like to thank the employees in charge of managing the election supplies inventory for their co-operation, which was invaluable in preparing an objective and useful audit report.

Implementing the recommendations included in this report would help to facilitate the financial statements audit process, while also improving inventory management and ensuring that management receives accurate financial and management information on the election supplies inventory to better support the decision-making process.