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Report of the  
**Auditor General  
of Canada**  
to the House of Commons

**APRIL**

**Chapter 1**  
Placing the Public's Money  
Beyond Parliament's Reach

*The April 2002 Report of the Auditor General of Canada comprises eight chapters, a Foreword and Main Points.  
The main table of contents is found at the end of this publication.*

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Chapter

# 1

Placing the Public's Money  
Beyond Parliament's Reach

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies, and practices of the Office of the Auditor General of Canada. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants.*

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# Placing the Public's Money Beyond Parliament's Reach

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## Main Points

**1.1** The federal government has paid billions of taxpayers' dollars to private foundations and other delegated arrangements set up to achieve public objectives, transferring the funds years before Canadians receive the intended benefits. The government has delegated program responsibilities to these arrangements, but they are often beyond the reach of Parliament's scrutiny. We found that the essential requirements for accountability to Parliament—credible reporting of results, effective ministerial oversight, and adequate external audit—are not being met.

**1.2** In the delegated arrangements we examined, reporting to Parliament is not adequate for parliamentary scrutiny. None of the arrangements submit corporate plans for tabling in Parliament. Nor do they all provide annual reports with a credible description of accomplishments.

**1.3** These arrangements have been established in an ad hoc way, and Parliament has not had an opportunity to consider fully the resulting changes in how it authorizes and oversees this public spending. The government should seek the views of Parliament on the form and nature of scrutiny that is appropriate for the new arrangements.

**1.4** Weak oversight of such arrangements is limiting ministers' answerability to Parliament. Other than appointing a minority of members to their boards of directors, the government has limited means of strategic monitoring of the arrangements and of making adjustments, should things go wrong or government priorities change. Moreover, the roles and responsibilities of federal appointees to the boards are not defined clearly.

**1.5** Parliament is not receiving reports on independent, broad-scope audits that examine more than the financial statements of delegated arrangements, including compliance with authorities, propriety, and value for money. With a few exceptions, Parliament's auditor should be appointed as the external auditor of existing foundations and any created in the future, to provide assurance that they are exercising sound control of the significant public resources and authorities entrusted to them.

**1.6** As our audit was completed, the Treasury Board adopted the Policy on Alternative Service Delivery, which addressed elements of governance and accountability, as we and the Public Accounts Committee had recommended in 1999. Central agencies still need to show stronger leadership to help ensure good governance and adequate accountability.

1.7 More needs to be done to ensure that the arrangements institute and maintain public sector values and ethics. Sponsoring departments should make provision for the responsible parties to be aware of their duty in this regard.

### Background and other observations

1.8 In 1999 we audited new governance arrangements. Some were delegated arrangements, set up as private sector organizations that exercise discretionary authority to carry out federal objectives. Others were collaborative arrangements that involve the federal government as a partner in delivering government programs with outside organizations. That audit found significant weaknesses: the absence of a coherent governing framework, putting accountability to Parliament at risk.

1.9 Our audit this year followed up on the delegated and collaborative arrangements we examined in 1999. We also examined several major funds and foundations set up as delegated arrangements since then. One new foundation, Canada Health Infoway Inc., received \$500 million from the federal government; others have received multiple payments amounting to, for example, \$300 million to Genome Canada and \$250 million for the Green Municipal Funds.

1.10 Although more effort is still required, the collaborative arrangements we examined showed improvement in a number of features of the governing framework.

**The government has responded.** The Treasury Board Secretariat's response, on behalf of the government and the departments we audited, is included at the end of the chapter. The government recognizes the need to address a number of the elements in our governing framework, but it is not clear from its response to what extent it agrees or not with most of our observations and recommendations for putting these elements into practice. The government seeks flexibility in setting up new governance arrangements, using means it considers appropriate to each case.



## Introduction

**Collaborative arrangements**—In these arrangements the federal government is a partner with other orders of government, non-governmental organizations, and the private sector in delivering programs.

**Delegated arrangements**—They are set up as separate legal organizations that exercise discretionary authority to redistribute public money, use public assets, or deliver public services on the government's behalf.

1.11 In our work on new governance arrangements, we distinguish between *collaborative arrangements* and *delegated arrangements*. In 1999 we audited new governance arrangements across the government, examining 10 collaborative and 7 delegated cases (November 1999 Report, Chapter 23, Involving Others in Governing: Accountability at Risk). Other audits that year examined two of those arrangements in greater detail: the Canada Infrastructure Works Program, a collaborative arrangement; and the Canadian Adaptation and Rural Development Fund, a delegated arrangement.

1.12 Our 1999 audit found serious weaknesses in the governing framework of new governance arrangements. Accountability to Parliament was placed at risk unnecessarily. We called for comprehensive remedial action, including stronger leadership from central agencies and specific actions by the federal departments that sponsored the arrangements. At the same time, we recognized that new governance arrangements could be undertaken for a good reason: their potential for more efficient, more client-oriented service delivery.

### The federal government continues to use new governance arrangements

1.13 Some of the arrangements we examined in 1999 have received additional federal funding since then, particularly in the 2000 and 2001 budgets. Moreover, the federal government is establishing new arrangements; it announced several in the 2000 Budget. Initial plans to set up new foundations, announced in the 2001 Budget (the Strategic Infrastructure Foundation and the Africa Fund), have been changed; these initiatives will be in the form of traditional government programs. In this audit, we followed up on our 1999 cases and examined seven new arrangements. Exhibit 1.1 lists the arrangements we audited and those we followed up from 1999. Further detail is provided in Appendix A.

1.14 In 1999, we surveyed the federal government's use of new governance arrangements. We found 77 arrangements; the federal government had contributed a total of \$26.2 billion to them between 1990 and 1999. We did not carry out a similar survey for this audit, but we noted that the federal government has committed a total of just over \$6 billion in additional funding for the arrangements discussed in this chapter, both the new ones we audited and those we followed up from 1999.

### Concerns about accountability to Parliament

1.15 Delegated arrangements can be grouped according to how the federal government funds them. The choice of funding mechanism has important consequences for the accountability relationship with the federal government. We noted the following approaches to federal funding:

- **Transfers to foundations.** Some funds and foundations such as Genome Canada receive federal funding in advance lump-sum grants and redistribute the money to eligible recipients over several years, under a funding agreement with the federal government.

- **Funding through contributions.** Other bodies, for example, the Canadian Television Fund, receive federal money annually through contribution agreements with the federal government. Contributions are conditional transfer payments for a specified purpose and are subject to being accounted for and audited.
- **Distinct funding.** In a third category are delegated arrangements funded by distinct methods. The St. Lawrence Seaway Management Corporation (SLSMC), for example, was funded through the transfer of assets from its predecessor Crown corporation to SLSMC and two property trust funds.

**Greater risks to accountability in foundations**

1.16 In collaborative arrangements, the governing framework's weaknesses are mainly in the level of co-ordination between the partners. A federal partner department or agency is accountable to Parliament in the traditional ways for the federal portion. But the accountability of the arrangement as a whole can be deficient in important respects. Shared accountability requires that more attention be paid to the relationship between the partners and the relationship each has with its governing body. The deficiencies require continuing attention, as we emphasized in our 1999 audit.

**Exhibit 1.1 New governance arrangements examined in this audit**

Delegated	Collaborative
<b>New arrangements audited</b>	
Canada Foundation for Sustainable Development Technology <sup>1</sup> Canada Health Infoway Inc. Canadian Foundation for Climate and Atmospheric Sciences Genome Canada Green Municipal Enabling Fund <sup>2</sup> Green Municipal Investment Fund <sup>2</sup>	Infrastructure Canada <sup>3</sup>
<b>Arrangements followed up</b>	
Canada Foundation for Innovation Canada Millennium Scholarship Foundation Canadian Adaptation and Rural Development Fund Canadian Health Services Research Foundation Canadian Institute for Health Information Canadian Television Fund St. Lawrence Seaway Management Corporation	Canada–Alberta Labour Market Development Agreement Canada-Wide Accord on Environmental Harmonization Canada's Model Forest Program (Foothills Model Forest) Canadian Industry Program for Energy Conservation Employability Assistance for People With Disabilities Health Transition Fund Loan Investment Fund Program National Child Benefit

<sup>1</sup> We examined the provisions in the federal government's funding agreement with the Foundation for Sustainable Development Technology in Canada and other related documents. We also examined the provisions of the *Canada Foundation for Sustainable Development Technology Act* (Bill C-4), which continued the Foundation as the Canada Foundation for Sustainable Development Technology; the Act had not come into force at the time of our audit.

<sup>2</sup> The Green Municipal Enabling Fund and the Green Municipal Investment Fund have similar enough governance attributes that we consider them together in this chapter. At the time of our audit, amendments to their funding agreements were under negotiation. The sponsoring departments informed us that these amendments would address a number of elements of the governing framework.

<sup>3</sup> The municipal infrastructure initiative was announced in the 2000 Budget.

**1.17** In delegated arrangements, the risks to good governance and accountability are higher. This is true of foundations, which have received most of the federal funds provided to delegated arrangements. Since delegated arrangements are established as non-profit corporations operating at arm's length from the federal government, their accountability to Parliament is in question. For these reasons, we have modified the governing framework we used as a model in 1999 and placed more emphasis on the essential requirements for accountability to Parliament (Appendix B).

### Key developments since 1999

**1.18** Much has happened since November 1999 that bears on the governance and accountability of these new arrangements. In particular, the issues associated with foundations and other delegated arrangements are attracting Parliament's attention.

**1.19** The Public Accounts Committee held hearings on our 1999 audits and reported to the House of Commons in June 2000. The Committee's Eleventh Report dealt with Chapter 17, Canada Infrastructure Works Program: Phase II and Follow-up of Phase I Audit. Its Thirteenth Report considered Chapter 23, Involving Others in Governing: Accountability at Risk; and Chapter 24, The Canadian Adaptation and Rural Development Fund: An Example of Involving Others in Governing. The Public Accounts Committee's recommendations and the government's response to them are summarized in Appendix C.

**1.20** On several occasions other parliamentary committees have considered issues related to delegated arrangements, including the following:

- The House of Commons Standing Committee on Industry, Science, and Technology met with the President and CEO of the Canada Foundation for Innovation in April 2001. Committee members expressed concerns about their lack of power to monitor this type of agency and about the limited role of the Auditor General. The same Committee considered science and technology policies in May 2001. Members questioned the Executive Director of Genome Canada about the ethical standards guiding the allocation of federal funds to private sector projects.
- In June 2001, the Senate Standing Committee on National Finance considered amendments to the 1997 *Budget Implementation Act*, which broadened the eligibility for funding by the Canada Foundation for Innovation to include operating and maintenance costs as well as projects located outside Canada. In addition, another \$1.25 billion was provided to the Foundation.
- From March to June 2001, both the House of Commons Standing Committee on Aboriginal Affairs, Northern Development and Natural Resources and the corresponding Senate standing committee examined Bill C-4, an Act to establish a foundation to fund sustainable development technology. Parliamentarians expressed serious concerns about accountability and governance during the passage of Bill C-4. The government provided \$50 million in funding to the Foundation for Sustainable Development Technology in Canada, established under the

*Canada Corporations Act*, to carry out a sustainable development technology initiative before Parliament had explicitly approved either the initiative or the funding.

**1.21 Problems with the accounting.** From fiscal years 1996–97 to 2000–01, the government paid \$7.1 billion through transfers to nine foundations to achieve various policy objectives such as encouraging innovation, assisting students with post-secondary education costs, and developing information technology systems for health care. It is a clearly stated government strategy to introduce spending initiatives only when the government is reasonably certain that it has the necessary resources. This is appropriate and prudent.

**1.22** The government has treated the \$7.1 billion in transfers to foundations as an expenditure. At 31 March 2001, however, almost the entire amount was still in the bank accounts and other investments of the foundations. Very little of it had actually been received by the ultimate intended recipients, namely the innovators, students, and health care providers. In substance, then, the \$7.1 billion, or most of it, is not really an expenditure of the government.

**1.23** The recording of these transfers as expenditures is an accounting treatment that enables the government to report a lower annual surplus. On several occasions, this Office has stated its view that decisions to transfer such significant amounts of taxpayers' money should be based on sound economic and policy analysis; they should not be made to achieve a desired accounting result such as reducing the reported annual surplus. We have said that this accounting treatment compromises the integrity of the government's reported financial results.

**1.24** The Auditor General's Observations on the government's financial statements in the *Public Accounts of Canada 2000–01* addressed the accounting treatment of transfers to foundations:

I cannot state unequivocally that the Government has not complied with objective accounting standards established by the Canadian Institute of Chartered Accountants' Public Sector Accounting Board (PSAB). Objective accounting standards promulgated by PSAB cannot anticipate all the new things governments will do, and the Government's own stated accounting policies allow it the latitude to record these transfers as expenditures of the year in which the foundations were announced. However, PSAB does recommend that financial statements be prepared to present the substance of transactions and events.

In light of questions and concerns raised about the accounting by governments in Canada for transactions such as those involving the foundations, PSAB has initiated two projects to clarify accounting standards in these areas. The Government should closely monitor progress on these two projects, due to the amount of public money involved with the foundations and the resultant distorting effects of its current accounting policies.

I urge the Government to change its policies as they relate to the foundations in next year's financial statements to properly account for the substance of these transactions. This change should be consistent with other changes to introduce accrual accounting next year.

### Focus of the audit

**1.25** We followed up on the findings of our previous audit and examined selected new arrangements announced since November 1999. The audit addressed a number of questions:

- Are these arrangements continuing to place accountability to Parliament at risk unnecessarily?
- Are sponsoring departments establishing appropriate governing frameworks in newly created arrangements?
- Are the government, the Treasury Board Secretariat, and sponsoring departments taking action to address our recommendations and those of the Public Accounts Committee?

**1.26** In this audit, including our follow-up work, we examined the adequacy of the governing framework for delegated arrangements and whether changes had been made in response to our recommendations. In particular, we sought to determine whether essential requirements for accountability to Parliament were being met. In the new arrangements we audited, we also focussed on provisions for protecting public sector values and ethics and encouraging an organizational culture that respects these values and on the role that federal appointees play on boards of directors and in related governing bodies.

**1.27** In one new collaborative arrangement, Infrastructure Canada, we examined the adequacy of the governing framework. We also followed up on the collaborative arrangements examined in 1999.

**1.28** Further details on our audit objectives, scope, and criteria can be found at the end of the chapter in About the Audit.

## Observations and Recommendations

### Delegated arrangements—evading parliamentary scrutiny

**1.29** The federal government has traditionally relied on departments, departmental corporations, and Crown corporations to redistribute public money to individuals and businesses for a variety of purposes, including scientific research and economic development. The Social Sciences and Humanities Research Council, for example, is a departmental corporation that promotes and assists research in the humanities and the social sciences; the Canada Council for the Arts is a Crown corporation that supports the arts. Each awards grants independently, without ministerial intervention. Although at arm's length from the government, the granting councils remain accountable through ministers who answer for them in Parliament and through well-established frameworks for governance and accountability.

**1.30** When the government began using foundations to redistribute public money, it created a different framework. Federal ministers and officials explained this framework when appearing before parliamentary committees. They said that governance is established through the non-profit corporate structure of the foundations. The board of directors and the members of the corporation have subject-matter expertise, and the government appoints a minority of both. There are no shareholders in a non-profit corporation, but the members are expected to scrutinize the foundation's activities as shareholders would. Directors are to operate the foundation in an open and transparent way. Public information is available through the annual report, which includes audited financial statements; in a few cases, the annual report is tabled in Parliament.

**1.31** The basic agreement between the federal government and the foundation is the funding agreement, signed by the sponsoring ministers. The funding agreement is a legally binding contract that places obligations on both parties. The funding agreements we examined have many provisions in common, including requirements for a public annual report, independent financial audit, and evaluation studies.

**1.32 Placed at arm's length.** The government refers to the foundations as designed to be at arm's length from it. Once public money is in a foundation's hands, the government relies on the expertise and professionalism of its directors and members to perform their functions properly. The government expects them to use their good judgment to achieve the foundation's objectives with the money provided. In the government's view, a number of provisions of the funding agreements create the arm's-length relationship between it and the foundations. For example, the government appoints only a minority of directors. Other such provisions include a requirement that, upon winding up, the fund or foundation not return any remaining money to the federal government but distribute it to eligible past recipients or related entities.

**1.33** In their governance and accountability, these funds and foundations are clearly further away from the government than the granting councils are. They are not formally answerable to Parliament through ministers. In our view, the foundations have been placed beyond the reach of effective ministerial oversight and parliamentary scrutiny.

### Limited exposure to Parliament

**1.34** The statutory authority for 8 of the 13 delegated arrangements we examined is the *Canada Corporations Act*, the federal non-profit framework law. Only three arrangements were established by direct legislation, namely, the Canada Millennium Scholarship Foundation, the Canada Foundation for Innovation, and the Canada Foundation for Sustainable Development Technology. In each of these arrangements, the legislation maintained the same type of arm's-length design. The two remaining arrangements were incorporated under provincial law or an existing federal statute.

**1.35** The choice of means other than legislation to create such arrangements is, in itself, a barrier to accountability to Parliament. Direct legislation is a way to tailor the design of an organization and facilitate good governance and accountability. The legislative process provides opportunities for review, debate, and approval in both houses of Parliament and careful study of the legislative proposals by parliamentary committees. Parliament determines the mandate, governance, and accountability provisions of the arrangement. The use of direct legislation also allows Parliament to retain control over future changes in the arrangement's design and governance, in that changes may be made only by amending the legislation.

**1.36** The Privy Council Office has responsibilities that relate to delegated arrangements. It is involved in machinery-of-government issues, that is, the form and design of departments and agencies. We believe the Privy Council Office should play a stronger role in shaping the legislative provisions for governance and accountability of future delegated arrangements.

**1.37 Recommendation.** If the federal government decides to create delegated arrangements that involve significant changes in policy or significant commitments of public funds or assets, it should do so through direct legislation. The Privy Council Office should ensure that this legislation meets the essential requirements for good governance and accountability to Parliament.

### A governing framework

**1.38** The governing framework used to assess delegated arrangements comprises the features that we believe are essential for good governance and accountability to Parliament along with other key elements, including mechanisms for accountability, transparency, and the safeguarding of public sector values and ethics. It builds on the framework we developed in 1999 and is shown in Exhibit 1.2, and in more detail in Appendix B.

### Essential requirements for accountability to Parliament not met

**1.39** To examine the government's approach to foundations and other delegated arrangements, we considered how the features of the governing framework apply in each of the arrangements we examined. We began with accountability to Parliament, a primary focus of our audit. Exhibit 1.3 summarizes what we found in examining the funding agreements and related documents for the new foundations. In some cases, features are applied on a voluntary basis, rather than through agreements.

### Reporting to Parliament and the public needs improvement

**1.40** We expected the arrangements to be reporting appropriately to Parliament and the public on their plans, on the extent to which they have achieved their federal public policy purposes, on their spending and investment of federal public money, and on their stewardship of federal assets. It is particularly important that Parliament be kept informed about transfers

to foundations, which are payments of public funds made many years in advance of need. Typically, these matters should be reported in corporate plans and annual reports. In addition, evaluation findings on the overall performance of the arrangement should be tabled in Parliament.

**1.41** We noted that the Treasury Board's revised transfer payment policy, which came into effect in June 2000, requires that departments report to Parliament on arrangements, including foundations, that are funded by grants or contributions. In their reports on plans and priorities, sponsoring departments are to provide the arrangements' objectives and expected results, and in their departmental performance reports the results the arrangements have achieved. We expected the arrangements' funding agreements to include specific provisions for reporting this information to the sponsoring departments, to ensure that the policy's requirements are understood and can be met by the arrangement.

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**Exhibit 1.2 A framework for new governance arrangements**

**To ensure accountability to Parliament**

Reporting to Parliament and the public

- Corporate plans
- Annual performance reporting, including audited financial statements
- Evaluation results

External audit regime

- Broad-scope audit reported to Parliament

Ministerial oversight

- Strategic monitoring mechanisms, including compliance audit
- Procedures to effectively deal with non-performance

**To establish effective accountability mechanisms**

- Clear roles and responsibilities
- Performance expectations that are balanced with capabilities
- Specific performance expectations
- Provisions for independent evaluation
- Dispute resolution mechanisms

**To ensure adequate transparency**

- Public access to information
- Communicating of information on key policies and decisions

**To protect public sector values and ethics**

- Consideration of relevant federal policies
- Responsiveness to public concerns
- Public sector codes of conduct and conflict-of-interest provisions
- Fairness in program delivery



1.42 All but one of the 13 delegated arrangements we examined—both the new foundations and the arrangements we audited in 1999—publish annual reports, but only four make provision for tabling of the reports in Parliament. The annual reports include audited financial statements (with the exception of the Green Municipal Funds, whose accounts form part of the audited financial statements of the Federation of Canadian Municipalities). Natural Resources Canada and Environment Canada, the sponsoring departments of the Green Municipal Funds, agreed to report to Parliament on the funds' performance in their departmental performance reports. In a memorandum of understanding, the departments undertook to provide Parliament with a “coherent and integrated perspective on the performance of the funds” in their respective areas of responsibility.

**Exhibit 1.3 Do the new foundations include essential elements of accountability to Parliament?**

Provision for	Genome Canada	Canadian Foundation for Climate and Atmospheric Sciences	Foundation for Sustainable Development Technology in Canada	Green Municipal Investment Fund and Green Municipal Enabling Fund	Canada Health Infoway Inc.
<b>Reporting to Parliament and the public</b>					
Reporting expected performance to Parliament (for example, in corporate plan)	● (in annual report)	○	● (in annual report)	○	○
Reporting performance results to Parliament	●	○	●	●	○
Reporting performance results to the public	●	●	●	●	●
Reporting audited financial statements to Parliament	●	○	●	○	○
Reporting evaluation results to Parliament	●	○	●	○	○
<b>External audit regime</b>					
Financial, compliance, and value-for-money audits	Financial audits only	Financial audits only	Financial audits only	Financial audits only	Financial audits only
<b>Ministerial oversight</b>					
Strategic monitoring	● (voluntary)	○	● (voluntary)	● (voluntary)	○
Ministerial direction and action	○	○	○	○	○
Departmental audit and evaluation	○	○	● (evaluation)	● (evaluation)	○
Termination	○	● (recovery of funds)	● (recovery of funds)	○	○

● Yes ○ No

**1.43** None of the arrangements have provisions for tabling a corporate plan in Parliament. More than half provide for producing annual, corporate, or strategic plans but not for making them public. However, three foundations—Genome Canada, the Foundation for Sustainable Development Technology in Canada, and the Canada Millennium Scholarship Foundation—provide for including information on the next year's plans in their annual reports that are tabled in Parliament. Canada Health Infoway Inc. is different in that it is required to take into account the Blueprint and Tactical Plan for a Pan-Canadian Health Infostructure, a document developed by a federal–provincial–territorial advisory committee and available on the Health Canada Web site.

**1.44** Many arrangements provide for independent evaluation at the end of the federal funding period as well as at the midpoint. However, only two of the new arrangements we examined, Genome Canada and the Foundation for Sustainable Development Technology in Canada, have provisions for the sponsoring minister to table evaluation findings in Parliament, in the annual report.

**1.45** We examined the Estimates documents of the sponsoring departments (2001–02 reports on plans and priorities and 2001 departmental performance reports) to see what information they provide on the new delegated arrangements. In every case, we found that the arrangements were mentioned in departmental performance reports, but information on their performance was not always provided. Our findings are shown in Exhibit 1.4.

**1.46** Noteworthy was Industry Canada: its 2001–02 *Report on Plans and Priorities* provided information on Genome Canada's expected results, and its 2001 *Performance Report* provided information on the arrangement's performance. We noted that Natural Resources Canada and Environment Canada did not provide the performance information called for in their memorandum of understanding on the Green Municipal Funds. They informed us that since no funded projects were yet complete, not enough information was available. Reporting on other arrangements in departmental performance reports was limited by the fact that the arrangements (Canada Health Infoway Inc. and the Foundation for Sustainable Development Technology in Canada) had not yet started operations in the reporting period.

**1.47** Overall, we found that Parliament was receiving some useful information on most new arrangements, whether in sponsoring departments' Estimates documents or the arrangements' own annual reports. Sponsoring departments referred in their Estimates documents to the Web sites of most arrangements, which appeared as a "hot link" in the electronic version. Such references improve reporting to Parliament. However, there is still considerable room for improvement in the performance information provided.

**1.48** Of the delegated arrangements we audited in 1999, only one has improved its reporting to Parliament. The annual report of the Canada Foundation for Innovation is now tabled in Parliament; before, only audited financial statements were tabled.

**1.49 Recommendation.** To ensure adequate reporting to Parliament on delegated arrangements, sponsoring ministers should table the following in a timely manner:

- multi-year plans;
- the findings of evaluations; and
- annual reports on what has been accomplished that include audited financial statements.

These documents should be referenced in the sponsoring departments' Estimates documents.

**Inadequate external audit regime**

**1.50** We expected all delegated arrangements to be subject to broad-scope, independent audit, including financial, compliance, and value-for-money audit. All of the delegated arrangements we examined have provisions for financial statements and the report of an external auditor appointed by the

**Exhibit 1.4 Performance information on delegated arrangements in Estimates documents**

Arrangement	2001–02 Report on Plans and Priorities	2001 Performance Report*
<b>Environment Canada</b>		
Foundation for Sustainable Development Technology in Canada	●	Too early
Canadian Foundation for Climate and Atmospheric Sciences	○	○
Green Municipal Enabling Fund Green Municipal Investment Fund	○	◐
<b>Health Canada</b>		
Canada Health Infoway Inc.	●	Too early
<b>Industry Canada</b>		
Genome Canada	◐	◐
<b>Natural Resources Canada</b>		
Foundation for Sustainable Development Technology in Canada	●	Too early
Green Municipal Enabling Fund Green Municipal Investment Fund	○	○

\* In each case, the arrangement was mentioned in the sponsoring department's Performance Report; "too early" means the arrangement had not been in operation long enough to have performance information.

- Overall performance expectations reported
- ◐ More specific information reported on expected results
- ◑ Some information reported on results
- No performance expectations or information on results reported

board—the traditional audit function found in any private sector organization. The government does not appoint the external auditor. Auditors' reports on corporate financial statements provide an opinion on whether the financial statements present fairly the corporation's financial position and financial operating results. Such audits do not address explicitly the traditional public and parliamentary concerns about propriety, value for money, compliance with law, and the adequacy of internal controls.

**1.51** The Auditor General has authority to scrutinize the roles and responsibilities of sponsoring departments in developing up-front arrangements for the payment of federal money to delegated arrangements, through their funding agreements. But she has no authority to audit the operations of the delegated arrangements after the public money has been transferred. The Auditor General is unable to provide Parliament and the public with any assurance on the prudence and probity of the subsequent use of these funds or authorities for public policy objectives, even when very large sums of federal money are involved.

**1.52** Furthermore, in a number of delegated arrangements, money is transferred as a lump sum many years before its ultimate intended recipients will need funding. In receiving lump sum transfers, foundations are effectively exempted from the kind of periodic scrutiny by Parliament that occurs when funds are appropriated annually. These are not conditional payments that ministers can be called upon to account for and sponsoring departments can audit. Most delegated arrangements are not subject to any audit by the sponsoring department.

**1.53** The creation of more foundations and the transfer to them of very large amounts of public money raise increasing concerns about the lack of adequate means for parliamentary scrutiny. In order to hold the government accountable for federal public policy delivered by delegated arrangements, Parliament needs information and assurance from broad-scope, independent audit that covers compliance with authorities, propriety, value for money, and verification of performance information. With some exceptions, the Auditor General is well placed to conduct this audit work. Where delegated arrangements involve provincial or territorial governments or where the federal government is not a major contributor, other audit arrangements may be more appropriate.

**1.54 Recommendation.** The federal government should ensure that adequate mechanisms are in place for broad-scope audit of all delegated arrangements. The Auditor General should be appointed as the external auditor of foundations, with a few exceptions.

#### **Lack of ministerial oversight**

**1.55** We expected to see provisions and plans for effective mechanisms that would allow sponsoring ministers and their departments to collect more strategic information about the arrangements than annual reports provide. We call this strategic monitoring (Exhibit 1.5). Ministers then must be able to use the information to make adjustments if an arrangement is not performing

as expected. The government also should have the power to intervene in exceptional cases where the public purpose of the arrangement is clearly not met, or where circumstances have changed considerably since the creation of the arrangement. In extreme cases, the minister should be able to terminate the arrangement and recover any remaining federal funds.

**1.56** We expected that ministerial oversight of an arrangement would include compliance audits at the discretion of the sponsoring department. Where delegated arrangements receive federal funding through contribution payments, the Treasury Board's transfer payment policy requires that the contribution agreement include the minister's right to conduct an audit, even though that right may not always be exercised. We note that the same policy also requires "provision for appropriate reviews, program evaluation and audits" in agreements with arrangements that distribute the contribution payments to others. A good practice is to make provision for sponsoring departments to undertake evaluations of the arrangements. Two of the new arrangements had such provisions.

**1.57** If federal representatives or appointees on boards of directors are to be involved in strategic monitoring, we expect that sponsoring departments would clearly define their roles when they are appointed and would give them appropriate guidance.

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#### **Exhibit 1.5 Elements of strategic monitoring**

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Strategic monitoring requires enough information to know when things go seriously wrong, such as major problems in the stewardship of public funds or failure to meet public objectives. The nature of the monitoring depends on the nature of the delegated arrangement and the risks involved.

In our view, the government's monitoring of an arm's-length delegated arrangement is adequate when it has timely information to answer such questions as these:

- Is there reasonable assurance that stewardship of public money is sound?
- Are the terms and conditions of the funding agreement generally respected?
- Is the arrangement achieving the intended public results?
- Are the programs and activities of the delegated arrangement consistent and co-ordinated adequately with related federal programs and activities?

Some of this information is probably needed only annually and could be obtained from readily available documents produced by the arrangement. Other information, however, may need to be more timely.

Departments have a number of ways they can gather this information:

- Undertake their own compliance audits, studies, reviews, and evaluations.
- Discuss information needs with directors and the chief executive officer of the arrangement.
- Review documents produced by the arrangement, such as annual reports, business plans, financial statements, specific reports and ad hoc studies, reviews, and evaluations.
- Get feedback from federally appointed board directors and members.

Based on the case at hand and the information they need, departments can then develop an effective plan for strategic monitoring of arrangements in their portfolios.

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**1.58 Inadequate mechanisms for correction.** We did not find adequate provision for departmental direction or corrective action in any of the new arrangements we audited. With the exception of the Canadian Adaptation and Rural Development Fund program, we saw no improvement in those we followed up from 1999. The means available to the federal government to make adjustments tend to be formal and inflexible. Arrangements created by legislation are subject to amendment, although the process can be cumbersome. If the agreement is breached, the government may pursue a legal remedy but that, too, is often lengthy and expensive. To adjust other arrangements, the federal government is limited to reopening the funding agreements with the mutual consent of the parties.

**1.59** Since our 1999 audit, three delegated arrangements have provided for compliance audit, including one foundation, the Canadian Health Services Research Foundation. Apart from requiring audited financial statements, however, none of the new foundations has provided for compliance audit.

**1.60** Provisions for the ministers to terminate the arrangement and recover federal funds are weak; only two of the new arrangements have them. The minister can recover unspent funds from the Foundation for Sustainable Development Technology in Canada if it violates the funding agreement by, for example, providing misleading information to the government. And if the Canadian Foundation for Climate and Atmospheric Sciences uses its federal money for purposes other than those stipulated in the funding agreement, the minister can require partial or full repayment.

**1.61** Four arrangements we audited in 1999 provide for the disbursement of federal money and assets if they terminate or wind down: the St. Lawrence Seaway Management Corporation, the Canada Millennium Scholarship Foundation, the Canadian Institute for Health Information (in part), and the Canada Foundation for Innovation. The Canada Millennium Scholarship Foundation and the Canada Foundation for Innovation provide for remaining funds to be distributed to, respectively, eligible public institutions and eligible grant recipients. However, of the portion of its funding that the Canadian Institute for Health Information receives through contributions, the government is to recover any unspent funds and repayment of any funds not spent in accordance with the agreement.

**1.62 Recommendation.** The federal government should ensure that an adjustment mechanism is in place that allows sponsoring ministers to intervene in a delegated arrangement in the exceptional case where the arrangement is clearly not meeting its public purpose or where circumstances have changed considerably since its creation.

**1.63 Recommendation.** The federal government should ensure that provision is made to allow sponsoring departments to undertake compliance audits of delegated arrangements.

**1.64 Recommendation.** In the event of the winding up or termination of any delegated arrangement, the federal government should recover unspent federal funds.

## Federal appointees to boards of directors—unclear roles and responsibilities

**1.65** Sponsoring departments might rely on federal officials appointed to boards of directors and similar decision-making bodies to carry out oversight responsibilities. We interviewed a number of these federal appointees (Exhibit 1.6). Our findings raise concerns about the guidance given to these officials.

**1.66** The legal framework used for funds and foundations makes it difficult for federal appointees to function in the dual role of public appointee and member of the board of a private corporation. There is a potential conflict

### Exhibit 1.6 The role and responsibilities of federal appointees to boards of directors

We interviewed a number of federal appointees about how their responsibilities were defined. We asked about a potential conflict of duties and loyalties between their role as public officials and their role as corporate directors legally required to serve the best interests of the arrangement. We also wanted to know what had been done to prepare them for their role on this unique kind of private sector board.

We interviewed seven federal appointees serving on the boards and other key decision-making bodies of three new arrangements. We did not interview federal appointees serving on the boards of two arrangements that were not in operation at the time of our audit, Canada Health Infoway Inc. and the Foundation for Sustainable Development Technology in Canada.

Federal appointees told us they relied on available documentation to define their roles and responsibilities, such as funding agreements and by-laws. The documentation identified some specific areas of responsibility:

- Providing strategic, high-level direction and advice to the corporation.
- Avoiding duplication with other federal programs, using their detailed knowledge of those programs.
- Making sure the arrangement is discharging its responsibilities according to agreements with the federal government.
- Reviewing and approving project funding.

As for guidance, a few appointees attended general briefing sessions with the sponsoring department and/or with the arrangement. However, these sessions addressed the board's general aims and responsibilities rather than the appointees' specific responsibilities. Most federal appointees confirmed that performance expectations had not been identified for them. In particular, a role in voicing the interests or concerns of the federal government was not defined. However, some federal appointees considered that they had an obligation to do so.

Most of the federal appointees told us they were not responsible for reporting back to senior officials of sponsoring departments or to the minister on the activities or accomplishments of the arrangements. However, two officials did say they report back on the arrangement's general operations. In addition, two said that federal appointees had a special responsibility to ensure the proper management of public money.

We received a variety of answers on what should be done if the arrangement "goes off track." One view was that if significant problems came to the attention of federal appointees, they were obligated to report back to departmental officials. Some cited an obligation to actively ensure that the arrangement stays on track. And others said that going off the track would be difficult to detect in its initial stages, as the board is not involved in daily operations.

between the duties of oversight on the federal government's behalf and the statutory duty of board members to act in the corporation's best interests. The officials we interviewed recognized the possibility of such a conflict but generally did not see it as a significant problem.

**1.67** Sponsoring departments provided very little guidance to federal officials and others appointed to boards. In some cases, their involvement consisted of giving the appointees information such as funding agreements, general terms of reference for the arrangements, and conflict-of-interest guidelines.

**1.68** The Privy Council Office is involved in machinery-of-government issues and provides advice to Cabinet on federal appointments. In our view, it is well placed to give departments guidance to ensure that they clearly define the roles and responsibilities of federal appointees and that appointees are adequately prepared to assume their responsibilities.

**1.69 Recommendation.** The Privy Council Office should ensure that departments fully define the roles and responsibilities of federal appointees to boards of delegated arrangements. The federal government should resolve the issue of the potential conflict of duties.

### Other elements of the governing framework need attention

**1.70** In addition to the essential requirements for accountability to Parliament, we examined other features of the governing framework, namely, adequate transparency and the protection of public sector values and ethics.

**1.71** Sponsoring departments of the arrangements we audited in 1999 gave us an update on the changes they had made to the governing framework in response to our recommendations. We expected that the government would look for opportunities to improve the governing framework in delegated arrangements, for example, before providing additional federal money.

### Ensuring adequate transparency—a mixed record

**1.72** Delegated arrangements generally have made available to the public a wide range of information about their operations, often on their Web sites. Many have adopted a communications strategy to make the public and stakeholders aware of their accomplishments and other key information. For example, foundations that redistribute public funds have released information on eligibility criteria and on the application process.

**1.73** However, few arrangements have set up a regime equivalent to federal legislation on access to information. Only one of the new arrangements did so voluntarily, the Canadian Foundation for Climate and Atmospheric Sciences. Among the arrangements we examined in 1999, the federal regime for access to information applied to two, and only in part: the Canadian Television Fund and the Canadian Adaptation and Rural Development Fund. The Canadian Health Services Research Foundation and the Canada Foundation for



Innovation applied a comparable policy on access, voluntarily and on a case-by-case basis. While these arrangements have maintained their provisions for access, none of the others have made improvements.

### Protecting public sector values and ethics

**1.74** We expected that those who manage and redistribute public resources for a public purpose would exercise a special duty of care for the proper, prudent, and productive use of those resources. They must meet high standards of stewardship and accountability. Good governance in the public sector also includes the values of honesty, openness, fairness, responsiveness, and accessibility. In the new arrangements we audited, we looked for provisions and practices that promote those values.

**1.75** We selected a number of features of the governing framework to examine the way public sector values and ethics are protected in delegated arrangements. We focussed on provisions that ensure consideration of relevant federal policies, responsiveness to citizens' concerns, and adherence to codes of conduct and guidelines on conflict of interest.

**1.76 Relevant federal policies applied.** We found that most delegated arrangements followed the applicable federal policies, for example, providing services in both official languages and meeting the requirement for environmental assessment. Generally, they also had conflict-of-interest provisions appropriate to the public sector; three arrangements had adopted them since our 1999 audit. However, we found that they had done very little to establish broader codes of conduct that extend beyond conflict-of-interest considerations to public sector values and ethics. Similarly, few arrangements stipulated sanctions for failure to comply with conflict-of-interest provisions or codes of conduct.

**1.77** Responsiveness to the public was also weak. Apart from providing for annual public meetings, foundations and other delegated arrangements offered stakeholders and the general public few opportunities to raise concerns and be heard.

**1.78 Ensuring values and ethics.** Our findings raised a broader question: What must sponsoring departments do to engender a culture that reflects public sector values and ethics? When they establish delegated arrangements, sponsoring departments have to find effective ways of ensuring ethical conduct. The legislation governing non-profit corporations does not necessarily require delegated arrangements to observe public sector values and ethics. Sponsoring departments have to ensure that those managing the arrangements are aware of their duty to institute and maintain public sector values and ethics. They need to foster a corporate culture of accountability, one that balances taking risks with protecting the public interest.

**1.79** A good practice that we noted is to make public the salary range of the arrangement's senior officials. The Foundation for Sustainable Development Technology in Canada has provided for such disclosure; the Canada Foundation for Innovation disclosed the annual salary range of senior management in its 2000–01 annual report.

**1.80** Sponsoring departments can help to ensure that members, directors, and staff of delegated arrangements understand the conduct that taxpayers expect of them when conducting public business. There is a need to educate staff in public sector values and ethics and ensure that codes of conduct are enforced. Directors must ensure that appropriate policies and systems, conflict-of-interest rules, and controls against fraud and corruption are in place and working effectively. Federal appointees to boards can play a role in this, provided that their responsibilities are defined more clearly. The arrangements have to demonstrate and report to Parliament, as part of good governance, that they have an ethical culture and that their values and ethics initiatives are effective (see Auditor General's October 2000 Report, Chapter 12). As the case of Canadian Blood Services shows (Exhibit 1.7), developing public sector values and ethics is a significant ongoing challenge.

**1.81 Recommendation.** Sponsoring departments should ensure that provision is made for the responsible parties in delegated arrangements to be aware of their duty to institute and maintain public sector values and ethics.

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#### Exhibit 1.7 The challenge of developing public sector values and ethics

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##### The case of Canadian Blood Services

Canadian Blood Services (CBS), a national non-profit corporation established under the *Canada Corporations Act* in 1998, assumed responsibility from the Canadian Red Cross for the blood system in Canada (except in Quebec, which has its own blood agency). CBS has as its members the ministers of health of all the provinces and territories (except Quebec). It is funded by the provinces and territories and also receives a small research grant from the federal government.

The Krever Commission, which looked into the tainted blood supply of the 1970s and 1980s, stated clearly that stakeholders are entitled to expect a safe blood supply and effective participation in the Canadian blood system. Afterward, a major challenge for CBS was to rebuild public trust. An important means of doing that would be to develop the values of transparency, accountability, openness, fairness, responsiveness, and accessibility. By early 2000, in response to concerns about how far or fast it was going, CBS established the Task Force on Public Participation. The task force raised issues of provision for transparency, access to information, public participation, and appointment of public representatives to the board. The task force found "a genuine desire and effort on the part of CBS to be different" from its predecessor. However, it also found that structural representation and "meaningful participation" of citizens were issues that still had to be resolved. The task force made several recommendations, and CBS has since implemented a number of them.

Source: *Final Report of the Task Force on Public Participation to the Board to Directors of Canadian Blood Services*, November 2000.

## The delegated arrangements examined

1.82 We discuss below the governing framework for each new delegated arrangement we examined.

### The delegated arrangements examined

#### Canadian Foundation for Climate and Atmospheric Sciences

The Canadian Foundation for Climate and Atmospheric Sciences was incorporated as a non-profit corporation in February 2000 and began operations that April, when it received \$60 million in federal funding for a six-year period. The purpose of the foundation is to fund research in the climate and atmospheric sciences, including research into extreme weather and air quality; its sponsoring department is Environment Canada. In February 2001, the foundation announced that it would provide funding of \$3.9 million for 15 research projects in Canadian universities. By October 2001, the foundation had approved additional projects, bringing the total commitment to \$25.3 million.

A distinctive feature of the foundation is the role of the Canadian Meteorological and Oceanographic Society (CMOS). This small, learned society, primarily university and government scientists, created the foundation. The foundation is accountable to it and not to the federal government, which provided all of the initial funding. The society appoints 9 of the 12 members of the Board of Trustees; the three others are nominated by the federal government, excluding the chair. The society is responsible for ensuring that the foundation meets the accountability requirements of the funding agreement with the federal government. In our view, that responsibility also lies with Environment Canada, the sponsoring department.

- **Reporting.** In accordance with the funding agreement, an annual report is made public on the foundation's Web site. The first annual report (2000–01) contained information on the results of individual projects but not on the performance of the foundation as a whole. There is no provision for the tabling of the annual report in Parliament. Environment Canada officials told us there are no plans to report expected results and actual results to Parliament in the Department's Estimates documents.

- **Ministerial oversight.** Departmental officials pointed out that the federal representatives on the Board of Trustees play a monitoring role. We note that the responsibilities of trustees include setting and reviewing priorities, implementing the funding agreement, and collaborating with the federal government to co-ordinate program offerings and avoid duplication. These provisions do not make clear what strategic monitoring is required.
- **Audit and evaluation.** There are requirements for a mid-term and a final evaluation by a third party to determine the relevance, success, and cost effectiveness of the program. Evaluations are to be reported to the foundation and CMOS (which is responsible for oversight) and provided to the federal government; there is no provision for Environment Canada to undertake an evaluation. The audit regime requires audited financial statements but not compliance or value-for-money audit. A mechanism exists that allows the federal government to require repayment of all or part of the public funds allocated to the foundation, if it or the society fails to live up to the terms of funding agreement.
- **Transparency.** The foundation has provided for public access to information and for communication of key information. Although not subject to the federal *Access to Information Act*, the foundation voluntarily adopted equivalent practices in its guidelines to applicants for research funds. The annual report and a range of material on the application process are posted on the foundation's Web site, as the funding agreement requires. Also posted on the Web site is additional key information that includes the funding agreement, by-laws, and planning documents.
- **Values and ethics to protect the public interest.** In accordance with the funding agreement, the foundation adopted a code of conduct, including conflict-of-interest provisions. The foundation has agreed to comply with the spirit of federal policies, including those on environmental assessment

and official languages. There are no mechanisms for responsiveness to citizens or stakeholders, beyond the right of appeal for rejected applicants.

#### Green Municipal Enabling Fund and Green Municipal Investment Fund

The Green Municipal Enabling Fund and the Green Municipal Investment Fund were announced in the 2000 Budget; the sponsoring departments are Natural Resources Canada and Environment Canada. In April 2000, the federal government paid \$125 million (\$25 million for the Enabling Fund and \$100 million for the Investment Fund) to the Federation of Canadian Municipalities, the organization responsible for the funds, and operations began. The December 2001 Budget committed another \$125 million for the funds in the same proportions.

The Enabling Fund is to operate for five years. It provides cost-shared grants for feasibility studies to help communities identify their greatest environmental needs, such as energy efficiency. The purpose of the Investment Fund is to help municipal governments leverage investments in environmental projects and to provide grants, loans, and loan guarantees to eligible recipients.

The Federation of Canadian Municipalities (FCM), comprising 1,000 municipal members and 18 provincial and territorial associations, is a non-profit corporation registered under the federal *Lobbyists Registration Act*. Unlike the other delegated arrangements we examined, the funds are not managed by a separate organization. The FCM Board of Directors, formally designated as the decision-making body for the funds, is advised by a 15-member council with five federal appointees. The Council plays a key role, supported by the FCM secretariat.

- **Reporting.** Strategies and objectives are posted on the Web site. A public annual report is required; the first one, for 2000–01, committed to reporting results in the future. To make the

funds' achievements clear, however, they also need to report performance expectations; we found that they have not.

- **Ministerial oversight.** Officials of the sponsoring departments said that having departmental representatives on the Green Funds Council had helped to achieve a high level of transparency and scrutiny of the funds' activities. However, there is no provision for the departments to make appropriate changes to the arrangement based on monitoring by their representatives on the Council. The departments also told us they are not in a position to terminate the arrangements in case of non-performance.
- **Audit and evaluation.** The funds provide for evaluation by the sponsoring departments as well as by third parties. However, there is no requirement for compliance and value-for-money audit.
- **Transparency.** Although a communications strategy is partly in place, including the posting of a wide range of information about the funds on the FCM Web site, there are no provisions or practices equivalent to the federal access-to-information regime.
- **Values and ethics to protect the public interest.** Conflict-of-interest guidelines and sanctions for contravening them represent positive steps. However, while the funds comply with the intent of some federal policies, including those on official languages and confidentiality of applicants' information, they do not comply with others. For example, the Green Municipal Funds do not require that all applicants undertake environmental assessments of their projects. Departmental officials pointed out that there is no legal requirement for the assessments. In our view, however, this is an opportunity to do more than follow the letter of the law.

### Genome Canada

Incorporated as a non-profit corporation in February 2000, Genome Canada received \$160 million from the federal government in March 2000 and another \$140 million in April 2001. The federal funding is for an initial period of five years. The sponsoring department is Industry

Canada. The government appoints 4 of 14 members of the Board of Directors, including the presidents of the government's research granting councils and the National Research Council.

Genome Canada was created to develop a national strategy for genomics research and provide leading-edge technology to researchers in all related fields, through support for five Genome centres across Canada.

The federal government established Genome Canada as a delegated arrangement to quick-start Canada's participation in this field of large-scale technology projects. Genome Canada is expected to leverage funding from other partners, including provincial governments, the private sector, and national and international foundations.

- **Reporting.** Genome Canada is required to issue an annual report that shows results achieved during the year, future plans, and expected results. The annual report is to be made public and tabled in Parliament; it also highlights each regional Genome Centre and its projects. Industry Canada's Estimates documents contain some performance information.
- **Ministerial oversight.** Industry Canada informed us that it sees its role as not to monitor but to act as a partner in achieving the objectives of the arrangement. It believes that with the involvement of a senior official as an observer on the Board of Directors, it can ensure that the terms of the agreement are met, issues are identified, and progress toward objectives is reported. However, there is no provision for the Department to take corrective action if the arrangement should go off track.
- **Audit and evaluation.** The annual report includes audited financial statements, but there is no requirement for compliance or value-for-money audit. Provision is made for independent evaluation, managed by Genome Canada. Guidelines also call for Genome Canada to monitor and review the performance of the Genome centres. Non-performing centres can be closed and individual projects terminated, after a review.
- **Transparency.** Existing provisions severely limit public access to information. Genome Canada's by-

laws state that third parties cannot have access to any confidential information, broadly defined as including any information or documents obtained by directors or officers in the course of their duties.

- **Values and ethics to protect the public interest.** There are provisions for compliance with the intent of some existing federal policies such as official languages requirements. The by-laws include a code of conduct and sanctions for not complying with conflict-of-interest rules. However, we saw no mechanisms for ensuring responsiveness to the public.

### Foundation for Sustainable Development Technology in Canada

This foundation was announced in the 2000 Budget and incorporated in March 2001 as a non-profit corporation; it will be continued as the **Canada Foundation for Sustainable Development Technology** by legislation passed in June 2001 (not in force at the time of our audit). As noted in the Auditor General's observations in the Public Accounts, the government provided \$50 million in funding to the corporation in April 2001, before the Act was passed. The sponsoring departments are Natural Resources Canada and Environment Canada.

At the time of our audit, the foundation was not yet operating. Its purpose is to fund the development and demonstration of technologies and, in particular, to respond to climate change and protect air quality. The foundation will also foster collaboration among interested parties in the private sector and in academic and non-profit organizations. The federal government appoints 7 of the 15 members of the Board of Directors, including the chair.

Alone among the new arrangements we examined, the foundation was established through specific legislation. The reason for using specific legislation was to provide more transparency and allow direct parliamentary participation in the design of the foundation.

We looked at the proceedings in Parliament to enact the legislation, and we noted parliamentarians' views on accountability and governance. They expressed concern about the need for

ministerial accountability, effective parliamentary scrutiny, and adequate audit provisions—including audit by the Auditor General. We share their concern.

- **Reporting.** The provisions for reporting are relatively complete; they include a requirement to present performance information in the annual report tabled in Parliament, and expected results in an initial plan that goes to the government and may be made public. The sponsoring departments have not yet determined what information on the foundation's performance they will present in their Estimates documents.
- **Ministerial oversight.** Although we did not see provisions for strategic monitoring, the sponsoring departments told us that senior officials and interdepartmental committees will be responsible for monitoring practices. In addition, there are some provisions for corrective action: the government can order its own evaluation of the foundation and, in the extreme case that the foundation provides false or misleading information, can require it to return unspent federal funds.
- **Audit and evaluation.** Provisions for midterm and final evaluations are also clear. The audit regime is still a concern because it requires financial audit but not value-for-money or compliance audit. The audit committee of the board is required to establish an internal audit regime, which is a good practice.
- **Transparency.** The foundation is required to operate in an open and transparent way, subject to commercial confidentiality. But we found no provision for access to information that compares with the federal regime.
- **Values and ethics to protect the public interest.** Compliance with some federal policies is required by provisions or is planned in practice, including official languages and environmental assessment requirements. There are also provisions for avoiding conflict of

interest. However, other facets of protecting the public interest are weak. There is no provision for a code of conduct beyond the conflict-of-interest provisions or for responsiveness to the public.

#### Canada Health Infoway Inc.

Following a commitment it made at a First Ministers' meeting in September 2000 and the passage of related legislation, the federal government paid \$500 million in March 2001 to Canada Health Infoway Inc. (CHII) to define standards for shared data that would make health information networks compatible. The sponsoring department is Health Canada. The initiative is expected to need significantly more funding.

CHII is a not-for-profit corporation established under the *Canada Corporations Act*, Part II. The corporation's members are the federal, provincial, and territorial deputy ministers of health. The board comprises 11 directors, two of them appointed by the federal Deputy Minister of Health and five appointed by provincial and territorial deputy ministers of health. The members of the corporation elect the four other directors.

CHII is required to take into account the Blueprint and Tactical Plan for a Pan-Canadian Health Infostructure. This is a plan commissioned by the Advisory Committee on Health Infostructure (ACHI), a committee accountable to the deputy ministers of health. The Blueprint and Tactical Plan sets out a plan for implementing the pan-Canadian infostructure to enable health information and communication technologies across Canada to connect. CHII is required to take into account any future amendments to the plan.

At the time of our audit, CHII was not yet operating and we were not able to assess all of its governance and accountability features.

- **Reporting.** There is provision for an annual public report (including audited financial statements) on activities, results, and future objectives but not for its tabling in Parliament. Health Canada's 2001 *Performance Report* refers to CHII.
- **Ministerial oversight.** The overlapping memberships of CHII's board of directors and the ACHI, which commissioned the Blueprint and Tactical Plan, may help to ensure that the blueprint is followed. However, the overlap is circumstantial and may not continue. There is no mechanism for correcting CHII's course should that be necessary or, in the extreme case, for terminating it, short of taking legal action for the return of federal funds.
- **Audit and evaluation.** There is no provision for value-for-money or compliance audit. Evaluation by a third party is required within five years to measure performance in achieving outcomes.
- **Transparency.** At the time of the audit, there was no access-to-information policy equivalent to the federal regime. As CHII is in a start-up phase, there were no communication plans for us to assess.
- **Values and ethics to protect the public interest.** CHII is required to respect key federal legislation and public policies, including working in both official languages; avoiding conflict of interest; supporting a publicly funded health care system consistent with federal legislation; and adhering to federal, provincial, and territorial principles in protecting health information and privacy. There is no provision for a code of conduct for CHII's board of directors or staff. Consultations were held with stakeholders in the development of the Blueprint and Tactical Plan. However, there is no provision for public consultation or feedback on CHII's activities.

## Collaborative arrangements— different challenges

**1.83** In 1999 we examined 10 collaborative arrangements; in 2001 we followed up on 8 of them. We also examined a major new collaborative arrangement, Infrastructure Canada, which replaced the Canada Infrastructure Works Program. As we have noted, accountability and governance present different challenges for collaborative arrangements and delegated arrangements. Our findings reflect the differences.

### Infrastructure Canada—positive improvements

**1.84** The Infrastructure Canada initiative builds on the earlier Canada Infrastructure Works Program. We examined it from two perspectives:

- as a new collaborative arrangement, to determine the adequacy of the governing framework; and
- as the successor to a previously audited program, to follow up on our recommendations on governance and design.

We did not examine Infrastructure Canada's operations or project funding.

**1.85** **The governing framework has improved.** The Governance and Accountability Framework of Infrastructure Canada is a key difference from the earlier program. The framework is intended to ensure “that both public and parliamentary accountability are secured while establishing clear and comprehensive governance structures; and that program results and their impact on local communities are openly and publicly reported.”

**1.86** The Governance and Accountability Framework sets out a clear accountability structure for Infrastructure Canada that includes the following:

- the purpose, objectives, and scope of the program;
- the principles that are to govern interactions and transactions across the country;
- the structure for governance, including roles and responsibilities; and
- mechanisms for accountability.

**1.87** We compared this framework with what we found in 1999 (Exhibit 1.8), and we noted several improvements:

- **Reporting.** Infrastructure Canada has mechanisms for reporting to Parliament and the public on objectives, intended results, and results achieved.
- **Accountability mechanisms.** There are provisions for value-for-money audit as well as financial and compliance audit. There is also a requirement for corrective action on the observations and recommendations of internal audit.
- **Protection of the public interest.** Infrastructure Canada has adopted procedures for citizen complaint and redress and provided for public consultation by both the national office and a management committee in each province and territory. It also makes specific provision for public sector values, notably adherence to such federal policies as ensuring the availability of services in both official languages and complying with applicable environmental legislation.

**1.88** Infrastructure Canada plans to make public its objectives and its results, primarily on government Web sites and in the Estimates documents. We found that participating departments have already communicated some of this information. Future reporting will be affected by the transfer of responsibilities for Infrastructure Canada to the Deputy Prime Minister and Minister of Infrastructure and Crown Corporations.

**Exhibit 1.8** A comparison of the Canada Infrastructure Works Program and Infrastructure Canada

Key features	Canada Infrastructure Works Program 1999	Infrastructure Canada 2001
<b>Reporting to Parliament and the public</b>		
Specific performance expectations	<input type="radio"/>	<input checked="" type="radio"/>
Annual reporting on performance made public	<input checked="" type="radio"/>	<input checked="" type="radio"/>
Annual reporting on performance to Parliament	<input checked="" type="radio"/> (voluntary)	<input checked="" type="radio"/>
Performance information in performance reports	<input checked="" type="radio"/>	<input checked="" type="radio"/>
Financial reporting	<input checked="" type="radio"/>	<input checked="" type="radio"/>
<b>Accountability mechanisms</b>		
Audit regime provisions	<input checked="" type="radio"/> (financial and compliance)	<input checked="" type="radio"/> (financial, compliance, and value-for-money)
Evaluation provisions	<input checked="" type="radio"/>	<input checked="" type="radio"/>
Partner dispute resolution mechanisms	<input type="radio"/>	<input checked="" type="radio"/>
Procedures to deal with non-performance	<input type="radio"/>	<input checked="" type="radio"/>
<b>Transparency</b>		
Provisions for public access to information	<input type="radio"/>	<input checked="" type="radio"/>
Provisions to communicate information on key policies and decisions	<input checked="" type="radio"/>	<input checked="" type="radio"/>
<b>Protection of the public interest</b>		
Citizen complaint and redress mechanisms	<input type="radio"/>	<input checked="" type="radio"/> (voluntary)
Public consultation/feedback mechanisms	<input type="radio"/>	<input checked="" type="radio"/> (voluntary)
Specific provisions for pertinent public sector values	<input type="radio"/>	<input checked="" type="radio"/>
Specific provisions on conflict of interest	<input checked="" type="radio"/>	<input checked="" type="radio"/>

Yes  No

**1.89** The Treasury Board Secretariat has set up an automated system, the Shared Information and Management System for Infrastructure Canada (SIMSI). The system will structure, store, and manage all information on the initiative; facilitate data manipulation; and support reporting. SIMSI is expected to be the main means of compiling and reporting information on activities, finances, and results. In particular, the system is intended to allow Parliament and the public easy, ongoing access to Web-based information on Infrastructure Canada and on the status of approved projects.

**1.90 Follow-up findings.** In 1999 we reported on the financial and management regime of the Canada Infrastructure Works Program Phase II. We also reported on our follow-up of Phase I and the extent to which the government had acted on our 1996 observations and recommendations. Our 1999 report made several recommendations and the Public Accounts Committee made similar ones (Appendix C).

**1.91** In 2001 we reviewed information from the Treasury Board Secretariat on the action the government had taken to respond to our recommendations. Rather than examine improvements at the project level, we looked at Infrastructure Canada's governing framework. We found that it reflects most of our 1999 recommendations, as outlined in Appendix D.

**1.92** We identified one area where Infrastructure Canada could have provided more complete direction. The Treasury Board Secretariat has set out a general requirement that the arrangement be managed to control the risks, and it has indicated that risk is an important factor to consider in establishing public-private partnerships. However, the nature of Infrastructure Canada's public-private partnership risks has not been defined or analyzed.

**1.93** We found that Infrastructure Canada has incorporated most of the Public Accounts Committee's recommendations on program objectives and design. Where the lessons identified in the Evaluation of Phase 1 of the Canada Infrastructure Works Program are still relevant, it has addressed them.

**1.94** Overall, Infrastructure Canada's design is a significant improvement over that of the Canada Infrastructure Works Program, Phase II.

#### **Follow-up on 1999 audit of collaborative arrangements**

**1.95** We asked sponsoring departments of the collaborative arrangements audited in 1999 to report the changes made in the governing frameworks in response to our recommendations. We asked what practices they had adopted to improve governance and accountability.

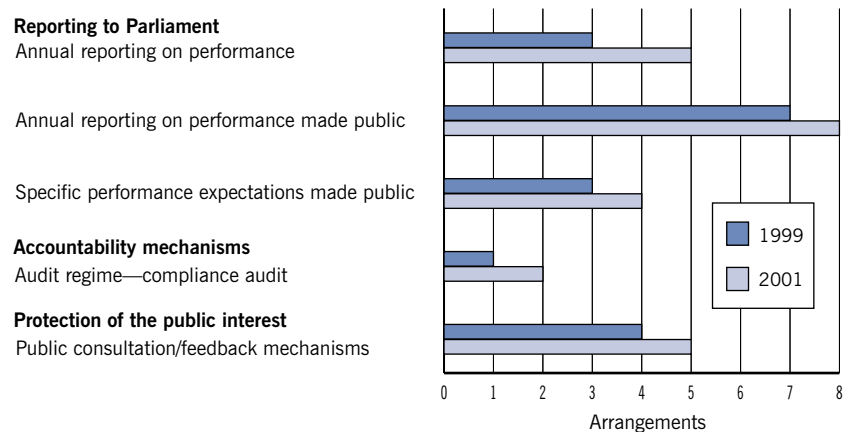
**1.96** Overall, we found that collaborative arrangements had improved their reporting and their mechanisms for promoting accountability and protecting the public interest (Exhibit 1.9).

**1.97** Departments reported some good practices adopted since 1999 in a few collaborative arrangements. For example, Human Resources Development Canada established an internal working group to support liaison between



regional offices and provincial and territorial partners administering Labour Market Development Agreements. The working group ensures that regions are kept abreast of issues and concerns, and it provides a forum for discussion. Environment Canada adopted a policy entitled “Working with Others: Policy on Revenue and Collaborative Arrangements,” which guides managers in various aspects of collaborative arrangements.

**Exhibit 1.9** Governing framework elements that have improved in eight collaborative arrangements audited in 1999



**Government-wide issues  
need attention**

**Ad hoc changes in parliamentary scrutiny**

**1.98** An area of major concern is the ad hoc establishment of new delegated and collaborative governance arrangements. As we have already noted, although there has been some discussion of new arrangements by parliamentary committees, the overall impact on the scrutiny process—how Parliament authorizes and oversees public spending—has not been adequately considered.

**1.99** Parliament may indeed decide to lessen its scrutiny of certain types of new arrangements, perhaps in exchange for more transparent reporting to the public. However, these changes should be made after an informed debate in Parliament on their merits. We recommended in 1999 that the government seek the views of Parliament and the public on how to reconcile new governance arrangements with accountability to Parliament. There has been no progress on this recommendation (Appendix D).

**1.100** Given that the government continues to provide new funding to foundations and other delegated arrangements announced in recent Budgets, the need for Parliament to consider the issue is now more compelling.

**1.101 Recommendation.** In the current session of Parliament, the government should seek Parliament’s views on how delegated arrangements are changing the parliamentary scrutiny process.

### A need for central agency leadership

**1.102** In 1999 we found a lack of clear direction and guidance from the central agencies to departmental managers, particularly on how to address the elements of accountability and good governance when they set up new governance arrangements. There was no consistent governing framework to ensure that departments balanced the flexibility and efficiency of new arrangements with the need for good governance and accountability to Parliament. Moreover, central agencies were not monitoring or assessing the results of these new forms of program delivery. Trends, successes, and issues in the creation of new arrangements were not tracked or evaluated, nor communicated to managers of existing arrangements or sponsors of new ones. We made recommendations to the Treasury Board Secretariat for action in these areas (Appendix D).

**1.103** The central agencies' responsibilities in the creation of new governance arrangements have not changed. The Privy Council Office is involved in machinery-of-government issues. The Department of Finance approves provisions that involve financial commitments by the government. The Treasury Board Secretariat is responsible for advising Treasury Board ministers and government departments on implementing organizational change. It also assists departments in establishing new and innovative forms of program delivery known as alternative service delivery mechanisms, which include new governance arrangements.

**1.104** In addition to following up on the action taken to address our 1999 recommendations, in this audit we examined the leadership that central agencies provided in the creation of selected new arrangements.

### Treasury Board's new policy is a promising initiative

**1.105** We asked Treasury Board officials what action the Secretariat had taken on recommendations addressed to it by our Office and by the Public Accounts Committee; we also asked what leadership and guidance they are providing to departments that sponsor new arrangements.

**1.106** The Secretariat's main role in the new arrangements created since 1999 has been to consider departmental submissions to the Treasury Board for funding. In the case of Infrastructure Canada, Secretariat officials played a lead role in developing a governance and accountability framework.

**1.107** Since 1999, the Secretariat has focussed on developing a Treasury Board policy intended to ensure better governance, accountability, and reporting relationships for new governance arrangements and other means of alternative service delivery. As our audit was completed, the Policy on Alternative Service Delivery was approved, to take effect from 1 April 2002. The Secretariat consulted with departments and developed a draft policy guide.

**1.108** **There are good features in the policy.** Under the policy, all new alternative service delivery initiatives must address key policy issues that reflect the public interest. As part of the approval process, the Treasury Board

can require departments to provide answers to questions in the public interest on governance, results achieved, service delivery, and values and ethics. The Board can also require other information, including a measurement and reporting framework. The policy requires “appropriate” ministerial accountability and authority, including reporting to ministers, Parliament, and the public. Overall, these requirements cover most of the elements of the governing framework presented in this chapter.

**1.109 More guidance needed.** The draft policy guide provides some, but often quite limited, guidance on these requirements. We think departments need further guidance, especially on key governance issues. We suggest that this chapter and our work in 1999 provide many of the details of what is appropriate for new governance arrangements.

**1.110 Ensuring that learning takes place is important.** The policy outlines an ongoing role for the Treasury Board and its Secretariat to promote organizational learning across government and assess the impact of new arrangements on service delivery and on overall government performance. The Secretariat needs to make available enough resources and skills to implement this policy successfully and ensure departmental compliance with it.

**1.111** In conjunction with the policy, the Secretariat has begun to develop a database intended as an on-line tool for learning across the public service. It plans to include in the database guidance by central agencies, departmental case studies, reports of this Office, and other reference documents. It will also include a variety of tools, guides, and practices from departments and generic templates to support options analysis, decision making, and assessment of alternative service delivery initiatives. However, at the time of our audit the database was not yet ready to use.

**1.112 The transfer payment policy.** The Treasury Board policy on transfer payments applies to federal grant and contribution payments, which are used to fund many of the new governance arrangements. It adds several new requirements for their governance and accountability, in addition to reporting in the Estimates. They include preparing a results-based management and accountability framework to measure and report results; and assessing effectiveness through program evaluations or similar reviews when renewing terms and conditions. These are all requirements we would expect to see reflected in funding agreements.

**1.113** We noted that the new foundations that received funds from the federal government were exempt from the transfer payment policy's provisions against making payments in advance of need. We are concerned by this exemption. Large amounts of public money have been provided up front to foundations with limited assurance of proper controls and accountability, and the money will not be spent on grants to the intended recipients for years to come. Advance funding also limits the flexibility of future parliaments and governments to respond to changing circumstances and priorities. In our view, this matter deserves a thorough debate in Parliament before any more public money is transferred to foundations.

**1.114 A need for government-wide evaluation.** We are concerned that the government is using new governance arrangements, and particularly foundations that receive lump-sum grants, as major instruments of public policy without evaluating the appropriateness of that use, what they cost, and how effective they have been. As we reported in 1999, an evaluation is needed.

**1.115 Recommendation.** The Treasury Board Secretariat should ensure that its database on alternative service delivery collects and makes available adequate information on the types and number of new governance arrangements created by federal departments. The database should also provide government managers with information on lessons learned and good practices by arrangements.

**1.116 Recommendation.** The Treasury Board Secretariat should review exemptions to the Treasury Board policy against making payments in advance of need. The findings of this review should be reported to Parliament.

**1.117 Recommendation.** The Treasury Board Secretariat should develop an evaluation framework and undertake, after a suitable interval, a government-wide evaluation of the use of new governance arrangements as instruments of public policy. The results of this evaluation should be reported to Parliament.

#### **The role of the Department of Finance**

**1.118** In 1999, we noted that the Department of Finance had been involved in the creation of selected new arrangements. In this audit, we found that it was involved in creating the new funds and foundations announced in the 2000 Budget. Officials of sponsoring departments told us that the Department of Finance had played a strong role in key approval processes to put in place the governing framework for the funds and foundations, including the development of funding agreements.

**1.119** Officials of the Department of Finance did not agree. They explained that their role in the Budget process included challenging departments' spending of public funds to ensure that it was warranted and that it avoided duplication with other federal programs.

**1.120** The timing of the payments to funds and foundations and the fact that they were announced through the Budget dictated a demanding schedule for officials of sponsoring departments to complete all the steps of the approval and funding process. These included making submissions to the Treasury Board and crafting complex funding agreements. In our view, this approach did not allow for full consideration of governance and accountability.

## Conclusion

**1.121** The government continues to make extensive use of new governance arrangements to deliver public policy. The issues our 1999 audit raised are just as compelling today.

**1.122** Although collaborative arrangements require attention, the one new collaborative arrangement we examined, Infrastructure Canada, showed marked improvement in most governance features over the program that preceded it.

**1.123** Delegated arrangements present far greater risks to accountability and good governance, particularly in foundations that receive lump sum grants in advance of need. In our view, the government's notion of an arm's-length relationship does not in any way lessen its responsibility for meeting public policy objectives and ensuring good governance. In the approach it used to set up the new foundations we examined, the government failed to meet the essential requirements for accountability to Parliament. Such an approach does not ensure adequate annual reporting to Parliament; it precludes effective ministerial oversight; and it limits the scope of independent external audit to the financial statements of the foundations. In short, it is an organizational design that frustrates the ability of Parliament to scrutinize effectively the use of substantial amounts of public money and authority.

**1.124** The Treasury Board has recently adopted a policy that addresses governance and accountability issues, and the Secretariat must now ensure that the policy is implemented successfully. Until now, central agencies and sponsoring departments have not provided the necessary leadership and guidance with respect to a governing framework or made full use of what has been learned. They have not fully implemented many of the recommendations we made in 1999. In the absence of their guidance, good governance and accountability cannot be assured.

**1.125** Delegated and collaborative arrangements alike have gaps in the governing framework that they still need to fill. In particular, the delegated arrangements established since our last audit have not put appropriate governing frameworks in place. Sponsoring departments do not have adequate means for strategic monitoring of arrangements, and there is little provision for them to intervene if arrangements depart from their agreed public policy objectives. Provisions to engender public sector values and ethics are weak; so are provisions to ensure that citizens have adequate access to information.

**1.126** Parliament requires independent external audit of delegated arrangements that covers all aspects of their operations, including their financial statements, compliance with authority, and achievement of value for money. In our view, all delegated arrangements should be subject to such broad-scope audit and, in particular, Parliament's auditor should be appointed the external auditor of foundations, with a few exceptions.

**Treasury Board Secretariat's response.** The government recognizes that innovative organizational arrangements for service delivery to Canadians must address Parliament's, the government's, and citizens' needs for openness, transparency, visibility, and accountability for the expenditure of public money and the achievement and reporting of results.

When the government transfers funds to non-government organizations, such as foundations, it makes a very conscious and considered decision that an organization at arm's length from government is in the best position to deliver on the public interest.

It places trust in the expertise, integrity, and professionalism of the foundation's directors and members and their independence from political influence or interference.

These are public decisions, which are fully and properly accounted for in the Estimates and Public Accounts. In addition, some of these arrangements are introduced through legislation and, hence, again subject to parliamentary debate and scrutiny.

The government needs the flexibility to determine, on a case-by-case basis,

- the most appropriate means of ensuring accountability for results, and
- the role of individual ministers and the government in relation to an organization that is designed to be at arm's length from government.

The new Policy on Alternative Service Delivery and the Policy on Transfer Payments strengthen governance and accountability, and they are based on a results management framework that ensures that these arrangements commit to measure and publicly report on results.

These policies will help to shape new governance arrangements and ensure that they address a wide spectrum of public interest issues and deliver sustainable results for Canadians.

## About the Audit

### Objectives

Our audit had the following objectives:

- To assess whether, in selected new governance arrangements, sponsoring departments have put in place appropriate governing frameworks.
- To assess the extent to which the government, the Treasury Board Secretariat, and sponsoring departments have acted on our recommendations and those of the Standing Committee on Public Accounts and have met the commitments the Secretariat made to the Committee.

### Scope

Our audit examined the following:

- The actions taken by the Privy Council Office, the Department of Finance Canada, and the Treasury Board Secretariat in response to our 1999 recommendations on new governance arrangements and to the related recommendations of the Standing Committee on Public Accounts, as well as the commitments the Treasury Board Secretariat made to the Committee on behalf of the government.
- The actions taken by sponsor departments with respect to the new governance arrangements examined in 1999.
- The design and implementation of governing frameworks and accountability regimes in selected new governance arrangements, including five delegated arrangements announced in the 2000 Budget, the new Infrastructure Canada program (a collaborative arrangement), and Canada Health Infoway Inc., announced by first ministers in September 2000.

### Criteria

We assessed the arrangements in our case studies against a number of criteria under each audit objective.

For action taken on our recommendations and those of the Public Accounts Committee, we expected the following:

- The Privy Council Office, the Department of Finance, and the Treasury Board Secretariat would take a leadership role in providing guidance; developing best practice; communicating lessons learned for use by departments in creating, monitoring and adjusting their new governance arrangements; and setting out an evaluation framework.
- The government (Privy Council Office and/or the Treasury Board Secretariat) would involve Parliament in developing governing arrangements that involve third parties in delivering federal programs and services.
- Departments with new governance arrangements examined in our 1999 audit would look for opportunities to improve their governing frameworks.
- For the new governance arrangements examined in our 1999 audit, the shortcomings identified in 1999 would be addressed and the elements of the governing framework that were in place in 1999 would be maintained or improved.
- Some good practices would be identified in the setting up and monitoring of new governance arrangements by sponsoring departments.

For arrangements created since 1999, we expected the following:

- The governing frameworks for selected new governance arrangements would appropriately address the elements identified in our 1999 Report, including
  - mechanisms for engendering a culture of accountability, transparency and propriety in arm's-length bodies (ethics infrastructure)
  - appropriate audit regimes for any entity handling public money, including the role of Parliament's auditor
  - appropriate oversight mechanisms for departments to monitor and adjust arrangements

- the role of federal members on boards of delegated arrangements
- In designing these new delegated arrangements, departments would have
  - undertaken an assessment of the risks faced
  - provided adequate guidance on the elements of good governance

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## Appendix A Arrangements examined in this audit

Arrangement	Federal funding	Description
<b>New delegated arrangements audited</b>		
<b>Canadian Foundation for Climate and Atmospheric Sciences</b>  Established in 2000	Transfer payment to the foundation  Federal funding (Environment Canada)—\$60 million (2000 to 2006)	An independent body set up and administered by the Canadian Meteorological and Oceanographic Society. It solicits and accepts grants used to fund scientific research in the university sector on climate change, extreme weather and air quality, enhances understanding of the implications of these scientific areas on human health and the environment, and supports policy in these areas.
<b>Canada Foundation for Sustainable Development Technology</b>  Established in 2001 as the <b>Foundation for Sustainable Development Technology in Canada</b>	Transfer payment to the foundation  Federal funding (Natural Resources Canada and Environment Canada)—\$100 million (2001 to 2011)	An arm's-length foundation, established by new federal legislation to provide funding to partners from the private sector and universities for technology development, namely climate change and air quality solutions. The Foundation will complement sustainable development activities of other government departments.
<b>Green Municipal Enabling Fund (GMEF) and Green Municipal Investment Fund (GMIF)</b>  Established in 2000	Transfer payment to the foundation  Federal funding (Natural Resources Canada, Environment Canada)—\$250 million	The Federation of Canadian Municipalities administers these funds. The GMEF provides cost-shared grants for feasibility studies on projects designed to improve air, water, and soil quality. The GMIF provides interest-bearing loans, loan guarantees, and grants that enable recipients to carry out energy and environmental projects in municipal operations.
<b>Genome Canada</b>  Established in 2000	Transfer payment to the foundation  Federal funding (Industry Canada)—\$300 million (2000–01 to 2004–05)	A non-profit corporation that functions as a foundation. It oversees genomics research in five regional centres.
<b>Canada Health Infoway Inc.</b>  Established in 2001	Transfer payment to the foundation  Federal funding (Health Canada is sponsoring department; payment made by the Department of Finance Canada)—\$500 million, though funding period is not clear	A non-profit corporation whose purpose, through collaboration with the public and private sector, is to accelerate the development and adoption of modern systems of information and communication technology in the health sector while ensuring common standards and interoperability.
<b>New collaborative arrangement audited</b>		
<b>Infrastructure Canada</b>  Established in 2000	Federal Funding (Treasury Board Secretariat, Indian and Northern Affairs Canada, Industry Canada, Atlantic Canada Opportunities Agency, Canada Economic Development for Quebec Regions, and Western Economic Diversification Canada)—\$2.05 billion from 2000–01 to 2005–06	A program designed to improve the physical, cultural, and environmental, infrastructure in Canada. By partnering with other orders of government and the private sector, the Government of Canada plays a key role in strengthening the basic physical infrastructure that underpins the economic activity of rural and urban Canada.

Arrangement	Federal funding	Description
<b>Delegated arrangements followed up</b>		
<b>Canada Millennium Scholarship Foundation</b> Established in 1998	Transfer payment to the foundation Federal funding (Human Resources Development Canada)—\$2.5 billion from 1997–98 to 2009–10	An independent body created through the <i>Budget Implementation Act</i> of 1998 to manage a federal endowment. It will grant scholarships each year for the next decade.
<b>Canada Foundation for Innovation</b> Established in 1997	Transfer payment to the foundation Federal funding (Industry Canada)—\$3.15 billion from 1996–97 to 2002–03	An independent, non-profit corporation created under the <i>Budget Implementation Act</i> of 1997 to provide funding to universities, colleges, hospitals, and other not-for-profit institutions to establish necessary research infrastructure.
<b>Canadian Health Services Research Foundation</b> Established in 1997	Transfer payment to the foundation Federal funding (Health Canada)—\$126.5 million	A partnership of public and private health sector stakeholders. It operates as an independent, arm's-length, not-for-profit corporation to fund research in health services management and systems.
<b>Canadian Adaptation and Rural Development Fund—Provincial councils</b> Established in 1995 (phase 2 started in 1999)	Funding through a contribution payment Federal funding (Agriculture and Agri-Food Canada)—\$25 million annually  Note: Although the federal government allocates \$60 million annually to the Fund, \$25 million is spent directly by the councils, and the balance is directed to national programs.	A program intended to increase the agricultural industry's ability to adapt and become more self-reliant in a changing environment.
<b>Canadian Television Fund</b> Established in 1996	Funding through a contribution payment Federal funding (Department of Canadian Heritage)—\$700 million from 1996–97 to 2002–03	An independent non-profit corporation mandated to support Canadian television and film industry production. It incorporated the Cable Production Fund.
<b>Canadian Institute for Health Information</b> Established in 1994	Mixed: transfer payment to the foundation and funding through a contribution payment Federal funding (Health Canada and Statistics Canada)—\$205.6 million	An independent, non-profit corporation that develops and maintains Canada's health statistics information system and supports policy, health system management, and public awareness
<b>St. Lawrence Seaway Management Corporation</b> Established in 1998	Distinct payment Federal funding (Transport Canada)—\$83 million from 1998–99 to 2000–01	An independent corporation responsible for the management, operation, and maintenance of the St. Lawrence Seaway. It replaces the St. Lawrence Seaway Authority, a Crown corporation.
<b>Collaborative arrangements followed up</b>		
<b>Canada's Model Forest Program (Foothills Model Forest)</b> Established in 1992  (phase 2 started 1997; phase 3 began 1 April 2002 and ends in 2007)	Federal commitment (Natural Resources Canada)—for the Program: \$96 million from 1997 to 2002; for the Foothills Model Forest \$2.5 million from 1997 to 2002	The Foothills Model Forest, one of 11 model forests, is part of Canada's model forest network. It is a local partnership involving participants from governments, industry, academia, local communities, and environmental groups. They all have an interest in sharing knowledge and developing and applying innovative practices in sustainable forest management.

Arrangement	Federal funding	Description
<b>Canada-Alberta Labour Market Development Agreement</b> Established in 1996	Federal funding (Human Resources Development Canada)—\$314 million from 1997–98 to 1999–2000	One of several bilateral arrangements to provide for a stronger provincial role in the design and delivery of labour market development programs and services.
<b>Canada-Wide Accord on Environmental Harmonization</b> Established in 1998	No federal funding	A framework agreement to harmonize environmental programs and policies by coordinating action with the provinces and territories and guiding the development of sub-agreements in specific areas. Sub-agreements have been negotiated in areas such as environmental inspection, environmental assessment and Canada-wide standards.  Responsible department: Environment Canada
<b>Canadian Industry Program for Energy Conservation</b> Established in 1992 (phase 3 started in 1997)	No federal funding	A voluntary initiative of Canada's manufacturing and mining industries. It promotes the reduction of industrial energy use per unit of production while participating in other efforts to meet Canada's carbon dioxide stabilization objectives.  Responsible department: Natural Resources Canada
<b>Loan Investment Fund Program</b> Established in 1995	Federal funding (Western Economic Diversification Canada) —\$20 million contributed to financial institutions' loan loss reserve accounts; there is a maximum potential liability from losses of \$46 million in funding from 1995 to 2005	A program that shares potential losses from loans to small and medium-sized enterprises with partner financial institutions.
<b>National Child Benefit</b> Established in 1998	Tax expenditure (Human Resources Development Canada, the Canada Customs and Revenue Agency, the Department of Finance, and Indian and Northern Affairs Canada)—\$1.94 billion in 2000–01; \$2.4 billion in 2001–02	An initiative that provides enhanced federal child benefits for low-income families as well as increased provincial, territorial and First-Nations reinvestments in services and benefits for these families.
<b>Employability Assistance for People With Disabilities</b> Established in 1998	Federal funding (Human Resources Development Canada)—\$965 million from 1998–99 to 2002–03	An arrangement that provides for provinces to deliver a range of services in integrating persons with disabilities into the labour force. Funding is shared equally by both federal and provincial/territorial governments.
<b>Health Transition Fund</b> Established in 1997	Federal funding (Health Canada)—\$150 million from 1997–98 to 2001–02	An arrangement to encourage innovations leading to a more integrated health care system. It supports pilot and evaluation projects in four priority areas: home care, pharmacare, primary health care, and integrated service delivery.

## Appendix B A governing framework

The governing framework that we used to assess new governance arrangements comprises the features essential for accountability to Parliament along with other key elements. It builds on the framework we developed in 1999.

Two principles of parliamentary democracy are the basis for the framework:

- **Parliamentary sovereignty over federal policy.** Whoever holds discretionary authority to spend federal taxpayer money or to execute federal authority must not be exempt from potential scrutiny by Parliament.
- **Stewardship of the public trust.** Any arrangement delivering federal programs and services must respect the public trust, observing public sector values of fairness, impartiality and equity.

Element	Description
<b>To ensure accountability to Parliament</b>	
<b>Reporting to Parliament and the public</b>	
Corporate plans	Plans including objectives, strategies to be pursued, and expected accomplishments should be made public and tabled in Parliament. Provision for an initial corporate plan and an update at least every three years would be reasonable.  In collaborative arrangements, this requirement would apply to the federal partners.
Annual performance reporting, including audited financial statements	Timely, appropriate, and credible information on the extent to which the arrangement has accomplished its federal policy objectives and at what cost should be reported to the ministers responsible, Parliament, and the public in an annual report or a departmental performance report, as appropriate.
Evaluation results	The findings from independent evaluations should be tabled in Parliament.
<b>External audit regime</b>	
Broad-scope audit reported to Parliament	In delegated arrangements, the external auditor should carry out attest, compliance, and value-for-money audits. In all cases, audits would be reported to the board of directors, the sponsoring minister, and Parliament.  In collaborative arrangements, these external audits should be co-ordinated with other legislative auditors, where other orders of government are involved.
<b>Ministerial oversight</b>	
Strategic monitoring mechanisms, including compliance audit	Strategic monitoring by the sponsoring department should be in place to ensure that timely information is available on stewardship, the results achieved, and overall compliance with terms and conditions.
Procedures to deal with non-performance	Reasonable provisions should be in place to deal with non-performance of the arrangement, and termination, if needed.  In delegated arrangements, the government should be able to intervene in the exceptional case where the public purpose of the arrangement is clearly not being met or circumstances have changed considerably since the creation of the arrangement. In the event of termination, or windup for any reason, the federal government should be able to recover any remaining federal moneys.
<b>To establish effective accountability mechanisms</b>	
Clear roles and responsibilities	Whether required in corporate law ( <i>Canada Corporations Act</i> , Part II), or in the agreement with the federal government, a governance design and structures fully able to meet program objectives and manage operations should accompany the transfer of federal authorities and resources.

Element	Description
Balanced expectations and capacities	Before entering into new governance arrangements, departments should carry out an assessment of prospective partners' (or entity's) ability to deliver their part of the arrangement, so that performance expectations are balanced with capacity to deliver.
Specific performance expectations	Performance expectations should be clear, concrete, and focussed on outcomes. They should be included in the corporate plan.
Independent evaluation provisions	Evaluation studies by independent parties should be required at mid-term and at the end of the federal funding period and be reported to Parliament and the public.
Dispute resolution mechanisms	Formal mechanisms and guidance for resolving any disputes among partners (collaborative) and between the arrangement and the sponsoring department (delegated) should be established. This mechanism should add to the provisions of the <i>Arbitration Act</i> found in many funding agreements.
<b>To ensure adequate transparency</b>	
Provision for public access to information	Arrangements should be as open as possible regarding access to information on the agreements, objectives, activities, and achievements dealing with the federal purpose. Appropriate provision should be made for legitimate concerns of personal privacy, commercial confidence, and intergovernmental negotiations.
Provision for communicating key information	Pertinent information should be communicated to the public and stakeholders. Without direct ministerial control, a provision needs to be made in delegated arrangements for enhanced transparency, including access to corporate information that is relevant to the delivery of federal public functions.
<b>To protect public sector values and ethics</b>	
Consideration of relevant federal policies, such as <ul style="list-style-type: none"> <li>• environmental assessment</li> <li>• official languages</li> </ul>	Canadians expect those who use federal authority to respect the public interest, the rule of law, federal standards and policies (like providing services in English and French where demographics warrant) and values (like privacy and protection of the environment).
Responsiveness	As the delivery agent for a public policy program, the arrangement has an obligation to be responsive and to pay attention to citizens' concerns. The proper procedures should be put in place.
Provision for <ul style="list-style-type: none"> <li>• public sector codes of conduct</li> <li>• conflict of interest</li> </ul>	Canadians expect federal authority to be exercised with fairness, impartiality, equity, honesty, prudence, and openness. They expect those who use federal authority to respect the public good and the rule of law.  Arrangements should instil a notion of public trust and include policies to promote a corporate culture with pertinent public sector values and effective conflict-of-interest practices. There should be sanctions for breaches of these rules.
Provision for fairness in program delivery	Most delegated arrangements are foundations that provide grants, contributions, or loans to eligible recipients. They should have procedures in place to ensure fairness in the decision-making process for the payment of these benefits, such as a peer review.  In collaborative arrangements, agreements among the partners need to address fairness and equity in shared program delivery.

## Appendix C Recommendations of the Standing Committee on Public Accounts and the government's response

### Eleventh Report of the Standing Committee on Public Accounts

The Committee's Eleventh Report dealt with our 1999 Report, Chapter 17, Canada Infrastructure Works Program: Phase II and Follow-up of Phase I Audit.

Focus	Committee's recommendations	Government's response
Compliance audit	Provide for completion of compliance audits prior to the release of final payments.	All Infrastructure Canada agreements incorporate an audit framework.
Lessons learned	Incorporate lessons learned from Phase I into the design of the program's Phase III.	Some lessons learned from the evaluation of Phase I were used in the design of the new program, but it is difficult considering the significant differences between the two programs.
Evaluation	Include in Phase III a process of rigorous program evaluation.	The evaluations will be the responsibility of the National Office for Infrastructure Canada.
Program substitution	Build into the program safeguards against program substitution.	A project proponent must demonstrate that its proposal contributes to the program objective and that federal financial support is required.
Job creation	Specify the types of jobs created and the methods used to calculate the numbers.	Since job creation is not a central objective of Phase III, the response does not commit to follow this recommendation.
Response to the Auditor General's recommendations in the 1999 Report, Chapter 17	Submit to the Public Accounts Committee a detailed action plan in response to Auditor General's recommendations.	The Auditor General's Chapter 17 (1999) recommendations and the Treasury Board Secretariat's responses are repeated along with further information concerning the applicability of the recommendations to Infrastructure Canada.

### Thirteenth Report of the Standing Committee on Public Accounts

The Committee's Thirteenth Report dealt with our 1999 Report, Chapter 23, Involving Others in Governing Accountability at Risk and Chapter 24, The Canadian Adaptation and Rural Development Fund: An Example of Involving Others in Governing.

Focus	Committee's recommendations	Government's response
Governance framework	<p>The Treasury Board Secretariat should develop a governance framework and provide guidance and encouragement to departments when they establish and review the frameworks for their own governance arrangements.</p> <p>Departments should review the frameworks of their new governance frameworks and regularly report to Parliament.</p>	<p>The Treasury Board has approved a new policy for alternative service delivery (ASD), which is intended to strengthen the management board role of Treasury Board ministers in overseeing significant ASD initiatives and their ongoing review and adjustment.</p> <p>The government is committed to improved reporting to Parliament on all forms of ASD, including new governance arrangements.</p>
Keeping track of new governance arrangements	<p>The Treasury Board Secretariat should develop and maintain databases of new arrangements, including funds committed and those with multiple agreements.</p> <p>This information is to be reported to Parliament.</p>	<p>The government is committed to ensuring that the public service learns from ASD initiatives, through oversight of results. This learning will be made available to Parliament, citizens and departments in the new ASD Practice Database through the Secretariat's Service and Innovation Web site, currently under development.</p>

## Appendix D Status of our 1999 recommendations







### Canada Infrastructure Works Program: Phase II and Follow-up of Phase I Audit (1999 Report, Chapter 17)

Recommendations	Our assessment	Comments
In future programs of this type, the project approval process should be based on a more streamlined approach, with delegation of authority for approvals based on risk and level of expenditure (paragraph 17.42).	◐	The approval process has been streamlined, but the risk management framework is incomplete.
In future programs of this type, the government should ensure that project selection criteria are clearly defined and that persuasive information and analyses are available and have been assessed to support recommendations for project approval (17.50).	●	
In future programs of this type, the government should clearly define the coverage of the term "infrastructure." If that coverage allows for support of projects involving private sector partnerships and other private sector linkages, the government should ensure that program guidelines specifically address related implications (17.56).	◐	The coverage of "infrastructure" has been clearly defined. However, the guidelines for private sector partnerships do not adequately address related implications.
In future programs of this type, the government should ensure that there are safeguards to limit the substitution of program expenditures for expenditures that would otherwise have been undertaken by the programs' partners. (17.65)	◑	The Treasury Board Secretariat indicated that substitution is not occurring. Clear funding criteria have been established. They are intended to accelerate infrastructure development that may have already been planned.
In its <i>Performance Report</i> , the Treasury Board Secretariat should provide Parliament with information on the employment effects of the Canada Infrastructure Works Program that clearly sets out its sources and limitations (17.72).	◐	Infrastructure Canada's objectives do not include short-term job creation. It is tracking measurable benefits at the project level. However, information on projects was not available for the 2001 <i>Performance Report</i> .
In future programs of this type, the government should ensure that agreements among partners make adequate provision for rigorous and timely compliance audits. Such provisions should clearly assign responsibilities among partners, and specify the coverage, timing, and reporting of audits, along with resource levels to be allocated to the compliance audit function (17.81).	●	
In future programs of this type, the government should ensure that project proposals are assessed to provide an adequate level of assurance with respect to technical feasibility and financial requirements (17.87).	●	
In future programs of this type, the government should ensure that <ul style="list-style-type: none"> <li>• environmental assessments are completed early enough to be taken into account in the project planning and approval process;</li> <li>• necessary mitigation measures are clearly identified; and</li> <li>• a system for obtaining assurance of the implementation of mitigation measures is in place (17.94).</li> </ul>	●	












Fully addressed
  Satisfactory progress
  Some progress
  Unsatisfactory progress



**Involving Others in Governing: Accountability at Risk (1999 Report, Chapter 23)**

Recommendations	Our assessment	Comments
<p>The Treasury Board Secretariat should clearly identify and communicate the essential elements of an effective governing framework for new governance arrangements and provide departments with consistent guidance on its use when they design and implement new arrangements.</p> <p>The framework should provide for</p> <ul style="list-style-type: none"> <li>• appropriate reporting to Parliament and the public on the extent to which the arrangement has achieved its federal public policy purpose and on the expenditure and investment of federal moneys and the stewardship of federal assets;</li> <li>• effective accountability mechanisms to ensure that adequate and appropriate evaluation and audit regimes are established;</li> <li>• adequate transparency of important decisions on the management and operations of the arrangement; and</li> <li>• protection of the public interest so that delivery of the federal objective adheres to essential and traditional values of public sector administration (paragraph 23.46).</li> </ul>		<p>As our audit was completed, the Treasury Board Secretariat approved a policy that covers most of the elements of the governing framework presented in this chapter.</p> <p>However, until the policy has been promulgated, we are unable to assess whether it communicates the essential elements of the governing framework or whether the Secretariat has provided consistent guidance to departments.</p>
<p>The Treasury Board Secretariat should</p> <ul style="list-style-type: none"> <li>• collect and make available more complete information on the types and extent of use of new governance arrangements that federal departments and agencies create;</li> <li>• develop an evaluation framework and, after an appropriate period, evaluate the use of new governance arrangements as tools of public policy. The Secretariat should communicate the findings government-wide and report a summary of the evaluation to Parliament; and</li> <li>• gather information on lessons learned and good practices identified in new governance arrangements, and communicate this information to government managers (23.51).</li> </ul>	    	<p>At the time of our audit, work on a partial response, through a database was incomplete.</p>
<p>Departments sponsoring collaborative arrangements should provide for the reporting of timely, appropriate, and credible information to Parliament and the public on the extent to which the arrangements have accomplished their federal policy objectives, and at what cost. They should ensure that</p> <ul style="list-style-type: none"> <li>• expectations about what the arrangement and each of its partners are to accomplish are stated in clear and concrete terms; and</li> <li>• agreement is reached on the collection and sharing of reliable and compatible data (23.64).</li> </ul>		<p>Some departments are reporting performance information to Parliament, but generally in an ad hoc manner</p>
<p>Before entering into collaborative arrangements, departments should carry out an assessment of prospective partners' ability to deliver their part of the arrangements. Departments should also ensure that the arrangements include dispute resolution mechanisms and identify the actions that can be taken in the event that partners in the arrangement do not fulfill their responsibilities (23.70).</p>	<p>Not assessed</p>	
<p>Sponsoring departments, before entering collaborative arrangements, should agree with their partners on appropriate evaluation plans and an external audit regime that includes, as appropriate, financial, compliance, and value-for-money audits of the arrangements, co-ordinated as required with the legislative audit offices of the governments involved (23.74).</p>		<p>In the new collaborative arrangement of Infrastructure Canada that we examined, provision is made for evaluation and financial, compliance, and value-for-money audits. However, the audits are not co-ordinated with legislative audit offices.</p>

 Fully addressed  
  Satisfactory progress  
  Some progress  
  Unsatisfactory progress

Recommendations	Our assessment	Comments
<p>Departments entering into collaborative arrangements, especially with partners in the private or the voluntary sector, should ensure that there are clear provisions for transparency among the partners in the arrangement (23.79).</p>		<p>The collaborative cases examined in the audit did not make adequate provision for transparency, with the exception of Infrastructure Canada.</p>
<p>Departments entering into collaborative arrangements, especially with partners in the private or the voluntary sector, should ensure that the arrangements make clear provision for protection of the public interest and, in particular, for procedures to deal with stakeholder and public input and citizen grievances (23.84).</p>		<p>A few collaborative arrangements have made improvements in this area.</p>
<p>When creating delegated arrangements, sponsoring departments should clearly specify what the arrangements are to achieve, identifying measurable outcomes and timetables as well as concrete outputs. The departments should ensure that the capacity exists to measure the extent to which objectives have been achieved under the arrangement (23.94).</p>		<p>A few delegated arrangements have made improvements in this area.</p>
<p>Sponsoring departments should ensure that timely and credible information on the performance of their delegated arrangements and, where appropriate, audited financial statements of the entities involved are provided to Parliament and the public (23.97).</p>		<p>Most delegated arrangements have put provisions in place.</p>
<p>Sponsoring departments should ensure that, where appropriate, the design of delegated arrangements provides for</p> <ul style="list-style-type: none"> <li>• formal mechanisms and guidance to resolve disputes with partners;</li> <li>• means to deal with non-performance and termination of the arrangement;</li> <li>• periodic program evaluations, the results of which are reported through ministers to Parliament;</li> <li>• consideration of value-for-money audits; and</li> <li>• independent assessment of the fairness and reliability of the performance information tabled in Parliament (23.106).</li> </ul>	    	<p>Half of the delegated arrangements have put related provisions in place.</p> <p>Most arrangements make provision for evaluations, but few report them to Parliament.</p>
<p>When creating delegated arrangements, sponsoring departments should provide for reasonable standards of disclosure in the areas involving a federal public purpose; the standards should reflect public sector standards of access to information. Appropriate provision should be made for legitimate concerns of personal privacy and commercial confidence (23.110).</p>		
<p>Sponsoring departments should ensure that delegated arrangements include mechanisms to facilitate public consultation, make specific provision for relevant public sector values in the corporate culture, and establish appropriate mechanisms for redress of citizen complaints (23.116).</p>		<p>Most delegated arrangements have put related provisions in place.</p>



 Fully addressed    
  Satisfactory progress    
  Some progress    
  Unsatisfactory progress





Recommendations	Our assessment	Comments
Where existing new governance arrangements have inadequate provisions or practices for accountability and good governance, sponsoring departments should identify opportunities to negotiate appropriate improvements (23.121).	◐	A few delegated arrangements have identified such opportunities for improvement.
The government should begin a process of consultation with Parliament and the public on how to reconcile new governance arrangements with accountability to Parliament and how to formalize the participation and accountability of independent parties involved in the achievement of federal objectives. (23.125)	○	

**The Canadian Adaptation and Rural Development Fund (CARD): An Example of Involving Others in Governing (1999 Report, Chapter 24)**

Recommendations	Our assessment	Comments
Agriculture and Agri-Food Canada should provide further guidance to the [provincial] councils, in particular by defining and presenting the logic underlying the objectives, principles, guidelines, and criteria established by the Department. It should also work with the councils to develop better means of sharing experience and good practices (paragraph 24.17).	●	The shortcomings identified in 1999 included the lack or unclear nature of certain policies and a gap in guidance to provincial councils in a few areas related to the federal objectives, principles, guidelines, and criteria. Since 1999, the Department has closed policy gaps and provided additional guidance.
The Department should implement better means of ensuring that parliamentarians and the public have access to performance information collected by the program (24.19).	◐	<p>To help address reporting responsibilities, annual performance reports from each council are required. These have been received and are posted on the Department's Web site along with the Fund's performance framework.</p> <p>The Department has been planning to increase the project data posted on its Web site since the Fund's inception. Some technical challenges as well as private and public legal issues have delayed this measure.</p> <p>Although reporting to the public and Parliament through the posting of council performance reports and the Fund's performance framework has increased transparency, we noted that over the last two years there are still some deficiencies. In particular, the reporting on the Fund in the 2001–02 <i>Report on Plans and Priorities</i> is problematic.</p> <p>The Department informed us that the next such report would provide more information on the Fund.</p>

● Fully addressed    ◐ Satisfactory progress    ◑ Some progress    ○ Unsatisfactory progress

Recommendations	Our assessment	Comments
<p>The Department should consider and formalize a long-term strategy for its relationship with councils, including considering the merits of using the councils to deliver other programs (24.21).</p>		<p>The Fund was established as an innovative model of third-party delivery. It allows industry councils in each province to decide how to best support agricultural adaptation. To ensure accountability, the government built several accountability mechanisms into the Fund. It requires that federal objectives, principles, guidelines, and criteria be respected and that performance information be provided.</p>
<p>The Department should incorporate the use of a capabilities assessment tool in its monitoring of program delivery by Canadian Adaptation and Rural Development councils (24.28).</p>		

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**Fully addressed.** The original audit finding has been fully addressed and there is no need to take additional action.
- 
**Satisfactory progress.** Substantial progress has been made in addressing the original audit finding, but some additional action is still required.
- 
**Some progress.** Some progress has been made in addressing the original audit finding, but considerable additional action is still required to achieve the desired results.
- 
**Unsatisfactory progress.** Progress has not been made in addressing the original audit finding, and action remains outstanding.

# Report of the Auditor General of Canada to the House of Commons—April 2002

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