

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

Prepared by:

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and

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**Financial Audit of Indian Economic
Development Fund
Loan Guarantee Program
Year Ended March 31, 1999**

**Project 99/17
November 1999**

Table of Contents

	<u>Page</u>
Executive Summary	i
Section 1 - Introduction	1
Section 2 - Audit Objectives, Scope and Methodology	2
Objectives	8
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, 1999 .	5
Annexes	
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, 1999.
- 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.

Section 1 - Introduction

This financial audit of the Indian Economic Development Fund, Loan Guarantee Program, for the fiscal year ended March 31, 1999 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, 1998.

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.

Section 2 - 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, 1999.
- 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, based on a sample representing 50% of guarantees loans, of the existence of the principal outstanding and related maximum contingent liability of the Loan Guarantee Program as at March 31, 1999; and
- Presentation of the Loan Guarantee Fund Schedule as at March 31, 1999, and expression of an opinion on the recorded loan guarantees outstanding, the total payments made to financial institutions related to defaulted loans, 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.
- review of the required accounting adjustments as of March 31, 1998, related to required corrections in the course of the previous financial period and for which corrections had to be undertaken by the auditee;
- review of the default loans for which the department had reimburse the financial institutions, according to the approved guarantees.

Section 3 - General Assessment

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. We have observed that the auditee have implemented / is currently implementing the suggested improvements and recommendations contained in our last management letter. Operational weaknesses identified in the course of this audit have been communicated to the auditee through a management letter.

DAEB Audit Report

We have examined the Loan Guarantee Fund Schedule of the Departmental of Indian Affairs and Northern Development - Indian Economic Development Fund as at March 31, 1999. 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, 1999.

Departmental Audit and Evaluation Branch
Hull, Quebec
October 14, 1999

Section 4 - Loan Guarantee Program Schedule as at March 31, 1999

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>\$27,274,581</u>
Free balance available for future payments	\$32,725,419
Less: Maximum contingent liability <i>(* Note 2)</i>	<u>\$ 2,687,352</u>
Amount authorized for further loan guarantees	<u>\$30,038,062</u>

Notes to Schedule

- 1) During the course of the 1998-1999 fiscal period, the department did not have to reimburse financial institutions to honour guarantees on defaulting loans. The balance remain at the same level as last fiscal period. *(In the previous fiscal period, DIAND had to reimburse a total of \$296,687 as guarantees on defaulting loans to 8 financial institutions.)*
- 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, 1999, on term guaranteed loans as well as the maximum amount of credit approved for line of credit guaranteed loans outstanding as at March 31, 1998 as recorded in the departmental accounts for which the government may be liable.

Terms of Reference

Terms of Reference**Financial Audit of the Indian Economic
Development Fund
(Guarantee Loan Program)****(IEDF 1998-1999)
as at
March 31, 1999****Mandat****Vérification financière du fonds de
développement économique aux Indiens
(Programme de prêts garantis)****(FDEI 1998-1999)
au
31 mars 1999****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, 1999.

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

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.

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 1999.

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

- | | |
|--|---|
| <ul style="list-style-type: none">· 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. | <ul style="list-style-type: none">· mécanismes de rapports financiers et de gestion ainsi que l'imputabilité;· l'administration financière et autres critères financiers complémentaires au processus de prise de décision;· la conformité aux politiques, pratiques financières et communications internes du Ministère; et· système de contrôle interne associé à la planification, l'organisation et au contrôle afin d'assurer l'efficacité globale. |
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Scope

The audit is to be conducted at headquarters and will include:

- the presentation of the Guarantee Loan reports as at March 31, 1999 and
- reporting and administrative functions of the related fund.

Étendue

La vérification sera effectuée à l'Administration centrale et couvrira:

- la présentation du rapport de prêts garantis au 31 mars 1999 et
- les fonctions administratives et les mécanismes d'imputabilité reliés au fonds.

Approved by / Approuvé par

B. DiBartolo
Assistant Deputy Minister/Sous-ministre adjoint
Corporate Services/Services ministériels

June 10, 1999 / Le 10 juin 1999