



Horizontal Internal Audit of the Grants and Contributions Management Control Framework in Large Departments and Agencies— Phase 1

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Published by Treasury Board of Canada, Secretariat
90 Elgin, Ottawa, Ontario, K1A 0R5, Canada

Catalogue Number: BT66-48/2011E-PDF
ISBN: 978-0-660-25575-0

This document is available on the Government of Canada website, Canada.ca

This document is available in alternative formats upon request.

Aussi offert en français sous le titre : Vérification interne horizontale du cadre de contrôle de la gestion
des subventions et des contributions dans les grands ministères et organismes — Phase 1



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May 2011

Office of the Comptroller General

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Executive Summary

The objective of this audit was to provide assurance that the governance, risk management, and control processes over grant and contribution programs are being executed in compliance with the Treasury Board *Policy on Transfer Payments* (2008).

Why This Is Important

The Government of Canada spends approximately \$29 billion^[1] a year on non-statutory grants and contributions. "Their tangible results touch the lives of Canadians and others every day, and cover all sectors of society...Grants and contributions enable and engage a wide diversity of skills and resources outside the federal government that are well placed to further Canadian aims, contribute to building a strong society and a competitive nation that is inclusive and respectful of Canadian values and Canada's linguistic duality."^[2]

The management and the execution of grant and contribution programs are subject to intense public scrutiny. Canadians expect these programs to be managed so that recipients are appropriately funded and that program spending achieves its intended results. It is therefore essential that a clearly documented management control framework exists to support decision making and provide for transparency over key decisions in the administration of grants and contributions.

Key Findings

It is management's responsibility to define systems and processes that enable managers to be involved in critical decision making, to ensure that control systems are in place to mitigate risks, and to monitor program results.

We did not identify any systemic weaknesses in the implementation of the *Policy on Transfer Payments* (2008). The roles, responsibilities and accountabilities within management control frameworks used by large departments and agencies (LDAs) to support decision making are generally well defined and communicated, but the roles and responsibilities of departmental centres of expertise or equivalent bodies could be strengthened and better communicated. Doing so would ensure increased effectiveness of the centres and prevent inconsistencies or duplication between various areas of the organization providing grants and contribution programming.

Tools to collect and analyze ongoing program performance information to support timely decision making are required to help LDAs implement their performance measurement strategies and ensure that program results are achieved. Considerable attention has been focused on standardizing the administration of grants and contributions, and LDAs are making progress. Centres of expertise or equivalent bodies, both within LDAs and within the Treasury Board Secretariat (TBS), have led efforts in this area, and good practices are found in those organizations with automated systems to support consistent practices. Processes and controls in the programs examined were in place to support an open and accessible promotion of the grant and contribution programs. Transparent control processes to oversee the selection of recipients were also in place in those programs examined.

We found most LDAs have developed risk assessment strategies to determine appropriate levels of monitoring and reporting requirements for recipients, but few have implemented them.

We found that LDAs have taken initial steps to meet the reform requirements of the *Policy on Transfer Payments* (2008). LDAs are considering coordinated and collaborative programs and program administration within and across departments. In addition, some departments have established and published service standards, but most LDAs are in the early stages of developing broad implementation strategies and defining targets. Recipients are also being engaged on an informal basis for feedback to make program improvements.

Conclusion

Overall, there are no systemic issues in the implementation of the *Policy on Transfer Payments* (2008). The roles, responsibilities and accountabilities are generally well defined and communicated within the management control framework, but the role of the centres of expertise within LDAs could be strengthened. Process and controls were in place to support an open and accessible promotion of the grant and contribution programs, as well as oversee the selection of recipients. Performance measures and recipient risk assessment strategies are in place but have not been fully implemented or applied. Progress is being made toward standardizing administrative procedures and the new areas of the *Policy on Transfer Payments* related to grants and contributions reform.

Conformance with Professional Standards

The conduct of this engagement conforms to the *Internal Auditing Standards of the Government of Canada*, which incorporate The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.^[3]

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Background

Grants and contributions are funds disbursed by the Government of Canada to further a policy or priority for which it does not receive goods, services, or assets in return.

Grants and contributions offer a cost-effective way for the Government of Canada to pursue its objectives through non-governmental resources, such as not-for-profit organizations and private research facilities, and support investments in research, innovation, social and community development, health care, and international initiatives.

The Government of Canada's grant and contribution programs are governed by the Treasury Board *Policy on Transfer Payments* and the supporting *Directive on Transfer Payments*. Under the policy, grant and contribution programs must be managed with integrity, transparency and accountability, and in a manner that is sensitive to risks. They must also be citizen-focused, and designed and delivered to address government priorities in achieving results for Canadians.^[4]

The appropriate balance of regulation and freedom of administration in grant and contribution programs has historically been difficult to achieve. In 2006, the President of the Treasury Board commissioned an independent blue ribbon panel "to recommend measures to make the delivery of grant and contribution programs more efficient while ensuring greater accountability." The panel's report, *From Red Tape to Clear Results*, identified a fundamental need for change in the way the government understands, designs, manages, and accounts for grant and contribution programs. The report also highlighted that accountability in the management of grant and contribution programs could be strengthened by simplifying administrative requirements for recipients and program administration.

In 2008, in response to the Blue Ribbon Panel's recommendations, and as part of the *Government of Canada Action Plan to Reform the Administration of Grant and Contribution Programs*, new requirements were added to the *Policy on Transfer Payments*. Notably, the policy requires departments and agencies to work together to simplify program requirements, making them easier to use and understand by both the government and potential recipients. It also requires the establishment of departmental service standards and for the government to reach out to applicants for feedback on how to improve grant and contribution programs. Most of the programs reviewed during this audit were approved or continued after the *Policy on Transfer Payments* (2008) came into effect.

Some grants and contributions are mandated by statutory requirements or legislation or are determined by formula. These grants and contributions, defined in the policy as "other transfer payments," were not covered by the audit.

Audit Objectives, Scope and Approach

Objectives and Scope

The objective of this audit was to provide assurance that the governance, risk management, and control processes over grant and contribution programs are being executed in compliance with the *Policy on Transfer Payments* (2008).

The scope of the audit included the review of a sample of grant and contribution programs delivered by large departments and agencies (LDAs), most of which were new or where the terms and conditions had been continued and amendments were made to comply with the *Policy on Transfer Payments*.^[5]

The audit criteria and findings are presented in accordance with the grants and contributions process in four key areas:

- **Management Control Framework.** This framework outlines management's role in decision making and oversight of grant and contribution programs; performance monitoring against the objectives of a grant or contribution program; and the design of systems and practices to ensure that administrative processes are appropriately controlled to provide for accountability and transparency.
- **Program administration.** This area covers program promotion, applicant evaluation and approval processes.
- **Risk-Based Monitoring of Recipients.** After recipients are selected to receive funding under a contribution program, LDAs need to determine an appropriate level of monitoring and reporting requirements that will be required for each recipient based on risk. The monitoring and reporting requirements are often aligned to future payments to be made. Grants are unconditional transfer payments; once a project has been approved for funding, there is usually no further monitoring or reporting requirements.
- **Reform.** This area relates to progress against the reform requirements of the *Policy on Transfer Payments* (2008). As more LDA grant and contribution programs are being renewed and their related terms and conditions are being continued under the policy, LDAs are exploring ways to address the new requirements and how their business processes will be affected.

A sample of seven LDAs was selected for this audit, based on such factors as grant and contribution spending, collaboration with TBS's Centre of Expertise on Grants and Contributions, and participation in previous horizontal audits. (Appendix A contains a list of the LDAs examined.) The non-statutory transfer payments in these LDAs accounted for approximately \$13,208^[6] million of non-statutory grants and contributions in 2009-10, or 46 per cent of total Government of Canada spending on grants and contributions. TBS was also included in the audit because of its responsibility for the *Policy on Transfer Payments* and the Centre of Expertise on Grants and Contributions.

Audit Approach

Planning

As part of the planning phase of this audit, we conducted an environmental scan of the management of grant and contribution programs to develop comprehensive criteria. The scan consisted of the following: discussions with policy experts within TBS; a review of Treasury Board policies and directives related to transfer payments; a review of the Independent Blue Ribbon Panel's report on grant and contribution programs, *From Red Tape to Clear Results*; and a review of *The Government of Canada Action Plan to Reform the Administration of Grant and Contribution Programs*. We also met with LDAs that had conducted audits in this area to leverage from their experience. Appendix B contains a list of legislation, frameworks, policies, directives and guidance used for this audit.

Examination

The Internal Audit groups of each of the participating LDAs conducted a detailed examination phase, during the period of June 2010 to November 2010, using the audit criteria outlined in Appendix C. The examination consisted of interviews and documentation review.

Reporting

Following the validation of audit findings with the participating LDAs, we developed horizontal findings from the results of the detailed examination. A draft report and a summary of applicable recommendations were sent to the LDAs that participated in the audit. Management Action Plans to address the findings and recommendations were requested. Appendix D contains a list of the recommendations. Appendix E contains a risk ranking of the recommendations.

Detailed Findings and Recommendations

Finding 1: Management Control Framework

Progress is being made toward a standardized management control framework within departments.

We examined management control structures with respect to grant and contribution programs across government and within LDAs to assess any systemic issues related to the implementation of Treasury Board *Policy on Transfer Payments* (2008). We assessed roles and responsibilities identified in the policy and how they were applied in the administration of grants and contributions. We also examined the design of monitoring and reporting processes used to evaluate the grant and contribution programs as a whole and how these provided feedback to management. Finally, we examined the control framework designed to meet Treasury Board policy requirements, including the standardization of program administration, and TBS's role in enabling the sharing of best practices across organizations.

It is management's responsibility to define systems and processes that enable managers to be involved in critical decision making, to ensure that controls are in place to mitigate risks, and to monitor program results. Monitoring and reporting processes provide information to enable oversight by management to ensure that the program is on track to achieve its expected results. Program administration frameworks support governance bodies by ensuring that controls are in place to respect government-wide policy requirements and to mitigate other defined risks.

No systemic weaknesses were identified in the implementation of the policy in LDAs.

We did not identify any systemic weaknesses in the implementation of the *Policy on Transfer Payments* (2008) in LDAs. The policy is principles-based and provides a reasonable framework for roles and responsibilities

between central agencies and individual departments and agencies. The policy and its associated directive require a minimum set of controls that should be standardized to ensure that grants and contributions are managed with integrity and transparency, and in a manner that is fair and sensitive to risks. The policy ensures that senior management has accountability for critical decision making and oversight over the program results

For LDAs that encounter challenges in implementing the *Policy on Transfer Payments*, TBS enables collaboration between organizations to share good practices and provides interpretation and guidance where needed.

Roles, responsibilities, and accountabilities are generally well defined and communicated. However further work is still required.

Most LDAs have defined and provided guidance on roles, responsibilities and accountabilities for the management of grants and contributions. These activities have been facilitated through the provision of training both at the departmental and government-wide levels. Some LDAs have developed a vision document for their grant and contribution programming; are using their intranet as a central source of information; and as a best practice, are imbedding available guidance within transfer payment systems. All LDAs examined have a centre of expertise or coordinating body for transfer payment administration. In most cases, these centres play a leading role in coordinating guidance for transfer payment administration. However, in some LDAs the roles and responsibilities of the centres could be strengthened and better communicated to ensure their effectiveness and to prevent inconsistencies or duplication between various areas of the organization providing grant and contribution programming

LDAs have developed performance measurement strategies but ongoing monitoring needs to be strengthened.

Most LDAs have developed performance measurement strategies to monitor and report on the achievement of objectives in their grant and contribution programs. In most LDAs these strategies include a plan for the formal evaluation of programs on a five-year cycle. It was noted that for some programs examined, performance was not monitored on an ongoing basis. Furthermore, some LDAs have not developed tools to consistently track ongoing performance and were not providing timely reporting to senior management to support program management. As a result, these LDAs cannot ensure on a timely basis that their grant and contribution programs are meeting objectives because decision makers are not receiving regular performance information to adjust programs when necessary.

LDAs are making progress towards standardization.

It is imperative that management understand the control frameworks used within their organizations to ensure they are designed to mitigate risks and allow for appropriate oversight where warranted. Standardized administrative control processes enable greater efficiency and control to ensure that risks are mitigated, opportunities are considered and that oversight can be performed in a consistent and transparent manner. Most LDAs are making progress toward standardization of administration within their grant and contribution programs, but the level of maturity varies by organization. Most LDAs have developed common business processes, including standardized templates to ensure transparency and consistency in decision making.

We noted two initiatives that are having positive impacts on efforts toward standardization and are deserving of consideration as good practices. First, a centre of expertise or equivalent body with the responsibility to ensure a consistent approach to administering grants and contributions across an organization has led efforts in most LDAs, and centrally at TBS, toward standardization. Second, the use of automated transfer payment systems, where standardized business processes can be implemented and enforced through the use of automated controls, is also considered a best practice in standardization that could be leveraged by LDAs that do not currently have such systems in place.

Recommendations

1. LDAs should consider strengthening the roles and responsibilities for grants and contributions across the organization, and the communication of the roles and responsibilities for their centre of expertise on grants and contributions or equivalent body.
2. LDAs should develop the tools required to collect and analyze program performance information on an ongoing basis.

Finding 2: Program Administration

Processes and controls are in place to support transparent promotion of programs and due diligence over recipient selection.

We examined how programs were publicly promoted, and the extent to which the program information was published. We examined whether LDAs had established appropriate approval structures and controls for determining recipients of grant and contribution programs. These structures and controls included tools or templates to ensure fair and transparent project assessments.

Departments and agencies publicly promote program descriptions, eligibility requirements, and assessment criteria to give eligible recipients the information needed to be approved by the program. Approval structures ensure that recipient selection and project funding levels are determined in a fair and transparent manner.

Programs have an open and accessible promotion process.

Most LDAs are promoting programs through an open and accessible process. Most LDAs are making descriptions of their programs, including application and eligibility requirements, publicly available on their website, through press releases and through community or regional outreach activities. Some LDAs are in the initial stages of considering an electronic interface with potential recipients, allowing applicants to apply online to programs. Implementation of such an interface is considered a good practice because it helps streamline the application process for recipients and prevents re-entry of information by the organization.

Control processes are in place over recipient selection.

All LDAs have set up transparent control processes to oversee the selection of recipients. These processes include the use of working groups, peer groups, and review committees to oversee the process, and the appropriate separation of duties between application, assessment and approval processes. In some cases, as a good practice, unsuccessful applicants are being notified.

Finding 3: Risk-Based Monitoring of Recipients

Risk-based monitoring of recipients is being performed with some inconsistencies.

We examined strategies and processes used by LDAs to assess recipient risk to determine monitoring and reporting requirements. We also examined how a recipient's assessed risk level affected their monitoring and reporting requirements and whether it followed the departmental strategy or methodology for risk assessments of recipients.

Performing risk assessments of recipients of contributions provides a basis for determining the amount and frequency of monitoring activity and reporting requirements that may be necessary to ensure that recipients are meeting the terms and conditions of their funding agreements. Using risk assessment information to inform recipient monitoring requirements helps focus limited resources on high-risk areas to achieve greater efficiency and ease monitoring and reporting burdens for lower-risk recipients. Recipient monitoring and reporting are essential to ensure that recipients are continuing to meet the terms of their funding agreement and are achieving program objectives.

Recipient risk assessment strategies have been developed but not applied.

Most LDAs have developed strategies to assess recipient risk to help determine appropriate levels of monitoring and reporting requirements for a recipient. Most LDAs have begun a process to implement risk assessments of recipients using tools such as standardized templates. However, most LDAs have not applied different monitoring and reporting requirements for recipients based on their assessed risk. Low- and medium-risk recipients face a higher administrative and reporting burden than is required. LDAs could achieve greater efficiencies in recipient monitoring by applying risk-based requirements for monitoring. LDAs could also reduce the reporting burden on recipients by ensuring that all requested reports provide sufficient information to program officers to ensure value in program delivery. Assessing recipient risk to enable flexibility in monitoring and reporting requirements can contribute to streamlining and greater efficiency of administrative practices.

We noted a good practice whereby an automated transfer payment system guides program staff through the assessment of recipient risk in a consistent and transparent manner and then determines the monitoring and reporting requirements. These requirements were then flagged by the system before contribution payments were made.

Recommendations

3. LDAs should implement appropriate monitoring and reporting requirements for recipients based on risk assessment strategies.

Finding 4: Reform

LDAs have taken initial steps to meet the reform requirements of the *Policy on Transfer Payments* (2008).

We examined the progress that LDAs have made in meeting the new requirements of the *Policy on Transfer Payments*. Notably, we reviewed any efforts made to collaborate across departments and agencies, to implement recipient service standards and to engage recipients in making improvements to grant and contribution programs. We also looked at TBS's role in leading and enabling LDAs toward reform initiatives.

Collaboration across organizations helps LDAs to share good practices and identify common recipients, with the goal of reducing the reporting burden and adopting a more citizen-focused approach to the administration of grants and contributions. Such collaboration includes the harmonization of transfer payment programs by aligning or integrating those programs that contribute to similar objectives or serve the same recipients. Service standards, once established, can be used as measurable performance indicators to improve efficiency and program delivery. The engagement of stakeholders helps ensure the continued relevance of grant and contribution programs and facilitates improvements in efficiency and effectiveness.

Some progress has been made toward collaboration, but more work is required for progress to be achieved.

Most LDAs have begun to consider coordinated recipient administration and audits within their organization and with other funding providers, such as other federal departments and agencies. Most LDAs have also begun to use similar terms and conditions in their recipient agreements across programs where applicable. Furthermore, TBS is working with large departments to address the policy and reform objectives for harmonization through the dissemination of information across government and by encouraging the streamlining of administrative practices.

Service standards are in the early stages of implementation.

Most LDAs have developed a service standard implementation strategy. Some LDAs are establishing service standard targets. Some LDAs have developed processes or systems for tracking the review and approval of applicants and recipients to establish their service standards targets. A good practice was noted in some LDAs that have begun to publish service standards

Recipients are being engaged on an informal basis for feedback to make program improvements.

Most LDAs were actively engaging with recipients through client surveys, workshops, and focus groups. In some cases the engagement was being done informally through ongoing relationships and dialogue. LDAs could strengthen this process by publicly reporting on actions taken as a result of recipient engagement.

Management Action Plans

The findings and recommendations of this audit were presented to the seven LDAs included in the scope of the audit as well as TBS in their role as a central agency. The Internal Audit Sector of the Office of the Comptroller General has asked each LDA that participated in the audit to prepare a detailed Management Action Plan.

Appendix A: Large Departments and Agencies and Their Grant and Contribution Programs Included in the Audit

Large Department or Agency	Program
Agriculture and Agri-Food Canada	<ul style="list-style-type: none">▪ Agri-Marketing▪ Community Development Program▪ Agriculture Bioproducts Innovation Program (ABIP)▪ Eco-Agriculture Biofuels Capital Initiative (Eco-ABC)
Canadian International Development Agency	<ul style="list-style-type: none">▪ Jordan Country Program▪ Tanzania Country Program▪ Partnership with Canadians Branch / Economic Growth and Environmental Development
Health Canada	<ul style="list-style-type: none">▪ Aboriginal Head Start on Reserve Program

	<ul style="list-style-type: none"> ▪ Official Languages Health Contribution Program ▪ Health Care Policy Contribution Program
Human Resources and Skills Development Canada	<ul style="list-style-type: none"> ▪ New Horizons for Seniors Program (NHS) ▪ Foreign Credential Recognition Program (FCR) ▪ Aboriginal Skills & Employment Partnership Program (ASEP) ▪ International Trade & Labour Program (ITLP)
Indian and Northern Affairs Canada	<ul style="list-style-type: none"> ▪ Capital Facilities and Maintenance (CFM) Program - Major Capital and First Nations Infrastructure Fund (FNIF) - Major Capital ▪ Capital Facilities and Maintenance (CFM) Program - Housing
Natural Resources Canada	<ul style="list-style-type: none"> ▪ Clean Energy Fund ▪ Pulp and Paper Green Transformation Program ▪ ecoEnergy for Biofuels Program
Western Economic Diversification Canada	<ul style="list-style-type: none"> ▪ Western Diversification Program (WDP) ▪ Economic Action Plan (Caf & RiNC) ▪ Community Futures Program ▪ Loan and Investment Fund Program

Appendix B: Links to Applicable Legislation, Frameworks, Policies, Directives and Guidance

- [Federal Accountability Act](#)
- [Financial Administration Act](#)
- [Framework for Identifying Risk in Grant and Contribution Programs](#) (Office of the Auditor General of Canada, in collaboration with Industry Canada)
- [Policy on Transfer Payments](#)
- [Directive on Transfer Payments](#)
- [From Red Tape to Clear Results](#) (The Report of the Independent Blue Ribbon Panel on Grant and Contribution Programs)
- [The Government of Canada Action Plan to Reform the Administration of Grant and Contribution Programs](#) (Treasury Board of Canada Secretariat)

Appendix C: Objectives and Related Criteria

The objective of this audit was to provide assurance that the governance, risk management and control processes over grant and contribution programs are being executed in compliance with the Treasury Board *Policy on Transfer Payments* (2008).

Sub-Objectives	Criteria
Departments and agencies have in place effective and efficient governance and control processes for the delivery of grant and contribution programs.	<ul style="list-style-type: none"> ▪ Roles, responsibilities, and accountabilities are clearly defined and communicated. ▪ Departments have standardized their control framework processes. ▪ The Treasury Board of Canada Secretariat (TBS) is providing leadership, oversight and support in the standardization of administrative processes, procedures and sharing of good practices.
Programs are administered with due diligence and transparency in accordance with the approved terms and conditions.	<ul style="list-style-type: none"> ▪ Program promotion and recipient application is conducted in a manner that is fair and accessible. ▪ There are transparent control processes to ensure the consistent assessment and approval of recipients to meet the objectives of the program.
Departments and agencies exercise risk-based control, monitoring and oversight activities over grant and contribution programs.	<ul style="list-style-type: none"> ▪ Monitoring of individual recipients is performed proportionately to their risk level and in accordance with the terms and conditions of the program. ▪ There are monitoring and reporting processes in place to support program review and the departmental performance measurement strategy.
Departments and agencies are making initial progress in meeting the requirements of grants and contributions reform.	<ul style="list-style-type: none"> ▪ Collaboration exists within and across departments and agencies to harmonize grant and contribution programs.

- Departments and agencies have a strategy to implement service standards.
- Recipients are engaged in support of transparency, innovation, and continuous improvement.
- TBS is providing leadership and support in promoting and facilitating collaboration among departments and agencies for government-wide harmonization of transfer payment programs.

Appendix D: Recommendations by Department or Agency

Legend

Acronym	Definition
AAFC	Agriculture and Agri-Food Canada
CIDA	Canadian International Development Agency
HC	Health Canada
HRSDC	Human Resources and Skills Development Canada
INAC	Indian and Northern Affairs Canada
NRCan	Natural Resources Canada
TBS	Treasury Board of Canada Secretariat
WD	Western Economic Diversification Canada

Recommendations	AAFC	CIDA	HC	HRSDC	INAC	NRCan	WD	TBS
1. LDAs should consider strengthening the roles and responsibilities for grants and contributions across the organization, and the communication of the roles and responsibilities for their centre of expertise on grants and contributions or equivalent body.	Not Applicable	Applicable	Applicable	Not Applicable	Applicable	Not Applicable	Not Applicable	Not Applicable
2. LDAs should develop the tools required to collect and analyze program performance information on an ongoing basis.	Applicable	Not Applicable	Not Applicable	Not Applicable	Applicable	Not Applicable	Applicable	Not Applicable
3. LDAs should implement appropriate monitoring and reporting requirements for recipients based on risk assessment strategies.	Applicable	Applicable	Not Applicable	Not Applicable	Applicable	Not Applicable	Applicable	Not Applicable

Appendix E: Risk Ranking of Recommendations

The following table presents the recommendations and assigns risk rankings of high, medium or low. Risk rankings were determined based on the relative priorities of the recommendations and the extent to which the recommendations indicate non-compliance with Treasury Board policies.

Legend

LDAs Large departments and agencies

TBS Treasury Board of Canada Secretariat

Recommendations	Priority
<ol style="list-style-type: none">1. <u>LDAs</u> should consider strengthening the roles and responsibilities for grants and contributions across the organization, and the communication of the roles and responsibilities for their centre of expertise on grants and contributions or equivalent body.2. <u>LDAs</u> should develop the tools required to collect and analyze program performance information on an ongoing basis.3. <u>LDAs</u> should implement appropriate monitoring and reporting requirements for recipients based on risk assessment strategies.	High

[1]. *Public Accounts of Canada* 2009. This figure represents a normalized year, excluding funding from the Economic Action Plan.

[2]. The Treasury Board *Policy on Transfer Payments*

[3]. The Office of the Comptroller General has not undergone an external assessment at least once in the past five years or been subject to periodic internal assessments of its horizontal audit activity to confirm its conformance with these standards.

[4]. The Treasury Board *Policy on Transfer Payments*

[5]. The audit objectives and criteria outlined in Appendix C apply to those programs that predate the *Policy on Transfer Payments* (2008), except for the final objective related to grants and contributions reform. There were no recommendations for LDAs related to this objective.

[6]. Departmental spending on non-statutory grants and contributions, taken from the *Public Accounts of Canada* 2009.