

Department of Canadian Heritage

Review of the Management Practices of Federal Government Mechanisms in Support of Film and Television Production Submitted December 31, 1999

Highlights

This report sets out the findings, conclusions and recommendations from an independent review of the management practices of the federal government mechanisms that support television and film production.

This review was conducted in November and December 1999 at the request of the Minister of Canadian Heritage. The review was overseen by a committee of senior officials from Canadian Heritage, Treasury Board, Revenue Canada, Finance Canada and Justice Canada.

The following organizations and mechanisms provide support to Canadian film and television production were reviewed:

- **The Canadian Audio-Visual Certification Office (CAVCO)**
- **The Canada Customs and Revenue Agency (CCRA)**
- **The Canadian Television Fund (CTF)**
- **Telefilm Canada (Telefilm)**

The review included an examination of their practices for:

- the administration of programs, roles and responsibilities,
- compliance and control measures, and
- risk assessment.

The analysis was based on the Control, Accountability and Governance Framework of the Canadian Institute of Chartered Accountants (CICA). This Framework includes four major analytical components, focusing on the following areas:

1. Purpose and objectives,
2. Commitment, authority, responsibility and accountability,
3. Capability, and

4. Monitoring and learning.

The Canadian Audio-Visual Certification Office (CAVCO)

The review of CAVCO's management practices determined that, overall, important elements of a sound management framework are in place, but some improvements would help to mitigate risks.

CAVCO would benefit from the knowledge gained through an independent analysis of risks and an ex-post transaction audit function. Furthermore, potential risks would be mitigated by assigning the Part A and Part B analyses of any one transaction to two separate officers.

- Recommendation 1: To help CAVCO identify risks to the organization and the program, it should establish an independent risk review process.
- Recommendation 2: To enable CAVCO to benefit from an in-depth analysis of transactions, and to encourage applicants to comply with all requirements, CAVCO should establish an independent ex-post audit program.
- Recommendation 3: To ensure there is no real or perceived conflict of interest in transaction processing, CAVCO should assign the Part A and Part B analyses of any one transaction to two separate officers.

The Canada Customs and Revenue Agency (CCRA)

CCRA has established a specially-focused and trained internal organization to review CAVCO-related tax returns from the film and television production sector. This indicates that CCRA is assertive in examining and addressing potential risk areas from a taxation perspective, including the risk of tax fraud.

CCRA's approach to using standard filing assessment, risk analysis, and audit procedures indicates that the Agency's long-standing expertise is being applied to these returns. This approach includes an ongoing analysis of tax-related issues and risks.

CCRA has taken assertive steps to identify the risks and issues related to income tax returns that include CAVCO certification, and to enable it to stay abreast of changes in the industry.

No recommendations are directed to CCRA at this time.

The Canadian Television Fund (CTF)

At the time of this review, a separate, independent evaluation of the CTF was underway. The evaluation was launched in the summer of 1999 and expected to be completed early next year. To avoid duplication and unnecessary disruption to the CTF, this review reflects the evaluation analysis available to date that relates to the CTF's management framework.

Based on the research information available, it appears that the CTF has some elements of a management framework in place, and that important elements of the management framework need attention.

Without prejudging recommendations yet to come from the evaluation, we believe that the CTF should move quickly to address the concerns related to the clarity and communication of objectives, decision-making criteria, process improvements, and performance measurement.

- Recommendation 4: To enable the CTF to improve its management framework with as little delay as possible, it should move quickly on any recommendations it receives from the independent evaluation currently underway as they relate to improving the clarity and communication of objectives, decision-making criteria, process improvements, and performance measurement.

Telefilm Canada (Telefilm)

The Office of the Auditor General of Canada conducts an annual financial audit against the *Financial Administration Act* and the *Telefilm Act*.

Telefilm's current initiative to obtain an external, independent risk assessment, develop an audit plan, and develop audit programs for upcoming audits is an important step. A complete internal audit function will, over time, provide an examination, conclusions and recommendations for improving all the elements of Telefilm's management framework. Telefilm Canada's Board of Directors and management team should continue to support actively all efforts in this area.

One important caveat is that it will take several years for internal audit to address all the areas of the management framework. As a result, on its own, Telefilm may not be able to progress as quickly as it should in filling gaps identified in its management framework.

To accelerate the improvements to management systems and practices and complete its management framework within a shorter timeframe, Telefilm may wish to turn to other agencies for direction and assistance on best practices.

- Recommendation 5: To accelerate its pace in improving its management control framework, Telefilm Canada should seek guidance and assistance from external sources, particularly with regard to best practices.

General Observations Related to this Review

This review found, overall, that the four organizations and mechanisms reviewed have, individually, elements of a sound and complete management framework, and that some important elements need strengthening.

If we consider the four organizations/mechanisms as *one combined system* intended to provide support to the industry, two areas of the overall management framework need particular attention.

First, risk analysis needs to be conducted for the entire support system to ensure that the industry and the government are protected from the highest financial and business risks.

A risk analysis should be conducted relatively soon so that the most important risks are mitigated, and improved management controls put into place.

- Recommendation 6: To enable the government to mitigate against the highest business and financial risks, a system-wide risk analysis of the overall federal support mechanisms to television and film production should be conducted.

On a system-wide basis, the practices for information sharing need to be improved. Currently, the four organizations do not share information on a continuous basis as a matter of common practice and, indeed, there may be some regulatory impediments to doing so. The review determined that communication and knowledge sharing between Telefilm and the CTF should be stronger. This situation generally weakens the management framework for the overall system. Also, as discussed earlier under CAVCO, the possible legal barrier to information sharing related to the *Income Tax Act* needs to be addressed. Effective information sharing will help to improve all elements of the management framework, particularly the management of risk.

- Recommendation 7: To ensure compliance and control and mitigate significant risks, the Department of Canadian Heritage should ensure that CAVCO and CCRA share information as necessary.
- Recommendation 8: To improve the system-wide management framework, all four organizations need to improve the sharing of information. Barriers to information sharing should be eliminated.