



**Canadian  
Heritage**    **Patrimoine  
canadien**

**DEPARTMENT OF CANADIAN HERITAGE**

**FINAL REPORT**

**AUDIT OF THE  
CANADA MUSIC FUND**

**June 23, 2004**

**Canada**



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## Executive Summary

The Canada Music Fund (CMF) was established and launched in 2001 as a successor to the former Sound Recording Development Program (SRDP). The CMF seeks to strengthen the Canadian sound recording industry “from creator to audience”. The beneficiaries of the CMF include Canadian music talent - creators, performers, lyricists and songwriters. They also include the Canadian sound recording sector - the industry producing, distributing and marketing Canadian product and the associations representing music talent and businesses. The CMF is a comprehensive initiative with three overarching public policy goals:

- to ensure that Canadian music artists and entrepreneurs have the skills, know-how and tools to succeed in a global and digital environment;
- to enhance Canadian’s access now and in the future to a diverse range of current and retrospective Canadian music choices through existing and emerging media; and,
- to increase the opportunities available for Canadian music artists and cultural entrepreneurs to make a significant and lasting contribution to Canadian cultural expression.

To meet these objectives, funding in the amount of \$ 77 Million was set aside over four years for the implementation of the CMF as follows: 2001-2002 \$ 18 Million; 2002-2003 \$ 24 Million; 2003-2004 \$ 28 Million; and, 2003-2004 \$ 7 Million. The CMF is comprised of eight complementary programs administered by the Department of Canadian Heritage (PCH) in partnership with other agencies and organizations (administrators) with specialized knowledge and experience in the Canadian sound recording industry. The Film, Video and Sound Recording Branch of PCH (PCH program management) is accountable for the management of the CMF. The Canada Music Council (CMC), which is composed of 19 active members of the Canadian music industry including writers, performers, producers, broadcasters, and industry executives, reports directly to the Minister of Canadian Heritage in what is primarily an advisory capacity.

The audit of the CMF was conducted pursuant to the approved PCH Audit and Evaluation Plan for 2002-2003.

The objective of this audit was to provide senior management with assurance on the soundness of processes and to determine where the organization is most exposed to risk and to identify which remedial actions are available and appropriate.

The audit team’s conclusions are based on the assessment of findings against pre-established criteria and reflect audit work conducted between July 10, 2003 and October 31, 2003. 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 is appropriate to ensure compliance, effectiveness and financial integrity;
- 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 can be strengthened. Our recommendations are summarized as follows:

1. The roles and responsibilities of the CMC and PCH program management need to be reviewed and communicated to administrators and the CMC in order to clarify the governance of the CMF program.
2. The Film, Video and Sound Recording Branch should strengthen monitoring of Third Party Administrators.
3. The Film, Video and Sound Recording Branch, in collaboration with the National Library, should increase monitoring and clarify Third Party Administrators' roles and responsibilities in regards to the collection and forwarding of legal deposit to the National Library.
4. The Film, Video and Sound Recording Branch should execute or have executed on their behalf risk based audits of ultimate beneficiaries in accordance with the RBAF for the CMF and provide Third Party Administrators with recipient audit guidelines and training consistent with the RBAF.
5. The Film, Video and Sound Recording Branch should continue activities directed at revising, implementing, and strengthening the Results-based Management Accountability Framework (RMAF) of the CMF. These activities should include:
  - the development of appropriate indicators and data collection methodologies;
  - amending agreements with Third Party Administrators to reflect revisions to RMAF and clearly articulate performance reporting requirements;
  - training Third Party Administrators; and,
  - increased monitoring of performance reporting by Third Party Administrators.
6. Performance reporting in the Report on Plans and Priorities (RPP) and the Departmental Performance Report (DPR) should be implemented for the 2004/2005 Fiscal Year as required by the TBS Policy on Transfer Payments.



## 1.0 Background

The CMF was created in 2001 as a successor to the former Sound Recording Development Program (SRDP). The CMF seeks to strengthen the Canadian sound recording industry “from creator to audience”. The beneficiaries of the CMF include Canadian music talent - creators, performers, lyricists and songwriters. They also include the Canadian sound recording sector - the industry producing, distributing and marketing Canadian product and the associations representing music talent and businesses. The CMF is a comprehensive initiative with three overarching public policy goals:

- to ensure that Canadian music artists and entrepreneurs have the skills, know-how and tools to succeed in a global and digital environment;
- to enhance Canadian’s access now and in the future to a diverse range of current and retrospective Canadian music choices through existing and emerging media; and,
- to increase the opportunities available for Canadian music artists and cultural entrepreneurs to make a significant and lasting contribution to Canadian cultural expression.

The CMF consists of eight complementary programs coordinated and administered by PCH in partnership with other agencies and organizations with specialized knowledge and experience in the Canadian sound recording industry. A brief description of each of the program components is as follows:

- **Creators’ Assistance Program** helps artists create high-quality Canadian musical works, and gives Canadian talent the tools to fully develop their creative and business skills. This initiative aims to support community building and skills development for song writers and composers, and to increase awareness of their works. The program is administered by the SOCAN Foundation. The Foundation provides funds to eligible recipients in the form of contributions. The Foundation is a not-for-profit organization which is controlled by the Society of Composers, Authors, and Music Publishers of Canada (SOCAN). The mandate of the SOCAN Foundation is to foster musical creativity and promote a better understanding of the role of music creators in today’s society. Total program funding is \$3 million from 01/02 to 03/04.
- **Canadian Musical Diversity Program** provides funds to eligible recipients in the form of grants to produce and distribute specialized music recordings reflective of the diversity of Canadian voices. Specialized music is a musical production that places creativity, self-expression and/or experimentation above the current demands and format expectations of the mainstream music industry. The program is administered by the Canada Council for the Arts. The Canada Council for the Arts is an arms-length national organization created by an act of Parliament. The



mission of the Canada Council for the Arts is to foster and promote the study, enjoyment and production of works in the arts. Total program funding is \$4.5 million from 01/02 to 03/04.

- **New Musical Works Program** invests in the Canadian sound recording stars of the future by providing assistance to entrepreneurs, creators, and artists. New resources develop their talent and expertise. The program provides project-based support in the form of repayable contributions to help develop and renew the sound recording industry. The program is administered by The Foundation to Assist Canadian Talent on Records (FACTOR) (English language) and La Fondation MUSICACTION (French language). FACTOR is a non-profit association which is mandated to administer private and public funds in support of an industry strategy for developing and strengthening the independent sector of the Canadian music industry. La Fondation MUSICACTION is a non-profit organization which has the primary objective of encouraging the development of music by supporting the production and marketing of sound recordings. As is the case at FACTOR, La Fondation MUSICACTION also administers both public and private funds. Total program funding is \$33.3 million from 01/02 to 03/04.
- **Collective Initiatives Program** helps provide the funding required to ensure that Canadian creators and entrepreneurs have opportunities to gain greater profile and showcase their excellence and creativity. Initiatives that bring together Canadian creators, entrepreneurs, and the media offer significant and enduring returns for the sound recording sector. Conferences and awards shows, physical and online showcases, as well as market development initiatives offer the industry important opportunities to share best practices, inspire young artists and entrepreneurs, and build a star system. The program is administered by FACTOR (english language) and MUSICACTION (french language). The program provides financial support in the form of repayable contributions. Total program funding is \$6 million from 01/02 to 03/04.
- **Music Entrepreneur Program** ensures that Canadian music entrepreneurs build a strong, sustainable industry that continues to contribute to the Canadian musical experience. The program provides company-based funding, in the form of repayable contributions, to allow Canada's music entrepreneurs to make the transition to the digital economy, effectively develop Canadian talent, and ultimately become self-sufficient. This program invests in eligible established industry professionals with viable multi-year business plans, giving them critical assistance to consolidate and develop their human, financial, and technological resource base. The end result is to empower entrepreneurs with solid business skills and assist Canadian music entrepreneurs build a strong, sustainable industry that continues to contribute to the Canadian musical experience. The program is administered by Telefilm Canada. Telefilm Canada which was created by an act of Parliament has a mission to promote and strengthen Canada's domestic industries of film,



television, new media, and music. Total program funding is \$23 million from 02/03 to 04/05.

- **Support to Sector Associations Program** is administered by PCH, Film, Video, and Sound Recording Branch, Sound Recording Policy and Programs Directorate. The program provides financial support to sound recording sector associations in the form of contributions to encourage capacity building and effective membership representation. The Government of Canada is committed to working in partnership with the industry to ensure that Canada's voices of experience continue to contribute to shaping public policies for the sound recording sector. Total program funding is \$1.8 million from 01/02 to 03/04.
- **Canadian Musical Memories Program** is co-administered by PCH, Heritage Policy Branch through services provided by AV Preservation Trust and Library and Archives Canada. A wealth of Canadian music has been captured on recordings and preserved at the National Library of Canada. The program ensures that significant works are acquired, preserved, cataloged, and made accessible for education and enjoyment giving Canadians of today and tomorrow access to their musical heritage. Total program funding is \$1.8 million from 01/02 to 03/04.
- **Policy Monitoring Program** is administered by PCH, Film, Video and Sound Recording Branch, Sound Recording Policy and Programs Directorate. The objective of the program is to create and maintain a reliable database and conduct research and analysis in order to develop policies for the sound recording sector and the Department. Total program funding is \$3.6 million from 01/02 to 03/04.

Overall coordination and management of the CMF is the primary responsibility of the Film, Video and Sound Recording Branch of PCH. PCH's Portfolio agencies, the Canada Council for the Arts and the National Library of Canada programs are key contributors offering targeted and highly specialized services that fall outside of PCH's expertise such as music preservation and evaluation of non-commercial sound recordings. These activities are part of the agencies' respective and broader legislated mandates and for which public funds are made available to them directly via Parliamentary appropriations. Accordingly, and only for purposes of the Canadian Musical Diversity and the Canadian Musical Memories CMF programs, PCH and the agencies in question have agreed to work cooperatively (with underlying Memoranda of Agreements in place) while respecting each organization's ultimate autonomy.

The Minister of PCH has also created the Canada Music Council (CMC) to assist in the governance of the CMF. The CMC reports directly to the Minister. The CMC is composed of 19 active members of the Canadian music industry, ranging from writers, performers, and producers to broadcasters and industry executives. The mandate of the CMC is to:

- Advise the Minister of PCH on the general principles governing the CMF and on the



- strategies to achieve the CMF's objectives;
- Contribute to the monitoring and evaluation of the CMF's performance;
- Conduct investigations and inquires into all music related matters that the Minister may refer to; and,
- Foster constructive dialogue and partnership arrangements among creator, producer and broadcast groups.

The Director General, Film Video and Sound Recording Branch of PCH is a non-voting member of the CMC. To assist the CMC carry out its mandate, PCH has established a Secretariat.

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

## **2.0 Audit Objectives and Scope**

### **Audit Objectives**

The purpose of the audit was to provide program management with reasonable assurance on the soundness of its processes; determine where the organization is most exposed to risk; and recommend which remedial actions are available and appropriate. Accordingly, the audit addressed the following objectives:

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

Management control frameworks (systems, procedures, controls and resources) and management practices are appropriate to ensure compliance, program effectiveness and financial integrity.

#### **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 audit examined the eight components of the program in relation to their respective objectives. The scope of the audit covered the 2001-2002 and 2002-2003 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 PCH program management and staff;
- interview with CMC Secretary General;
- review of minutes of CMC meetings;
- interviews with management and staff of Third Party Administrators;
- interviews with representatives from PCH Finance Branch and Corporate Review Branch;
- reviewing relevant program documentation;
- review of the Formative Evaluation of the Canada Music Fund (December 1, 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 audit criteria were approved by PCH program management and the Corporate Review Branch. The criteria are listed for each audit objective, identified in Section 2.0, 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 section 3.1 above and reflect the audit work conducted between July 10, 2003 and October 31, 2003. 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 is appropriate to ensure compliance, effectiveness and financial integrity;
- 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 can be strengthened. The findings and recommendations that follow address these areas.

## 5.0 Findings and Recommendations

### 5.1 Governance

Governance is a set of responsibilities and practices exercised by management with the goal of providing strategic direction, ensuring that objectives are achieved, ascertaining that risks are managed appropriately and verifying that resources are used responsibly.

Governance documents for the CMF program clearly identify that the Film, Video and Sound Recording Branch of PCH (PCH program management) is accountable for the management of the CMF. The Canada Music Council (CMC) reports directly to the Minister of Canadian Heritage in what is primarily an advisory capacity. The role of the CMC is clearly documented in the CMF governance documents. The mandate of the CMC is to:

- Advise the Minister of Canadian Heritage on the general principles governing the CMF and on the strategies to achieve the CMF's objectives;
- Contribute to the monitoring and evaluation of the CMF's performance;
- Conduct investigations and inquires into all music related matters that the Minister may refer to; and,
- Foster constructive dialogue and partnership arrangements among creator, producer and broadcast groups.

The CMC is composed of 19 active members of the Canadian music industry including writers, performers, producers, broadcasters, and industry executives with the Director General, Film Video and Sound Recording Branch of PCH being a non-voting member. To assist the CMC in executing its mandate, PCH has established a Secretariat with a staff of two to provide logistical support and liaison with the private sector and other government departments and agencies.

Governance includes the review of strategic direction and business plans, the provision of direction with respect to future activities, and the review of annual performance in the context of resource utilization.

During the conduct of the audit we observed that in many cases the administrators annually submit their business plans and annual reports directly to the CMC concurrently with PCH program management. The CMC and the Secretariat performed a challenge role on these business plans and annual reports and identified and recommended activities to CMF Administrators with the view to improving the operational aspects of the CMF program. Our



interviews indicated that many administrators are unclear about the governance relationship between administrators, the CMC and PCH program management.

The Formative Evaluation of the Canada Music Fund (2004) identifies the CMC as one of the strengths of the design of the CMF program. Specifically, the evaluation noted that “the establishment of the CMC was seen as a positive move towards getting the industry to work together and to provide increased interaction among various provincial and national stakeholders”.

While the CMC may be a strength of the design of the program, in our opinion, the strong and active role played by the CMC has blurred the accountability and authority of PCH program management.

The Secretary General of the CMC indicated that the role of the CMC is evolving to a more strategic level and moving away from operational management and governance of the CMF program. The intent is to take a more future focus and provide ideas for policy development.

#### **Recommendation # 1:**

**The roles and responsibilities of the CMC and PCH program management need to be reviewed and communicated to administrators and the CMC in order to clarify the governance of the CMF program.**

#### **Management Response**

**Recommendation accepted. The Minister has approved a change in the mandate of the CMC to clarify its role. Contribution agreements with CMF administrators will be modified to reflect this change. As well, roles and responsibilities will be discussed at a future administrators’ plenary meeting. Expected completion date: August 2004**

### **5.2 Monitoring Of Third Party Administrators**

#### **Findings**

The following observations are indicative of a need for increased monitoring of Third Party Administrators by PCH:

- The audit team found examples where contribution funds claimed in a year by Third Party Administrators were used to pay for expenditures of ultimate recipients incurred in the prior years. This practice is not in accordance with clauses included in governing contribution agreements. As an example, PCH contribution agreements with the Third Party Administrator states that funding in a given year is



to be used to reimburse beneficiaries for eligible expenditures incurred by the beneficiaries during that year. Claims made by Third Party Administrators in a given fiscal year may include projects for which funding was approved in a previous fiscal year and where activities and related expenditures took place in that prior year. The practice of approving claims covering expenditures made in prior years increases the risk of not being able to demonstrate that recipients had a need for the contribution funding.

- With the exception of the Canadian Musical Diversity Program which provides grants to ultimate beneficiaries, the funding available to ultimate recipients through the CMF is in the form of repayable contributions. The audit team found that some Third Party Administrators in their published materials, guidelines, and correspondence with applicants refer to the assistance available through their respective CMF program components as grants. This situation increases the risk that potential recipients do not understand the nature of the program and can lead to weakened accountability among ultimate recipients. Grants and repayable contributions are very different funding instruments each with separate legal obligations and accountability implications to the recipient and the Department.
- Funding agreements with beneficiaries related to repayable contributions by some Third Party Administrators include repayment terms which are typically based on levels of record sales achieved over a pre-determined period of time. Furthermore, contribution agreements between PCH and Third Party Administrators require repayments of contributions to be made in accordance with TBS PTP. The audit team noted that not all Third Party Administrators were tracking repayments owing to PCH; consequently, the total amount owing to PCH could not be determined. The audit team found that one Third Party Administrator has received and recorded repayments from beneficiaries in the amount of \$ 71,898 and has not yet forwarded the funds to PCH.

Increased monitoring of Third Party Administrators by PCH program management would improve financial management and mitigate the risk of non-compliance to contribution agreements and memorandum of agreements with PCH.

#### **Recommendation # 2:**

**The Film, Video and Sound Recording Branch should strengthen monitoring of Third Party Administrators.**

#### **Management Response**

**Recommendation accepted. The Branch will review with administrators their obligation to enter into contribution agreements with their respective**



**beneficiaries and the importance of ensuring compliance to these.**

**The Branch will review with administrators their responsibility for the following: clear contribution agreements with ultimate beneficiaries; practices to ensure that compliance with Treasury Board Secretariat's Policy on Transfer Payments; accuracy of communication material for beneficiaries; and ensuring repayments are made to the Crown when necessary. Expected completion date: March 2005**

### **5.3 Legal Deposit**

#### **Findings**

The audit team found that contribution agreements or Memorandum of Understanding with the Third Party Administrators make reference to Legal Deposit requirements. Examples are as follows:

For two Third Party Administrators, the agreement states: "In cases where a project relates to the production of a sound recording, the beneficiary is to provide the administrator with documentary evidence that legal deposit requirements have been met."

For another Third Party Administrator, the Memorandum of Understanding states that: "For the purposes of archiving and access by the public, ... agrees to provide one copy of each compact disk or cassette produced with program funds to the National Library of Canada for retention in its records."

The Canadian Musical Memories Program - Annual Reports of the National Library of Canada 2001/2002 and 2002/2003 which are prepared for PCH program management and the CMC state that "no sound recordings were received at the Library in 2002-2003 that were produced and released as a result of other programs of the CMF".

The audit team found that one Third Party Administrator was collecting Legal Deposits from its recipients and would be forwarding it to the National Library. Two Third Party Administrators have been receiving legal deposits but have not been forwarding it to the National Library. This is the responsibility of the ultimate recipient.

Not obtaining legal deposits from recipients reflects negatively on the overall management of the program and ultimately impacts negatively on the management of our Cultural Assets.

#### **Recommendation # 3:**



**The Film, Video and Sound Recording Branch, in collaboration with the National Library, should increase monitoring and clarify Third Party Administrators role and responsibilities in regards to the collection and forwarding of legal deposit to the National Library.**

## **Management Response**

**Recommendation accepted. In collaboration with the Branch, the National Library and Archives Canada (LAC) will identify a number of key sector events at which documentation will be distributed to delegates to raise awareness of legal deposit requirements.**

**The Branch will also remind administrators of their commitments to transfer copies of financed recordings to LAC. Expected completion date: September 2004.**

## **5.4 Recipient Audits**

### **Findings**

The TBS PTP states that Departments are responsible for determining whether recipients have complied with the terms and conditions of their contribution agreements. This responsibility includes developing a Risk-Based Audit Framework (RBAF) consisting of:

- determining which recipients are to be audited;
- selecting appropriate auditors or indicating the acceptability of auditors when retained by the recipient;
- determining whether the scope, frequency and scheduling of audits meet program requirements;
- coordinating audits with others involved in the audit of the same recipients; and
- determining follow-up action required on audit findings.

An RBAF for the CMF has been prepared by PCH program management. The RBAF for the CMF indicates that recipient audits are to be conducted in all program components. The RBAF specifically identifies the risks that the audits are to mitigate. The RBAF also states that these compliance audits are to be conducted by PCH program management through the Corporate Review Branch over a two-year cycle on a sampling basis, according to the Annual Audit Plan.

The audit team found that the Third Party Administrators did not fully understand the requirements for conducting audits of recipients. Program management stated that Third Party Administrators had been made aware of the requirements and were given copies of the RBAF for the program. The audit team found that the roles and responsibilities of Third



Party Administrators and PCH program management need to be clarified in this area.

The audit team found that some Third Party Administrators have conducted recipient audits using external firms of public accountants. Another Third Party Administrator has conducted a financial attest audit on its recipients' expenditures again using a firm of external public accountants. Program management has not provided any guidelines to Third Party Administrators in regards to the scope of these audits to meet program requirements and to be consistent with the RBAF for the program. Providing Third Party Administrators with recipient audit guidelines would reduce the risk that funds are not being spent for the purposes intended and that recipients are not reporting on performance in an accurate and complete manner.

The Film, Video and Sound Recording Branch is in the process of reviewing its requirements in this area in consultation with the Corporate Review Branch.

#### **Recommendation # 4:**

**The Film, Video and Sound Recording Branch should execute or have executed on their behalf risk based audits of ultimate beneficiaries in accordance with the RBAF for the CMF and provide Third Party Administrators with recipient audit guidelines and training consistent with the RBAF.**

#### **Management Response**

**Recommendation accepted. The Branch has received from third party administrators their policies and procedures for recipient audits and will assess these in light of the Department's own standards.**

**The Branch will take steps to ensure that these policies and procedures are as rigorous as the Departments'. Expected completion date: March 2005.**

### **5.5 Performance Measurement and Reporting**

#### **5.5.1 Revise and Implement The Results-based Management Accountability Framework (RMAF) For The CMF**

#### **Findings**

A (RMAF) for the CMF (December 12, 2002) has been prepared by PCH program management. The audit team found that awareness of the RMAF requirements for performance measurement and reporting was low among Third Party Administrators. Agreements between PCH and Third Party Administrator do not adequately address this area. Consistent with the findings of the recent formative evaluation of the CMF, the audit team found that there is a need to clarify objectives and expected outcomes and develop



appropriate indicators, and clearly communicate them to stakeholders/delivery partners. The audit team found that PCH program management and the CMC have initiated activities in this regard.

#### **Recommendation # 5:**

**The Film, Video and Sound Recording Branch should continue activities directed at revising, implementing, and strengthening the Results-based Management Accountability Framework (RMAF) of the CMF. These activities should include:**

- **the development of appropriate indicators and data collection methodologies;**
- **amending agreements with Third Party Administrators to reflect revisions to RMAF and clearly articulate performance reporting requirements;**
- **training Third Party Administrators; and,**
- **increased monitoring of performance reporting by Third Party Administrators.**

#### **Management Response**

**Recommendation accepted. The original RMAF was revised and clarified in December 2002. The Branch believes that the objectives in the updated RMAF do not require further revision, provided that they are well-communicated to administrators. Appropriate indicators have been established and data collection is proceeding.**

**Amendments to the contribution agreements are not required. A training session for administrators and staff is being planned. Expected completion date: August 2004.**

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

#### **Findings**

The TBS PTP 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 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 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 following CMF components such as the Musical





Entrepreneur Program and the New Musical Works Program which have transfers in excess of \$ 5 Million.

The audit team found that the Departmental reporting on the CMF in the PCH 2002-2003 and 2003-2004 Estimates - Part III Report on Plans and Priorities and the Performance Report for the period ending March 31, 2002 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.

In addition to the reporting as outlined above, the CMC prepares an annual report on the CMF. This document provides a description of the CMF, the CMC's mandate, activities of the CMC during the past year, milestones and achievements, financial overview of the CMF, and summaries of the annual reports of the CMF Program Administrators.

#### **Recommendation # 6:**

**Performance reporting in the Report on Plans and Priorities (RPP) and the Departmental Performance Report (DPR) should be implemented for the 2004/2005 Fiscal Year as required by the TBS Policy on Transfer Payments.**

#### **Management Response**

**Recommendation accepted. The Branch will ensure that the 2005-2006 Reports on Plans and Priorities and the 2004-2005 Departmental Performance Report are in accordance with Treasury Board Secretariat's Policy on Transfer Payments. Expected completion date: December 2004.**



## AUDIT CRITERIA

<b><i>Audit Objective 1. Management control frameworks and due diligence - Management control frameworks (systems, procedures, controls and resources) and management practices are appropriate to ensure compliance, program effectiveness and financial integrity</i></b>	
<i>Criteria 1.</i>	The program mandate, objectives and expected results are understood by program officers.
<i>Criteria 2.</i>	There are adequate resources ( \$, PY's, IT, Facilities) to deliver the program.
<i>Criteria 3.</i>	Roles and responsibilities of stakeholders are clearly communicated, defined and understood.
<i>Criteria 4.</i>	Adequate policies, guidelines and training are in place to deliver the program, ensure stakeholders understanding of program objectives, eligibility requirements and expected results.
<i>Criteria 5.</i>	Program information including applicant guidelines and application forms are communicated in an open and transparent manner to create awareness for all potential applicants.
<i>Criteria 6.</i>	The decisions concerning the approval of recipients and of projects respect the concepts of due diligence, namely a sound justification, reasonable analysis and accountability. The proposal assessment process is consistently applied to ensure fairness and equity.
<i>Criteria 7.</i>	The management control framework identifies the intended results, ensures that the results achieved are monitored and assessed on a regular basis, and supports sound management practices.
<i>Criteria 8.</i>	PCH program management and Third Party Administrators comply with TBS approved program T&Cs, TBS PTP, and Financial Information Act.
<i>Criteria 9.</i>	Monitoring of Third Party Administrators is conducted by program management.
<i>Criteria 10.</i>	Procedures are appropriate to determine the eligibility of expenditures and activities to substantiate payment of advances and claims.
<i>Criteria 11.</i>	Payment of advances to recipients and Third Party Delivery Agents is supported by project plans and cash flow forecast information to provide evidence of demonstrated need.
<i>Criteria 12.</i>	Payments, repayments, and recovery activities are carried out in accordance with governing agreements, the Financial Administration Act, and with TBS TPP.
<i>Criteria 13.</i>	Monitoring of recipients is conducted by Third Party Administrators and PCH program management.
<i>Criteria 14.</i>	Adequate financial systems and processes are used to track and report on Grant/Contribution information that is relevant for management and decision making purposes.



*Criteria 15.* PCH management are provided with consolidated program performance reporting including a comparison of expected results against actual results achieved.

**Audit Objective 2. Information used for decision-making -**  
*Information used for decision-making and reporting is timely, relevant and reliable*

*Criteria 1.* The program reporting framework addresses the program's stated objective

*Criteria 2.* Management reports and information contained in the recipient files are provided in a way that is conducive to their use in the program accountability and decision making-process

*Criteria 3.* The program control framework addresses the management information requirements and expected attributes (verifiable, relevant, complete, etc.)

*Criteria 4.* Reporting on program performance by Administrators (PCH and Third Party Delivery Agents) to PCH program management includes roll up of individual recipient results and is prepared consistent with the program performance framework as outlined in the RMAF

*Criteria 5.* Reporting on program performance to Parliament is prepared in accordance with the requirements of the TBS PTP.

**Audit Objective 3. Risk management strategies and practices -**  
*Risk management strategies and practices are suitable to deliver the intended results.*

*Criteria 1.* The program key risks are expressed and assessed in specific results-oriented terms related to client needs and program objectives and are measured and evaluated on a regular basis.

*Criteria 2.* An RBAF has been developed for the program which includes a risk assessment.

*Criteria 3.* Risk-based recipient audits are planned, conducted, and followed up.



***Audit Objective 4. Program design and implementation - Program design and implementation reflects the objectives of the Department.***

*Criteria 1.* There is appropriate authority for the Program.

*Criteria 2.* The objectives of the program are linked to the strategic direction of the department.

*Criteria 3.* Program terms and conditions are in accordance with TBS Policy on Transfer Payments (PTP) and clearly articulate the Program's objectives and results.

*Criteria 4.* Agreements (CA or MOU) with Third Party Administrators are in accordance with TBS Policy on Transfer Payments (PTP)