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Canada Media Fund Audit

Office of the Chief Audit and Evaluation Executive
Audit and Assurance Services Directorate
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Executive Summary

Introduction

The Canada Media Fund (CMF) is a new contribution program that reforms, combines and rebrands the Canadian Television Fund (CTF) and the Canada New Media Fund (CNMF). The CMF was approved in March 2010, and was created to recognize the convergence of media platforms from both production and viewing perspectives while improving governance practices of the CTF and to ensure that Canadian choices are available on television and other digital platforms. This program is delivered through a \$134.1 million contribution agreement with a third party, the Canada Media Fund Corporation (CMFC) which represents approximately 40 percent of total CMF corporate funding. The Broadcasting and Digital Communications Branch is responsible for making policy recommendations to the Minister on the CMF and implementing these policies through the Contribution Agreement with the CMF Corporation.

The authority for this audit is derived from the Multi-Year Risk-Based Audit Plan (RBAP) 2012-2013 to 2014-15 which was recommended by the Departmental Audit Committee and approved by the Deputy Minister in March 2012.

The objective of this audit is to provide Department of Canadian Heritage (PCH) senior management assurance on the adequacy and effectiveness of governance and performance, risk management practices, and internal controls used to deliver the CMF Program. The audit sub-objectives are the following:

1. To assess the effectiveness of PCH's management control framework and practices in place to oversee and identify, manage, and mitigate key risks related to the CMF Program;
2. To assess the effectiveness and efficiency of key controls over the monitoring of the CMF's financial and operational performance in compliance with PCH expectations; and,
3. To assess the extent to which the CMF Program is managed in compliance with relevant PCH and central agency policies, guidelines and expectations for transfer payment and third party delivery arrangements.

The scope of this audit covered PCH's management practices in place for the CMF program during the period from April 2011 to the completion of audit work in late January 2013. The audit excluded the assessment of management practices and controls within the CMF Corporation.

Key Findings

Throughout the audit work, the audit team observed several examples of how governance structures and internal controls are properly designed and applied effectively. This resulted in several observed strengths which are listed below:

- Governance mechanisms have been put in place to help ensure independence, freedom from conflicts of interest, and transparency of CMF activities;
- Roles and responsibilities for the CMF appear to be well understood and accountabilities are reinforced through the development of specific objectives for the CMF Program through performance management agreements;
- Program and Branch management receive frequent communications, both formal and informal, from numerous sources to enable their oversight and monitoring of the Program and further their understanding of issues and challenges that arise;
- Program management obtained advice and input from various sources, including legal counsel and the Centre of Expertise, in designing key elements of the Program;
- Cost-effectiveness of the Program is encouraged through a specific clause in the Contribution Agreement requiring the CMF Corporation to limit administrative costs;
- The CMF payment process and supporting tools are documented and are consistent with the guidelines developed by the Centre of Expertise; and
- A comprehensive performance measurement framework was developed and implemented at the inception of the Program under which performance measures are tracked and reported on regularly.

Notwithstanding the strengths identified above, while Program risks and mitigation strategies were formally defined at the inception of the Program, they have not been formally updated, documented and reported on.

Consequently, the audit team identified one opportunity where management practices and processes could be enhanced:

1. Management should build upon the practices and activities currently utilized to identify and monitor Program risks by more formally documenting management's assessment of risks and progress on related risk mitigation activities. In addition, risk management practices can be improved by clarifying accountability for risks to ensure identified risks are mitigated as planned and risk exposure is being routinely assessed.

Recommendations

1. The Deputy Director General of the Broadcasting and Digital Communications Branch should formalize existing risk management practices by:
 - 1.1. Establishing a consistent approach and mechanism for the identification, assessment, monitoring, and reporting of key Program risks and progress against risk mitigation strategies;
 - 1.2. Assigning formal accountability for risk mitigation activities identified; and
 - 1.3. Regularly incorporating information obtained through monitoring activities into risk reporting, where relevant.

Statement of Conformance

In my professional judgment as Chief Audit and Evaluation Executive, the audit was conducted in accordance with the Internal Auditing Standards for the Government of Canada. A practice inspection has not been conducted.

Audit Opinion

In my opinion, the Canada Media Fund Program is well managed in the area of governance and internal control but has a weakness with low risk exposures related to the documentation and approach to identifying, assessing, and monitoring risks and risk mitigation strategies that require management attention.

Richard Willan

Chief Audit and Evaluation Executive

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1. Introduction and Context

1.1 Authority for the Project

The authority for this audit is derived from the Multi-Year Risk-Based Audit Plan 2012-2013 to 2014-15 which was recommended by the Departmental Audit Committee and approved by the Deputy Minister in March 2012.

1.2 Background

The Canada Media Fund (CMF) is a new contribution program that reforms, combines and rebrands the Canadian Television Fund (CTF) and the Canada New Media Fund (CNMF). CMF was approved in March 2010 in accordance with the *Department of Canadian Heritage Act*, paragraph 4(2)(i) and subsection 7 (a) and the 2009 Federal Budget, Canada's Economic Action Plan. The creation of the CMF was to recognize the convergence of media platforms from both production and viewing perspectives while improving governance practices of the CTF. It was also created to ensure that Canadian choices are available on television and other digital platforms. Its creation is based on four key principles:

- Get governance and accountability right;
- Reward success and require innovation;
- Focus the investment on what Canadians want; and
- Level the playing field.

This program is delivered through a contribution agreement with a third party, the Canada Media Fund Corporation (CMFC). The CMFC is a not-for-profit corporation which provides funding for the creation of television convergent digital content in both official languages, aboriginal languages and other diverse languages, and leading-edge non-linear content and applications designed for distribution on multiple platforms. The CMF Corporation receives an estimated \$375 million in funding annually, consisting of \$134.1 million from the Department of Canadian Heritage (PCH) and the balance of the funding from regulatory requirements from the Canadian Coalition for Cultural Expression (CCCE), which represents Canada's five largest cable satellite distributors or (Broadcasting Distribution Undertakings (BDUs)).

The Board of Directors of the CMF Corporation has fiduciary responsibility over the corporation. It ensures that all activities conducted by the Corporation are in full compliance with the terms of the Corporation's Contribution Agreement with the Department of Canadian Heritage and all applicable laws, rules, and regulations. The Board conducts business through regular meetings of the full Board, the Audit Committee, and the Governance and HR Committee. The Board consists of seven directors, who are nominated by two member organizations: the CCCE, representing Canada's cable and satellite distributors, which elects five directors, and the Government

of Canada, through the Department of Canadian Heritage, which elects two. The Chair is elected by the Board and is also a director.

As for the administration of the CMF Program within PCH, the Broadcasting and Digital Communications Branch is responsible for making policy recommendations to the Minister on the CMF and implementing these policies through the Contribution Agreement with the CMF Corporation. The CMF program's operational budget, within the Department for 2012-2013 is approximately \$562, 970.

2. Objective

The objective of this audit is to provide PCH senior management assurance on the adequacy and effectiveness of governance and performance, risk management practices, and internal controls used to deliver the CMF Program. The sub-objectives are the following:

1. To assess the effectiveness of PCH's management control framework and practices in place to oversee and identify, manage, and mitigate key risks related to the CMF Program;
2. To assess the effectiveness and efficiency of key controls over the monitoring of the CMF's financial and operational performance in compliance with PCH expectations; and,
3. To assess the extent to which the CMF Program is managed in compliance with relevant PCH and central agency policies, guidelines and expectations for transfer payment and third party delivery arrangements.

The results have been reported under governance, internal control, and risk management.

3. Scope

The scope of this audit covered the PCH management practices in place for the CMF Program during the period from April 2011 to the completion of the audit work in late January 2013. The audit excluded the assessment of management practices and controls within the CMF Corporation.

4. Approach and Methodology

All audit work was conducted in accordance with Treasury Board Secretariat's *Internal Auditing Standards for the Government of Canada* and *Policy on Internal Audit* and the

Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.

Audit criteria identify the standards against which an assessment is made and form the basis for the audit work plan and conduct of the audit. Audit criteria are specific to each

audit's objectives and scope. The detailed audit criteria for the audit objectives for the CMF Program are provided in Appendix A. Audit criteria were developed based on Treasury Board's *Policy on Transfer Payments* and *Core Management Controls*.

The audit methodology included:

- Reviewing CMF Program documentation, policies, procedures, and practices;
- Reviewing a sample of quarterly and annual reports and related file documentation for fiscal 2011-2012 and 2012-2013;
- Reviewing payment files and transactions for fiscal 2011-2012;
- Conducting six interviews with representatives from the CMF Program and the Center of Expertise;
- Analyzing information obtained through documentation review and interviews.

5. Findings and Recommendations

This section presents detailed findings and related recommendations for the Canada Media Fund Audit. The findings are based on a combination of the evidence gathered through the examination of documentation, analysis, transaction and file testing, and interviews conducted for each of the audit criterion. Appendix A provides a summary of all findings and conclusions for each of the criteria assessed by the audit team.

The audit team identified an opportunity for improvement resulting in one recommendation. Details of the audit's observations and recommendations are provided below.

5.1 Governance

The results of the audit indicated that governance for the Canada Media Fund Program is well managed.

The CMF Program has governance structures in place to safeguard the independence of various stakeholders in the Program, improve transparency of Program activities and results, and maintain freedom from conflicts of interest. The Program was structured such that the CMF Corporation is governed by a Board of Directors that must meet independence requirements and be free from conflicts of interest. In addition, Program management monitors and/or participates in various forums employed by the CMF Corporation to engage key stakeholders and report on CMF performance, including funders meetings and industry consultations. PCH management has defined roles and responsibilities for Program personnel, which is reinforced through annual performance management agreements. The Program's objectives are also clearly aligned with PCH's

strategic outcomes and the achievement of CMF objectives and expected outcomes is regularly monitored through a formal performance measurement strategy.

5.2 Internal Control

The results of the audit indicated that internal controls for the Canada Media Fund Program are in place and are operating effectively.

Program management receives regular reporting from the CMF Corporation regarding its financial and operational performance as required under its Contribution Agreement. This formal reporting includes monthly financial reports, quarterly activity reports, and annual reports. Based on our review of a sample of financial reports, internal controls over the review and approval of financial payments under the Program are in place and operating effectively. In addition to the formal reporting received from the CMF Corporation, Branch and Program management receive information on and monitor the CMF's performance through a number of other mechanisms, including: the attendance of Branch representatives at funders meetings; PCH representation at the CMF Annual Meeting; and general and ongoing discussions with CMF Corporation management.

5.3 Risk Management

The audit team identified one area for improvement in relation to risk management.

5.3.1 Formalizing Risk Management Practices

Management should build upon the practices and activities currently utilized to identify and monitor Program risks by more formally and consistently documenting management's assessment of risks and progress on related risk mitigation activities. In addition, risk management practices can be improved by clarifying accountability for risks to ensure identified risks are mitigated as planned and risk exposure is being routinely assessed.

Analysis

Through the Cultural Affairs Sector's risk assessment exercise, Sector-level risks are identified and assessed and risk mitigation strategies are defined and documented. However, these risks are high level risks of relevance to the Cultural Affairs Sector as a whole, and do not identify risks specific to the CMF Program.

Risks and risk mitigation strategies specifically related to the CMF Program were formally identified at the inception of the Program through Performance Measurement,

Evaluation, and Risk Strategy (PMERS) that was finalized in January 2010. Some of these risks have been fully addressed, such as risk related to the short-term commitment to funding CMF by government (now multi-year funding) and the challenge to measure program results given a multi-platform approach (a measurement strategy is now in place).

While risks facing the CMF Program, as identified and detailed in the PMERS, were formally documented at the inception of the Program as described above, changes in risks and progress against risk mitigation strategies have not been formally documented or tracked. Program management identifies and monitors risks through a number of mechanisms, including through their review of Program reports, ongoing discussions with CMF Corporation management, attendance at funders meetings, monitoring of the CMF Corporation's public consultation process, and Program management's understanding of the industry and general experience in managing grant and contribution programs. In addition, the CMF Corporation documents and reports on risks facing the Corporation in its Annual Business Plans, which are reviewed by Program management and are considered in their monitoring of the Program.

Program management considers the significance of risks identified through their monitoring activities, and will report on risks of higher significance to senior PCH representatives, including Branch and Sector management and the Minister where appropriate, through various means such as briefing notes and bilateral meetings. Although evidence was observed of emerging issues or risks being communicated within PCH, there is currently no formal mechanism in place to consolidate and consistently document risks, risk mitigation strategies, and progress against risk mitigation strategies. For example, the audit noted that the extent to which the Program's policies continue to meet the needs of the Program's stakeholders with respect to new platforms and digital media was considered to be a current risk by Program management. The identification of this as a specific risk and the formulation of specific risk mitigation actions for this risk, and the management's assessment and monitoring of potential risks identified through the CMF Corporation's recipient audit activities have not been documented.

It was also noted that there is no documentation on file to support management's assessment and monitoring of potential risks identified through the CMF Corporation's recipient audit activities.

The audit also noted that no annual Project Risk Assessment and Management Tool (PRAM) has been completed and documented for the Program, as is required by PCH to satisfy the requirements of the *Policy on Transfer Payments*. The PRAM is a key tool intended to assist management in assessing the level of risk of program funding being used for unintended purposes and to determine appropriate mitigation strategies. We understand that the application of this tool may not be as relevant for the CMF Program, through which all funding is provided to one organization.

There is an opportunity to build on the management practices and activities currently relied upon to identify and monitor risks by more formally documenting management's

assessment of risks and related mitigation activities. This would enable Program management to ensure changes in risks and required risk mitigation are proactively identified and acted upon, and would provide additional support for management decision making and knowledge retention. This would include clarifying expectations for the documentation of new or changing risks that are identified through reviews of CMF reports, the required risk mitigation or follow up actions expected to be taken, and the progress and effect of risk mitigation strategies.

In addition, accountability for specific risk mitigation actions and for monitoring and reporting on risks and risk mitigation actions is not clearly defined. Clarifying who has primary accountability to ensure identified risks are being mitigated as planned and to identify and report on changes in risk exposures would enable more formal risk monitoring and reporting activities. This, in turn, would enable Branch and Program management to better understand the effectiveness of risk mitigation measures and to identify additional risk mitigation that may be required in a timely and integrated manner.

Risk Assessment

A more consistent and robust approach to documenting management's assessment and monitoring of the Program's risks and related risk mitigation actions would provide additional support for management's exercise of due diligence and accountability, as well as provide additional support for decision making. This is particularly important given the materiality and high profile nature of the CMF. Further, having a more complete record of risk information would better support knowledge retention within the Program.

Without assigned ownership and clear accountability for risk mitigation actions, there is a risk that mitigating actions will not be implemented as planned and/or that Branch management will not be aware of changes in risk exposure for the identified risks.

Recommendation

1. The Deputy Director General of the Broadcasting and Digital Communications Branch should formalize existing risk management practices by:
 - 1.1. Establishing a consistent approach and mechanism for the identification, assessment, monitoring, and reporting of key Program risks and progress against risk mitigation strategies;
 - 1.2. Assigning formal accountability for risk mitigation activities identified; and
 - 1.3. Regularly incorporating information obtained through monitoring activities into risk reporting, where relevant.

Appendix A – Audit Criteria

The conclusions reached for each of the audit criteria used in the audit were developed according to the following definitions.

Numerical Categorization	Conclusion on Audit Criteria	Definition of Conclusion
1	Well Controlled	<ul style="list-style-type: none"> • well managed, no material weaknesses noted; and • effective.
2	Controlled	<ul style="list-style-type: none"> • well managed, but minor improvements are needed; and • effective.
3	Moderate Issues	<p>Has moderate issues requiring management focus (at least one of the following two criteria need to be met):</p> <ul style="list-style-type: none"> • control weaknesses, but exposure is limited because likelihood of risk occurring is not high; • control weaknesses, but exposure is limited because impact of the risk is not high.
4	Significant Improvements Required	<p>Requires significant improvements (at least one of the following three criteria need to be met):</p> <ul style="list-style-type: none"> • financial adjustments material to line item or area or to the department; or • control deficiencies represent serious exposure; or • major deficiencies in overall control structure. <p>Note: Every audit criteria that is categorized as a “4” must be immediately disclosed to the CAEE and the subjects matter’s Director General or higher level for corrective action.</p>

The following are the audit criteria and examples of key evidence and/or observations noted which were analyzed and against which conclusions were drawn. In cases where significant improvements (4) and/or moderate issues (3) were observed, these were reported in the audit report, and the exposure risk is noted in the table below.

Audit Objective 1: To assess the effectiveness of PCH's management control framework and practices in place to oversee and identify, manage, and mitigate key risks related to the CMF Program.			
Criteria #	Audit Criteria	Conclusion	Examples of Key Evidence / Observation
Governance			
1.1	The CMF program governance framework includes structures, processes, roles and responsibilities and accountability that are clear and understood.	1	<ul style="list-style-type: none"> • Governance mechanisms have been implemented to help ensure independence, freedom from conflicts of interest, and transparency of CMF activities. Some practices include independence requirements for the CMF Corporation Board of Directors, funders meetings, and consultation processes. • Roles and responsibilities are clear and adequately communicated (e.g. job descriptions and annual performance agreements).
1.2	Senior Management of the CMF program receives sufficient, complete, and accurate information to inform decision-making.	1	<ul style="list-style-type: none"> • Senior Management receives formal and regular financial and activity reporting from the CMF Corporation and receives other information through regular communications with the CMF Corporation, attendance at funders meetings, annual meetings, and other forums. • Pertinent information on the Program is summarized in briefing notes to senior PCH representatives.

1.3	The CMF program has clearly defined and communicated strategic directions and strategic objectives, aligned with its mandate.	1	<ul style="list-style-type: none"> The objectives of the Program are clearly defined in the Contribution Agreement and are consistent with PCH's strategic outcomes.
Internal Controls			
1.4	Results expected from CMF program activities and objectives are clear, measurable, communicated, and directly support the achievement of the program's objectives.	1	<ul style="list-style-type: none"> A performance measurement framework has been developed and implemented that requires regular tracking and reporting on a number of indicators that are aligned with the objectives and expected outcomes of the Program.
Risk Management			
1.5	A mechanism exists to systematically identify, assess and mitigate, monitor and report on risks to the achievement of CMF Program objectives and is documented.	3	<ul style="list-style-type: none"> Program risks and mitigation strategies were formally defined at the inception of the Program, but have not been formally updated and accountability for risk mitigation is not clearly defined. Progress against risk mitigation strategies and changes in risk levels have not been formally documented or reported.

Audit Objective 2: To assess the effectiveness and efficiency of key controls over the monitoring of the CMF's financial and operational performance in compliance with PCH expectations.			
Criteria #	Audit Criteria	Conclusion	Examples of Key Evidence / Observation
Internal Controls			
2.1	Payments made to the CMF Corporation are accurate, adequately supported and approved in accordance with the Contribution Agreement and the Treasury Board <i>Policy on Transfer Payments</i> .	1	<ul style="list-style-type: none"> Testing of financial payments for fiscal 2011-2012 confirmed that CMF Program payments are accurate, adequately supported, and approved by appropriate authorities.
2.2	Expected results are monitored and communicated on a regular basis and support management decision making.	1	<ul style="list-style-type: none"> Program management has a number of formal and informal practices in place to monitor the performance of the Program, including review of financial and activity reports, attendance at funders meetings, and communications with representatives of the CMF Corporation.
Audit Objective 3: To assess the extent to which the CMF Program is managed in compliance with relevant PCH and central agency policies, guidelines and expectations for transfer payment and third party delivery arrangements.			
Criteria #	Audit Criteria	Conclusion	Examples of Key Evidence / Observation
Internal Controls			
3.1	Mechanisms are in place to monitor the CMFC's compliance with the terms and conditions of its funding agreement.	1	<ul style="list-style-type: none"> Program management formally tracks the receipt of reporting required under the Contribution Agreement.

3.2	PCH's program policies and guidelines are consistent with the <i>Policy on Transfer Payments</i> and other relevant central agency requirements.	2	<ul style="list-style-type: none"> Results of walkthroughs and Program documentation review confirmed that processes and procedures followed by the Program are consistent with PCH and Treasury Board expectations. One exception was identified in that no Performance Risk Assessment Management Tool was completed for the Program as required by a PCH Directive.
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Appendix B – Management Action Plan

Project Title: Canada Media Fund Audit

MANAGEMENT ACTION PLAN			
5.3 Risk Management			
Recommendation	Actions	Who	Target Date
1. The Deputy Director General of the Broadcasting and Digital Communications Branch should formalize existing risk management practices by:	1. Agreed:		
1.1. Establishing a consistent approach and mechanism for the identification, assessment, monitoring, and reporting of key Program risks and progress against risk mitigation strategies;	1.1. Based on the risks and risk mitigation strategies identified in the Canada Media Fund (CMF) Performance Measurement, Evaluation, and Risk Strategy (PMERS), a consistent approach and mechanism to formally assess, monitor and report on key program risks and progress against risk mitigation strategies will be established;	Deputy Director General and Director	October 2013
1.2. Assigning formal accountability for risk mitigation activities identified; and	1.2. Formal accountability for risk management activities will be assigned through a document clearly outlining roles and responsibilities;	Deputy Director General	June 2013
1.3. Regularly incorporating information obtained through monitoring activities into risk reporting, where relevant.	2. 1.3 Information obtained through regular monitoring activities will systematically be incorporated into risk reporting, where relevant, and tracked against risks outlined in PMERS.	Programming Services and Content Policy Directorate	November 2013 and yearly thereafter