GUIDE
ON THE AUDIT
OF FEDERAL CONTRIBUTIONS

PART I

POLICY

TABLE OF CONTENTS

Foreword

The policy incorporated in this Guide on the Audit of Federal Contributions is aimed at improving the cost effectiveness of the required audit activity and minimizing the demands placed on recipients of federal contributions. It was developed by Treasury Board of Canada's Office of the Comptroller General to address concerns raised at the federal and provincial levels regarding the need to eliminate duplication of audit effort and to clarify the roles and responsibilities of federal officials in the management of federal contributions.

Since the early 1970s there has been a substantial increase in both the number and dollar value of federal contribution programs; amounting to expenditure levels in fiscal year 1982/83 of more than $23 billion. The policy contained herein covers 50 major programs through which $12 billion in federal funds is made available to other levels of government and the private sector. The policy excludes co-funded programs under the Federal Provincial Fiscal Arrangements and Established Programs Financing Act, such as Medicare, and under special statutes such as Unemployment Insurance.

The growth in government contribution programs brought with it an added emphasis for full accountability by those entrusted with responsibility for their delivery. Auditing is an integral element of this accountability and each department that provides federal funds is responsible for ensuring appropriate audit coverage of recipients of contributions. A major problem in auditing these programs is that departments often limit their audits to the recipient's records and the financial controls associated with their own programs, without concern for related management controls or activity of other federal programs. This approach has not provided adequate assurance that federal interests are properly protected and has resulted in multiplicity of audit effort and unnecessary disruption of recipient's operations.

This new contribution audit policy will promote more cost-effective audits, improved accountability and better information flow for program managers, Parliament and the taxpayers of Canada. It is also a significant example of federal-provincial co-operation, since all provinces have expressed a willingness to cooperate with us in an effort to streamline the audit of these important programs.

The Guide on the Audit of Federal Contributions applies to all departments and agencies of the Government of Canada and should be of interest to Crown corporations, other levels of government, public accounting firms and others involved in the audit of federal contributions.

Donald J. Johnston
President of the Treasury Board
of Canada

September 1982

Acknowledgement

The Guide on the Audit of Federal Contributions is the result of close collaboration with many federal departments and agencies, officials of the 10 provinces and professional organizations.

Part I, containing directives and guidelines, was reviewed in draft form by federal departments with contribution activity, by the provinces and by professional organizations. Their comments and suggestions are reflected in the publication. We found this process to be very helpful and wish to acknowledge the effort expended by those involved.

Part II, containing suggested audit approaches and procedures to support the approved policy, has been developed by the Office of the Comptroller General as a result of field research and the experiences of other agencies and individuals. It is planned to leave Part II in its present draft form for approximately one year so as to facilitate its field use and enable us to accumulate comments from participants. Subsequently Part II will be updated and a final document published.

I wish to express my sincere thanks to all the participants for without their support we could not have proceeded with the introduction of this Guide.

H.G. Rogers
Comptroller General of Canada

Chapter 1

INTRODUCTION

1. Background

The rapid growth in dollars, and diversity of federal transfer payment activity in the last 10 years, has brought increasing demands for the standardization of their management requirements and simplification of their management techniques. Included in management needs is the clarification of audit requirements. Present requirements for control of transfer payments are based on a distinction between two categories of transfer payments. These two categories are called Grants and Contributions.*

Grants are defined as unconditional transfer payments to eligible applicants for which the government will not receive any goods or services, whereas contributions are defined as conditional transfer payments subject to audit. This suggests that there are no conditions associated with a grant, however the important distinction is that no accounting for the use of funds is required. As a result, control objectives for transfer payments will vary according to the type of conditions that the recipient must meet before receiving the payment. Departmental systems of management and control for both grants and contributions are subject to audit. However, unlike grants, for most contributions the recipient is subject to audit for the purpose of determining adherence to terms and conditions of payment.

Based on information drawn from 1982/83 Main Estimates, 29 federal departments and agencies are responsible for administering some $23 billion in contributions. This amount does not include contributions made by Crown corporations, as they are not subject to this policy. Not all recipients of the $23 billion are subject to audit; approximately $11 billion represent certain statutory contributions that do not require an audit of the recipient. In addition to contributions, some $17 billion of grants are made, which are unconditional and do not require an audit of the recipient.

---

* See Glossary of Terms for definition of terms marked with an asterisk.

Several factors have led to the identification of the need for an audit policy for contributions. These include demands from the provinces to eliminate duplication of audit effort, the desire expressed by some federal departments for the clarification of roles and responsibilities for contribution audits, and observations by the Auditor General of Canada of weaknesses in the control of contributions.

As a result of these concerns, the Office of the Comptroller General of Canada initiated a project to develop directives and guidelines for audits of contributions to augment existing policy on contributions in the Guide on Financial Administration for Departments and Agencies of the Government of Canada.[1] In the research stage of this project, all 29 federal departments administering contribution programs were canvassed to secure information and confirm contribution activity. Interviews were held with officials of 15 major federal funding departments for the purpose of identifying problem areas and to seek their collaboration in developing this policy. In addition the involvement and support of all provinces was requested and obtained.

The research indicated that:

- few federal departments have documented policy on audit of contributions;

- duplication of audit effort is common in some areas (the potential for audit duplication is illustrated in Appendix "A");

- gaps exist in audit coverage in other areas;

- no government-wide directives or guidelines have been developed for such important matters as:

  - extent of audit coverage,

  - frequency of audit where contributions are made on an on-going basis to the same recipients,

  - potential scope of audits,

---

1 See Notes.

- the application of generally-accepted auditing standards to audits of contributions,

- coordination of audit effort where a recipient receives funding from more than one source.

Given the deficiencies mentioned, the objectives of this Guide are to clarify the roles, responsibilities and relationships of officials of federal departments in the audit of contributions, and to foster greater coordination of audits between federal, provincial and external auditors keeping in mind the need to protect the federal interests.

This Guide is divided into two parts. Part I provides general policy on the audit of federal contributions. Part II includes suggested approaches to implement the policies set out in Part I. This includes procedures for the planning, execution and reporting of contribution audits.

2. Application and Scope

a) Application

These directives and guidelines shall apply to all departments and agencies of the Government of Canada and should be of interest to Crown corporations, other levels of government, public accounting firms and others involved in the audit of federal contributions.

A directive is a statement indicating the mandatory features of a policy. In those cases where Treasury Board is prepared to permit deviations, departments must obtain prior approval by means of submissions. Directives in this document are characterized by the use of the verb <u>shall</u> and include directives No. 5, 6, 8, and 11. In addition, two directives, No. 1 and 4 employ the verb <u>are</u> since they represent reiterations of basic management principles or other Treasury Board policies.

A guideline is a statement indicating an instruction which, while not mandatory, should be followed unless there is good reason not to do so. While valid reasons for non-compliance must be documented, prior Treasury Board approval is not required. Guidelines are characterized by the use of the verb should and include guidelines No. 2, 3, 7, 9, 10, and 12.

b) Scope of Policy

These directives and guidelines shall apply to all contributions, including those of a statutory nature. When there is a conflict between the provisions of this Guide and that of legislation authorizing statutory contributions, the legislation will prevail. For example, particular legislation may be specific as to the auditor to be used and the frequency of audit.

Chapter 2

SUMMARY OF DIRECTIVES AND GUIDELINES

1. Federal program managers are responsible, as part of their management control responsibilities, for determining whether recipients have complied with the terms and conditions applicable to the contributions. This responsibility includes the audit of recipients when deemed necessary for this purpose.

2. Program managers' responsibilities in relation to the audit of recipients of contributions should include:

   - selecting appropriate auditors or indicating the acceptability of auditors when retained by the recipient;

   - determining which recipients are to be audited;

   - determining whether the scope, frequency and scheduling of audits meet program requirements;

   - coordinating audits with others involved in the audit of the same recipients; and

   - determining follow-up action required on audit findings.

3. Financial services groups in departments should provide functional guidance and support to program managers in determining compliance to the terms and conditions applicable to the contributions.

4. Internal audit groups are responsible for the audit of internal management policies, practices and controls of contribution programs.

5. Internal audit groups shall not assume the account verification responsibilities of program managers in the audit of recipients of contributions.

6. The right of the Government of Canada to undertake an audit shall be clearly established in every contribution agreement with a recipient, even though an audit may not always be performed.

7. When an audit is deemed necessary and the donor or cognizant department/agency chooses to rely on an opinion from a recipient's external auditor regarding compliance to any or all terms and conditions of the contribution, such an opinion should be supported by audited financial statements and/or a statement of disposition of federal contribution funds.

8. Donor or cognizant departments and agencies shall obtain agreement from audit agents that contribution audits will be conducted according to generally accepted auditing standards and in conformity with the provisions of this policy.

9. Federal departments and agencies should adopt a single audit approach wherever appropriate.

10. Federal departments and agencies should coordinate with one another in developing and carrying out their contribution audit plans by developing the cognizant department concept and by entering into cross-servicing agreements for audit coverage.

11. Where recipients are provincial departments or agencies, the scope of federal contribution audits shall be determined after giving due consideration to prior audits undertaken by the province.

12. Plans for the audit of contribution recipients who are jointly funded by both the federal and provincial governments should be forwarded annually by cognizant federal departments to the appropriate provincial officials.

Chapter 3

ROLES, RESPONSIBILITIES AND RELATIONSHIPS

This chapter will explore and provide guidelines on the general roles, responsibilities and relationships of the following with respect to the audit of contributions:

1. Program Managers
2. Financial Services
3. Internal Audit Groups
4. Legislative Auditors
5. Recipients of Funds
6. Audit Agents

1. Program Managers

a) Responsibilities for Internal Control

Public service managers have the primary responsibility for establishing controls over the activities which they manage, to ensure that a satisfactory level of performance is achieved. "This means that the design, development, implementation and operation of all regular control systems are the responsibility of management."[2]

Thus program managers* within the Government of Canada have the fundamental and primary responsibility, as managers of contribution programs and operations, for the design and maintenance of an adequate system of program and operational controls. As well, managers have the responsibility to ensure that program and operational objectives are being attained.

These internal control responsibilities are shared between the program manager and managers of departmental functional areas that are providing administrative support in the delivery of a contribution

---

* See Glossary of Terms.
2 See Notes.

program. These include functional areas such as finance, general administration, personnel administration and electronic data processing. In certain departments, these functional areas are highly centralized and consequently responsibility for internal control rests primarily with the manager of the function. Thus, in a department with a centralized financial function, the financial officer is primarily responsible for the accounting, financial control and reporting of contribution expenditures. The program manager is primarily responsible for the institution of adequate management controls* over the contribution selection, approval and review processes.[3]

b) Determining Compliance to Terms and Conditions

The program manager, as the individual with direct responsibility for the adequacy of management controls in the delivery of contributions, must determine whether the recipient of contribution funds is complying with program, operational, financial and other terms and conditions of the payment(s). Such review responsibilities are part of the account verification* phase of the accounts payable process. The manager may obtain the help of financial support staff, internal control and systems specialists or contracted audit agents in meeting these responsibilities.

The program manager may determine the recipient's adherence to the contribution terms and conditions through an examination of the claim submitted for reimbursement of costs and/or through an audit of the recipient's books, records and operations. Such examinations are usually completed prior to the final payment. However, in certain circumstances, some additional post-payment verification may be required. This could go beyond an examination of claims submitted and include an on-site audit of the recipient's operations and records. A manager's specific responsibilities for effecting the audit of a contribution recipient are discussed in section 1.c).

---

* See Glossary of Terms.
3 See Notes.

c) Specific Responsibilities for Audit of Recipients

If an examination of the claim submitted by the recipient for reimbursement of costs does not provide adequate evidence of compliance to terms and conditions, the program manager should effect an audit of the recipient's books, records and operations. Such audits, if properly planned and carried out, can provide sufficient assurance to the manager that the terms and conditions of the contribution payment are being met. The complementary roles of financial services and internal audit groups with respect to the audit of recipients of contributions is discussed later in this chapter.

In planning an audit of a recipient, a program manager is responsible for determining whether the audit criteria are in conformity with the provisions of this Guide. That is, he should assess for adequacy: the scope of audit; criteria relating to the selection of recipients for review; and the scheduling and frequency of these audits.

Factors that should be considered when determining the adequacy of the audit scope are:

- timeliness, reliability and scope of audit reports prepared by others, such as provincial auditors or auditors for other levels of government and public accountants acting on behalf of the recipient;

- prior audit experience including the adequacy of the recipient's management controls;

- materiality, dollar magnitude or impact;

- duration of the contribution agreement, and the timing of the audit;

- availability of audit resources; and

- any other mandatory requirements, such as statutes and federal-provincial agreements.

The manager should ensure that every effort is made to coordinate/combine these audits with those initiated by other donors so as to minimize duplication of effort. When individual program requirements for audit have been communicated to the cognizant department*, some refinement of scope could be required if the interests of all are to be accommodated.
The role of cognizant departments is discussed further in Chapter 4, Coordination of Audit Activities.

The program manager may effect these audits through program and review specialists, or as noted previously, through financial support services or contracted audit agents. There should exist an adequate separation of duties so that the contribution audit staff* are not directly involved in the contribution selection, approval and payment processes.

In all cases, it is ultimately the program manager's responsibility to determine the follow-up action necessary as a result of these audits, irrespective of who actually performs them.

Therefore, it is Treasury Board policy that:

1. **Federal program managers are responsible, as part of their management control responsibilities, for determining whether recipients have complied with the terms and conditions applicable to the contributions. This responsibility includes the audit of recipients when deemed necessary for this purpose.**

2. **Program managers' responsibilities in relation to the audit of recipients of contributions should include:**

    - **selecting appropriate auditors or indicating the acceptability of auditors when retained by the recipient;**

    - **determining which recipients are to be audited;**

---

* See Glossary of Terms.

- determining whether the scope, frequency and scheduling of audits meet program requirements;
- coordinating audits with others involved in the audit of the same recipients; and
- determining follow-up action required on audit findings.

2. Financial Services

Financial services groups in departments provide functional guidance and staff support to the program manager in the expenditure management process. The program manager outlines his needs and the financial officer fills the needs by designing, operating and maintaining financial systems for accounting, controlling and reporting of contributions. The role and responsibilities of financial services with respect to the determination of compliance with terms and conditions of contribution agreements would include assisting the program manager and providing guidance on the following: (This role should be contrasted with that of Internal Audit Groups, section 3.)

a) carrying out the manager's account verification responsibilities for contributions, which includes the responsibility for determining whether the recipient has complied with the terms and conditions, by providing support staff and expertise;

b) selecting suitably qualified specialists as agents, when needed for the audit of recipients of contributions;

c) determining or assessing the adequacy of audit criteria such as scope of audit, selection of recipients for audit and scheduling;

d) ensuring that contribution agreements are drawn up in a manner which provides for a proper basis for accountability and audit;

e) interpreting findings arising out of audits of recipients.

Departmental policy and procedures to complement the policy in this Guide should be included in each department's financial management manual.

Therefore, it is Treasury Board policy that:

3. Financial services groups in departments should provide functional guidance and support to program managers in determining compliance to the terms and conditions applicable to the contributions.

3. Internal Audit Groups

The Standards for Internal Audit in the Government of Canada[4] require that internal audit groups be responsible for the evaluation of policies, processes, systems, procedures, activities and operations within federal government departments. As such, internal audit groups are responsible for the audit of operations in support of contribution programs as they would be for any other departmental operation.

a) Internal Audit of Contribution Programs

Specifically, internal auditing of contribution programs would include an assessment of:

i) the adequacy of internal controls in contribution systems and processes relating to selection, approval, payment and review of projects and program operations;

ii) the propriety of transactions;

iii) general compliance to terms and conditions of payments;

iv) the economy, efficiency and administrative effectiveness of contribution operations and delivery systems; and

v) the adequacy of audits of recipients that are effected by program managers.

It should be noted that internal auditing assesses the administrative effectiveness of the operation of contribution programs whereas program evaluation* focuses on program objectives and results.

---

* See Glossary of Terms.

4 See Notes.

b) Audit of Recipients

As noted previously, the audit of a recipient's operations for the purpose of determining compliance to terms and conditions of contribution agreements is part of the account verification process for which program management is primarily responsible. As such, internal audit groups should not be responsible for the establishment of contribution audit criteria or participate in the administrative arrangements for carrying out regular audits of contribution recipients. Otherwise, internal audit would be participating as a control element in the contributions program management control process, and would therefore be unable to objectively assess that part of the management system at a later date. This assessment by internal audit groups may include auditing the books, records and operations of recipients on a sample basis but only as part of an overall audit of the operations of a particular contribution program to determine the adequacy of management controls.

The purpose of audits of recipients by internal audit groups then is not primarily to determine whether a particular recipient has complied with the contribution terms and conditions, but to determine the adequacy of the contribution control system as a whole.

Internal audit groups may provide on an exception basis, consultative advice to program managers relative to the audit of recipients through the following activities:

i) by assessing the adequacy of proposed audit clauses in pro forma or standardized contribution agreements;

ii) by reviewing major contracts that are to be entered into with audit agents for adequacy of audit coverage prior to signing; and

iii) by providing interpretive advice on contentious audit findings.

It is important to note that internal audit's role is rather different from that of financial services with respect to the above three activities. Consultative advice is to be provided on an exception basis and therefore internal audit does not become part of the ongoing administrative and management control processes.

c) Compliance to Central Agency Policies

Internal audit groups of donor departments and agencies should include in their annual and long range audit plans an assessment of compliance to the Treasury Board policy on contributions as expressed in the Guide on Financial Administration for Departments and Agencies of the Government of Canada and for compliance to this Guide.

Therefore, it is Treasury Board policy that:

4. **Internal audit groups are responsible for the audit of internal management policies, practices and controls of contribution programs.**

5. **Internal audit groups shall not assume the account verification responsibilities of program managers in the audit of recipients of contributions.**

4. Legislative Auditors

Audits of federal contribution payments are performed by the Office of the Auditor General of Canada, by the provincial legislative auditors, by provincial Treasury/Comptroller's officials, and by certain provincial departments and agencies who are recipients of federal funds. The nature and extent of audit done by each of these groups is predicated on their legislative and/or contractual responsibilities assumed on behalf of their governments.

For example, under Section 7 of the Auditor General Act, the Auditor General of Canada may verify, as is the case for all other types of expenditures, that contribution payments are properly authorized, recorded and the monies expended with due regard for economy and efficiency. Furthermore, he may determine whether satisfactory procedures have been established to measure and report on the effectiveness of (contribution) programs. Each of the provincial legislative auditors has similar although not identical responsibilities with regard to auditing contributions received from the Government of Canada in terms of revenue, and in turn, in terms of provincial expenditures.

In addition, the provincial legislative auditor performs audits of specific programs under federal-provincial agreements. For example, the Auditor General/Provincial Auditor for most provinces and/or officials of the Treasury or Comptroller's office certify certain shared cost claims in accordance with existing agreements. As well, various provincial government departments and agencies perform their own internal audit of those provincial programs which are partly funded through federal contributions.

5. Recipients of Funds

Payment of a contribution is normally pursuant to a claim for reimbursement of expenditures by a recipient according to a contribution agreement. Treasury Board policy on contributions[5] requires that the final settlement of a contribution should be made only after the donor department has satisfied itself that the recipient has met the terms and conditions of the contribution agreement. One method by which this may be accomplished is through an audit of the recipient. Therefore, the right of the Government of Canada to undertake an audit shall be clearly established in every contribution agreement with a recipient, even though an audit may not always be performed.

To meet the requirements of the agreement, the recipient of funds must maintain adequate books and records of its operations, and preferably a separate accounting for the use of contribution funds, to enable the auditor to arrive at an opinion as to whether the terms and conditions of payment are met. Donor departments and agencies should establish minimum acceptable standards for accounting and management controls according to the type of recipient involved.

Recipients of funds may be permitted to engage external auditors of their choice to express an opinion, for the benefit of the donor department or agency, when an audit is deemed necessary to determine compliance to any or all the terms and conditions of payment. The qualifications required of these auditors are discussed

5 See Notes.

in section 6. on Audit Agents. In such cases, the recipient should be asked to indicate in the letter of engagement for audit entered into with the external auditor, that audited financial statements and/or a statement of disposition of federal contribution funds, should be supplied in support of the audit opinion.

Therefore, it is Treasury Board policy that:

6. **The right of the Government of Canada to undertake an audit shall be clearly established in every contribution agreement with a recipient, even though an audit may not always be performed.**

7. **When an audit is deemed necessary and the donor or cognizant department/agency chooses to rely on an opinion from a recipient's external auditor regarding compliance to any or all terms and conditions of the contribution, such an opinion should be supported by audited financial statements and/or a statement of disposition of federal contribution funds.**

6. Audit Agents

An audit of a recipient may be conducted by officials of the donor or cognizant department/agency, or by one or more of the following agents:

- Audit Services Bureau of the Department of Supply and Services;
- external auditors retained by the recipient;
- independent auditors retained by the donor or cognizant department/agency.

The donor or cognizant department or agency must establish the most appropriate alternative by giving due consideration to competence, independence, and efficiency. When an audit is conducted by an agent of the department or agency, responsibility for the adequacy of the audit remains with the donor department or agency and cannot be delegated to the agent. As well, the scope and timing of the audit to be performed must be acceptable to the donor.

When the donor proposes to accept an audit undertaken by external auditors retained by the recipient, the donor will take reasonable care to ensure such confidence is justified. The steps should include the following:

a) determining that the auditors are independent and appropriately qualified; and

b) direct communication with the auditors to ensure they are aware that the donor will be relying on their audit, and jointly with the recipient to obtain agreement on the following:

   i) that the audit will be of sufficient scope to be acceptable to the donor or cognizant department;

   ii) the audit agent will perform according to generally accepted auditing standards and in conformity with the provisions of this policy;

   iii) the donor or cognizant department should have access to audit programs and working papers for a period of three (3) years from the date of audit and be provided with information relative to the audit, as needed; and as noted in the previous section,

   iv) audited financial statements and/or a statement of disposition of federal contribution funds should be provided in support of the audit opinion, and irregularities reported immediately.

When the audit is undertaken by external auditors retained by the recipient, the cost of the audit may be included in the contribution, if the approved allowable expenses include audit fees, and if this does not contravene the Treasury Board terms and conditions applicable to the contributions. In all other instances audit costs would be charged to the appropriate program's operating expenditures vote.

Therefore, it is Treasury Board policy that:

8. Donor or cognizant departments and agencies shall obtain agreement from audit agents that contribution audits will be conducted according to generally accepted auditing standards and in conformity with the provisions of this policy.

Chapter 4

COORDINATION OF AUDIT ACTIVITIES

1. Coordination of Audits Among Federal Departments

Presently, many organizations are in receipt of federal contributions from more than one federal source. Quite often separate audits are performed of each contribution received, resulting in multiple audits of the recipient's systems of control and operations. Such multiple audits result in repeated disruption of the recipient's operations and divert audit resources that could be utilized for contributions presently unaudited.

Audit coordination could be achieved through a single audit approach whereby auditors representing donor departments at the federal level effect one audit of the common recipient. The audit would test the systems of control to determine overall reliability and through appropriate sampling determine compliance to terms and conditions of individual contribution agreements and to the pertinent statutes and regulations.

2. Coordination of Audits with Provinces

In many instances, the primary recipient of a federal contribution is a provincial department. Sub-recipients are often municipalities and provincial agencies. In other instances, both the federal and provincial governments as co-donors directly fund a common recipient within a province. In both cases, federal, provincial, municipal and agency auditors could each conceivably audit the same systems of control for contributions. Some major federal contributions are audited or verified as many as six or more times. (See Appendix "A"). Although the federal and provincial audit and account verification objectives and procedures differ, and in that sense audit activity is not strictly duplicated, the same systems and transactions are reviewed each time.

Federal donor departments can coordinate their audits with the province through the single audit approach where the common recipient is of a manageable size for audit purposes, for example, a provincial government department. The single audit should be performed by an auditor acceptable to both levels of government to achieve maximum coordination.

When a single federal-provincial audit is not possible or appropriate, prior provincial audits should be relied upon by federal departments if found adequate, and the scope of federal audits restricted to areas not previously covered. Federal departments will maintain the right to audit should prior audits not meet their needs.

Where a federal contribution to a province is extremely large, such as is the case for the Canada Assistance Plan, and determining compliance to the terms and conditions is very complex, it is recommended that the scope of the single audit be restricted to that particular contribution to keep the audit to a manageable size.

Many existing federal contribution agreements with the provinces require audit and accounting certificates on the monthly instalments made. This appears to create an administrative burden on the part of the recipient provinces. Such agreements should be re-examined, and where appropriate, modified to call for annual reports of compliance.

3. Cross-Servicing Agreements

Cross-servicing* between departments must be encouraged if a single audit approach is to be successful. Cross-servicing in this context is the request from one federal department to another to act on their behalf when performing an audit of a recipient receiving funds from more than one federal department or agency.

The single audit approach should determine whether activities have been properly conducted and compliance to all requirements exist. Audits would normally determine that:

---

* See Glossary of Terms.

- recipients have complied with regulations, laws, and program requirements in the administration of funds received;

- financial and other reports required by federal departments contain reliable and accurate information;

- financial statements are presented fairly;

- internal procedures have been established to meet the needs of federal contribution activity.

Cross-servicing agreements should ensure adequate audit coverage for all parties concerned, and require that audit reports identify all contributions by program and department. The sharing of audit costs would also form part of the agreement. The grouping of departments that should enter into cross-servicing agreements is discussed in the section 4. on Cognizant Department.

4. Cognizant Department

The term cognizant department* is used to describe the department with the predominant interest in the recipient. Predominant in this context normally refers to the donor department that has made the largest dollar contribution. The program expertise resident within the department, and the size of the client population served, are other factors that must be considered in deciding on the cognizant department. It will be necessary for donor departments to develop over a period of years a grouping of recipients by departments, which could be added to or modified by the lead department in agreement with other involved departments. The Office of the Comptroller General would play an advisory role in such discussions among participating donor departments.

Once the department with the predominant interest has been identified, that department would assume the following responsibilities:

- provide technical advice and act as a liaison between federal departments, provincial auditors, independent auditors and recipients;

---

* See Glossary of Terms.

- evaluate the audit work of non-federal auditors and provide results to other departments and agencies;

- ensure that all audit reports of recipients are received, reviewed and forwarded to appropriate departmental officials; and

- assure that satisfactory audit coverage is provided on a timely basis.

5. Audit Planning

The effective use of audit resources can be improved by better planning. In order to improve coordination, cognizant departments at the federal level should take the lead for audit planning purposes. Departments should coordinate with one another in developing and carrying out their audit plans through the cognizant departments. Federal departments' audit approaches should be as consistent as possible in the area of contribution audits as per Part II of this Guide. It is recognized that compliance audit requirements will vary and must reflect legislation and individual contribution agreements.

The cognizant department must first become aware of the audit requirements of the various programs for which they have assumed the lead role. The focus of audit coordination should be based on the commonality of recipients and of program areas. Once the audit requirements have been identified, this information would be incorporated into the cognizant department's annual plan for the audit of recipients of contributions.

If a recipient is jointly funded by both the federal and provincial governments, the annual plan for the audit of such recipients would be forwarded to officials of the provincial department or agency who have the responsibility to act on behalf of the province. Ideally, the audit plan of the province should be exchanged with that of the cognizant federal department at the same time. Any audit duplication could then be eliminated and the plans revised. Audit results should be made available to both federal and provincial parties. Federal departments should increase their reliance on audits performed by provincial auditors or auditors for local governments as should provinces rely on federal audit efforts. The reliance aspect was dealt with earlier in this document.

The components of plans for the audit of recipients should encompass such items as:

- programs selected for audit
- who will conduct audit
- frequency/scope
- location
- reimbursement of audit costs

Therefore, it is Treasury Board policy that:

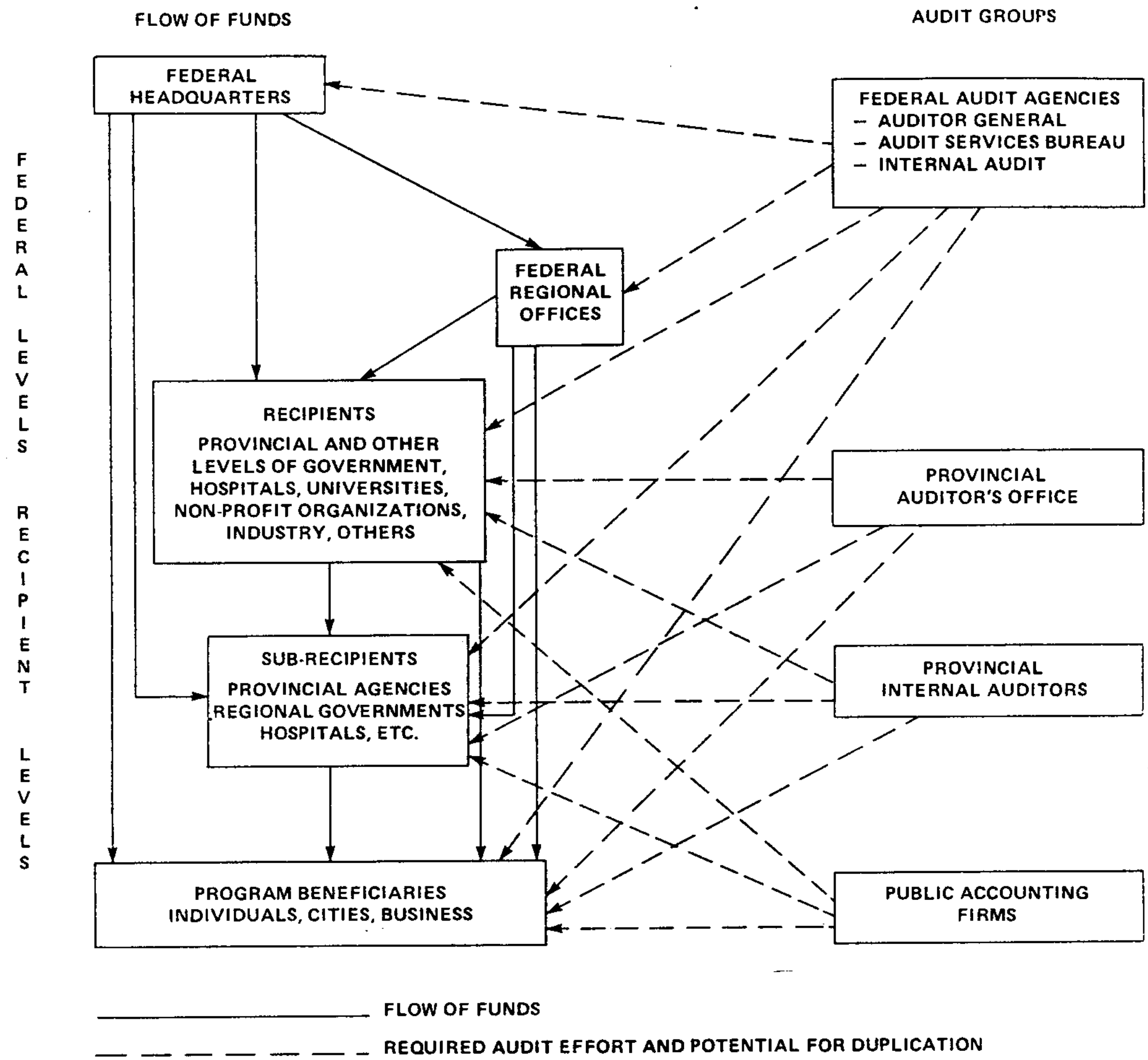
9. Federal departments and agencies should adopt a single audit approach wherever appropriate.

10. Federal departments and agencies should coordinate with one another in developing and carrying out their contribution audit plans by developing the cognizant department concept and by entering into cross-servicing agreements for audit coverage.

11. Where recipients are provincial departments or agencies, the scope of federal contribution audits shall be determined after giving due consideration to prior audits undertaken by the province.

12. Plans for the audit of contribution recipients who are jointly funded by both the federal and provincial governments should be forwarded annually by cognizant federal departments to the appropriate provincial officials.

STRUCTURE FOR FEDERAL CONTRIBUTIONS



THIS DISPLAY REPRESENTS ONE CONTRIBUTION PROGRAM. AS MANY AS SIX FEDERAL DEPARTMENTS COULD BE FUNDING ONE RECIPIENT AND THE RESULTING AUDIT ACTIVITY COULD BE MULTIPLIED BY SIX. TO DIAGRAM THE POTENTIAL AUDIT EFFORT WOULD RESULT IN A COMPLETE MAZE.

Notes

1 Government of Canada, Treasury Board. Guide on Financial Administration for Departments and Agencies of the Government of Canada, second edition. (Minister of Supply and Services Canada, Hull, 1979) Chapter 9.

2 Government of Canada, Office of the Comptroller General, Standards for Internal Audit in the Government of Canada, (Minister of Supply and Services Canada, Hull, 1982) p. 35.

3 The relative roles and responsibilities of program and financial officers with respect to financial management are discussed in greater detail in the Guide on Financial Administration Chapter 3. As well, suggested reporting relationships are indicated there.

4 Standards for Internal Audit in the Government of Canada, p. 19

5 Guide on Financial Administration, Chapter 9.

Glossary of Terms

Account Verification

A verification of an invoice, statement, or a claim carried out to ensure that amounts are properly payable.

Auditor or Audit Staff

An auditor is a person who examines and reports on accounts and records, either in a professional capacity or as an employee.

Compliance

Acting in accordance with the terms and conditions in the contribution agreement.

Contribution

A conditional transfer payment made to a recipient, subject to audit, and for which the government will not receive any goods or services.

Contribution Agreement

An undertaking between a donor department or agency and a prospective recipient describing the obligations of each and the terms and conditions for payment. The agreement may be formal or it may be as informal as an exchange of letters.

Cross-Servicing

An arrangement where donor departments act on behalf of other federal donor departments in arranging for and administering audits under the contribution agreements.

Cognizant Department

A department which has the predominant interest in the recipient; whether it be financial or other, and the expertise required to administer the audits of a class of recipient. This department is given authority by the other participating federal donor departments under a cross servicing agreement to arrange a single audit of the common recipient.

Grant

An unconditional transfer payment made to a recipient for which the government will not receive any goods or services. There is no provision for audit.

Independent or External Auditor

An appropriately qualified auditor who is recognized to be independent of the recipient, i.e., is not an employee or an agent.

Management Controls

The plan of organization and all the coordinated methods and measures adopted by management to safeguard assets, ensure the accuracy and reliability of accounting and operational data, promote operational and program efficiency and effectiveness and maintain adherence to prescribed policies.

Program Evaluation

The periodic, independent and objective review and assessment of a program to determine, in light of present circumstance, the adequacy of its objectives, its design and its results both intended and unintended. Evaluations will call into question the very existence of the program. Matters such as the rationale for the program, its impact on the public, and its cost effectiveness as compared with alternative means of program delivery are reviewed.

Program Manager

A manager with direct responsibility for an individual program or program component.

Recipient

An individual, organization, or province which receives federal contribution funds pursuant to a contribution agreement.

Single Audit Approach

A coordinated approach to auditing whereby auditors representing all the donors effect a single audit of the common recipient to verify compliance to the terms and conditions of the contribution agreements and to the pertinent statutes and regulations.