

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

Prepared by:

**André Côté
Audit Manager**

and

**Guy Tousignant
Audit and Review Officer**

**Financial Audit of
Indian Economic Development Fund,
Loan Guarantee Program
Year Ended March 31, 1997**

**Project 97/04
March 1998**

Table of Contents

	Page
Executive Summary	i
General Assessment	i
Section 1 - Introduction	1
Section 2 - Audit Objectives, Scope and Methodology	2
Objectives	2
Scope	2
Scope Limitation	2
Methodology	3
Section 3 - General Assessment	4
Financial Information	4
Financial Accounting Environment	4
DAEB Audit Report	4
Section 4 - Loan Guarantee Program Schedule as at March 31, 1997	5
Terms of Reference	

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, 1997.
- 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 governmental and departmental financial policies and 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 procedures included file and documentation review, interviews with management, and on a sampling basis, direct confirmation of loan existence and outstanding balances.

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

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

General Assessment

Financial Information:

In our opinion, the Loan Guarantee Fund Schedule presents fairly, in all material respects, the total amount of payments made and the maximum contingent liabilities.

Financial Accounting Environment:

Our examination did not reveal any areas of significant deficiency in management practices and controls. However, some improvements have been suggested to the auditee.

This financial audit of the Indian Economic Development Fund, Loan Guarantee Program, for the fiscal year ended March 31, 1997 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, 1996.

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 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.

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

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, 1997.
- 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 governmental and departmental financial policies and 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, 1997; and
- Presentation of the Loan Guarantee Fund Schedule as at March 31, 1997, and expression of an opinion on the recorded loan guarantees outstanding, the total payments made, 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 principal 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 forms the output of the attestation component is 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 by financial institutions of balances for a judgemental sample of outstanding loans as reflected in the information system maintained by Finance Branch at headquarters;
- interviews with headquarters Finance Branch personnel and an examination of other supporting documentation.

Financial Information

In our opinion, the Loan Guarantee Fund Schedule presents fairly, in all material respects, the total payments made and the maximum contingent liabilities.

Financial Accounting Environment

Our examination did not reveal any areas of significant deficiency in management practices and controls. However, some improvements have been suggested to the auditee in order to improve the “quality assurance” function to be exercised in the management of the program and two regions should be notified of weaknesses in the management of their financial information.

DAEB Audit Report

We have examined the Loan Guarantee Fund Schedule of the Department of Indian Affairs and Northern Development - Indian Economic Development Fund as at March 31, 1997. The schedule is the responsibility of the departmental management. Our responsibility is to express an opinion on this 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 and in accordance with applicable accounting policies, payments made to implement previous guarantees, the maximum contingent liabilities, and the free balance as at March 31, 1997.

Departmental Audit and Evaluation Branch
Hull, Quebec
January 30, 1998

Section 4 -

Loan Guarantee Program Schedule as at March 31, 1997

Amount authorized that may be paid in respect of guarantees authorized pursuant to Vote 5C, Appropriation <u>Act No. 4, 1987-88</u>	\$60,000,000
Total amount of payments made to implement previous guarantees (principal, interest and costs) <i>* Note 1)</i>	<u>\$26,977,894</u>
Free balance available for future payments	\$33,022,106
Less: Maximum contingent liability <i>* Note 2)</i>	<u>\$ 2,554,011</u>
Amount authorized for further loan guarantees	<u>\$ 30,468.095</u>

Notes to Schedule

- 1) No payments have been made by the Department in the course of the 1996-1997 fiscal year related to this program. The total payments made remains at the same level as at March 31, 1996
- 2) **Significant accounting policies:**
- a) **Payments made:** An amount is charged when the department makes a payment to honour the guarantee on a defaulting loan. The loan is then removed from the "Guarantee Loan Management System" and entered in the "Guarantee Loan Management System, Claims Receivable".
 - b) **Free balance:** Is calculated by deducting the amount of payments made, from the 60 millions dollars authorized, as per legal advice.

- c) **Maximum contingent liability:** represents the outstanding principal plus accrued interest as at March 31, 1997, on term guaranteed loans as well as the maximum amount of credit approved for line of credit guaranteed loans outstanding as at March 31, 1997 (*as recorded in the departmental accounts for which the government may be liable*).

Terms of Reference**Financial Audit of the Indian Economic
Development Fund
(Guarantee Loan Program)****(IEDF 1996-1997)
as at
March 31, 1997****Mandat****Vérification financière du fonds de
développement économique aux Indiens
(Programme de prêts garantis)****(FDEI 1996-1997)
au
31 mars 1997****Purpose**

To comply with the 1980 instructions from Treasury Board to the Deputy Minister to conduct annual financial attest audits of this fund beginning March 31, 1980.

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, 1997.

To assess the adequacy of Guarantee Loan Program activities in each region and headquarter regarding:

- government financial management reporting and accountability;

BUT

De se conformer aux exigences émises en 1980 par le Conseil du Trésor et adressées au sous-ministre d'effectuer une vérification annuelle du fonds ci-haut mentionné, et ce à compter du 31 mars 1980.

Historique

La gestion et le contrôle du fonds de développement économique sont dévolus aux différentes régions sous l'égide des Directions régionales des services ministériels (finance), en collaboration avec la Direction générale des finances de l'Administration centrale. Relativement au Programme de prêts garantis, la Direction générale des finances de l'Administration centrale comptabilise les différents rapports soumis par les régions et/ou les districts.

Objectifs

Exprimer une opinion sur les états financiers du Programme de prêts garantis du FDEI au 31 mars 1997.

Évaluer l'efficacité des activités du Programme de prêts garantis pour chacune des régions et de l'Administration centrale relativement à /aux :

- mécanismes de rapports financiers et de gestion ainsi que l'imputabilité;

- 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 of March 31, 1997 and
- reporting and administrative functions of the related fund.

- l'administration financière et autres critères financiers complémentaires au processus de prise de décision;
- l'adhésion aux politiques, pratiques financières et communications internes du Ministère; et
- système de contrôle interne en dissociant la planification, l'organisation et le contrôle afin d'en améliorer l'efficacité globale.

Étendue

La vérification sera effectuée au sein de l'Administration centrale et couvrira:

- la présentation du rapport de prêts garantis au 31 mars 1997 et
- les fonctions administratives et les mécanismes d'imputabilité reliés au dit fonds.

Approved by: / Approuvé par:

B. DiBartolo
Assistant Deputy Minister
May 26, 1997

B. DiBartolo
Sous-ministre adjoint
Le 26 mai 1997