



Report of the Auditor General of Canada to the Board of Governors of the International Development Research Centre

Independent Audit Report

Special Examination Report—2016



Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

OAG-BVG

Special examination reports

Special examinations are a form of performance audit that is conducted within Crown corporations. The Office of the Auditor General of Canada audits most, but not all, Crown corporations.

The scope of special examinations is set out in the *Financial Administration Act*. A special examination considers whether a Crown corporation's systems and practices provide reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

More details about the audit objective, scope, approach, systems and practices examined, and sources of criteria are in About the Audit at the end of this report.

The Report is available on our website at www.oag-bvg.gc.ca.

Ce document est également publié en français.

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19 July 2016

To the Board of Governors of the International Development Research Centre:

We have completed the special examination of the International Development Research Centre in accordance with the plan presented to the Finance and Audit Committee on 16 November 2015. As required by Section 139 of the *Financial Administration Act*, we are pleased to provide the attached final special examination report to the Board of Governors.

We will present this report for tabling in Parliament shortly after it has been made public by the International Development Research Centre.

I would like to express my appreciation to the governors, management, and the Centre's staff for the excellent cooperation and assistance offered to us during the examination.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Lissa Lamarche', with a stylized flourish at the end.

Lissa Lamarche, CPA, CA
Principal

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Introduction

Background

Role and mandate

1. The International Development Research Centre is a federal Crown corporation established in 1970. It reports to Parliament through the Minister of International Development and La Francophonie, and is part of Canada's foreign affairs and development efforts. Its enabling legislation, the *International Development Research Centre Act*, mandates the Centre "to initiate, encourage, support and conduct research into the problems of the developing regions of the world and into the means for applying and adapting scientific, technical and other knowledge to the economic and social advancement of those regions."

Nature of business and operating environment

2. While many organizations are involved in development assistance, the Centre is one of the few organizations in the world concerned specifically with supporting research in the developing world. The Centre provides funding to researchers in developing countries to examine problems crucial to their communities.

3. The Centre works with a wide variety of organizations, including government agencies, granting councils, the private sector, and philanthropic foundations.

4. As at 31 March 2015, the Centre employed over 380 people. Of these, 28 percent worked in four regional offices, each serving one of the world's main developing regions: Cairo, Egypt, for the Middle East and North Africa; Nairobi, Kenya, for sub-Saharan Africa; New Delhi, India, for Asia; and Montevideo, Uruguay, for Latin America and the Caribbean.

5. In 2015, the Centre launched its Strategic Plan 2015–2020: Investing in Solutions, which explains how it intends to carry out its vision of advancing "knowledge, innovation, and solutions to improve the lives of people in the developing world."

6. The Centre obtains most of its funding from the Government of Canada. The *International Development Research Centre Act* also allows the Centre to seek other sources of funding. In the 2014–15 financial year, the Centre's parliamentary appropriation was \$190 million. Revenues from other sources amounted to \$68.8 million, including \$66.8 million from donor contributions.

Focus of the audit

7. Our objective for this audit was to determine whether the systems and practices we selected for examination at the International Development Research Centre were providing it with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively.
8. Based on our assessment of risks, we selected systems and practices in the following areas:
 - corporate governance;
 - strategic planning, risk management, and performance measurement and reporting;
 - selection and management of research projects; and
 - selection and monitoring of donor agreements.
9. The selected systems and practices and the criteria used to assess them are found in the exhibits throughout the report.
10. More details about the audit objective, scope, approach, and sources of criteria are in **About the Audit** at the end of this report (see pages 19–22).

Findings, Recommendations, and Responses

Corporate management practices

Except for a significant deficiency and one needed improvement, the Centre had in place good corporate management practices

Overall message



11. Overall, we found that except for the significant deficiency discussed below, the International Development Research Centre had in place good corporate management practices for governance, strategic planning and risk management, and performance measurement and reporting. The significant deficiency we found related to the ongoing delays in Board of Governor appointments over which the Centre did not have control. These delays threatened the Board's ability to validly transact business, and thus put proper oversight and timely decision making at risk. We also found that the Centre needed to improve the integration of performance measurement at the project level with performance measurement at the corporate level.
12. These findings are important because corporate management practices work together to help ensure that the Centre can fulfill its mandate and meet all applicable requirements under federal legislation.

Having enough Board members maintains continuity at the Centre and supports proper oversight and timely decision making. Integrating performance measurement at the project level with performance measurement at the corporate level enables the reporting of progress toward strategic objectives and targets.

13. Our analysis supporting this finding discusses

- corporate governance; and
- strategic planning, risk management, and performance measurement and reporting.

14. See **Subsequent Event** at the end of the report for additional information.

Context

15. In 2015, the Centre put in place its new five-year Strategic Plan 2015–2020, which identifies three strategic objectives:

- Invest in knowledge and innovation for large-scale positive change.
- Build the leaders for today and tomorrow.
- Be the partner of choice for greater impact.

16. These objectives are supported by an agenda for action, with six key action items to help the Centre move forward:

- Focus the Centre's programming.
- Work alongside the private sector.
- Communicate strategically.
- Leverage the Centre's international presence.
- Be smart with resources.
- Invest in staff development.

17. The Strategic Plan 2015–2020 also includes several performance targets, such as the number of people affected, the number of research leaders developed or supported, and the value of donor partnerships. The targets are intended to help the Centre measure the impact it is having in implementing its strategic plan.

Recommendations

18. Our recommendations in this area of examination appear at paragraphs 24 and 33.

Analysis to support this finding

19. **Corporate governance.** We found that the Centre had in place good corporate governance practices. However, we found a significant deficiency in the Board complement (Exhibit 1).

20. The Centre's enabling legislation provides for a Board of Governors composed of up to 14 members. During the period of our examination, the Board had 8 members, including the Acting Chairperson and the President.

21. The Board was also supported by a Finance and Audit Committee, a Governance Committee, an Executive Committee, and a Human Resources Committee.

Exhibit 1 Corporate governance







Systems and practices	Criteria used	Key findings	Assessment against the criteria
Board performance evaluation	The Board assessed its performance as well as the performance of its committees and its members.	The Board annually assessed its performance as well as the performance of its committees and members.	
Board independence	The Board functioned independently of management; individual Board members were independent from the Centre and followed defined code of conduct and conflict of interest guidelines for Board members.	<p>The Board functioned independently of management and the Centre by ensuring that potential conflicts of interest were identified in a timely manner through three mechanisms:</p> <ul style="list-style-type: none"> • a sound Board conflict policy included in the Board Charter as well as guidelines around ethics; • an annual conflict-of-interest declaration completed by each Board member; and • topic-specific conflict-of-interest declarations made by members, as appropriate, during Board meetings. 	
Board structure	The Board and its committees clearly defined and implemented their roles, responsibilities, authorities, and accountabilities in a timely manner.	<p>Roles and responsibilities of the Board and its committees were clearly defined through the Board Charter and understood.</p> <p>The Board structure, including the four operational committees, reflected the nature and complexity of the Centre's business and responsibilities.</p>	
Legend—Assessment against the criteria <ul style="list-style-type: none">  Met the criteria  Met the criteria, with improvement needed  Did not meet the criteria 			

Exhibit 1 Corporate governance (continued)












Systems and practices	Criteria used	Key findings	Assessment against the criteria
Strategic direction	The Board had the necessary information to interpret the Centre's legislative and public policy mandate, allowing it to provide management with strategic direction.	The Board took an active part in determining the Centre's strategic direction and ensuring it remained aligned with the Centre's legislative and public policy mandate.	
Board oversight and decision making	The Board received timely information necessary to oversee and monitor the Centre's activities, results, and management of risk, and to make decisions to achieve corporate objectives.	During its meetings, the Board received appropriate and timely information on significant issues, financial results, and performance against strategic objectives, for key strategic decision making. Board members challenged management in the decision-making process.	
Board competencies	The Board had members with the ability, skills, knowledge, and experience, as well as access to external expertise and training, to fulfill its responsibilities.	The Board identified potential skills gaps, which provided a basis for proposing potential candidates to the Minister. This helped the Board to assess whether it had sufficient members with the ability, skills, knowledge, and experience to fulfill its responsibilities. The Centre provided new governors with a comprehensive orientation program to inform them of the Centre's mandate and activities as well as their roles and responsibilities. Despite the significant deficiency in the Board complement discussed below, the Board possessed sufficient ability, skills, and knowledge in the period under review to fulfill its responsibilities. It anticipated governors' expiring terms, addressing this issue by rescheduling Board meetings and by other means.	
Legend—Assessment against the criteria  Met the criteria  Met the criteria, with improvement needed  Did not meet the criteria			

Exhibit 1 Corporate governance (continued)

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Board complement	The Board had a sufficient number of members.	<p>In November 2015, there were only eight appointed governors, of which seven were required to constitute a quorum of the Board under the <i>International Development Research Centre Act</i>. However, the terms of three governors were going to expire in early June 2016. The risk of not having sufficient Board members has persisted since 2013.</p> <p>Deficiency</p> <p>The Centre had in place the processes to assess skills and competency gaps in the Board, as well as to proactively identify and communicate needs and upcoming vacancies, and propose potential candidates to the Minister. However, the Centre has struggled in recent years to maintain a quorum in Board meetings, which were often rescheduled to address this issue. The Centre did not have sufficient governors to ensure a quorum was continuously maintained.</p> <p>See Subsequent Event at the end of the report for additional information.</p>	
Board renewal and appointments process	The Board communicated its needs for the selection of governors and the President appointments in a proactive and transparent manner.	<p>Discussions took place at Board and committee levels on the composition of the Board and the progress made on appointments.</p> <p>The Centre proactively and transparently communicated its needs for selecting governors to the Minister.</p>	
Legend—Assessment against the criteria  Met the criteria  Met the criteria, with improvement needed  Did not meet the criteria			

22. **Deficiency—Board complement.** The Board did not have enough members to ensure a quorum was continuously maintained. In recent years, the Centre operated with 7 or 8 of 14 governors on its Board of Governors as a result of delays in the appointments. This gap occurred even though the Centre proactively identified to the Minister the skills gaps created by the departure of particular governors as well as the potential candidates possessing the necessary profile. The Minister's role is to recommend candidates to the **Governor in Council**, who is responsible for executing these appointments.

23. The delays in appointments matter because the Board was unable to achieve the statutory quorum of seven for several meetings, which threatened the Board's ability to validly transact business. The Board's ability to fulfill its oversight and decision-making responsibilities was repeatedly put at risk.

24. **Recommendation.** The International Development Research Centre should continue to engage with the Minister of International Development and La Francophonie on the need for sufficient and timely appointments to the Board of Governors, continue to provide the Minister with profiles of potential candidates, and reinforce the need for staggered terms of office.

***The Centre's response.** Agreed. Management looks forward to working with the Minister of International Development and La Francophonie, in a manner that is consistent with the new process established by the government for the appointment of Governor in Council candidates. This will ensure that the issue is resolved as rapidly as possible.*

25. See **Subsequent Event** at the end of the report for additional information.

26. **Strategic planning, risk management, and performance measurement and reporting.** We found that the Centre had adequate systems and practices in place for strategic planning, risk management, and performance measurement and reporting. However, we found that there was a weakness in the integration of performance measurement at the project level with performance measurement at the corporate level and that there were opportunities to improve this integration in strategic planning and risk management (Exhibit 2).

27. We found that the Centre did not systematically integrate research-project objectives and risks with its program-level and strategic objectives and risks. This is essential to the achievement of the Centre's mandate and objectives, in an effort to properly allocate resources to the areas and projects with the greatest impact.

Governor in Council—The Governor General, acting on the advice of Cabinet, as the formal executive body that gives legal effect to those decisions of Cabinet that are to have the force of law.

28. Strategic planning is essential for setting long- and short-term objectives. It includes assessing and adjusting an organization's direction in response to the risks and challenges it faces in a changing environment, and ensuring that the programs are implemented in line with the organization's strategic direction.

29. Risk management is crucial for properly identifying and mitigating significant corporate risks, a process that requires engagement and integration at all organizational levels. In 2015, in an initiative undertaken to strengthen risk management practices, the Centre commissioned an assessment of its risk management program. The resulting report recommended a formalized, systematic approach for integrating risk identification, management, and reporting at all levels of the organization. In January 2016, the Centre launched a two-year action plan to implement the recommendations, with the aim of achieving a systematic and coordinated risk management approach.

30. The design of appropriate performance measures allows an organization to accurately monitor its progress toward its strategic objectives. Performance reporting enables an organization to demonstrate accountability toward all stakeholders. Reporting requires coordinated systems and practices that compile detailed information from program activities to track the achievement of the strategic objectives. During the period of the examination, the Centre was in the first year of its Strategic Plan 2015–2020, and was still designing and finalizing its performance reporting. We therefore examined performance reporting for the previous five-year planning period, that is, from 2010 to 2015. The Centre's new performance reporting systems are intended to provide both qualitative and quantitative information on its achievements, linked to the Strategic Plan 2015–2020 objectives and development outcomes.

Exhibit 2 Strategic planning, risk management, and performance measurement and reporting





Systems and practices	Criteria used	Key findings	Assessment against the criteria
Environment and risk analysis for strategic planning	The strategic planning process took into consideration the internal and external environment, organizational strengths and weaknesses, and identified risks.	The Centre analyzed the internal and external environment. In setting its strategic direction, the Centre surveyed numerous stakeholders to obtain input on the environment and associated risks.	
Legend—Assessment against the criteria  Met the criteria  Met the criteria, with improvement needed  Did not meet the criteria			

Exhibit 2 Strategic planning, risk management, and performance measurement and reporting (continued)

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Implementation of strategic direction through operational planning	Operational plans were aligned with the strategic direction, mitigated operational risks, and contained sufficient and appropriate information to guide management action.	<p>The Strategic Plan 2015–2020 included high-level performance expectations. The Centre prepared seven supporting implementation plans, aligned to the Strategic Plan 2015–2020, covering the same period.</p> <p>The implementation plans included five-year performance targets for specific programs. The Centre is currently preparing a year-by-year breakdown of the program targets that will allow the Centre to monitor yearly progress toward its strategic objectives, beginning in 2016, by each program.</p>	
Risk identification, assessment, and mitigation	<p>The Centre identified, assessed, and monitored the potential risks that needed to be managed to achieve its strategic and operational objectives.</p> <p>The Centre defined and implemented responses to the risks it faced.</p>	<p>The Centre identified its top five key risks. For each, it conducted a separate risk assessment that outlined the potential likelihood and impact of occurrence, along with risk response strategies.</p> <p>The Centre identified a risk owner responsible for monitoring a particular risk, as well as a functional committee to receive reports.</p> <p>For each of the top five risks identified, the Centre developed risk response strategies with specific mitigation approaches.</p> <p>The Centre is currently executing its two-year action plan to address the recommendations in the 2015 report issued by the consultant, which will strengthen the Centre's risk management program.</p>	
Legend—Assessment against the criteria <ul style="list-style-type: none">  Met the criteria  Met the criteria, with improvement needed  Did not meet the criteria 			

Exhibit 2 Strategic planning, risk management, and performance measurement and reporting (continued)










Systems and practices	Criteria used	Key findings	Assessment against the criteria
Setting performance expectations	The Centre established a measurable annual performance expectation (set performance targets) that informed a measured assessment of its progress towards achieving its strategic objectives.	<p>High-level performance expectations were embedded in the Strategic Plan 2015–2020. The supporting implementation plans for the same period included program-specific targets. The Centre began developing detailed implementation plans that would break the targets down by year.</p> <p>Weakness</p> <p>The Centre did not integrate performance expectations into projects. Its project performance indicators were not aligned with corporate performance indicators.</p>	
Designing measurable performance indicators	The Centre designed measurable performance indicators to generate information that was important to users (entity management, the Board, and the public) and supported the sound assessment of progress towards the achievement of its strategic objectives.	<p>The Strategic Plan 2015–2020 provided for corporate-level monitoring and reporting through the use of meaningful qualitative and quantitative indicators, as well as expected development outcomes.</p> <p>The Centre is currently developing and implementing a system that will enable it to collect and aggregate data for performance measurement and reporting against its performance indicators.</p>	
Communication of performance information	Annual reports communicated key performance information to management, the Board, and the public.	<p>From 2010 to 2015, the Centre mainly reported qualitative performance information annually as follows:</p> <ul style="list-style-type: none"> internally, through a high-level performance report for senior management and the Board; and externally, through its annual report for the public, which discussed specific achievements in each program. 	
<p>Legend—Assessment against the criteria</p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			

Exhibit 2 Strategic planning, risk management, and performance measurement and reporting (continued)

Systems and practices	Criteria used	Key findings	Assessment against the criteria
		<p>This reporting was based mainly on project-level and evaluation information, and was not linked to predefined indicators for any operational or strategic objectives.</p> <p>For the 2015–2020 planning period, the Centre is improving its performance reporting to its stakeholders (internal and public) with both qualitative and quantitative information on its achievements. These will be linked to 2015-2020 Strategic Plan objectives and development outcomes once the appropriate systems are in place.</p>	
Legend—Assessment against the criteria  Met the criteria  Met the criteria, with improvement needed  Did not meet the criteria			

31. **Weakness—Setting performance expectations.** The Centre was inconsistent in integrating project-level activities into corporate-level activities (and vice versa). Specifically, in performance measurement and reporting, the performance measures used at the project level did not align with and adequately inform the measurements at the level of strategic objectives. In addition, projects did not have clearly defined implementation activities in support of the Centre’s strategic objectives. Furthermore, risks identified at the corporate level had not systematically been translated into operational risks, nor had the risks identified by projects been systematically escalated into the corporate risk profile.

32. This weakness matters because the misalignment of corporate and project objectives creates a risk that information needed to report against the strategic objectives might not be available or compiled, or that the corporate risk profile might omit risks that are project-specific.

33. **Recommendation.** The International Development Research Centre should put in place a systematic approach to integrate its strategic direction, risk management, and performance measurement and reporting with its project planning and monitoring. It should ensure coordination and communication of these corporate-level activities throughout the Centre.

The Centre's response. Agreed. All research projects supported by the International Development Research Centre must speak to one or more of the Centre's strategic objectives, as mandated by existing Centre systems and processes. Failing this, the projects are not funded.

Every project and program must be aligned with the Centre's strategic direction. In 2015, management developed program area and program implementation plans, all of which embedded the Centre's strategic plan objectives and strategic directions. Program area implementation plans were approved by the Centre's Board of Governors in 2015. Detailed program implementation plans will be reviewed and approved by management before September 2016.

The coordination and reporting of program intentions and results against strategic objectives can be improved. To this end, management developed new Centre processes and systems in 2015, the reporting on which is incorporated in the Centre's Annual Performance Report.

Risk assessment and management are essential features of project development and implementation. Such project risk assessment systems, processes, and controls, alongside related program, partnership, and cost-centre risk assessment and management systems and controls, are fully considered by and incorporated in the annual Corporate Risk Profile exercise.

In 2015, an assessment was conducted on the Centre's integrated risk management program. This assessment recognized many good risk management practices, but it also identified areas for improvement. As a result, management drafted an action plan, which was presented to the Finance and Audit Committee of the Board of Governors in February 2016, with the goal of improving the integration of risk management practices. This work is currently under way and expected to be completed by the end of 2018.

Management of research projects and donor agreements

Except for one needed improvement, the Centre had in place good management of research projects and donor agreements

Overall message



34. Overall, we found that the International Development Research Centre had systems and practices in place for managing program implementation and delivery, as well as for managing the selection, approval, monitoring, and reporting of research projects and donor agreements. We noted a weakness in the risk assessments of parallel-funding private-sector partners conducted prior to entering into agreements.

35. Establishing appropriate program- and project-level performance indicators that align with the Centre's strategic indicators is critical to ensuring the measurement of project results and the tracking of progress toward strategic objectives. It also supports the effective implementation of programming and research projects in developing countries.

36. Proper risk assessments of potential partners before entering into agreements is important to ensure that the Centre identifies, assesses, and mitigates, where possible, any risks related to associating with the partner, including reputation risks.

37. Our analysis supporting these findings discusses

- selection and management of research projects, and
- selection and monitoring of donor agreements.

Context

38. In the 2014–15 financial year, the Centre disbursed \$191 million in funding for 733 research projects carried out by institutions funding local and global solutions in all developing regions of the world. During the year, new multi-year projects were funded mainly in three program areas: agriculture and environment (36.3 percent); science and innovation (9.5 percent); and social and economic policy (50.4 percent).

39. Under its Strategic Plan 2015–2020, the Centre has planned to further broaden the partnership base to include the private sector and emerging funders. The aim is to diversify the types of partnerships and the partners. As the Centre moves in this direction, it has identified that balancing the use of resources to establish co-funded and parallel-funded programs will be integral to the implementation of the strategy.

40. Partnerships have enabled the Centre to mobilize resources in addition to its parliamentary appropriation. Through two types of partnerships, the Centre has leveraged its investments in development research. In the co-funding model, the Centre receives and administers funds from other donors for implementing specified programs, along with its own funds. In the more recently adopted parallel-funding model, the Centre and a partner both allocate financial resources to a project or program, with each donor administering the funds it has provided. This model has provided new opportunities for engaging with the private sector and emerging funders.

Recommendation

41. Our recommendation in this area of examination appears at paragraph 45.





Analysis to support this finding

42. **Selection and management of research projects.** We found that the Centre had a rigorous project selection and approval process and sound project monitoring (Exhibit 3).

Exhibit 3 Selection and management of research projects

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Program implementation, and delivery and support of research projects	The Centre had the capacity and the mechanisms in place to implement its programming and to deliver and support research projects in developing countries.	<p>The Centre had the capacity and mechanisms in place, including at its regional offices, which oversaw research projects, to implement and deliver its programming and research projects in developing countries.</p> <p>The Centre systematically defined and integrated roles and responsibilities for program implementation.</p> <p>Regional offices successfully delivered and supported research projects in developing countries.</p>	
Project selection and approval	<p>The Centre had project selection mechanisms in place that enabled it, before approving a project, to ensure alignment of project objectives with strategic priorities and identify and analyze project risks.</p> <p>The Centre designed measurable project performance indicators in support of the achievement of project objectives.</p>	<p>Selection and approval activities included project assessments, which identify and address project-specific risks, and also evaluated a project's alignment with the Centre's strategic objectives and program priorities.</p> <p>Together with each funding recipient, the Centre established research-project objectives and expected results. It gave these central importance in monitoring and evaluating project performance.</p> <p>Standardized monitoring activities and recipient-generated progress reporting enabled the Centre to track project performance.</p> <p>The Centre adjusted its monitoring of projects in line with its assessment of project risk and other administrative considerations.</p>	
Legend—Assessment against the criteria  Met the criteria  Met the criteria, with improvement needed  Did not meet the criteria			

Exhibit 3 Selection and management of research projects (continued)

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Project monitoring, extension, and/or termination	<p>The Centre had the capacity and the mechanisms in place to monitor and control project risks, project performance, and compliance with project agreements and conditions, and to assess the need to extend or terminate individual projects.</p> <p>Reports were regularly prepared for management on the progress and results of projects.</p>	<p>On an ongoing basis, the Centre had the systems in place, including standardized templates, to document and report</p> <ul style="list-style-type: none"> • project risks; • project performance; • compliance with a project agreement's terms and conditions; and • the need to supplement, extend, or terminate a project. <p>This information was summarized and reported regularly to senior management.</p>	
<p>Legend—Assessment against the criteria</p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			

43. **Selection and monitoring of donor agreements.** We found that the Centre had in place processes to manage and mitigate risks associated with its co-funded and parallel-funded partnerships. However, we noted a weakness in the processes to assess risk (notably, reputation risk) associated with potential parallel-funding private-sector partners before entering into agreements with them (Exhibit 4).

Exhibit 4 Selection and monitoring of donor agreements










Systems and practices	Criteria used	Key findings	Assessment against the criteria
Donor selection and approval	The Centre had donor selection mechanisms in place that enabled it to assess the alignment of donors' objectives with the Centre's mandate and strategic priorities and to identify and assess related risks prior to the approval of donor agreements.	<p>Under its processes for selecting and authorizing co-funded donor partnerships, the Centre assessed key partnership risks and objectives against its mandate, objectives, and programming priorities.</p> <p>The Centre's legal department reviewed proposed parallel-funded partnership agreements to ensure they protected the Centre in the event of non-compliance with the agreed-upon terms.</p> <p>The Centre is currently developing its systems and practices for parallel funding to ensure systematic risk assessment and monitoring of the performance against these agreements.</p> <p>Weakness</p> <p>In the context of the Centre's new parallel-funded partnerships, the Centre had not yet developed a systematic approach to identify, assess, and mitigate risks associated with these private-sector organizations and emerging southern funders* (notably, reputation risk) prior to entering into agreements.</p>	
Donor agreement monitoring, extension, and/or termination	<p>Partnerships were monitored to ensure compliance with agreement terms and conditions and the continued alignment of objectives.</p> <p>The Centre exercised due diligence in extending or terminating agreements.</p>	<p>All corporate programs and other functional areas shared responsibility for monitoring compliance with partnership agreements, as well as for monitoring the continued alignment of the partnerships with the Centre's mandate, objectives, and programming priorities. This monitoring was done through the review of periodic monitoring reports, as well as through site visits. In addition, partnership steering committees, composed of representatives from the Centre and donor organizations, were also involved in partnership-related programs and projects monitoring.</p> <p>The Centre had mechanisms in place to terminate partnership agreements, which it used when significant deviations or non-compliance with partnership agreements were noted.</p>	
<p>* Emerging southern funders—Funding organizations from countries outside of Canada and the United States with low- and middle-income economies.</p> <p>Source: International Development Research Centre</p>			
<p>Legend—Assessment against the criteria</p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			

Exhibit 4 Selection and monitoring of donor agreements (continued)

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Donor agreement results measurements and reporting	The Centre designed measurable performance indicators in support of the achievement of agreement objectives. Reports were regularly prepared for management on the progress and results of partnerships.	<p>Performance measurement frameworks were established for significant co-funded partnerships to enable the monitoring and evaluation of progress towards the achievement of partnership objectives.</p> <p>For example, in the case of the Think Tank Initiative (TTI), a results framework was developed to allow TTI to monitor progress at the recipient and partnership program level. We noted that qualitative and quantitative performance indicators, specific targets, data sources, and timing were established to measure each partnership objective and expected outcome.</p> <p>Management and the Board received regular reports providing updates on partnership progress and results using performance indicators.</p> <p>The partnership steering committees received regular reports on results on partnerships.</p>	
<p>Legend—Assessment against the criteria</p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			

44. **Weakness—Donor selection and approval.** Parallel funding is a new area of partnership for the Centre for which it is still developing systems and practices. We found that in engaging with these private-sector organizations and emerging southern funders, no systematic approach was currently in place to assess the partner and the risks (notably, reputation risk) that the Centre might be exposed to upon entering into parallel agreements with these partners. This exposes the Centre to potential risks, including harm to its reputation if it becomes associated with a partner with reputation issues.

45. **Recommendation.** The International Development Research Centre should establish a systematic approach to assessing risks associated with parallel partnerships prior to entering into the agreement.

The Centre's response. *Agreed. Recognizing the complexities of parallel-funding arrangements with new private-sector partners, International Development Research Centre management created last year a working group to study the issue. The objective of the working group is to*

- *understand comparators' approaches to assessing and managing parallel funding;*
- *develop more actionable definitions of parallel funding; and*
- *adapt the Centre's existing and tested co-funding partnership risk assessment and authorization systems, processes and controls, to the complexities of parallel funding.*

This work is under way and expected to be completed by the end of September 2016.

Conclusion

46. In our opinion, based on the criteria established, with the exception of the significant deficiency we found in the Board complement, there were no significant deficiencies in the International Development Research Centre's systems and practices that we examined for corporate management and the management of research projects and donor agreements. We concluded that the Centre has maintained these systems and practices during the period covered by the audit in a manner that provided the reasonable assurance required under section 131 of the *Financial Administration Act*.

Subsequent Event

47. The corporate governance section of this report discusses the significant deficiency that we found in the complement of the International Development Research Centre's Board of Governors. In November 2015, the Board had only 8 governors, and the terms of 3 governors were going to expire in June 2016.

48. On 14 June 2016, the Minister of International Development and La Francophonie announced the appointment of a new chairperson and 6 new governors to the Board. This new Board complement of 12 members will help the Board to ensure and maintain a quorum and thus validly conduct business.

About the Audit

This independent assurance report was prepared by the Office of the Auditor General of Canada on the International Development Research Centre, a federal Crown corporation. Our responsibility was to express

- an opinion on whether there is reasonable assurance that during the period covered by the audit, there were no significant deficiencies in the Centre's systems and practices that we selected for examination; and
- a conclusion about whether the Centre complied in all significant respects with the applicable criteria.

Under section 131 of the *Financial Administration Act* (FAA), the International Development Research Centre is required to maintain financial and management control and information systems and management practices that provide reasonable assurance that

- its assets are safeguarded and controlled;
- its financial, human, and physical resources are managed economically and efficiently; and
- its operations are carried out effectively.

In addition, section 138 of the FAA requires the Centre to have a special examination of these systems and practices carried out at least once every 10 years.

All work in this audit was performed to a reasonable level of assurance in accordance with the standards for assurance engagements set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook—Assurance.

The Office applies Canadian Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we have complied with the independence and other ethical requirements of the Rules of Professional Conduct of the Chartered Professional Accountants of Canada and the Code of Values, Ethics and Professional Conduct of the Office of the Auditor General of Canada. Both the Rules of Professional Conduct and the Code are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In accordance with our regular audit process, we obtained the following from management:

- confirmation of management's responsibility for the subject under audit,
- acknowledgement of the suitability of the criteria used in the audit,
- confirmation that the findings in this report are factually based, and
- confirmation that all known information that has been requested or that could affect the findings or audit conclusion has been provided.

Audit objective

The objective of this audit was to determine whether the systems and practices we selected for examination at the International Development Research Centre were providing it with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively.

Scope and approach

The scope of our audit was the International Development Research Centre. In performing our work, we reviewed documents and interviewed members of the Board of Governors, senior management, and employees of the Centre. We also travelled to the New Delhi regional office, reviewed project documentation, and visited several recipients to discuss their work and observe the projects. We judgementally selected and tested a sample of project documents.

The systems and practices selected for examination for each area of the audit are found in the exhibits throughout the report.

In carrying out the special examination, we did not rely on any internal audits.

Sources of criteria

The criteria used to assess the systems and practices selected for examination are found in the exhibits throughout the report.

Corporate governance

OECD Guidelines on Corporate Governance of State-Owned Enterprises, Organisation for Economic Co-operation and Development, 2015

Review of the Governance Framework for Canada's Crown Corporations—Report to Parliament, Treasury Board of Canada Secretariat, 2005

Corporate Governance in Crown Corporations and Other Public Enterprises—Guidelines, Treasury Board of Canada Secretariat, 1996

IPPF Practice Guide: Assessing Organizational Governance in the Private Sector, The Institute of Internal Auditors, July 2012

IPPF Practice Guide: Assessing Organizational Governance in the Public Sector, The Institute of Internal Auditors, October 2014

20 Questions Directors Should Ask about Crown Corporation Governance, Canadian Institute of Chartered Accountants, 2007

20 Questions Directors Should Ask about Risk, Canadian Institute of Chartered Accountants, 2006

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, May 2013

Strategic planning and risk management

Review of the Governance Framework for Canada's Crown Corporations—Report to Parliament, Treasury Board of Canada Secretariat, 2005

Guidelines for the Preparation of Corporate Plans, Treasury Board of Canada Secretariat, 1994

20 Questions Directors Should Ask about Risk, Canadian Institute of Chartered Accountants, 2006

20 Questions Directors Should Ask About Strategy, Chartered Professional Accountants of Canada, 2012

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, May 2013

Performance measurement and reporting

20 Questions Directors Should Ask about Crown Corporation Governance, Canadian Institute of Chartered Accountants, 2007

Guidelines for the Preparation of Corporate Plans, Treasury Board of Canada Secretariat, 1994

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, May 2013

Recommended Practice Guideline: Reporting Service Performance Information, International Public Sector Accounting Standards Board, 2015

Selection and management of research projects

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, May 2013

A Guide to the Project Management Body of Knowledge, Project Management Institute Inc., 2008

Recommended Practice Guideline: Reporting Service Performance Information, International Public Sector Accounting Standards Board, 2015

Policy on the Management of Projects, Treasury Board, 2009

Standard for Project Complexity and Risk, Treasury Board of Canada Secretariat, 2010

Selection and monitoring of donor agreements

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, May 2013

Recommended Practice Guideline: Reporting Service Performance Information, International Public Sector Accounting Standards Board, 2015

A Guide to the Project Management Body of Knowledge, Project Management Institute Inc., 2008

Period covered by the audit

The special examination covered the systems and practices that were in place between August 2015 and March 2016. However, to gain a more complete understanding of the significant systems and practices, we also examined certain matters that preceded the starting date of the special examination, such as the performance reporting for the 2010–2015 planning period. We also noted a subsequent event on 14 June 2016.

Date of report

This report is dated 22 June 2016 in Ottawa, Canada. This date represents the date by which the Office of the Auditor General of Canada obtained sufficient and appropriate audit evidence on which to base the conclusion.

Audit team

Principal: Lissa Lamarche

Daniel Spagnolo
Normand Lanthier
Josée Surprenant
Kevin Kit

List of Recommendations

The following is a list of recommendations found in this report. The number in front of the recommendation indicates the paragraph where it appears in the report. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Corporate management practices	
<p>24. The International Development Research Centre should continue to engage with the Minister of International Development and La Francophonie on the need for sufficient and timely appointments to the Board of Governors, continue to provide the Minister with profiles of potential candidates, and reinforce the need for staggered terms of office. (19–23)</p>	<p>The Centre’s response. Agreed. Management looks forward to working with the Minister of International Development and La Francophonie, in a manner that is consistent with the new process established by the government for the appointment of Governor in Council candidates. This will ensure that the issue is resolved as rapidly as possible.</p>
<p>33. The International Development Research Centre should put in place a systematic approach to integrate its strategic direction, risk management, and performance measurement and reporting with its project planning and monitoring. It should ensure coordination and communication of these corporate-level activities throughout the Centre. (26–32)</p>	<p>The Centre’s response. Agreed. All research projects supported by the International Development Research Centre must speak to one or more of the Centre’s strategic objectives, as mandated by existing Centre systems and processes. Failing this, the projects are not funded.</p> <p>Every project and program must be aligned with the Centre’s strategic direction. In 2015, management developed program area and program implementation plans, all of which embedded the Centre’s strategic plan objectives and strategic directions. Program area implementation plans were approved by the Centre’s Board of Governors in 2015. Detailed program implementation plans will be reviewed and approved by management before September 2016.</p> <p>The coordination and reporting of program intentions and results against strategic objectives can be improved. To this end, management developed new Centre processes and systems in 2015, the reporting on which is incorporated in the Centre’s Annual Performance Report.</p> <p>Risk assessment and management are essential features of project development and implementation. Such project risk assessment systems, processes, and controls, alongside related program, partnership, and cost-centre risk assessment and management systems and controls, are fully considered by and incorporated in the annual Corporate Risk Profile exercise.</p> <p>In 2015, an assessment was conducted on the Centre’s integrated risk management program. This assessment recognized many good risk management practices, but it also identified areas for improvement. As a result, management drafted an action plan, which was presented to the Finance and Audit Committee of the Board of Governors in February 2016, with the goal of improving the integration of risk management practices. This work is currently under way and expected to be completed by the end of 2018.</p>

Recommendation	Response
<p>Management of research projects and donor agreements</p> <p>45. The International Development Research Centre should establish a systematic approach to assessing risks associated with parallel partnerships prior to entering into the agreement. (43–44)</p>	
	<p>The Centre’s response. Agreed. Recognizing the complexities of parallel-funding arrangements with new private-sector partners, International Development Research Centre management created last year a working group to study the issue. The objective of the working group is to</p> <ul style="list-style-type: none"> • understand comparators’ approaches to assessing and managing parallel funding; • develop more actionable definitions of parallel funding; and • adapt the Centre’s existing and tested co-funding partnership risk assessment and authorization systems, processes and controls, to the complexities of parallel funding. <p>This work is under way and expected to be completed by the end of September 2016.</p>