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**DEPARTMENT OF CANADIAN HERITAGE**

**AUDIT OF THE  
ARTS PRESENTATION CANADA PROGRAM**

**Submitted By:**

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**Canada**



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### Appendix A - Audit Criteria



## Executive Summary

The objective of the Arts Presentation Canada Program (APC) is to give Canadians more access to diverse, high-quality artistic expression through the support of presenters of arts festivals, performing arts series, and other artistic experiences. The outcome will be that more Canadians, in more communities - urban, rural, and remote - will have the opportunity to participate in and benefit from artistic experiences.

The program was launched in May 2001 with a commitment to provide total federal funding in the amount of approximately \$72 million over three years (\$16 Million in 2001-02, \$28 Million in 2002-03, and \$28 Million in 2003-04). Arts Presentation Canada has thus far financially contributed to more than 1000 arts festivals and series or season presenters of live professional performances and other similar activities in more than 200 communities.

The objective of this audit was to provide program management with assurance on the soundness of processes and to identify opportunities to strengthen management practices. The audit of the APC was conducted pursuant to the approved PCH Audit and Evaluation Plan for 2003-2004. The scope of the audit covered the 2002-2003 and 2003-2004 fiscal years.

The audit team's conclusions are based on the assessment of findings against pre-established criteria and reflect audit work conducted out between October 6, 2003 and March 15, 2004. In our opinion, sufficient audit work has been performed and the necessary evidence has been gathered to support the conclusions contained in this audit report.

In general, the audit team found that:

- the management control framework and management practices are appropriate to ensure due regard to economy, efficiency, and effectiveness, financial integrity and compliance;
- information used for decision-making and reporting is timely, relevant and reliable;
- risk management strategies and practices are suitable to deliver the intended results; and,
- the program design and implementation reflects the objectives of PCH.

The audit team did however identify some areas where management practices and compliance should be strengthened. Our recommendations for the Department are summarized as follows:

- 1. The Arts Policy Branch should adopt a risk based approach for the review and assessment of recipient applications which incorporates materiality, project sensitivity and experience/capacity of the recipient.**



- 2. The Arts Policy Branch should establish formalized operational performance measures at the national and regional levels to enhance efficient use and effective allocation of program resources.**
- 3. The Arts Policy Branch should formalize and communicate the follow up process for recipient audit findings. The process should include a clear definition of related roles and responsibilities for HQ program management, regional office program and finance staff.**
- 4. The Arts Policy Branch should ensure that the template contribution agreements for the APC program components include all provisions as stipulated in the TBS Policy on Transfer Payments.**
- 5. The Arts Policy Branch should ensure that APC program management continues activities directed at revising, implementing, and strengthening elements of APC program performance reporting, including:**
  - the development of appropriate measurable indicators reflecting expected results;**
  - identification of baseline data to be collected;**
  - implementation of appropriate data collection methodologies including development of guides and templates; and,**
  - amending of recipient contribution agreements to reflect performance measurement requirements and clearly communicate performance reporting expectations to recipients.**
- 6. The Arts Policy Branch and Corporate Planning and Management Branch should ensure that for the 2005/2006 and future years, performance reporting for the APC program in the Departmental Report on Plans and Priorities and the Departmental Performance Report conforms to the requirements of the TBS Policy on Transfer Payments.**



## 1.0 Background

The objective of the Arts Presentation Canada Program (APC) is to give Canadians more access to diverse, high-quality artistic expression through the support of presenters of arts festivals, performing arts series, and other artistic experiences. The outcome will be that more Canadians, in more communities - urban, rural, and remote - will have the opportunity to participate in and benefit from artistic experiences.

Canadian incorporated non-profit organizations which present artistic experiences by professional artists from more than one province or territory or strengthen networking activities of Canadian performing arts presenters can apply. Presenters that are provincial/territorial, municipal institutions or First Nation Tribal or Band Council / Inuit Organizations will also be considered.

The desired results of the APC are:

- an increase in the number of Canadians participating in the arts or appreciating them;
- an increase in the number of communities that benefit from the arts;
- an increase in the number of presenter networking/development initiatives;
- an increase in the diversity and number of artistic experiences (shows, residences, workshops, conferences, demonstrations, etc.);
- an increase in the diversity and number of presentations (various provinces, disciplines, types, cultural contexts); and,
- an increase in the diversity and size of the audiences.

The funding is provided in the form of contributions intended to:

- support the programming activities of experienced presenters or other eligible organizations that offer a broad array of activities and services related to the program objectives (*Programming Support Component*);
- fund projects related to specific initiatives for a limited time (*Project Support Component*); and
- provide support for the development, usually in partnership with other funding providers, of new presenters and particular initiatives that are related to the program objectives but are proposed by organizations that are not eligible for funding under other components of the program (*Development Support Component*).



The program was launched on the occasion of the Tomorrow Starts Today announcement on May 2nd 2001. Total federal funding in the amount of approximately \$72 million over three years was planned (\$16 Million in 2001-02, \$28 Million in 2002-03, and \$28 Million in 2003-04).

Arts Presentation Canada has thus far financially contributed to more than 1000 arts festivals and series or season presenters of live professional performances and other similar activities in more than 200 communities.

The APC is coordinated on a national level by the Arts Development and Programs Directorate of the Arts Policy Branch of PCH and managed from the Department's regional offices. This program is a compliment to the Cultural Spaces Program.

The audit of the APC was conducted pursuant to the approved PCH Audit and Evaluation Plan for 2003-2004.

## **2.0 Audit Objectives and Scope**

The purpose of the audit was to provide program management with reasonable assurance on the soundness of its processes and to identify opportunities to strengthen management practices. Accordingly, the audit addressed the following objectives:

### **Objective 1: Management control framework and due diligence**

Management control framework (systems, procedures, controls and resources) and management practices are appropriate to ensure due regard to economy, efficiency, and effectiveness, financial integrity and compliance.

### **Objective 2: Information used for decision-making**

Information used for decision-making and reporting is timely, relevant and reliable.

### **Objective 3: Risk management strategies and practices**

Risk management strategies and practices are suitable and deliver the intended results.

### **Objective 4: Program design and implementation**



Program design and implementation reflects the objectives of PCH.

The scope of the audit covered the 2002-2003 and 2003-2004 fiscal years.

### **3.0 Audit Approach**

The audit was conducted in accordance with generally accepted auditing standards, and the standards and requirements set out in the TBS Policy on Internal Audit.

Work performed included:

- interviews with APC program management and staff at headquarters and the regions;
- interviews with representatives from PCH Finance Branch
- reviewing relevant program documentation;
- review of the Joint Formative Evaluation of the Arts Presentation Canada, Cultural Spaces Canada, and the Canadian Arts and Heritage Sustainability Program Final Report (October 2003);
- conducting a risk assessment on key contribution program activities and processes; and,
- conducting detailed reviews of recipient files.

Our audit approach to address the audit objectives included the development of audit criteria against which observations, assessments and conclusions were drawn. These criteria were derived primarily from the “Attributes of a Well-Managed Grant or Contribution Program” outlined in the Office of the Auditor General (OAG) publication, “A Framework for Identifying Risk in Grant and Contribution Programs” and the TBS Policy on Transfer Payments (PTP). The criteria are listed in Appendix A to the report.

### **4.0 Conclusion**

The audit team’s conclusions are based on the assessment of findings against the pre-established criteria as defined in Appendix A and reflect the audit work conducted between October 6, 2003 and March 15, 2004. In the audit team’s opinion, sufficient audit work has been performed and the necessary evidence has been gathered to support the conclusions contained in this audit report.

In general, the audit team found that:

- the management control framework and management practices are appropriate to ensure due regard to economy, efficiency, and effectiveness, financial integrity and compliance.
- information used for decision-making and reporting is timely, relevant and reliable;
- risk management strategies and practices are suitable to deliver the intended results; and,
- the program design and implementation reflects the objectives of PCH.

The audit team did however identify some areas where management practices and compliance should be strengthened. The findings and recommendations that follow address these areas.

## 5.0 Findings and Recommendations

### 5.1 Due Diligence Exercised in Assessment of Recipient Applications

#### Findings

In general, the audit team found that the assessment of recipient applications was rigorous. File reviews and interviews with program staff indicated that the same level of due diligence is applied to the analysis and assessment of applications regardless of the amount requested, sensitivity of the project/activity, and experience of the applicant. This increases the risk that program resources may not be used in the most efficient and effective manner.

For example, an inefficient application review process reduces the time available for program staff to review high risk applications and to conduct monitoring activities on existing contribution recipients.

In the audit team's opinion, an opportunity exists to modify the application assessment process to incorporate a more risk based approach which would lead to improved efficiency. We understand that program management has been undertaking activities to simplify the application review process.

#### Recommendation # 1

**The Arts Policy Branch should adopt a risk based approach for the review and assessment of recipient applications which incorporates materiality, project**





sensitivity and experience/capacity of the recipient.

### **Management Response**

**Recommendation accepted.**

**The Branch will work with the regional offices and in consultation with the Centre of Expertise to examine a risk based approach for review and assessment while factoring in the nature and objectives of the program. Consideration will be given to providing multi-year funding for mature, stable organizations as part of the approach. This exercise will also take into account the development of a new integrated RMAF/RBAF. Expected completion date: April 2005**

## **5.2 Operational Performance Measures**

### **Findings**

Interviews with HQ and regional managers indicated that formalized systems, with operational performance metrics, have not been established to measure efficiency of operations to deliver the program either within individual offices or across regions. Managers indicated that informal meetings and communications between managers, officers, and staff, serve as a forum to monitor and review efficiency as well as effectiveness of operations and program delivery.

The lack of a formalized system to measure and compare actual outputs against pre-established standards may impair management's ability to identify areas requiring improvement and to allocate program resources efficiently. As there has been increased demand on the program for funding, staff have been required to dedicate more time to application analysis and processing.

The audit team is of the opinion that a more formalized process for measuring and addressing operational efficiency and effectiveness would enhance management's ability to allocate resources in the most efficient manner and ultimately achieve improved productivity.

### **Recommendation # 2**

**The Arts Policy Branch should establish formalized operational performance**



measures at the national and regional levels to enhance efficient use and effective allocation of program resources.

### **Management Response**

**Recommendation accepted.**

**After four years of operation we recognize the need to review the allocation of operational resources. The Branch will examine, with the Centre of Expertise and other partners, existing models and best practices with respect to establishing formalized operational performance measures. Expected completion date: Fall 2005.**

### **5.3 Recipient Audits**

#### **Findings**

APC program management has developed an annual audit plan for conducting recipient audits for 2002-2003 and 2003-2004. Recipient audits have been conducted on 2002-2003 contribution files. However, the audit team found that APC program management does not have a formalized follow up process established. This fact increases the risk that audit findings, which may include overpayments and recoveries of ineligible expenditures, are not appropriately addressed. To mitigate this risk, the roles and responsibilities of HQ program management, regional office program staff and regional finance need to be defined and communicated.

We understand that program management is in the process of reviewing its requirements in this area.

#### **Recommendation # 3**

**The Arts Policy Branch should formalize and communicate the follow up process for recipient audit findings. The process should include a clear definition of related roles and responsibilities for HQ program management, regional office program and finance staff.**

### **Management Response**

**Recommendation accepted.**



**The Branch will take steps to ensure there is a system in place to deal with the current and future recipient audits. Expected completion date: Fall 2004.**

## **5.4 Contribution Agreements with Recipients**

### **Findings**

The audit team reviewed the contribution agreement templates used for all components of the program and compared the terms and conditions in the templates to the basic provisions stipulated by the TBS Policy on Transfer Payments. The audit team found that the following basic provisions are not included in the standard APC contribution agreement template:

- Provision for cancellation or reduction of transfer payments in the event that departmental funding levels are changed by Parliament
- A provision for repayment should Total Government Assistance exceed the amounts anticipated
- Indemnification clause for the benefit of the Crown
- Requirement for the recipient to declare any amounts owing to the federal government under legislation or contribution agreements and recognition that amounts due to the recipient may be set-off against amounts owing to the government
- Requirement that any person lobbying on behalf of the applicant is registered pursuant to the Lobbyist Registration Act

For the Development Support Component of the APC program, the contribution agreements with Third Party Delivery Agents do not include the additional provisions suggested by TBS for such agreements. More specifically, the following provisions are not included in the contribution agreement used by the program:

- Description of the initial recipient accountability and management framework.
- Assurance that the public purpose of the program and the need to provide transparent, fair and equitable service are not lost in the desire for efficiency



- Clear and agreed expectations between the parties
- Clear roles and responsibilities, including financial roles and responsibilities
- Clear, transparent and open decision making process
- Assurance that departmental requirements for selecting and managing projects are met
- Provisions for ongoing assessment by the department to ensure performance is in line with expectations and that the initial recipient exercises due diligence in selecting and managing the project
- Provisions related to the requirements for the initial recipient's operation plans including annual performance expectations and a description of the process to select and approve projects
- Departmental right of access to relevant initial recipient's, and where warranted, ultimate recipients' documents and premises
- Provision that the department obtains from the initial recipient, or has ready access to, a copy of all signed agreements with recipients
- Description of the redress provisions for ultimate recipients affected by decisions of the initial recipient

Not including these provisions in the contribution agreements impairs overall accountability and risks non-compliance to TBS policies, overpayments to recipients, inability to recover overpayments and ultimately possible loss of funds owing to the Crown.

#### **Recommendation # 4**

**The Arts Policy Branch should ensure that the template contribution agreements for the APC program components include all provisions as stipulated in the TBS Policy on Transfer Payments.**

#### **Management Response**



**Recommendation accepted.**

**Pending Program Renewal, all 2005-2006 contribution agreements will be based on the Standard Templates developed by the Centre of Expertise. Expected completion date: April 2005.**

## **5.5 Performance Measurement and Reporting**

### **5.5.1 Performance Measurement and the Results-based Management Accountability Framework**

#### **Findings**

A (RMAF) for the APC (June 2001) has been prepared by PCH program management. Through interviews, the audit team found that awareness of the RMAF requirements for performance measurement and reporting was low among program staff. Furthermore, regional managers expressed that the RMAF addresses performance at a generally high level and does not provide sufficient guidance and specificity as to detailed measures of performance or the methodology of collection of the data. Consequently, contribution agreements also lack guidance and do not adequately communicate to the recipients the expectations related to performance measurement.

Currently, performance information is provided to the regions through final project reports of the recipients, and the reports are in turn forwarded to HQ for compilation, analysis, and reporting purposes. These reports are not standardized and reporting templates have not been developed to guide the recipients in providing the necessary baseline data required for performance measurement.

Consistent with the findings of the recent formative evaluation of the APC, the audit team found that there is a need to translate expected results into immediate, intermediate, and long-term measures, develop appropriate indicators, clearly communicate them to stakeholders/delivery partners and update the RMAF.

The lack of clearly defined outcome measures and methodology for performance measurement, along with inadequate communication to the recipients of the expectations for performance reporting, increases the risk that the program will not be able to measure and demonstrate the degree to which it was successful in meeting its objectives.



The audit team found that program management are taking steps to strengthen the performance measurement regime.

### **Recommendation # 5**

**The Arts Policy Branch should ensure that APC program management continues activities directed at revising, implementing, and strengthening elements of APC program performance reporting, including:**

- **the development of appropriate measurable indicators reflecting expected results;**
- **identification of baseline data to be collected;**
- **implementation of appropriate data collection methodologies including development of guides and templates; and,**
- **amending of recipient contribution agreements to reflect performance measurement requirements and clearly communicate performance reporting expectations to recipients.**

### **Management Response**

**Recommendation accepted.**

**The Branch will continue strengthen its ability to report on results. Recommended steps will be taken and the integrated RMAF/RBAF will be revised to reflect the elements of the recommendation. The Branch is currently working with Corporate Review to address the issue and has put together a working Group on Performance indicators. Expected completion dates: Revision of RMAF/RBAF: Fall 2004. Revision of application form and development of reporting templates: January 2005.**

## **5.5.2 Reporting of Program Performance and Results**

### **Findings**

The TBS Policy on Transfer Payments requires departments to have detailed reporting on performance and results. The policy requires that for each transfer payment program with transfers in excess of \$5 million, departments must include in the



Departmental Report on Plans and Priorities (RPP) supplementary descriptive material, such as stated objectives, expected results and outcomes, and milestones for achievement. In addition, departments must include in the Departmental Performance Report (DPR) evidence of results achieved, related to results commitments and specific planned results as stated in their Reports on Plans and Priorities. These requirements apply to the APC as it has transfers in excess of \$ 5 Million.

The audit team found that the Departmental reporting on the APC in the PCH 2002-2003 and 2003-2004 RPP and the DPR for the period ending March 31, 2003 does not comply with the above requirements. We understand that this external reporting of program performance and results is a departmental issue. External reporting is coordinated by the Corporate Planning and Management Branch with information provided by the programs.

#### **Recommendation # 6**

**The Arts Policy Branch and Corporate Planning and Management Branch should ensure that for the 2005/2006 and future years, performance reporting for the APC program in the Departmental Report on Plans and Priorities and the Departmental Performance Report conforms to the requirements of the TBS Policy on Transfer Payments.**

#### **Management Response**

**Recommendation accepted in consultation with the the Corporate Planning and Management Branch .**

**Arts Policy understands that measures have been taken at Departmental level to address the issue. The 2003-04 Departmental Performance Report has been already written in accordance to TBS Transfer Payment Policy.**

**The Branch will give its full collaboration in providing necessary data for the reports. Expected completion date: December 2004.**



## Appendix A

### AUDIT CRITERIA

<p><b>Audit Objective 1. Management control frameworks and due diligence -</b> <i>Management control framework (systems, procedures, controls and resources) and management practices are appropriate to ensure due regard to economy, efficiency, and effectiveness, financial integrity and compliance.</i></p> <p><b>Audit Objective 2. Information used for decision-making -</b> <i>Information used for decision-making and reporting is timely, relevant and reliable</i></p> <p><b>Audit Objective 3. Risk management strategies and practices - Risk management strategies and practices are suitable to deliver the intended results.</b></p>	
<i>Criteria 1.</i>	There are adequate policies, guidelines and training, tools and processes in place to effectively deliver the program, and to ensure stakeholder understanding of program objectives, expected results and eligibility requirements.
<i>Criteria 2.</i>	Roles and responsibilities of stakeholders (HQ/Regions) are clearly defined, communicated and understood.
<i>Criteria 3.</i>	Regional Offices / HQ have adequate operational, financial and information systems and processes in place to: ensure that funds are being spent for the purposes intended; record, track and report on program performance; and, provide the required performance related information to PCH Program Managers.
<i>Criteria 4.</i>	Regional Offices / HQ have adequate resources to effectively deliver / coordinate the program.
<i>Criteria 5.</i>	Monitoring by Program Managers meets the requirements of the Results Based Audit Framework (RBAF) to ensure that: funds are being spent by recipients for the purposes intended; program performance is being recorded, tracked and reported; and, required performance related information is being provided to Program Managers.
<i>Criteria 6.</i>	The Regional and HQ management control frameworks include monitoring of program operational spending, recipient payments, repayments, and recovery activities on a periodic basis is conducted to ensure that program is managed with due regard for economy.





<i>Criteria 7.</i>	The Regional and HQ management control frameworks include established operational performance measures which are periodically reviewed for improvement of management practices.
<i>Criteria 8.</i>	There is relevant and adequate information to assess performance against program objectives and Results-based Management and Accountability Framework (RMAF) requirements, and Program Managers are reviewing this information, and, where issues arise, are taking appropriate action to address them.
<i>Criteria 9.</i>	Program information is communicated to create awareness for all potential applicants.
<i>Criteria 10.</i>	Information obtained during the application, claims and reporting processes is adequate for funding decision-making purposes.
<i>Criteria 11.</i>	The approval process addresses all of the applicable Program Terms and Conditions, and is open, fair and transparent.
<i>Criteria 12.</i>	The funding decision process in place minimizes the risk that funds are not distributed unfairly among eligible recipients.
<i>Criteria 13.</i>	Approval decisions at all levels of program and financial approvals comply with the departmental delegated signing authorities and the Financial Authorities Act (FAA).
<i>Criteria 14.</i>	Payments to recipients and where applicable Third Party Delivery Agents are in compliance with the relevant contribution agreement clauses.
<i>Criteria 15.</i>	Repayments or recoveries are carried out in accordance with governing contribution agreements and the TBS Policy on Transfer Payments.
<i>Criteria 16.</i>	Recipient audits are planned based on a risk assessment, and are conducted and followed up in accordance with the RBAF to ensure that: Contribution Agreement clauses are adhered to; funds are being spent for the purposes intended; and recipient systems and processes provide for the recording, tracking and reporting of program performance.

***Audit Objective 4. Program design and implementation - Program design and implementation reflects the objectives of the Department as set out in the Treasury Board submission.***

<i>Criteria 17.</i>	There is appropriate authority for the Program.
<i>Criteria 18.</i>	The RMAF and RBAF have been prepared in accordance with the Treasury Board Secretariat RMAF & RBAF Guidelines.
<i>Criteria 19.</i>	Program Guidelines are in accordance with Program Terms and Conditions.
<i>Criteria 20.</i>	Clauses in contribution agreements with Third Party Delivery Agents and/or recipients appropriately address the requirements of the Program Terms and Conditions.



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