



# **Audit of the management of grants and contributions at Environment and Climate Change Canada**

**Final report**

**Audit and Evaluation Branch**

**March 2019**



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## List of acronyms and abbreviations

ADM	Assistant Deputy Minister
ADM Ops	Assistant Deputy Minister Corporate Operations
CoE	Centre of Expertise
CSFB	Corporate Services and Finance Branch
DG	Director general
ECCC	Environment and Climate Change Canada
FMA	Financial management advisor
FAA	<i>Financial Administration Act</i>
GoC	Government of Canada
G&C	Grants and contributions
PAA	Program Activity Architecture
TB	Treasury Board
TBS	Treasury Board Secretariat
T&C	Terms and conditions
ToR	Terms of reference

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## Executive summary

The objective of the audit was to provide assurance on the adequacy and effectiveness of grants and contributions (G&C) processes and activities, including governance, reporting and risk management, in accordance with the Treasury Board (TB) [Policy on Transfer Payments](#).

The audit focused on processes and activities that were in place at the departmental level to support ECCC's G&C programs during fiscal year 2017 to 2018. In particular, it examined roles and responsibilities, reporting and risk management.

## What we found

### Governance, guidance and tools

An effective departmental governance structure is in place to support the management of G&Cs at ECCC. Relevant committees are documented. Senior executives accountable for G&Cs programs understand their roles and responsibilities. An ADM-level committee provides a forum for strategic discussions on resource allocation and results. The G&C Centre of Expertise and financial management advisors provide support to program managers. However, their roles and responsibilities are not consistently understood. Guidance and tools are readily available. Some key documents should be updated to reflect changes in the departmental management of G&Cs. There is no clear leadership for the sharing of best practices across the Department.

### Reporting framework

The audit confirmed that the Department has a reporting framework in place and has taken important steps by engaging senior management in the articulation of planned results and by developing reporting tools to support program managers accordingly. Quarterly financial reports and ad hoc non-financial reports on G&Cs are provided to senior management for monitoring and decision making. Reporting of G&C results by core responsibility is a work in progress and will be fully reflected in the Departmental Results Report 2018 to 2019, which will be released in the fall of 2019. Tools are in place to support program managers.

### Risk management

There is a departmental risk management framework in place for G&C programs, with readily accessible supporting risk assessment guidance and tools. Program managers perform risk assessments to determine project risks and reporting and monitoring requirements. The risk management framework has not been updated since 2010. It should be revised to include new risk factors in the control environment. There is no departmental plan in place for conducting recipient audits to ensure compliance with funding agreements.

## Recommendations

Three recommendations have been developed to address the areas of concern. Management has provided an appropriate response and an action plan.

<b>Recommendation 1 – Guidance</b>
<p>It is recommended that the Assistant Deputy Minister, Corporate Services and Finance Branch (CSFB):</p> <ul style="list-style-type: none"> <li>a) clarify, document and communicate the roles and responsibilities of the G&amp;C Centre of Expertise and financial management advisors in the management of G&amp;Cs and the sharing of best practices across the department</li> <li>b) update the Guide to Grants and Contributions at ECCC and supporting tools to reflect relevant changes in the departmental management of G&amp;Cs</li> </ul>
<b>Management response</b>
<ul style="list-style-type: none"> <li>a) The ADM, CSFB, accepts the recommendation. CSFB will document the roles and responsibilities of the G&amp;C Centre of Expertise and the financial management advisors in the management of G&amp;Cs.</li> <li>b) The ADM, CSFB, accepts the recommendation. CSFB will update the Guide to Grants and Contributions at ECCC to reflect recent changes in the G&amp;C management process in the Department.</li> </ul>
<b>Recommendation 2 – Risk management</b>
<p>It is recommended that the Assistant Deputy Minister, Corporate Services and Finance Branch:</p> <ul style="list-style-type: none"> <li>a) in consultation with Program ADMs and Core Responsibility Leads, update the Risk Management Framework and implement a periodic review of the framework to ensure that it considers the evolution of the management of G&amp;C programs and includes new relevant risk factors in the control environment</li> <li>b) in collaboration with Director General, Audit and Evaluation Branch (AEB), develop a Recipient Audit Framework as an annex to the Risk Management Framework, to support Program ADMs in developing their risk-based recipient audit plans</li> </ul>
<b>Management response</b>
<ul style="list-style-type: none"> <li>a) The ADM, CSFB, accepts the recommendation. CSFB will update the Risk Management Framework and implement a periodic review of the framework in consultation with Program ADMs and Core Responsibility Leads.</li> <li>b) ADM, CSFB and DG AEB accept the recommendation. The ADM, CSFB, in collaboration with the DG, AEB will develop a Recipient Audit Framework and associated tools to support Program ADMs and Core Responsibility Leads in developing their risk-based recipient audit plans.</li> </ul>

**Recommendation 3 – Risk management**

It is recommended that Program ADMs and Core Responsibility Leads:

- a) with support from the Assistant Deputy Minister, Corporate Services and Finance Branch (CSFB), conduct risk assessments of their G&C programs, in accordance with the departmental Risk Management Framework
- b) develop risk-based recipient audit plans that identify adequate monitoring measures for their G&C programs and carry out risk-based recipient audits where appropriate, to ensure compliance with funding agreement requirements

**Management response**

- a) Program ADMs and Core Responsibility Leads and the ADM, CSFB, accept the recommendation. The ADM, CSFB, will support Program ADMs with tools and templates, to ensure that program-specific risks and mitigation strategies reflect the current control environment. Program ADMs and Core Responsibility Leads will identify, characterize and assess the risks associated with all G&C programs under their authority.
- b) Program ADMs and Core Responsibility Leads accept the recommendation. Program ADMs and Core Responsibility Leads will develop risk-based recipient audit plans for all G&C programs under their authority, to be implemented as part of the FY 2020 to 2021 G&C cycle. They will also undertake recipient audits as per the risk-based recipient audit plans.

# 1. Introduction and background

In the Government of Canada, grants and contributions (G&C) are in a category of expenditures called “transfer payments”. These types of payments are distinct from other expenditures in that the Government does not receive goods, services or assets in return. Rather, the transfer payment recipient undertakes expenditures and activities that further the government’s mandate. As such, transfer payments are a key instrument in delivering results.

**Grants** are unconditional transfer payments. This means that if an individual or organization meets the eligibility criteria for a grant, the appropriate payment can be made without requiring the recipient to meet any other conditions. The government is not required to audit grant recipients.

In contrast, **contributions** are transfer payments that are subject to performance conditions specified in a contribution agreement. The recipient must continue to show that these performance conditions are being met in order to be reimbursed for specific costs over the life of the agreement. The government can audit a recipient’s use of contributions.

Transfer payments made through G&C programs are a major commitment of federal government resources. As such, they must be managed carefully. The Treasury Board (TB) [Policy on Transfer Payments](#) and related [Directive](#) set out the government’s expectations for transfer payments. The TB policy includes provisions to ensure that G&C programs are managed with integrity, transparency and accountability and in a manner that is sensitive to risk. It also provides guidance, so that the programs are designed and delivered in a way that addresses the government’s priority of achieving results for Canadians.

## Grants and contributions funding at ECCC

Environment and Climate Change Canada (ECCC) has funding programs that were established specifically for the purpose of providing G&Cs funding to external parties, including not-for-profit organizations, universities, individuals and some foreign organizations. These recipients use ECCC’s funding to undertake specific projects or initiatives that further the mandate and policy objectives of the Department.

- Many of ECCC’s G&Cs programs are application-based. This means that potential funding recipients apply for funding, and ECCC selects the projects that best support the objectives and expected results of that program.
- ECCC also supports “one-off” projects that do not fall under a specific funding program. This often occurs because of interactions with a potential funding recipient where there is an opportunity to support a project or initiative aligned with ECCC’s mandate and priorities, to achieve results that benefit both organizations.
- ECCC also funds assessed contributions, a type of transfer payments to fund Canada’s share of the costs of operations of an international inter-governmental organization, of which

Canada is a member (for example, the World Meteorological Organization and the Convention on International Trade in Endangered Species of Wild Fauna and Flora).

Details on ECCC transfer payment programs are outlined in the [Departmental Plan 2018 to 2019 supplementary tables, chapter 1](#).

## Transition period

As of fiscal year (FY) 2017 to 2018, in accordance with the TB [Policy on Results](#), ECCC moved from the Program Activity Architecture (PAA) reporting structure to a [Departmental Results Framework \(DRF\)](#). The DRF sets out four core responsibilities related to results to which the Department seeks to contribute or that it wants to influence. A G&C strategy was developed to:

- enhance the alignment of the departmental G&Cs with the DRF and the Minister's priorities
- improve the focus and reporting on G&C results
- streamline the intake process for the application-based programs

Some G&C programs were developed to provide support in very specific program areas or initiatives. As well, steps were taken to review the umbrella terms and conditions for G&C programs, to reflect the alignment with the four core responsibilities. The "umbrella" approach supports a wide range of contribution funding programs and initiatives aligned to broad areas or themes using a single common set of terms and conditions. It simplifies the management of G&C programs and provides ongoing flexibility to respond in a timely manner to new opportunities. TB approved the new umbrella terms and conditions for ECCC G&C programs in May 2018.

## Increased funding

Excluding funding announced in Budget 2018, about \$1.516 billion in total funding for ECCC is anticipated for FY 2018 to 2019. Overall (voted and statutory), [ECCC's total authorities for 2018 to 2019](#) have a net increase of \$528.6 million from the previous year's overall Main Estimates. This includes an increase of \$473.0 million for the Low Carbon Economy Fund, which now represents 78% of the planned G&Cs funding. Table 1 shows the actual G&C expenditures for FY 2017 to 2018, as well as the planned G&C expenditures for FY 2018 to 2019.

**Table 1: actual grants and contributions expenditures for fiscal year 2017 to 2018 and planned grants and contributions expenditures for fiscal year 2018 to 2019, by program type**

Type of program	Actual FY 2017 to 2018 expenditures		Planned FY 2018 to 2019 expenditures	
	\$	%	\$	%
Assessed contributions	\$5,893,414	3%	\$5,668,703	1%
Grants	\$24,760,422	12%	\$25,394,000	4%
Application-based programs contributions	\$38,077,654	19%	\$30,934,079	5%
Non-application-based programs contributions	\$61,610,674	31%	\$70,912,475	12%
Green Municipal Fund (GMF) (non-application-based programs contributions)	\$62,500,000	31%	-	
Low-Carbon Economy Fund (both application-based and non-application-based programs contributions)	\$7,293,000	4%	\$467,732,035	78%
<b>Total</b>	<b>\$200,135,164</b>	<b>100%</b>	<b>\$600,641,292</b>	<b>100%</b>

Source: Corporate Services and Finance Branch/Centre of Expertise, October 1, 2018

## 2. Objective, scope and methodology

### Objective

The objective of the audit was to provide assurance on the adequacy and effectiveness of G&C processes and activities, including governance, reporting and risk management, in accordance with the Treasury Board (TB) [Policy on Transfer Payments](#). The audit reviewed evidence to determine whether:

- ECCC has designed and implemented governance structures and processes for G&C programs
- adequate and effective controls are in place to support compliance with the key requirements of the TB [Policy on Transfer Payments](#)

### Scope

The audit focused on processes and activities that were in place at the departmental level to support ECCC's G&C programs during FY 2017 to 2018, particularly roles and responsibilities, reporting and risk management.

The scope of the audit excluded:

- the assessed contributions (that is, payments for Canada's membership to organizations)
- the process for proposal intake, the assessment of project eligibility, funding decisions and the administration of agreements, since these elements will be included in upcoming audits of specific G&C programs
- the processing of payment claims, because this was examined as part of past audits
- G&C training

## Methodology

The audit approach included the following methods:

- reviewing relevant documentation, including policies, guidelines and procedures
- conducting interviews with key personnel
- analyzing and testing a judgmental sample of G&C projects for compliance with policy requirements

The audit lines of enquiry and criteria are provided in [Appendix A](#).

## Internal audit opinion

In my professional opinion or judgment, sufficient and appropriate procedures were performed and evidence gathered to support the accuracy of the engagement conclusion. The engagement findings and conclusion are based on a comparison of the conditions that existed as of the time of the engagement, against established criteria that were agreed upon with management. The engagement conforms to the International Standards for the Professional Practice of Internal Auditing, as supported by the results of the quality assurance and improvement program.



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Paule-Anny Pierre  
Chief Audit Executive

## 3. Findings, recommendations and management responses

### 3.1. Governance, guidance and tools

**Findings:** Departmental governance structures are in place and documented. Senior executives accountable for G&C programs understand their roles and responsibilities. The G&C Centre of Expertise and the financial management advisors provide support to program managers. However, their roles and responsibilities are not consistently understood. Guidance and tools are readily available. Some key documents should be updated to reflect changes in the departmental management of G&Cs. There is no clear leadership for the sharing of best practices across the Department.

#### What we examined

The audit examined the terms of reference for the departmental governance bodies, as well as their agendas and records of decisions, to verify whether they fulfill their leadership role and oversight and challenge functions. This included whether they facilitated the adoption of standardized procedures and processes and promoted harmonization within ECCC. The audit also examined documentation on roles, responsibilities and accountabilities for G&Cs in the Department. It was expected that they would be clearly defined and communicated.

**Why is this important?** Section 3.6 of the TB [Policy on Transfer Payments](#) states that “the government is committed to ensuring that transfer payments are managed in a manner that respects sound stewardship and the highest level of integrity, transparency, and accountability.” Governing bodies play an important role in priority setting and in ensuring that adequate oversight is in place to achieve results and meet departmental priorities.

#### What we found

The following entities and individuals share the responsibility and play a role in the management of G&Cs at ECCC.

- The **ADM Corporate Operations Committee (ADM-Corp Ops)**, chaired by the Assistant Deputy Minister (ADM) and Chief Financial Officer, CSFB, oversees the G&C programs. Part of its mandate is to provide the Deputy Ministers and the Executive Management Committee (EMC) with recommendations and decision support to strengthen overall corporate operations in the Department, including G&Cs.

The committee’s roles and responsibilities in relation to G&C programs are to:

- foster continuous improvement in the G&C programs by sharing best practices
- ensure compliance with TB policy requirements
- oversee the G&C allocation process and the annual Departmental G&C Strategy (priorities, strategy for departmental pressures, improvements to approval processes)

The ADM-Corp Ops Committee is supported by a director general-level committee, the **DG G&C Committee**, which is chaired by the DG, Financial Management Directorate and Deputy Chief Financial Officer.

- The **ADMs** are responsible for approving and managing G&C agreements within their branch and liaising with the appropriate directorates within CSFB for day-to-day operations (planning, monitoring and reporting, as well as the management of G&Cs).

As part of the G&C Strategy, a single ADM is assigned to each core responsibility. The four **ADM core responsibility leads (ADM-CR)** provide strategies and recommendations to the Deputy Ministers and Minister on the overall G&C strategy for their respective core responsibility. As part of this activity, the ADM-CR, in collaboration with other branch heads, assess the fairness and completeness of G&Cs and ensure a coherent storyline to priority setting and performance measurement for programs under their CR.

- Branches are supported in the management of G&C programs by the departmental **G&C Centre of Expertise (CoE)**, established within CSFB. The CoE is responsible for coordinating the annual departmental G&C planning process, which includes carrying out in-year monitoring and reallocation, providing oversight, guidance and direction, developing training, tools and templates and coordinating the dissemination of departmental information to senior management.
- The **financial management advisors (FMA)** are responsible for assuming the role of a single window to financial services to all the agreements in providing, advisory and for coordinating and assisting in the compilation of proposed new G&C projects, in support of the ADMs.
- The **program managers** are responsible for the day-to-day management of grants and contributions projects, including submitting projects for the annual G&C plan; negotiating, preparing agreement and securing the necessary approvals for the agreement; and reporting on status, as required. G&C programs may have specific expert panels and committees to help managers carry out their responsibilities.

## Governance

The ADM-Corp Ops Committee's terms of reference, agendas and records of decisions are documented. Presentations made to the committee and items for discussions are aligned with its mandate. They include departmental strategies, priorities, funding pressures of G&Cs projects and allocation of funding, issues to be addressed in the action plan, continuous improvements to G&Cs programs, new initiatives and the reporting alignment with the [Departmental Results Framework](#).

The interviews with all members of the ADM-Corp Ops Committee did not identify significant issues. The ADMs demonstrated good understanding of their specific roles and accountabilities with respect to the management of G&Cs under their direct responsibility, as well as of the departmental governance structure, decision-making process and support to managers. They articulated branch-specific processes to manage G&Cs and interactions with other branch heads for

alignment to core responsibilities. The auditors were provided with samples of documentation capturing approval processes and the essence of such discussions.

Although the ADM-Corp Ops Committee has only been operating since late FY 2017 to 2018, the ADMs confirmed the relevancy and efficiency of the committee. They mentioned in particular the value added of discussions to support harmonization of G&C program funding and results under each core responsibility pillar, as well as the management of horizontal issues. However, some members anticipate challenges with department-wide decision making on the timely reallocation of G&C funds, given emerging priorities and funding pressures. Issues raised also include a pressing need for an in-depth reflection on the choice of funding instruments to achieve ECCC program objectives.

The DG G&C Committee supports both the ADM-Corp Ops Committee and the ADM core responsibility leads. Terms of reference exist, but there is limited information on what support the committee has provided. According to interviewees, the DG G&C Committee ensures that umbrella terms and conditions are aligned with the DRF and the core responsibilities. However, with the creation of the ADM-Corp Ops Committee, the DG G&C Committee has become simply a discussion and information sharing forum. It has not been active in the past year and some members question its effectiveness. During the audit period, only three records of decisions were documented for the DG G&C Committee. They include the following key items:

- G&C priorities
- project proposal approval process
- updating the approach to G&Cs
- the use of new tools

## Guidance and tools

In 2016, the Financial Management Advisory Services produced the G&C Roles and Responsibilities of Manager and Finance, a table that briefly describes the roles and responsibilities for the CoE and the FMAs. The document has not been formally approved or disseminated.

The main G&C reference document is the Guide to Grants and Contributions at ECCC, a comprehensive resource to support G&C managers as they perform their duties and carry out their responsibilities. The guide is available in both official languages on the Department's intranet. It was last updated in March 2016. This document is an essential tool that describes the management practices, policies, procedures and approval processes. It contains various types of information ranging from fundamental principles to detailed procedures and systematic instructions. It specifies how to set up and manage a funding agreement. Additional information and templates are available on the ECollab<sup>1</sup> G&Cs website. Some managers have used the guide and related tools to develop program-specific guidance and forms.

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<sup>1</sup> ECollab is a departmental document sharing portal.

The Program managers interviewed confirmed their knowledge of the existence of a CoE and that FMAs provide services to support the management of G&Cs at ECCC. Although both resources bring value to program managers, their roles are not consistently understood. There is an expectation of support beyond advice on the financial requirements and policy compliance. Some program managers have consulted with other government departments because they felt some specific expertise or capacity is not available at ECCC. In the views of some program managers, the current G&C process is not adapted to accommodate large G&C programs. Given the funding levels and number of recipients involved, they require increased risk management tools and more sophisticated mechanisms and record management systems. The role of the CoE and the implementation of standardized approaches remains uncertain in that context.

Collaboration exists within ECCC to harmonize G&C programs delivered by multiple branches and to standardize administration. Efforts occur in different ways. National calls are held on a regular basis within the Financial Management Advisory Services and between the CoE and G&C experts within branches and programs, to discuss the evolution of the programs, including new tools in place. Meetings are held within programs and occasionally between branches. Branches also collaborate on the technical assessment of proposals. Some programs have sent out guidance and communication from the ADM's office or through a planning unit within the branch or program, to standardize and align the management of G&C programs within the branch. Collaboration most often occurs informally, on an ad hoc basis. There is no clear leadership for documenting and sharing of best practices across the Department.

Overall, the audit found that there is an effective departmental governance structure to support the management of G&Cs at ECCC and that senior executives accountable for G&C programs understand their roles and responsibilities. However, the roles and responsibilities of the CoE and the FMAs should be clarified and communicated and relevant guidance should be updated.

### **Recommendation 1 – Guidance**

It is recommended that the Assistant Deputy Minister, Corporate Services and Finance Branch (CSFB):

- a) clarify, document and communicate the roles and responsibilities of the G&C Centre of Expertise and financial management advisors in the management of G&Cs and the sharing of best practices across the department
- b) update the Guide to Grants and Contributions at ECCC and supporting tools to reflect relevant changes in the departmental management of G&Cs.

### **Management response**

- a) The ADM, CSFB, accepts the recommendation. CSFB will document the roles and responsibilities of the G&C Centre of Expertise and the financial management advisors in the management of G&Cs.
- b) The ADM, CSFB, accepts the recommendation. CSFB will update the Guide to Grants and Contributions at ECCC to reflect recent changes in the G&C management process in the Department.

## 3.2. Reporting framework

**Findings:** Quarterly financial reports and ad hoc non-financial reports on G&Cs are provided to senior management for monitoring and decision making. Reporting of G&C results by core responsibility is a work in progress and will be fully reflected in the Departmental Results Report 2018 to 2019, which will be released in the fall of 2019. Tools are in place to support program managers.

### What we examined

Collecting and analyzing information on G&C programs is necessary to monitor delivery and report on results. The audit reviewed guidance and tools to determine if an efficient reporting function was in place to report to senior management on the status, risks and issues of G&Cs in a timely manner, to support informed decision making and strengthen accountabilities. The audit did not examine reporting at the project level.

### What we found

In compliance with the TB [Policy on Results](#), ECCC has moved to a [Departmental Results Framework](#) for reporting. Through the implementation of the FY 2018 to 2019 G&C Strategy, ADM-CRs lead discussions and efforts to align G&C funding programs under their core responsibility and ensure appropriate reporting against the DRF. ECCC has developed Performance Information Profiles (PIP) for each of the 16 DRF programs, some of which include transfer payment components. Performance indicators are included in PIPs to support monitoring and evaluation.

According to senior management, the implementation of the G&C results and outcomes reporting approach is a work-in-progress and will be fully reflected in the Departmental Results Report 2018 to 2019, scheduled to be released in the fall of 2019. Common Storyline Templates were developed and used by ADM-CRs to articulate expected results, funding approach, priorities, horizontal focus/themes (youth, students, Indigenous peoples). These tools include a Reporting and Communications section that refers to:

- the quarterly dashboard of G&C transactions, subject to data capture for each program
- reporting on interim results and success stories
- reporting on final results and success stories
- reporting on horizontal focus (small and medium enterprises, Indigenous peoples, youth, students)
- external reporting and communications
- proactive disclosure

## Departmental Results Report

The current departmental reporting framework on G&Cs includes several reports, each for a different audience and serving a different purpose. Quarterly reports present the departmental financial situation and provide observations and recommendations for the consideration of senior management. Reports on non-financial information such as departmental priorities and emerging initiatives, the implementation of the G&C Strategy Action Plan and oversight of G&C activities under each core responsibility are provided on an ad hoc basis. The audit team reviewed a sample of ad hoc reports provided by the CoE and found that they outline action items, next steps and the strategy used to ensure an appropriate alignment of G&C programs and funding against the core responsibilities.

Overall, the audit confirmed that the Department has a reporting framework in place. It has taken important steps by engaging senior management in the articulation of planned results and by developing reporting tools to support program managers. Given the ongoing transition to the DRF structure and the recent implementation of ECCC G&C Strategy, it is too early to assess the effectiveness of the G&C reporting framework. As such, no recommendation has been developed for this area.

### 3.3. Risk management

**Findings:** A departmental risk management framework is in place for G&C programs, with readily accessible supporting risk assessment guidance and tools. Program managers perform risk assessments to determine project risks and reporting and monitoring requirements. The risk management framework has not been updated since 2010 and should include new risk factors in the control environment. There is no departmental plan in place for the conduct of recipient audits to ensure compliance with funding agreements.

### What we examined

The TB [Policy on Transfer Payments](#) states that deputy heads are responsible for “ensuring that the administrative requirements on recipients are proportionate to the risk level. Particularly, that monitoring, reporting and auditing reflect the risks specific to the program, the value of funding in relation to administrative costs, and the risk profile of the recipient” (Section 6.5.7).

This is accomplished through the establishment of a risk management framework. It incorporates risk factors to ensure that funding agreements are evaluated in proportion to the risk level of the program and the departmental risk tolerance. The risk rating determines the level of monitoring, which may include regular status updates and progress reports on project or financial activities, site visits and recipient audits.

**Why is this important?** To ensure that ECCC continues to effectively assess the departmental risk exposure of making transfer payments that are not in accordance with the program requirements.

The CoE has developed a risk management framework that includes a risk assessment tool and a reporting requirements tool known as the Administrative Tailoring Tool. The audit team reviewed the risk management framework and a sample of projects to assess the effectiveness of the tools and determine if they were consistently applied.

## What we found

### Risk management

The risk assessment tool is embedded in the agreement template and is used across the programs. It provides a systematic risk rating for each project before finalizing the funding agreement. The tool is a questionnaire consisting of 10 closed questions that present three possible responses: low, medium and high. Questions pertain to the recipient's management and financial capacity, prior financial history, their ability to measure results and the percentage of ECCC funding in relation to the total project value. The risk Administrative Tailoring Tool helps identify reporting requirements from recipients and the level of monitoring to perform. A risk assessment was completed for all 34 contribution files reviewed for the audit.

The risk management framework has not been reviewed or updated since its initial implementation in 2010. It is not aligned with the current and evolving transfer payment environment. The risk assessment dictates the level of monitoring required. Without appropriate monitoring of the use of funds, there is a risk that they are not being spent in accordance with the terms and conditions of the funding agreement. Provisions should be made to ensure that projects are assessed in accordance with an updated risk management framework and that recipient audits occur when the risk level is required.

### Recipient compliance

As per the TB [Directive on Transfer Payments](#), managers who have been assigned responsibilities for the management of transfer payment programs and transfer payments are responsible for ensuring that recipients comply with the obligations and performance objectives set out in the funding agreements. It is expected that the level of monitoring will increase proportionally with the importance, sensitivity, complexity and materiality of a program, the value of funding and the risk profile of the recipient. Departmental managers are responsible for determining when recipient audits are necessary to complement other departmental monitoring activities. They are also responsible for developing and executing a risk-based plan for these recipient audits.

ECCC's guide includes some information on the monitoring of progress in projects with recipients, including financial forecasting. Risk assessment tools and reporting templates can be found on the Ecollab G&Cs site. However, there is no specific guidance on conducting recipient audits, nor is there a departmental plan. This finding was also reported in two past audits.

- The 2005 Follow-up to the Audit and Evaluation of Class Grants and Contributions highlighted the need to introduce a Recipient Audit Program.

- The 2013 Audit of Grants and Contributions recommended the review of the strategy and risk-based approach to contribution audits; at that time, management had accepted the risk given the significant number of low-risk contribution files.

According to the information provided by the G&C CoE, 80% of ECCC'S projects are assessed as low-risk, based on recipient capability, project characteristics and expected results. For FY 2017 to 2018, only five projects were assessed as high-risk. However, ECCC has increased significantly its contribution funding envelope and recent funding agreements include formal provisions for recipient audits.

As per the [TB Guideline on Recipient Audits Under the Policy on Transfer Payments and the Directive on Transfer Payments](#), conducting a recipient audit, when appropriate, may:

- Confirm that funds are or are not being used for intended purposes
- Confirm previously identified issues and the extent of the problem (for example, poor cash management, weak governance, limited reporting)
- Identify previously unknown risks with certain recipients, projects or initiatives that can lead to the departmental manager adjusting monitoring or funding agreements
- Provide additional useful information for decision making
- Act as a possible deterrent to recipient fraud or non-compliance with the funding agreement
- Complement the role of the internal audit function
- Support the roles of the Departmental Audit Committee and the Chief Financial Officer

Overall, the audit confirmed that the department has a risk management framework in place for G&C programs and supporting risk assessment guidance and tools. However, the framework has not been updated since 2010. As well, there is no guidance or departmental plan in place for conducting recipient audits.

### Recommendation 2 – Risk management

It is recommended that the Assistant Deputy Minister, Corporate Services and Finance Branch (CSFB):

- a) in consultation with Program ADMs and Core Responsibility Leads, update the Risk Management Framework and implement a periodic review of the framework to ensure that it considers the evolution of the management of G&C programs and includes new relevant risk factors in the control environment
- b) in collaboration with Director General, Audit and Evaluation Branch (AEB), develop a Recipient Audit Framework as an annex to the Risk Management Framework. to support Program ADMs in developing their risk-based recipient audit plans

### Management response

- a) The ADM, CSFB, accepts the recommendation. CSFB will update the Risk Management Framework and implement a periodic review of the framework, in consultation with Program ADMs and Core Responsibility Leads.
- b) ADM, CSFB, and DG, AEB, accept the recommendation. The ADM, CSFB, in collaboration with the DG, AEB, will develop a Recipient Audit Framework and associated tools to support Program ADMs and Core Responsibility Leads in developing their risk-based recipient audit plans.

### Recommendation 3 – Risk management

It is recommended that Program ADMs and Core Responsibility Leads:

- a) with support from the Assistant Deputy Minister, Corporate Services and Finance Branch (CSFB), conduct risk assessments of their G&C programs, in accordance with the departmental Risk Management Framework
- b) develop risk-based recipient audit plans that identify adequate monitoring measures for their G&C programs and carry out risk-based recipient audits where appropriate, to ensure compliance with funding agreement requirements

### Management response

- a) Program ADMs and Core Responsibility Leads and the ADM, CSFB, accept the recommendation. The ADM, CSFB, will support Program ADMs with tools and templates, to ensure that program-specific risks and mitigation strategies reflect the current control environment. Program ADMs and Core Responsibility Leads will identify, characterize and assess the risks associated with all G&C programs under their authority.
- b) Program ADMs and Core Responsibility Leads accept the recommendation. Program ADMs and Core Responsibility Leads will develop risk-based recipient audit plans for all G&C programs under their authority, to be implemented as part of the FY 2020 to 2021 G&C cycle. They will also undertake recipient audits as per the risk-based recipient audit plans.

## 4. Conclusion

The effective management of G&C programs contributes to sound financial stewardship, the delivery of programs, compliance with the Treasury Board [Policy on Transfer Payments](#) and the ability to deliver on Government of Canada priorities.

Overall, key elements of Environment and Climate Change Canada corporate processes and activities exist to effectively manage G&C programs in accordance with the TB policy. The Department has designed and implemented governance structures and processes for G&C programs. Processes and controls are in place to ensure an efficient reporting function, so that senior management is informed about status and issues in a timely manner and thus support informed decision making. A risk management framework and assessment tools support program managers in the administration of the G&Cs.

The areas of improvement noted in the report will collectively help strengthen the adequacy and effectiveness of the management of G&Cs. Particularly, improvements are required to clarify roles and responsibilities, to update guidance and tools and to address weaknesses in the risk management framework.

## Appendix A: lines of enquiry and criteria

Sub-objective	Audit criteria and sub-criteria	Sources of criteria
<b>Line of enquiry 1: governance structures and processes</b>		
The Department has designed and implemented governance structures and processes for G&C programs.	<p>1.1 G&amp;C programs are supported by an effective governance structure.</p> <p>a) Governance bodies are in place and operating to provide leadership, oversight and challenge function.</p> <p>b) Roles, responsibilities and accountabilities are clearly defined and communicated.</p> <p>1.2 Processes, tools and guidance exist to support the implementation of new programs.</p> <p>a) Processes, tools and guidance are put in place to communicate roles and responsibilities related to G&amp;Cs.</p>	<ul style="list-style-type: none"> <li>- COSO Framework</li> <li>- TB Policy on Transfer Payments</li> </ul>
<b>Line of enquiry 2: internal controls</b>		
Adequate and effective controls are in place to support compliance with the key requirements of the TB Policy on Transfer Payments.	<p>2.1 Processes and controls are in place to ensure an efficient reporting function, so that to ensure senior management is informed about status and issues in a timely manner, to support decision-making.</p> <p>a) A reporting framework is in place to ensure that senior management receives adequate information in a timely manner to support decision making.</p> <p>2.2 Processes are in place to ensure that G&amp;C administration requirements factor in the level of risk.</p> <p>a) The departmental risk management framework and related administrative requirements are reviewed regularly to include new risk factors in the control environment and ensure that the administrative requirements are appropriate.</p> <p>b) The risk management framework is supported by documents, tools and templates.</p> <p>c) Recipients and program management are considered in the risk management process.</p>	<ul style="list-style-type: none"> <li>- TB Policy on Transfer Payments</li> <li>- TBS Directive on Transfer Payments</li> <li>- COSO Framework</li> <li>- Centre of Expertise on G&amp;C</li> </ul>

