

**Department of Indian Affairs and Northern Development
Corporate Services
Departmental Audit and Evaluation Branch**

Prepared by:

Elaine Maheu, Audit Manager

Assisted by:

**René LeBouthillier
Audit Trainee**

**Audit of the Indian Economic
Development Loan
Guarantee Program
Year Ended March 31, 2001
Project 01/10
February 2002**

Table of Contents

	<u>Page</u>
Section 1 - Statement of Responsibility	1
Section 2 - DAEB Audit Report	2
Opinion on the Statement of Transactions	2
Other Matters for the Departmental Audit and Evaluation Committee's Attention	2
Additional Information	2
Section 3 - Audit Objectives, Scope & Methodology	3
Objectives	3
Scope	3
Methodology	3
Section 4 - Statement of Transactions for the Year Ended March 31, 2001	4

Annex

Terms of Reference

Section 1 - Statement of Responsibility

The financial statement in this report is prepared by the Finance Branch in accordance with the accounting policies set out in Note 2 to the financial statement on a basis consistent with that of the preceding year.

Responsibility for the integrity and objectivity of the financial statement rests with the Financial Policies, Systems and Accounting Directorate. The information included in this financial statement is based on the Directorate's best estimates and judgement, with due consideration given to materiality.

To fulfill its accounting and reporting responsibilities, the Financial Policies, Systems and Accounting Directorate maintains systems of financial management and internal controls which give due consideration to costs, benefits and risks. These systems are designed to provide reasonable assurance that transactions are properly authorized, are executed in accordance with prescribed regulations, and are properly recorded so as to maintain accountability of public money and safeguarding of the assets of the Program. The regions maintain the accounts of the Indian Economic Development Loan Guarantee Program, a decentralized record of the Program's financial transactions. The Directorate obtains information from the regions as required to meet reporting requirements.

The Directorate presents the financial statement to the Departmental Audit and Evaluation Branch who audits them and provides an objective opinion to the Departmental Audit and Evaluation Committee. The mandate of the Departmental Audit and Evaluation Branch in that respect are contained in the Terms of Reference at the end of this report.

The result of Departmental Audit and Evaluation Branch's examination together with any recommendations it may have with respect to the financial statement and accompanying audit opinion are tabled bi-annually at the Department Audit and Evaluation Committee meetings which are chaired by the Deputy Minister of Indian and Northern Affairs Canada.

On behalf of the Financial Policies, Systems and Accounting Directorate.

Sylvie Charlebois
A/Director
Financial Policies, Systems and Accounting Directorate

Section 2 - DAEB Audit Report

Opinion on the Statement of Transactions

I have audited the statement of transactions of the Indian Economic Development Loan Guarantee Program for the year ended March 31, 2001. This statement is the responsibility of the Financial Policies, Systems and Accounting Directorate. My responsibility, as required by the Terms of Reference, is to express an opinion on this financial statement based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by the Directorate, as well as evaluating the overall financial statement presentation.

In my opinion, this financial statement presents fairly, in all material respects, the transactions of the Indian Economic Development Loan Guarantee Program for the year ended March 31, 2001 in accordance with the stated accounting policies as set out in Note 2 to the financial statement. I also report that, in my opinion, these accounting policies have been applied, in all material respects, on a basis consistent with that of the preceding year.

Other Matters for the Departmental Audit and Evaluation Committee's Attention

In forming my opinion as to the fair presentation of these financial statements in accordance with the stated accounting policies, nothing has come to my attention that is of such importance that I should draw to the attention of the Departmental Audit and Evaluation Committee. Our examination did not reveal any areas of significant weaknesses in the management practices and controls.

Additional Information

Additional information and comments on the financial statement are included in my audit observations which will be communicated in a separate letter to the Management of the Financial Policies, Systems and Accounting Directorate.

Jules Hébert, Director General
Departmental Audit and Evaluation Branch
January 18, 2002

Section 3 - Audit Objectives, Scope & Methodology

Objectives

The objectives of the audit were to examine the transactions and activities of the Indian Economic Development Loan Guarantee Program in order to:

- express an opinion on the statement of transactions for the year ended March 31, 2001;
- review and assess the adequacy of the internal controls and systems in place; and,
- ensure compliance with significant accounting policies and departmental guidelines.

Scope

The audit was conducted at headquarters. Where required, additional information was obtained from the Regions.

The principal focus of our work was to express an opinion on the financial transactions. As part of this work, we reviewed the accounting records and internal controls in place to ensure that these transactions were free of material misstatements.

Methodology

The attest audit was performed in accordance with generally accepted auditing standards.

Our audit approach included such elements as the following:

- information gathering activities such as file and documentation review;
- selection of a sample of loans from the departmental financial systems for direct confirmation by financial institutions;
- interviews with management and staff from headquarters Finance Branch;
- review of defaulted loans schedules and accounts receivable schedules;
- analytical review procedures;
- review of adequacy of contingent liabilities;
- review of write-offs;
- review of internal controls in place to ensure adequacy and completeness of transactions;
- verification of reported amounts in the Public Accounts of Canada; and,
- review of financial statement presentation.

Section 4 - Statement of Transactions for the Year Ended March 31, 2001

	2000-01	1998-99
Total amount authorized for payments in respect of guarantees issued pursuant to <i>Vote 5c, Appropriation Act No. 4, 1987-88</i>	\$60,000,000	\$60,000,000
Cumulative amount of payments made to date to implement previous guarantees (principal and interest) <i>(Note 2(a), 3)</i>	<u>\$27,437,417</u>	<u>\$27,235,487</u>
Free balance available for future payments <i>(Note 2(b))</i>	\$32,562,583	\$32,764,513
Less: Maximum contingent liability <i>(Note 2(c)(d))</i>	<u>\$ 2,522,848</u>	<u>\$ 2,687,352</u>
Amount of authorities remaining and still available for further loan guarantees	<u>\$30,039,735</u>	<u>\$30,038,062</u>

Notes to the Statement of Transactions of the Indian Economic Development Loan Guarantee Program

1) Authority and Objective

The Indian Economic Development Loan Guarantee Program is governed by *Appropriation Act No. 4 1987-88, vote 5c*.

The Indian Economic Development Loan Guarantee Program is available to on-reserve Indian entrepreneurs to overcome the security restrictions under Section 89 of the *Indian Act* and to enable them to develop long-term credit relationship with mainstream financial institutions. This program is complementary to Industry Canada's Aboriginal Business Loan Insurance Program, which is available to all off-reserve Aboriginal business enterprises and on-reserve corporations.

The administration, monitoring and control of the Loan Guarantee Program is the responsibility of headquarters Financial Policies, Systems and Accounting Directorate in collaboration with regional Corporate Services.

2) Significant accounting policies

- a) **Payments made:** An amount is charged when the department makes a payment to honour the guarantee on a defaulted loan. Payments are made from the Consolidated Revenue Fund from the Loan Guarantee Account. The loan is then removed from the total contingent liabilities report and becomes an account receivable for the department.
- b) **Free balance:** This amount is calculated by deducting the amount of payments made to date from the 60 million dollars originally appropriated.
- c) **Maximum contingent liability:** This amount represents the maximum amount guaranteed by the department for which they may be liable. It is calculated based on the percentage guaranteed multiplied by the remaining outstanding principal plus accrued interest on the loan.
- d) **Use of estimates:** The preparation of the financial statement in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and the disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates.

3) Reimbursement of Defaulted Loans

During the period 2000-01, the department reimbursed financial institutions to honour guarantees on defaulted loans for a total of \$33,858. During the period, 1999-2000, INAC reimbursed a total of \$168,071 defaulted loans. During the period 1998-1999, the department made no reimbursements for default loans.

Balance as at March 31, 1999		\$32,764,513
Less: Payments made from the Consolidated Revenue		
Fund of guaranteed loans issued out of the Indian economic development account		
For the year 1999-2000	168,072	
For the year 2000-2001	<u>33,858</u>	\$ 201,930
Free balance available for future payments as at March 31, 2001		<u>\$32,562,583</u>

Terms of Reference

Terms of Reference

Audit of the Indian Economic Development Loan Guarantee Program

- Purpose:** To comply with the 1980 instructions from Treasury Board to the Deputy Minister to conduct annual financial attest audits of this fund.
- Background:** The administration, monitoring and control of the funds are the responsibilities of the regional Corporate Services (Finance), working in collaboration with headquarters Finance Branch. In the case of the Guarantee Loan Program, headquarters Finance summarizes the regional reports forwarded by the regions and/or the districts.
- Objectives:** To express an opinion on the financial statements of the Guarantee Loan Program of IEDF as at March 31, 2001.
- To assess the adequacy of Guarantee Loan Program activities in each region and headquarter regarding:
- government financial management reporting and accountability;
 - financial administration and other financial criteria that complement the decision-making process;
 - compliance with significant departmental financial policies, financial guidelines and internal communication thereof; and
 - the system of internal control to substantiate planning, organizing and controlling elements to promote overall efficiency.
- Scope:** The audit is to be conducted at headquarters and will include:
- the presentation of the Guarantee Loan reports as at March 31, 2001 and
 - reporting and administrative functions of the related fund.

Approved:

Gordon Shanks
Assistant Deputy Minister
Corporate Services
September 7, 2001