

Audit of the Department of Finance's Economic Action Plan: Governance, Risk management and Control Framework

Final Report

May 31st , 2010

**Prepared by Internal Audit and Evaluation for the:
Audit and Evaluation Committee of May 31, 2010
Finance Canada**

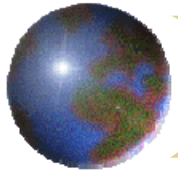
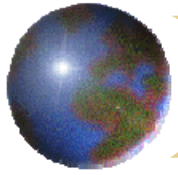


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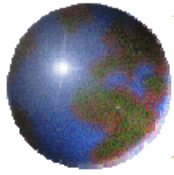


Executive Summary

On January 27, 2009 the Government of Canada introduced the Economic Action Plan (EAP) to jumpstart growth and sustain recovery over a two-year period, as a result of extraordinary global financial and economic circumstances. The EAP covers total federal stimulus measures for an amount of about \$47 billion over the next two years (approximately \$28 billion for 2009-10 and over \$19 billion for 2010-11) and an investment into the Canadian economy by improving access to financing, through the Extraordinary Financing Framework, for an amount up to \$200 billion.

The audit objective is to assess the auditable elements of the EAP which fall under the responsibility of the Department of Finance (the Department). These are: (1) the Extraordinary Financing Framework (EFF); and (2) the Enactment and implementation of tax relief measures announced in the plan.

Our audit concluded that the responsibilities of the Department's Tax Policy (TP) and Financial Sector Policy (FSP) branches, relating to the EAP, have been clearly established and the EAP related actions of both branches are consistent with and adhere to relevant authorities.



Background

History

The audit of the EAP was added to the Department's Risk-Based Audit Plan in July 2009 by the acting Deputy Minister. This was consistent with requests from the Office the Comptroller General (OCG) - Internal Audit Sector and the Office of the Auditor General (OAG) to internal audit functions across all Departments to consider auditing elements of the EAP which affect their areas.

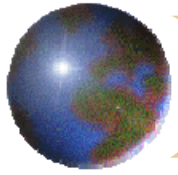
Background

In a letter addressed to the Secretary of the Treasury Board on March 5, 2009, the OAG conveyed their expectation that the internal audit community provide assurance over the adequacy of the EAP's governance, risk management and control frameworks.

This audit focuses on the EAP areas where the Department has full responsibilities, such as the financing framework, and the enactment and implementation of tax relief measures announced in the Plan. EAP areas where the Department has no or partial responsibilities were considered to be beyond the mandate of Internal Audit and, therefore, out of scope.

Regarding the EFF, the Department oversees the framework and performs an advisory role through the FSP branch. The delivery of the EFF is conducted primarily by three crown corporations: the Canada Mortgage and Housing Corporation, Export Development Corporation and Business Development Bank. In addition, the EAP framework indicates that the Bank of Canada plays a role by providing some extraordinary liquidity to the financial sector.

With regard to tax relief measures, the Department of Finance's Tax Policy Branch supports the Canada Revenue Agency on the implementation of measures, plays a key role in support of the legislative process and cooperates with the Department's Consultations and Communications Branch in preparing public communications materials.



Audit Objective and Scope

Objective:

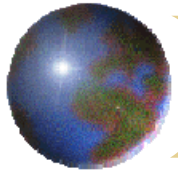
To assess the auditable elements of the EAP that fall under the responsibility of the Department of Finance. These areas are: (1) the Extraordinary Financing Framework; and (2) the enactment and implementation of tax relief measures announced in the plan.

Scope:

The scope of this audit includes activities under the responsibility of the Department related to the EAP: (1) Access to financing and (2) the enactment and implementation of tax relief measures announced in the plan. With regard to tax relief measures, the scope of the audit is largely limited to verifying that appropriate procedures are followed in supporting the Canada Revenue Agency on implementation, supporting the legislative process, and the preparation of public communications materials. The audit includes the period from the EAP's announcement date on January 27, 2009 until the end of the 2009 calendar year.

The scope does not include the following:

- Any EAP related activities beyond those conducted within the FSP and TP branches
- An assessment of the appropriateness of policy recommendations and the budget preparation and reporting process
- Financial transactions related to the EAP such as expenditures, loans or reduced tax collection, since there were no such transactions conducted by the Department

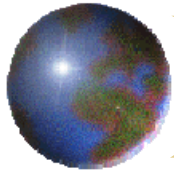


Approach, Assurance and Auditing Standards Employed

The audit was conducted in accordance with the *International Standards for the Professional Practices of Internal Auditing*. These standards require that the audit be planned and performed in such a way as to obtain reasonable assurance that the audit objective was achieved. During the audit, appropriate procedures were followed and sufficient evidence was obtained to support the accuracy of findings and conclusions presented in this report. Audit procedures included, but were not limited to, interviews, observations, review of supporting documentation and analytical reviews. The audit criteria used to develop the required audit tests were based on legislation (e.g: Financial Administration Act) and good management practices (e.g.: establishing and implementing clear responsibilities).

The audit team conducted a review of relevant legislation and related documentation research (list provided in Appendix B). In addition, in total 13 individuals were interviewed, including staff from the TP and FSP Branches. The complete list of personnel interviewed is provided in Appendix A.

The audit approach allowed for the audit results to be communicated in such a manner as to enable management to review and provide feedback on the findings and conclusions before they were finalized.

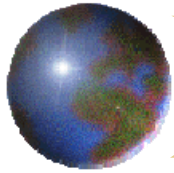


Conclusion

Audit Objective

To assess the auditable elements of the EAP that fall under the responsibility of the Department of Finance. These are: (1) Extraordinary Financing Framework; and (2) Enactment and implementation of tax relief measures announced in the plan.

Our audit concluded that the responsibilities of the Department's TP and FSP branches, relating to the EAP, have been clearly established and the EAP-related actions of both branches are consistent with and adhere to relevant authorities.



Findings by Audit Criterion

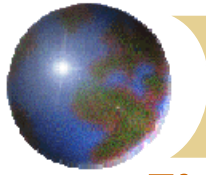
The following table presents the assessment of the level of risk exposure identified in the audit. Levels of risk exposure are categorized by audit criterion.

High exposure
Medium exposure
Low exposure

The audit criteria used to assess risk exposure are based on good management practices, Core Management Controls defined by the OCG, as well as relevant Government policies and standards.

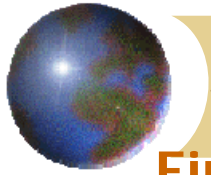
The risk ranking is based on the level of risk exposure. A high, medium or low ranking corresponds to the potential risk exposure auditors believe may have an impact on the achievement of the Department's objectives.

The assessment summarizes the audit observations based on the factual evidence gathered and analyzed during the audit.



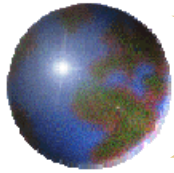
Findings by Audit Criterion

Criteria	Risk Exposure	Assessment
EAP-RELATED RESPONSIBILITIES		
<p>EAP-related responsibilities of the Tax Policy and Financial Sector Policy Branches are clearly established.</p>	<p>Low</p>	<p>The responsibilities of the TP and FSP branches relating to the EAP have been clearly established.</p> <p>Both branches have clearly defined responsibilities relating to the objectives of the EAP. Their respective responsibilities are also aligned with the Department’s role, as stated in the Financial Administration Act, which facilitates the Department’s effort to complete EAP work in an integrated manner consistent with its priorities.</p> <p>The TP and FSP branches’ priorities for the EAP are driven by the Department’s documented approach to risk management. This process requires all branches to conduct environmental scans three times a year, which allows both branches to better identify their specific responsibilities, including those related to the EAP.</p> <p>A clear link of authority, responsibility and accountability for the EAP is evident within the Department’s Integrated Business Plan (2009-10), Report on Plans and Priorities (2009-10) and Departmental Performance Report (2008-09) for both branches.</p> <p>In addition to their EAP responsibilities, the FSP branch has started a process to identify lessons learned from the recent economic slowdown. The branch is seeking to improve mechanisms which will allow it to be more timely in planning and responding to similar situations in the future.</p>



Findings by Audit Criterion

Criteria	Risk Exposure	Assessment
EAP-RELATED ACTIONS		
EAP-related actions of the Tax Policy and Financial Sector Policy Branches are in line with authorities.	Low	<p>The EAP-related actions of the TP and FSP branches are consistent with and adhere to relevant authorities.</p> <p>As part of the Government’s budget legislative cycle, draft budget legislation must be submitted to Parliament and the Senate for approval, prior to receiving royal assent. The TP and FSP branches successfully met their obligations relating to drafting the EAP legislation, as it was submitted in a timely manner.</p> <p>Under the Budget Implementation Act (Bill C-10) the Department was provided with the legislative authority to implement existing and new support programs, to support Canada’s financial system, as required. The implementation of these programs, designed to increase the timeliness of the government’s support efforts, as needed, fell under the responsibility of the FSP branch (Appendix C).</p> <p>In addition, both branches provided EAP-related information to stakeholders. This included successfully drafting and sharing explanations for various EAP budget measures by providing important input into the preparation of the Budget publications as well as various other communications products and activities such as:</p> <ul style="list-style-type: none"> ➤ Assistance in answering media questions; ➤ Deputy Minister briefings; ➤ Various press releases; ➤ Explanatory notes concerning legislative amendments to the public; and ➤ Testimony to both Parliamentary Committees - House of Commons Standing Committee on Finance and the Standing Committee on National Finance.



Appendix A – List of Department of Finance Personnel Interviewed

Dan Calof, Senior Chief, Capital Markets Policy Division, Financial Sector Policy Branch

Galen Countryman, Senior Economist, Fiscal Policy Division, Economic and Fiscal Policy Branch

Wayne Foster, Director, Financial Markets Division, Financial Sector Policy Branch

Nancy Horsman, General Director, Tax Policy Branch

Phil King, Senior Chief, Fiscal Policy Division, Economic and Fiscal Policy Branch

G rard Lalonde, Director, Tax Legislation Division, Tax Policy Branch

Alfred Leblanc, Director, Federal-Provincial Relations Division, Federal-Provincial Relations and Social Policy Branch

Brent Mizzen, Senior Project Leader, Financial Markets Division, Financial Sector Policy Branch

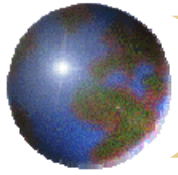
Krista Mulholland, Senior Project Leader, Financial Markets Division, Financial Sector Policy Branch

Stephen Richardson, Associate Deputy Minister

Paul Rochon, Senior Assistant Deputy Minister, Economic and Fiscal Policy Branch

Peter Turner, Chief, Personal Income Tax Division, Tax Policy Branch

Ian Wright, Chief, Financial Markets Division, Financial Sector Policy



Appendix B – Key Reference Documents Consulted

Legislation and Bills

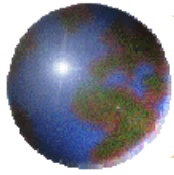
- Financial Administration Act
- Bill C-10 (Budget Implementation Act, 2009)
- Bill C-51 (Economic Recovery Act, 2009)
- Progress of Legislation Report (Senate – 2009/10)

Policies

- TBS Policy on Active Monitoring, 2001
- TBS Risk Management Policy, 2001

Documents Specific to Finance Canada

- Budget 2009 – Economic Action Plan
- 2009/10 Department of Finance Integrated Business Plan
- 2009/10 Department of Finance Report on Plans and Priorities
- 2008-09 Department of Finance Departmental Performance Report

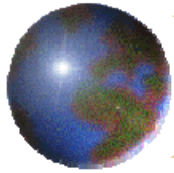


Appendix B – Key Reference Documents Consulted (continued from the previous page)

Other Documents

- PRB 09-01E - Library of Parliament: The roles and Responsibilities of Central Agencies, April 2009, www2.parl.gc.ca/Content/LOP/ResearchPublications/prb0901-e.htm (Ref: Enabling legislation and description of roles and responsibilities for the Department of Finance, p. 8 and 9);
- Canadian Tax Paper No. 67 – The Revenue Budget Process of the Government of Canada: Description, Appraisal, and Proposals, April 1982 (Ref: Description of the Canadian budgetary process, p. 20 and 33)
- PRB 05-50E – Library of Parliament: Federal Government Spending: *A Priori* and *A Posteriori* Control Mechanisms, February 2006, www.parl.gc.ca/information/library/PRBpubs/prb0550-e.html (Ref: High level description of key controls over the Federal Government's financial cycle);
- PRB 04-05E – Library of Parliament: Appropriations and the Business of Supply, May 2004, www.parl.gc.ca/information/library/PRBpubs/prb0405-e.htm (Ref: Low level description of key controls over the Federal Government's financial cycle).

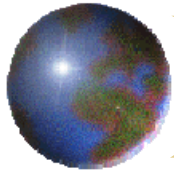
Legend – PRB: Parliamentary Research Branch



Appendix C – Legislative Framework

It is common for budgets, such as the EAP, to be implemented in multiple Budget Implementation Acts. In the case of the EAP it falls under the following two different Bills:

- *Bill C-10* – For the EAP’s measures that have to be passed and put into place quickly in order for the government to authorize payment as efficiently as possible.
 - Bill C-10 included other items that are simpler to apply from a legislative perspective, such as increasing the basic personal amount and the top of the two lowest personal income tax brackets.
 - The Bill also introduces a new section to the Financial Administration Act (FAA) called Part IV.1, which deals specifically with financial stability. It gives the Minister of Finance (and the FSP branch) the legislative authority to implement and carry out existing or new support programs to help the financial system in Canada, as required.
- *Bill C-51* – For new measures, which can be more complex to draft, such as the Home Renovation Tax Credit and the First-Time Home Buyers’ Tax Credit.



Department of Finance
Canada

Ministère des Finances
Canada

Appendix D – Members of the Audit Team

The members of the audit team are:

- Christian Kratchanov, MBA, CIA, Chief Audit Executive
- Jean-Luc Tétreault, CA – CIA, Audit Manager
- Ziad Shadid, CGA, Audit Manager
- Abdillahi Roble, CGA, Senior Auditor