



Canadian  
Heritage

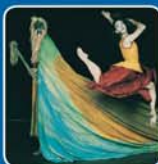
Patrimoine  
canadien

Canada



# Internal Audit of Book Publishing Industry Development Program

Office of the Chief Audit and Evaluation Executive  
Audit and Assurance Services Directorate  
June 2008



# Table of Contents

<b>Executive Summary</b> .....	<b>i</b>
<b>1. Introduction</b> .....	<b>1</b>
1.1 Authority for the project.....	1
1.2 Background.....	1
<b>2. Objectives</b> .....	<b>2</b>
<b>3. Scope</b> .....	<b>2</b>
<b>4. Approach &amp; Methodology</b> .....	<b>2</b>
<b>5. Observations and Recommendations</b> .....	<b>3</b>
5.1 Financial Management Controls – Departmental Delegations.....	3
5.2 Financial Management Controls – Funding Commitments.....	3
5.3 Financial Management Controls – Delegation of Financial Authorities - S34.....	4
5.4 Identification of Program Risks.....	5
5.5 Monitoring.....	6
5.6 Governance.....	7
5.7 Timeliness of Funding Application Approval Process.....	8
<b>APPENDIX A: Audit Criteria &amp; Conclusion</b> .....	<b>A</b>

# Executive Summary

---

## Introduction

During the period covered by the Audit, the objective of the Book Publishing Industry Development Program (BPIDP) was to ensure choice of and access to Canadian-authored books that reflect Canada's cultural diversity and linguistic duality in Canada and abroad. The Program seeks to achieve this objective by fostering a strong and viable Canadian book industry that publishes and promotes Canadian-authored books. BPIDP is managed by the Cultural Industries Branch of the Cultural Affairs Sector of the Department of Canadian Heritage (PCH). The Terms and Conditions as well as the objectives of the Program were revised in 2006.<sup>1</sup>

Program activities are carried out through contribution agreements with recipients, who must be Canadian-owned and Canadian-controlled organizations in the book publishing, distribution, wholesale, writing or retail sectors. Additional consideration is given to facilitate access to support for Aboriginal and official language minority recipients and those engaged in small-scale, specialized, cultural activities. The BPIDP has four components, each having its own objectives: Aid to Publishers (ATP) (\$26.2M), Supply Chain Initiative (SCI) (\$3.3M), Collective Initiatives (CI) (\$3.2M), and International Marketing Assistance (IMA) (\$4.8M), the last of which is administered by the Association for the Export of Canadian Books (AECB)<sup>2</sup>.

## Audit Objectives

The objectives of this audit were to provide PCH senior management with:

- assurance that management controls, risk management frameworks, and the overall governance structure are adequate and effective; and
- that controls are in place to effectively ensure accuracy of financial and operational information are effective.

## Observed Control Strengths

Throughout the audit, the audit team observed many examples of controls that were properly designed and that were being applied effectively within BPIDP. Noteworthy accomplishments are listed below:

- Overall, Program Officers and Program Management are diligent in developing meaningful, consistent, and complete contribution agreements which are appropriately reviewed and approved by Management. Accurate payments are made according to those contribution agreements. Program Officers are also diligent in ensuring that reporting requirements are met before the Program Officer recommends that the funding payment be made;
- Recipients are assessed for eligibility using established criteria which are based on the Program's Terms and Conditions; and

---

<sup>1</sup> The new objective is to "ensure increased access to a diverse range of Canadian-authored books in Canada and abroad". The new Terms and Conditions and objective have been in effect since October 2006, after the period covered by the audit.

<sup>2</sup> The amounts shown per component reflect the approximate annual reference levels. Data was provided by the Program and Financial Management Branch for the period April 1, 2003 to September 30, 2006.

- Funding decisions are fair, transparent, free of bias, and based on Program terms and conditions.

The 2003 BPIDP audit team made six recommendations regarding the Program's management of the Association for the Export of Canadian Books relationship. During the audit, the Audit Team confirmed that all six recommendations have been addressed by BPIDP. However regarding the observation to develop a performance measurement plan to capture and roll up performance information from the recipient on the Program, even though some progress has been made, additional clarifications need to be established on the data analysis and the timeliness of the receipt of information from this recipient.

## **Audit Opinion**

Based on the work performed, the audit team has concluded that BPIDP is generally well controlled with some improvements required in the areas of financial management, governance and monitoring. The audit team found moderate issues in management control and risk management frameworks and/or Program processes. Significant improvement is required in the area of monitoring. The examination of BPIDP's application files determined that, for the majority of projects, all required documentation was in place and that BPIDP applied due diligence in recommending projects for funding, analyzing interim and final reports, and approving payments.

Since September 2006, which was the end of the audit scope, BPIDP has taken a number of steps to improve the overall management of the Program. The audit team also found evidence during the audit that there is a continued commitment to strive for the continued improvement of the Program.

## **Recommendations**

The following are recommendations that address issues where there are opportunities for strengthening controls.

It is recommended that:

1. The Deputy Director General, Cultural Industries, should ensure that the reconciliation between the CI reporting and the financial system (SAP) is adequately documented and independently validated.
2. The Deputy Director General, Cultural Industries, should ensure that there is clear communication of assignment of delegated authority (including start and end dates) to Program staff and the PCH Financial Management Branch, and that blanket authorization cards are reviewed on a yearly basis with clear indications that they have been reviewed.
3. The Deputy Director General, Cultural Industries, should consider developing a contingency plan should a critical recipient no longer be accessible for program delivery as part of the integrated risk management strategy.
4. The Deputy Director General, Cultural Industries, should establish a more rigorous and formal, risk-based process for determining the frequency and nature of monitoring visits and for selecting recipients for compliance audits; and ensure evidence of all monitoring activities and that they are adequately documented.

5. The Deputy Director General, Cultural Industries, should review the wording of the AECB contribution agreement with the view to:
  - a. Ensuring that the AECB understands the reporting requirements;
  - b. Simplifying some of the clauses in the contribution agreement to improve clarity;
  - c. Including provisions in the contribution agreement with the AECB that identify the AECB's obligations to ensure that contribution agreements with its ultimate recipient will allow the AECB to comply with PCH terms and conditions and report back to PCH in a timely manner; and,
  - d. Including other appropriate mechanisms in the contribution agreement with the AECB to address the situation in the event that the AECB does not comply with the reporting requirements.
6. The Deputy Director General, Cultural Industries, should document the occurrence and results of management meetings and the recording of decision making related to the management of the Program.
7. The Deputy Director General, Cultural Industries, should establish a formalized program-level process and/or management report to track the status of key objectives, performance indicators, and key initiatives of the Program.
8. The Deputy Director General, Cultural Industries, should consider having a PCH representative on the AECB board that is not part of the decision making process of this component of the Program.
9. The Director, Centre of Expertise for Grants and Contributions in the Financial Management Branch, should issue a departmental directive on the subject of PCH representation on the governance boards of recipients and other third party partners.
10. The Deputy Director General, Cultural Industries, should investigate and put in place appropriate steps to improve the timing of funding applications by potential recipients and the funding approval process, in particular for the CI and SCI project components to ensure the approval of funding agreements before the beginning of the project's eligibility period.

# 1. Introduction

---

## 1.1 Authority for the project

This audit was conducted pursuant to the Department of Canadian Heritage (PCH) Risk-Based Audit Plan for 2006-07 that was approved by the Departmental Audit and Evaluation Committee.

## 1.2 Background

During the period covered by the audit, the principal objective of the Book Publishing Industry Development Program (BPIDP) is to ensure choice of and access to Canadian-authored books that reflect Canada's cultural diversity and linguistic duality in Canada and abroad. The Program seeks to achieve this objective by fostering a strong and viable Canadian book industry that publishes and promotes Canadian-authored books. The Terms and Conditions of the Program were revised in 2006.<sup>3</sup>

BPIDP has four components, each having its own objectives: Aid to Publishers (ATP), Supply Chain Initiative (SCI), Collective Initiatives (CI), and International Marketing Assistance (IMA). The IMA is administered on behalf of Canadian Heritage by the Association for the Export of Canadian Books (AECB), while the ATP, SCI and CI components are administered by Canadian Heritage staff. Program activities are carried out through contribution agreements with recipients, who must be Canadian-owned and Canadian-controlled organizations in the book publishing, distribution, wholesale, writing or retail sectors.

The priorities of BPIDP are as follows:

- Ensuring production of Canadian-authored books: The ATP component supports Canadian-owned publishers, ensuring the continued production of books that reflect Canada's perspectives and stories, and embody the creative excellence for which the industry is known;
- Building sustainable industry capacity: The CI and SCI components support the strengthening of the Canadian book publishing industry's infrastructure; and,
- Raising awareness of Canadian books and authors: The CI and IMA components support the promotion of Canadian-authored books and Canadian authors, helping to connect Canadian readers and Canadian books and to share those books with readers around the world.

During the scope of the audit, approximate annual levels of grants and contributions funding for the four program components were: Publishers (ATP) (\$26.2M), Supply Chain Initiative (SCI) (\$3.3M), Collective Initiatives (CI) (\$3.2M), and International Marketing Assistance (IMA) (\$4.8M), the last of which is administered by the Association for the Export of Canadian Books (AECB). In addition, BPIDP had, on average, \$1.36M in Operating and maintenance expenses<sup>4</sup>.

An internal audit of BPIDP, completed in May 2003, found the management control framework, information used for decision making and reporting, and the risk management strategy used by BPIDP to be appropriate. Areas for improvement in BPIDP management practices which were highlighted in the previous internal audit included: a holdback be implemented in the ATP

---

<sup>3</sup> The new objective is to "ensure increased access to a diverse range of Canadian-authored books in Canada and abroad". The new Terms and Conditions and objective have been in effect since October 2006, after the period covered by the audit.

<sup>4</sup> Source: Annual Reference Level Update; numbers provided by the Program and the Financial Management Branch

component; development of a performance measurement plan for BPIDP; and, improved management and accountability framework used by BPIDP with the Association for the Export of Canadian Books (AECB).

## 2. Objectives

---

The objectives of this audit were to provide PCH senior management with assurance that:

- management controls, risk management frameworks, and the overall governance structure are adequate and effective; and
- controls are in place to effectively ensure accuracy of financial and operational information.

## 3. Scope

---

The scope of this audit covered the management controls, risk management frameworks, governance structures and policies and procedures for BPIDP for the period from April 1, 2003 to September 30, 2006.

This audit was limited to the activities of BPIDP. It did not extend to responsibilities/ activities performed outside of the Department of Canadian Heritage (i.e. AECB, which administers the IMA component on behalf of Canadian Heritage). At the time of the audit, there was a recipient compliance audit (RCA) of the contribution agreement between PCH and AECB. As a result, observations raised by the RCA auditors relating to program management and monitoring have been incorporated into this report.

## 4. Approach & Methodology

---

The audit of BPIDP was conducted following the Standards for the Professional Practice of Internal Auditing as per the Institute of Internal Auditors (IIA) and in accordance with Federal Government Policy on Internal Audit.

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 principal audit techniques used included:

- Interviews with BPIDP management and staff;
- Reviewing relevant Program documentation and its compliance with Treasury Board Secretariat (TBS) and departmental policies, guidelines and procedures;
- Evaluating the system of internal controls within BPIDP; and,
- Conducting a detailed examination of a sample of project files (i.e. grants and contributions) for compliance with Department of Canadian Heritage and TBS requirements.

The approach used to address the audit objectives included the development of audit criteria against which observations, assessments and conclusions were drawn. The audit criteria and lines of enquiry developed for this audit are included in Appendix A.

The audit team conducted an examination of 86 project files for the 2003-04 to 2006-07 fiscal years from across the Program's four components.

Audit fieldwork was conducted between June 2007 and December 2007.

## 5. Observations and Recommendations

---

Based on a combination of the evidence gathered through documentation examination, analysis and interviews, each of the audit criteria was assessed by the audit team and a conclusion for each audit criteria was determined. While BPIDP was found to be generally well controlled, the audit team did identify areas where BPIDP management controls can be improved. Details of these observations are located in the next section and summarized in Appendix A.

### 5.1 Financial Management Controls – Departmental Delegations

The criterion used is that procedures for the review and approval of applications for contributions are in place, in compliance with delegated financial authorities and being followed.

As part of the audit work conducted to provide assurance on the financial management controls in place, the auditor examined a sample of transactions to verify sections 32 and 34 delegations in accordance with the PCH approved Delegation Financial Signing Authorities Chart (DFSAC).

The auditors expected to find Section 32 delegation exercised by program staff in accordance with the DFSAC. Audit tests conducted noted that only the Minister has the authority to sign under Section 32 of the FAA for all grants and contributions with the exception of Celebrate Canada grants up to \$3,000 and grants for the Athletes Assistance program, which is different than what is in the Chart.

As part of the grants and contribution approval process, program officers have to enter the commitment into the SAP system before the Minister will sign section 32 approval. The entering of these amounts into the accounting system indicates that funds have been reserved for the grants and contributions to be approved. The DFSAC does not indicate who in the department has the authority to ensure that funds are available prior to section 32 approval for spending.

#### Risk Assessment

A distinction is not made between the commitment update and the commitment approval by the Minister. Should the commitment not be approved by the minister or be amended, there is a potential for discrepancies between amounts committed in the database and amounts approved.

#### Recommendation

This observation is outside the scope of the Book Publishing Industry Development Program and is being addressed by the Financial Management Branch for the Department.

No recommendation is required.

### 5.2 Financial Management Controls – Funding Commitments

Project commitments and payments in the BPIDP Project Budget Report are reconciled to the financial system (SAP) on a monthly basis by a Junior Project Officer in order to confirm available budget/funds. The audit team found, however, that these reconciliations are not documented nor are they being validated by an independent person within the Program.

#### Risk Assessment

Without a documented reconciliation and an independent validation of the amounts entered into the financial system and the Project Budget Report, there may be unexpected differences between



payments and commitments that could go undetected and the reported available balance may be inaccurate.

### **Recommendation**

It is recommended that:

1. The Deputy Director General, Cultural Industries, should ensure that the reconciliation between the CI reporting and the financial system (SAP) is adequately documented and independently validated.

### **Management Response**

Recommendation accepted.

## **5.3 Financial Management Controls – Delegation of Financial Authorities - S34**

Another audit criterion within the scope of this audit was that payments are to be processed in accordance with Section 34 of the FAA to ensure funding is used for the agreed purposes and that any money owed to the government is collected. Section 34 of the FAA requires verification that the goods and services have been received. Based on interviews conducted, documentation examined, and sample project files examined, delegation of authorities under Section 34 of the FAA was not always clear. In interviews with BPIDP management, it was reported that only the BPIDP Director is authorized to certify compliance with contribution agreement conditions. Upon examining the signature authorization cards for BPIDP, it was found that both the Director and Managers of BPIDP have Section 34 authorization for contribution agreement contract performance and the same spending limit as the Director. During the interview process, it was noted that there was a lack of understanding of the delegation of authority.

In addition to the above, it was noted that, in the absence of the Director, the practice used by BPIDP to assign delegated authority to Program Managers is to utilize blanket signature authorization cards (which include a start and end date for the acting individuals) and to circulate an email to advise BPIDP staff of the transfers of delegated authority that have been made. According to PCH Finance policy, an email must also be sent to the Financial Management Branch of PCH in order to activate the blanket authorization card and a form must be completed and approved with acting dates specifically identified. The audit team found that the Financial Management Branch have not been consistently advised by BPIDP of changes to the delegation of authority and/or that evidence of emails sent to the Financial Management Branch in this regard has not been consistently maintained by the Program. Also, when examining temporary delegation (also called “acting”) signature cards, it was found that some of the cards were incomplete (i.e. start/end dates were missing, appropriate box was not checked off). In relation to this matter, BPIDP reported they had experienced significant turnover in administrative assistants, who are responsible for sending emails to BPIDP staff and the Financial Management Branch when there is a temporary transfer of delegated authority.

### **Risk Assessment**

When Section 34 authorities are not appropriately documented, communicated or understood, there is an increased risk of an inappropriate approval of contract performance. Non-compliance with the FAA and PCH internal policies can occur and go undetected.

### **Recommendation**

It is recommended that:

2. The Deputy Director General, Cultural Industries, should ensure that there is clear communication of assignment of delegated authority (including start and end dates) to Program staff and the PCH Financial Management Branch, and that blanket authorization cards are reviewed on a yearly basis with clear indications that they have been reviewed.

### **Management Response**

Recommendation accepted.

## **5.4 Identification of Program Risks**

The audit team found that BPIDP followed a defined methodology to assess overall Program risks through its Results-Based Management and Accountability Framework / Risk-Based Audit Framework (RMAF/RBAF). However, the methods used by BPIDP to assess risk (e.g. "CI/SCI report card" that assessed the applications) were not always consistently completed or applied. No formalized, documented risk-based monitoring plan used to determine the nature and frequency of monitoring priorities was found. Although recipient audits were identified using a risk assessment, the recipient audit selection process performed by the Program Manager was inconsistently documented. BPIDP reported to the audit team that it has no immediate plans or process in place to re-assess the risks identified in the RMAF/RBAF.

It was also noted that among the risks identified in the RMAF/RBAF, the risk of a key partner leaving the Program (e.g. AECEB), was not identified. In addition, a risk mitigation strategy or contingency plan which considers the impact of a critical recipient (AECEB) being no longer accessible for Program delivery had not been considered by the Program.

### **Risk Assessment**

Lack of documentation on the risk assessment of recipients makes it difficult for the Program to justify special monitoring activities and recipient audits.

While the program has developed a Risk-Based Accountability Framework that includes a risk management strategy, the lack of a contingency plan for the potential loss of an existing critical partner increases the risk of failing to deliver on program objectives.

In addition, there is a delivery risk associated with a single recipient used for Program delivery on behalf of PCH.

### **Recommendation**

It is recommended that:

3. The Deputy Director General, Cultural Industries, should consider developing a contingency plan in case a critical recipient will no longer be accessible for program delivery as part of the integrated risk management strategy.

### **Management Response**

Recommendation accepted.

## 5.5 Monitoring

Since the last audit, improvements have been made in the contribution agreement with AECB. Items raised build on the work that has been done to date and address additional requirements when dealing with ultimate recipients<sup>5</sup>.

One of the audit criteria within the scope of this audit was that continuous monitoring activities should be conducted to determine compliance to Program (and funding agreement) terms and conditions, and to provide feedback to recipients regarding opportunities for improvement. In addition, a formal risk management process is expected to help define the extent, timing, and frequency of monitoring activities.

According to TB Policy<sup>6</sup>, and new increased accountability expectations within the Government of Canada generally, Program Officers are expected to regularly monitor the progress and activities of recipients of contributions and adequately document these monitoring activities. The frequency of review and monitoring should vary depending on the nature of the risks involved and knowledge about recipients.

In BPIDP, each Program component has its own method of assessing risk and several types of monitoring activities are performed during the year, including telephone calls and meetings with recipients, attending recipient events<sup>7</sup>, and, more formal, independent recipient audits. Program Managers are provided a qualitative list of risk criteria for consideration (e.g. concerns with quality of reporting, large contribution, stacking issues) which are used to determine which recipients should be selected for a recipient compliance audit.

The audit team found that evidence of event visits and telephone calls with recipients are only documented in contribution agreement project files if issues were noted. When rendering decisions that might impact a program, notes to files describing the process should also be included.

The audit team also found that BPIDP did not receive information required in a timely manner from a major recipient, the AECB. This was attributed to the lack of understanding of some of the reporting clauses in the contribution agreement between PCH and AECB, and the roles that each organization has, which was noted during the recent recipient compliance audit of AECB and the lack of monitoring activities of this recipient, as noted during this Program audit.

In addition, to support this observation, the contribution agreement between the AECB and PCH, being a key management control, was reviewed. Given the complexity of this agreement and the agreements between the AECB and its ultimate recipients, monitoring becomes more challenging and may not facilitate the required monitoring activities of the AECB by the Program. The AECB staff needs to understand the contribution agreement to be in a better position to evaluate objectives, performance indicators and key initiatives with regards to the AECB and ultimately the Program.

### Risk Assessment

The potential risk of not adequately conducting monitoring visits is that the Program will not be able to directly observe the quality of planned events and receive adequate assurance that funds are being used by recipients for the purposes outlined in the recipient's funding application. When monitoring visits are not properly documented in project files, this increases the risk that appropriate

---

<sup>5</sup> "Ultimate recipients" receive funding through AECB.

<sup>6</sup> Treasury Board Policy on Transfer Payments: paragraphs 7.1.1 and 8.3.1.

<sup>7</sup> The BPIDP reported that the proportion of events attended by officers on monitoring visits is approximately 5-7%.

follow-up actions required by Program Management may not be addressed or completed. In other circumstances, by not documenting the file with decisions made, others reviewing the documents will not understand the justification for those decisions.

The complexity of some of the clauses in the AECB contribution agreement may be one of the factors that affect the quality and timing of information provided by AECB to BPIDP and on the ultimate recipients' responses to the AECB.

### **Recommendations**

It is recommended that:

4. The Deputy Director General, Cultural Industries, should establish a more rigorous and formal, risk-based process for determining the frequency and nature of monitoring visits and for selecting recipients for compliance audits; and ensure evidence of all monitoring activities and that they are adequately documented.
5. The Deputy Director General, Cultural Industries, should review the wording of the AECB contribution agreement with the view to:
  - a. Ensuring that the AECB understands the reporting requirements;
  - b. Simplifying some of the clauses in the contribution agreement to improve clarity;
  - c. Including provisions in the contribution agreement with the AECB that identify the AECB's obligations to ensure that contribution agreements with its ultimate recipient will allow the AECB to comply with PCH terms and conditions and report back to PCH in a timely manner; and,
  - d. Including other appropriate mechanisms in the contribution agreement with the AECB to address the situation in the event that the AECB does not comply with the reporting requirements.

### **Management Response**

Recommendations accepted.

## **5.6 Governance**

One of the audit criteria within the scope of this audit was that there should be an appropriate governance process through which BPIDP is managed. This governance process includes ongoing monitoring of timely and accurate performance and financial reports to ensure Program activities result in appropriate outcomes and expenditures in accordance with the Program's mandate and operating plans.

In order to demonstrate that due diligence is being undertaken by management in the day-to-day management of the Program, evidence of management meetings, and in particular, evidence regarding decisions made should be documented and maintained. While BPIDP holds regular management meetings in which current issues, activities and priorities are discussed, the audit team found that evidence of these management meetings (e.g. agenda, minutes, decisions taken) was not being adequately documented and retained by the Program.

It should be noted that BPIDP provides input into a broad range of recurring planning and reporting, including the Cultural Industries Branch annual business plan and the Departmental Performance Report and produces various reports of a statistical nature (e.g. Annual Report). However, the audit team found no formalized system in place at the Program level to produce management reports or no process in place to track the status of key objectives, performance indicators (as identified in the RMAF/RBAF), and key Program initiatives in order to determine and demonstrate how BPIDP

objectives will be achieved. In addition, no management reports were found which compared the total BPIDP actual expenditures versus planned commitments and to provide management with a variance analysis to budget for BPIDP overall on a regular basis.

It was also reported that the Deputy Director General, Cultural Industries, who is a representative from PCH, sits on the AECB board as an observer. At the June 2007 Annual General Meeting, the membership of the AECB voted to change the PCH membership and voting rights as defined in the by-laws of the corporation to that of observer status. The AECB Secretariat subsequently submitted the revised by-laws to Industry Canada and is awaiting final approval. It is anticipated that final approval will be received in 2008.

### **Risk Assessment**

Although BPIDP management team meet on a regular basis to discuss current issues, activities and priorities, by not adequately documenting the occurrence and results of management meetings there is increased risk that management will not be able to demonstrate the due diligence that is being undertaken by management in the day-to-day management of the Program.

Without a formalized Program-level process to track key objectives, performance indicators, and key initiatives on a regular basis, there is an increased risk that the Program will not be able to easily demonstrate how results were and will be achieved.

With a PCH representative on the AECB board, there exists a risk of real or perceived conflict of interest. The change to observer status is positive and may address the real risk of conflict of interest. However, this may not alleviate the perceived risk of conflict of interest.

### **Recommendations**

It is recommended that:

6. The Deputy Director General, Cultural Industries, should document the occurrence and results of management meetings and the recording of decision making related to the management of the Program.
7. The Deputy Director General, Cultural Industries, should establish a formalized Program-level process and/or management report to track the status of key objectives, performance indicators, and key initiatives of the Program.
8. The Deputy Director General, Cultural Industries, should consider having a PCH representative on the AECB board that is not part of the decision making process of this component of the Program.
9. The Director, Centre of Expertise for Grants and Contributions in the Financial Management Branch, should issue a departmental directive on the subject of PCH representation on the governance boards of recipients and other third party partners.

### **Management Response**

Recommendations accepted except # 8 which is accepted in part.

## **5.7 Timeliness of Funding Application Approval Process**

One of the audit criteria used within the scope of this audit was that funding decisions should be made and communicated to recipients in a timely manner. The audit team found that the BPIDP

has successfully met its targeted timelines for the funding application process for the ATP and IMA Program components.

SCI projects and CI projects follow a different application approval process than ATP. For these projects, BPIDP's targeted time lapse between a recipient's initial application for funding and the funding approval by the Minister is approximately 3-4 months. BPIDP application guides instruct potential recipients that all funding applications made under any project component of SCI and CI should be submitted at least 3 months prior to the start of a project. The audit team found that in 16 out of the 28 CI and SCI project files tested, the application approval process took longer than 4 months to complete. BPIDP reported that an increase in the amount of information required from applicants as part of the eligibility assessment process has created delays in obtaining information from recipients regarding their application.

In all project files tested, BPIDP obtained proper Ministerial approval before entering into a contribution agreement with a recipient. BPIDP application guides instruct potential recipients that any expenditure incurred before the project application is received by the Program will be deemed ineligible and will not be reimbursed by the Program. TBS guidance is that all parties should sign a written contribution agreement before the stated start date, and before eligible expenses are incurred. The audit team found, however, that a common practice used within BPIDP was to enter a date for reimbursable eligible expenses which preceded the formal contribution agreement signing date by 3 to 4 months.

### **Risk Assessment**

When a start date for a contribution agreement precedes the formal execution, there is increased risk BPIDP will not be in compliance with TBS guidance.

### **Recommendation**

It is recommended that:

10. The Deputy Director General, Cultural Industries, should investigate and put in place appropriate steps to improve the timing of funding applications by potential recipients and the funding approval process, in particular for the CI and SCI project components to ensure the approval of funding agreements before the beginning of the project's eligibility period.

### **Management Response**

Recommendation accepted.

## APPENDIX A: Audit Criteria & Conclusion

Based on a combination of the evidence gathered through documentation examination, analysis and interviews, each of the audit criteria listed below was assessed and a conclusion for the audit criteria was determined using the following definitions:

<b>Conclusion on Audit Criteria</b>	<b>Definition of Opinion</b>
Criteria Met - Well Controlled	Well managed or no material weaknesses noted, controls are effective and sustainable.
Criteria Met with Exceptions – Controlled	Requires minor improvements.
Criteria Met with Exceptions - Moderate Issues	Requires improvement in the areas of material financial adjustments, some risk exposure.
Criteria Not Met – High Impact – Significant Improvements	Requires significant improvements in the area of material financial adjustments, serious risk exposure.

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 and/or moderate issues were observed, these were reported in the audit report.

**Audit Objective 1: Management controls, risk management frameworks, and overall governance structure are adequate and effective**

Audit Criteria	Conclusion	Examples of Key Evidence/Observation
Risks to the achievement of Program objectives are identified.	Moderate Issues	<ul style="list-style-type: none"> <li>• Results-Based Management and Accountability Framework / Risk-Based Audit Framework (RMAF/RBAF) are in place and satisfactory</li> <li>• However, no contingency plan for third-party program delivery</li> </ul> (Interviews, review of relevant files)
A formal risk management process is implemented within the Program that includes communicating risk and control information to appropriate areas.	Moderate Issues	<ul style="list-style-type: none"> <li>• RMAF/RBAF in place and satisfactory</li> <li>• However, no formal rigorous risk mgmt process in place</li> </ul> (Interviews, review of risk assessment, file review)
Policies and procedures and roles and responsibilities are developed and communicated to ensure the Program is consistently applied within the approved terms and conditions and other relevant policy requirements.	Well Controlled	<ul style="list-style-type: none"> <li>• Application Guide</li> <li>• Financial viability assessment template</li> <li>• Program procedural documents</li> <li>• External web site</li> </ul>
Appropriate resource levels are provided and resources have the necessary capabilities.	Well Controlled	<ul style="list-style-type: none"> <li>• Training plan and training budget</li> <li>• Centre of Expertise training</li> </ul>
Performance and financial plans are developed to demonstrate how Program objectives will be achieved.	Moderate Issues	<ul style="list-style-type: none"> <li>• Performance measurement plan in place</li> <li>• No adequate financial plan for all program components</li> </ul> (Interviews, review of relevant files)
Program performance measures, associated activities, and desired outcomes are clearly defined, measurable, and attainable.	Controlled	<ul style="list-style-type: none"> <li>• RMAF/RBAF</li> <li>• Indicators in RMAF have no specific measurable targets</li> </ul>
Appropriate governance process through which the Program is managed and through which values and goals are established, communicated, and monitored.	Moderate Issues	<ul style="list-style-type: none"> <li>• Management meetings not documented</li> <li>• No formal management reporting package</li> </ul> (interviews)
Ongoing monitoring activities are conducted to ensure Program activities result in appropriate outcomes and appropriate	Moderate Issues	<ul style="list-style-type: none"> <li>• Management meetings not documented</li> <li>• No formal management</li> </ul>



Audit Criteria	Conclusion	Examples of Key Evidence/Observation
expenditures in accordance with the Program's strategic and annual plans.		reporting package <ul style="list-style-type: none"> <li>• No adequate tracking of budget and expenditures (interviews, review of relevant activities)</li> </ul>
Timely and accurate performance information and financial reports are used by Program management.	Moderate Issues	<ul style="list-style-type: none"> <li>• Statistical reports and summary reports are produced by Program</li> <li>• No formal management reporting package on regular activities in place (Interviews, review of relevant activities)</li> </ul>
Results are communicated to required parties to account for Program funds and demonstrate progress towards achievement of objectives.	Well Controlled	<ul style="list-style-type: none"> <li>• Performance reporting database</li> <li>• Reports on Plans and Priorities / Departmental Performance Report (RPP/DPR)</li> </ul>
Identified Program and project issues are resolved quickly. Lessons learned through Program monitoring activities are incorporated within the Program's management practices.	Well Controlled	<ul style="list-style-type: none"> <li>• Program improvements as indicated in documentation</li> </ul>

**Audit Objective 2: Controls are in place and effective to ensure accuracy of financial and operational information are effective.**

Audit Criteria	Conclusion	Examples of Key Evidence/Observation
Recipients are assessed for eligibility using established criteria which are based on the Program's Terms and Conditions.	Well Controlled	<ul style="list-style-type: none"> <li>• Eligibility assessment</li> <li>• Standard application forms</li> </ul>
Funding decisions are fair, transparent, free of bias, and based on Program terms and conditions. More deserving projects are funded at an appropriate level.	Well Controlled	<ul style="list-style-type: none"> <li>• Recommendation for Authorization Form</li> <li>• Review and approval by management</li> <li>• Ministerial letter</li> </ul>
Funding decisions are made and communicated to recipients in a timely manner.	Moderate Issues	<ul style="list-style-type: none"> <li>• Approval process longer than expected</li> <li>• Program issues payment for retroactive activities (file review)</li> </ul>
Funding commitments resulting from individual agreements do not exceed available Program budget/funds (FAA Section 32 certification)	Significant Improvements (In part addressed to the FMB.)	<ul style="list-style-type: none"> <li>• Funds committed prior to Section 32 approval</li> <li>• Reconciliation not documented and no independent validation in SAP</li> </ul> (interviews, review of relevant documents)
Agreements are meaningful, complete, and consistent with Program terms and conditions and Departmental templates and are reflective of overall FAA and TBS requirements and authorities.	Controlled	<ul style="list-style-type: none"> <li>• Standard agreements used</li> <li>• Minor issues noted regarding quantitative result requirements / reporting and more specific expected outcomes</li> </ul>
Funding agreements are reviewed, approved and completed in a timely manner. Appropriate levels of approval are obtained.	Controlled	<ul style="list-style-type: none"> <li>• Ministerial approval properly obtained and needs to be evidenced on file</li> <li>• Ensure that all required documents are kept on file.</li> </ul>
Payments made to recipients accurately reflect funding agreements and are compliant with TB Policy on Transfer Payments.	Well Controlled	<ul style="list-style-type: none"> <li>• Payment schedule included in agreements</li> <li>• Holdbacks used</li> </ul>
Recipient performance and financial reporting is in line with the funding agreement and provides the necessary information.	Well Controlled	<ul style="list-style-type: none"> <li>• Interim reports</li> <li>• Final reports</li> <li>• Analysis of reports</li> </ul>
Payments are processed in accordance with the FAA requirements (Section 34) to ensure funding is used for the purposes agreed and any money owed to the	Moderate Issues	<ul style="list-style-type: none"> <li>• Transfers of Section 34 authorities not appropriately documented, communicated and</li> </ul>

Audit Criteria	Conclusion	Examples of Key Evidence/Observation
government is collected.		activated according to Finance's requirements (Walkthrough, file review)
Continuous monitoring activities are conducted to determine compliance to Program Terms and Conditions and the funding agreement and to provide feedback to recipients regarding opportunities for improvement.	Significant Improvements	<ul style="list-style-type: none"> <li>• Monitoring activities conducted, but not adequately documented</li> <li>• No formal risk-based monitoring plan (interview, file review)</li> </ul>
Reporting systems and other supporting tools provide management with timely, accurate, and useful information and ensure consistent, efficient, and effective processes and procedures.	Controlled	<ul style="list-style-type: none"> <li>• Performance reporting database</li> <li>• Grants and Contributions Information Management System (GCIMS)</li> </ul>
Information is timely, accurate, and complete to ensure good decision making and results of funding agreements are communicated appropriately.	Moderate Issues	<ul style="list-style-type: none"> <li>• Performance measures included in agreements</li> <li>• Industry reports are prepared</li> <li>• Management meetings not documented</li> <li>• Lack of an adequate financial plan which could be used for monitoring progress and achievement of program (interview, file review)</li> </ul>