

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

Audit report prepared by:

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**Financial Audit of Indian
Economic Development Fund,
Loan Guarantee Program
Year Ended March 31, 1996**

Project 96/03

March 1997

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Executive Summary

The objectives of this audit were to examine the transactions and activities of the Indian Economic Development Fund (IEDF) at headquarters in order to:

- express an opinion on the financial schedule of the Loan Guarantee Program as at March 31, 1996.
- review and assess the adequacy of the Loan Guarantee Program activities regarding:
 - ▶ financial management reporting and accountability;
 - ▶ financial administration and other financial criteria that complement the decision-making process; and
 - ▶ compliance with significant departmental financial policies, guidelines and internal communications.

The scope of the audit required an examination of loan balances, records, and transactions at headquarters. Our audit was performed in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary under the circumstances. These standards included file and documentation review on loans based on a judgemental sampling basis, interviews with management, and direct confirmation of outstanding balances.

Our opinion is restricted to those guarantees reflected in the departmental records.

The principle focus of our work was upon the attestation component of the audit.

General assessment

Financial Information:

In our opinion, the Loan Guarantee Program Schedule presents fairly, in all material respects, the outstanding guarantees as reflected by departmental records, payments made and maximum contingent liabilities.

Financial Accounting Environment:

Our examination did not reveal any areas of significant deficiency in management practices and controls.

Introduction

This financial audit of the Indian Economic Development Fund Loan Guarantee Program, for the fiscal year ended March 31, 1996 was conducted at headquarters. The previous audit of the IEDF was conducted by the Departmental Audit and Evaluation Branch (DAEB) for the year ended March 31, 1995.

The Indian Economic Development Fund Loan Guarantee Program is available to on-reserve Indian entrepreneurs to overcome the security restrictions under Section 89 of the *Indian Act* and enable them to develop long-term credit relationship with mainstream banking 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.

Our report presents the Fund Schedule and the audit report for the Guarantee Loan Program.

Audit Objectives, Scope and Methodology

Objectives

The objectives of the audit were to examine the transactions and activities of the Indian Economic Development Fund at headquarters in order to:

- express an opinion on the financial schedule of the Loan Guarantee Program statements as at March 31, 1996.
- review and assess the adequacy of IEDF activities regarding:

- ▶ financial management reporting and accountability;
- ▶ financial administration and other financial criteria that complement the decision-making process; and
- ▶ compliance with significant departmental financial policies, guidelines, and internal communications.

Scope

The scope of the audit was as follows:

Loan Guarantee Program:

- Confirmation, at the national level, of the existence of the principal outstanding and related maximum contingent liability of the Loan Guarantee Program as at March 31, 1996; and
- Presentation of the Loan Guarantee Program Schedule as at March 31, 1996, and expression of an opinion on the recorded loan guarantees outstanding, the total claims paid, and the free balance remaining.

Scope Limitation

Our opinion on the Loan Guarantee Program is restricted to those guarantees reflected in the departmental records.

The principle focus of our work was upon the attestation component of the scope and expressing an opinion. Our review of the functional aspects, financial environment and internal controls of the fund was undertaken as a supplementary aspect of the audit.

Methodology

The audit opinion which form the output of the attestation component are based upon the application of generally accepted auditing standards.

Our audit approach included the following elements:

- initial information gathering activities at headquarters designed to provide sufficient data to allow the updating of existing audit programs, the selection of a sample of loans, and the gathering of audit evidence available at headquarters;
- direct confirmation of balances for the Loan Guarantee Program;
- interviews with headquarters Finance personnel and an examination of other supporting documentation;
- the accounting systems on which we based our audit tests were the loan guarantees maintained by headquarters, Finance Branch; and
- our audit methodology was based upon a selection of loans representing a sample.

General Assessment

Loan Guarantee Program

In our opinion, the Loan Guarantee Program Schedule presents fairly, in all material respects, the outstanding guarantees as reflected by departmental records, payments made and maximum contingent liabilities.

Financial Accounting Environment

Our examination did not reveal any areas of significant deficiency in management practices and controls and we concluded that the Loan Guarantee Program is under sound management.

DAEB Audit Report

We have examined the Loan Guarantee Program Schedule of the Departmental of Indian Affairs and Northern Development - Indian Economic Development Fund as at March 31, 1996. The schedule is the responsibility of the departmental management. Our responsibility is to express an opinion on these schedule based on our audit.

Our examination was made in accordance with generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance that the schedule is free of material misstatement. The audit included examination of evidence, on a test basis, supporting the amounts and disclosures in the schedule. The audit also included assessing the accounting principles used and significant estimates made, as well as evaluating the overall schedule presentation.

In our opinion, this financial schedule presents fairly, in all material respects, the loan guarantees outstanding as reflected by departmental records, the total claims paid, and the free balance as at March 31, 1996, in accordance with the accounting policies.

Departmental Audit and Evaluation Branch

Hull, Quebec

January 31, 1997

Indian and Northern Affairs Canada
Indian Economic Development Program
Loan Guarantee Fund Schedule
as at March 31, 1996

Amount authorized that may be paid in respect of guarantees authorized pursuant to Vote 5C, Appropriation Act No. 3, 1987-88	\$60,000,000
Total claims paid (principal, interest and costs)*	<u>\$26,977,894</u>
Free balance available for future claim payments	\$ 33,022,106
Less: Contingent Liability	<u>\$ 2,064,973</u>
Funds available for further loan guarantees	<u>\$30,957,133</u>

* \$ 28,935 has been paid as default loans in 1995-1996

Notes to Schedule:

Significant accounting policies:

- a) Loan guarantees outstanding represent the outstanding principal plus accrued interest as at March 31, 1996 on term guaranteed loans as well as the maximum amount of credit approved for line of credit guaranteed loans outstanding as at March 31, 1996 (as recorded in the departmental accounts for which the government may be liable).
- b) Total claims paid are recorded using the cash basis of accounting.
- c) The free balance is calculated by deducting the amount of claims paid, as per legal advice.