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REPORT ON THE

AUDIT OF

CANADA NEW MEDIA FUND

CORPORATE REVIEW BRANCH

CANADIAN HERITAGE

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TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
1.0 INTRODUCTION AND BACKGROUND.....	1
2.0 OBJECTIVES	3
3.0 SCOPE	3
4.0 APPROACH AND METHODOLOGY	3
4.1 Audit Criteria	3
4.2 Fieldwork	4
5.0 CONCLUSIONS	5
6.0 OBSERVATIONS AND RECOMMENDATIONS	6
6.1 Management Controls and Management Practices	6
6.2 Information for Decision-Making and Reporting	8
6.3 Risk Management Strategies and Practices	12
6.4 Program Design and Implementation	14
ANNEX A Audit Criteria	16

EXECUTIVE SUMMARY

In 2003, the Assurance Services Directorate of the Corporate Review Branch, Canadian Heritage (PCH) conducted an audit of the Canada New Media Fund (CNMF).

The objectives of the audit were to provide PCH program management with assurance that: management control frameworks and management practices are appropriate to ensure compliance, program delivery, program effectiveness and financial integrity; information for decision-making and reporting is timely, relevant and reliable; risk management strategies and practices are suitable and deliver the intended results; and, program design and implementation reflect the objectives of the Department and of the Treasury Board.

PCH has chosen to use Telefilm Canada (Telefilm), a Crown Corporation, as a third-party delivery agent to further distribute funding to ultimate recipients under the terms of a contribution agreement between PCH and Telefilm. The audit examined the contribution agreements that were in place between PCH and Telefilm for fiscal years 2001/02 and 2002/03.

The audit team is of the opinion that the management control framework and management practices in place are appropriate to ensure compliance, program delivery, program effectiveness and financial integrity. The program delivery system used by Telefilm assesses applicants and their proposed projects for eligibility, ranks the projects nationally for funding using a publicized evaluation grid, contributes to the projects using a standardized contribution agreement and monitors the progress of the project against milestones as the basis for disbursement of funds. The program is well publicized and oversubscribed in most components.

While Telefilm is gathering timely, relevant and reliable information, this information is not always sufficient or appropriately submitted to PCH to allow the Program to consider policy and program adjustments to better address the objectives of the program. Program effectiveness could be improved by more precise determination of year-to-year cash flow needs to avoid lapsing of program funds. Reporting on the support provided to projects that score highly for Canadian content would provide better evidence for the program objective of increasing Canadian content.

Risk management strategies have been considered in the current design and delivery of the program.

Program design and implementation reflect the objectives of the Department and of the Treasury Board.

1.0 INTRODUCTION AND BACKGROUND

The Canada New Media Fund (CNMF) Program was originally launched as the Multimedia Investment Fund in 1998. The primary objective of the program is to further the development, production, and marketing/distribution of high-quality, original, interactive or Online Canadian cultural new media works, in both official languages. The Program initially provided repayable contributions to new media companies engaged in development, production and marketing/distribution activities related to eligible new media products.

In July 2000, in the context of the Canadian Digital Cultural Content Initiative (CDCCI), the Multimedia Investment Fund was expanded to provide increased support to the creation of Canadian cultural content and for distribution and sectoral awareness-related initiatives that promote development of the new media sector amongst Canadians.

In July 2001, the fund was renamed the Canada New Media Fund as part of the Canadian Internet Cultural Strategy (CICCS), and the funding was revised to a conditionally repayable contribution.

The Canada New Media Fund, the CDCCI and the CICCS, are now branded under the umbrella name Canadian Culture Online (CCO). An audit of the CCO, to the exclusion of the Canada New Media Fund, was conducted by the Corporate Review Branch in 2003-04.

The objectives of the Fund are to:

- provide financial support for the development, production, marketing and distribution of high-quality, original, interactive Canadian new media products in both official languages that are intended for the general public;
- provide Canadian consumers with greater access to Canadian cultural new media products;
- assist in the growth and development of a Canadian new media production and distribution industry that is competitive in international markets;
- establish and enhance Canadian distribution channels for new media cultural content that will benefit the entire sector; and
- raise the profile and presence of new media creators in both domestic and international markets while providing opportunities for professional development.

The general principles of the Fund are to:

- support Canadian new media products from development to market;
- allocate resources on a linguistic basis:
 - 1/3 French-language and 2/3 English-language for Product Assistance;
 - 50% French-language and 50% English-language for Distribution Assistance and Sectoral Assistance;

- encourage production in all regions and maintain an appropriate balance so as to foster new media production in both official languages in all regions of Canada;
- encourage innovation and new forms of expression in new media, and to support emerging new media creators;
- encourage production and distribution of original Canadian cultural content;
- refuse support to new media products containing elements of sexual violence or exploitation, obscenities, or that are indecent or pornographic within the meaning of the Criminal Code, or that are libelous or in any other way unlawful.

The Fund strives to achieve its objectives through three Program Components:

- **Product Assistance** which provides financial support for pre-development, development, production, marketing and distribution of Canadian cultural new media works in both official languages that are intended for the general public.
- **Distribution Assistance** which provides financial support for distribution channels and initiatives that increase the profile and presence of already existing Canadian cultural new media works; and provides Canadian and international market support to the new media industry through Telefilm Canada's services at such events.
- **Sectoral Assistance** which supports initiatives that promote the industrial and professional development of the new media industry such as training programs, centres of expertise, festivals, and immersion programs.

The Canadian Culture Online (CCO) Program within the Canadian Culture Online Branch of Canadian Heritage (PCH) is responsible for the CNMF. The Canada New Media Fund is one of fourteen programs under the CCO – a broad framework to stimulate the development of, and ensure access to, Canadian cultural content on the Internet. The CCO governance structure includes a National Advisory Board composed of 14 members external to PCH.

PCH uses Telefilm Canada (Telefilm), a Crown Corporation, as a third-party delivery agent to further distribute funding to ultimate recipients under the terms of a contribution agreement between PCH and Telefilm. In 1997, Telefilm launched a pilot program funding new media projects and is involved in other related fields of activity, such as film and television, which provide support to the creation of new media content.

CNMF funding for the audit scope years is set out in Table 1 below. The contribution agreement between Canadian Heritage and Telefilm reflects the same annual amounts. Repayments of past contributions are also retained by Telefilm Canada to provide funding for New Media projects.

Table 1: Approved Funding for the CNMF, 2001-2002 to 2003-2004

Fiscal Year	Project-based component	Industry-based initiatives	Total
2001-2002	\$ 6 million	\$ 3 million	\$ 9 million
2002-2003	\$ 8 million	\$ 3 million	\$ 11 million
2003-2004	\$ 6 million	\$ 3 million	\$ 9 million

2.0 OBJECTIVES

The overall objective of this audit is to provide program management with assurance that:

- management control frameworks and management practices are appropriate to ensure compliance, program delivery, program effectiveness and financial integrity;
- information for decision-making and reporting is timely, relevant and reliable;
- risk management strategies and practices are suitable and deliver the intended results; and
- program design and implementation reflect the objectives of the Department and of the Treasury Board as set out in the Treasury Board submission.

3.0 SCOPE

The audit focused on the CNMF in fiscal years 2001-2002, and 2002-2003. Consideration was given to changes made to program design and implementation and the management control framework in place for fiscal year 2003-2004.

Work was conducted in PCH's offices in Gatineau, Quebec, and Telefilm Canada's offices in Montreal, Toronto, and Vancouver.

4.0 APPROACH AND METHODOLOGY

4.1 Audit Criteria

Criteria against which observations, assessments and conclusions were drawn in conducting this audit were based on:

- the requirements of the June, 2000 Treasury Board Secretariat *Policy on Transfer Payments*;

- Office of the Auditor General *Attributes of a Well-Managed Grant and Contribution Program*¹;
- the approved Terms and Conditions applicable to the CNMF program;
- the provisions of the contribution agreement between PCH and Telefilm for the CNMF.

Specific criteria for the four audit objectives are included in Annex A of this report.

4.2 Fieldwork

Audit fieldwork was conducted between June and September 2003. Specific audit activities included:

- Review of the relevant provisions of the *Financial Administration Act* and the *Telefilm Canada Act*.
- Review of the approval documents for the Canada New Media Fund.
- Review of PCH policies and procedures for administration of the CNMF.
- Review of the contribution agreement between PCH and Telefilm for the CNMF applicable to the 2001-02, 2002-03 and 2003-04 fiscal years.
- Review of the Results-based Management and Accountability Framework (RMAF) and Risk-based Audit Framework (RBAF) for the Canadian Culture Online Program.
- Review of Telefilm business plans applicable to the CNMF.
- Review of CNMF annual reports, cash flow projections, and financial reports prepared by Telefilm that were provided to PCH.
- Review of a representative sample of applicant and recipient files for the CNMF (see Table 2 below).
- Review of reports prepared by Telefilm's internal auditor for 2001 and 2002.
- Review of Telefilm financial data/records relating to the CNMF.
- Interviews with management and staff responsible for the CNMF within Canadian Heritage and Telefilm.

¹ *A Framework for Identifying Risk in Grant and Contribution Programs*, November 1, 2000
Assurance Services
Corporate Review Branch
Canadian Heritage

Table 2: CNMF File Sample

Sub-programs	Language		Office			Application Result		Application Value (\$)	Commitment Value (\$)
	English	French	Vancouver	Toronto	Montreal	Accepted	Refused		
Sectoral Awareness	1	0	1	0	0	0	1	125,000	0
Distribution	1	0	1	0	0	1	0	100,000	100,000
Predevelopment/ Development	10	2	5	5	2	6	6	1,081,728	278,728
Production/ Marketing	9	5	3	5	6	12	2	2,504,173	2,025,086
Total	21	7	10	10	8	19	9	3,810,901	2,403,814

The file sample was drawn from applications received in April and September 2002 (fiscal year 2002-2003). These two application dates were the first to use an initial screening tool in the evaluation of applications.

A judgmental sample was used to include a sample of files that were not approved and a more extensive sample of the files that were approved. The 19 approved files included in the sample represented 45% of dollar value of files that were approved in that fiscal year.

5.0 CONCLUSIONS

The audit was conducted in accordance with the requirements set out in the Treasury Board (TB) *Policy on Internal Audit*. These standards require that the audit is planned and performed in a manner that allows the audit team to obtain assurance on the audit findings. In the audit team’s opinion, it can be concluded, with assurance, that:

- The management control framework and management practices in place are appropriate to ensure compliance, program delivery, program effectiveness and financial integrity. The program delivery system used by Telefilm carefully monitors recipients to ensure that recipients and their projects are eligible for support and that project milestones are met before funds are released. The evaluation process effectively selects the most competitive projects for support.

- Although Telefilm is gathering timely, relevant and reliable information, this information is not always sufficiently or appropriately communicated to PCH to be used for program planning and decision-making purposes. Program effectiveness could be improved by more precise determination of year-to-year cash flow needs to avoid lapsing of program funds. Reporting on the support provided to projects that score highly for Canadian content would provide better evidence for the program objective of increasing Canadian content.
- Risk management strategies have been considered in the current design and delivery of the program.
- Program design and implementation reflects the objectives of the Department and of the Treasury Board.

6.0 OBSERVATIONS AND RECOMMENDATIONS

6.1 Management Controls and Management Practices

Compliance with Legislative Framework

No inconsistencies were found between the Canada New Media Fund program and the *Treasury Board Policy on Transfer Payments* or the *Financial Administration Act*. The Terms and Conditions set out in the approval documents concerning the Canada New Media Fund program are reflected in the Contribution agreement with Telefilm Canada.

It was noted however, that Telefilm does not appear to have legislative authority to be active in the new media field. Its objectives as set out in the *Telefilm Canada Act* are to “foster and promote the development of a feature film industry in Canada”. It has specific authority to:

- invest in individual Canadian feature film productions in return for a share in the proceeds from any such production;
- make loans to producers of individual Canadian feature film productions and charge interest thereon; and
- advise and assist the producers of Canadian feature films in the distribution of those films and in the administrative functions of feature film production.

The projects funded under the Canada New Media Fund clearly do not qualify as feature films as defined in Telefilm’s legislative mandate. Canadian Heritage and Telefilm are aware of this issue and during the period of the audit fieldwork, measures were under way to review Telefilm’s legislative mandate and authorities. The government’s legislative agenda tabled in Parliament in June 2003 included planned revisions to the *Telefilm Canada Act*.

Identification, Monitoring and Assessment of Results

The contribution agreement between Canadian Heritage and Telefilm Canada identifies the intended results as:

- more diverse and visible Canadian cultural content Online;
- better distribution mechanisms for new media products;
- greater participation of Canadian companies and associations in domestic and international trade fairs;
- greater opportunities for professional development; and
- a leverage effect between the elements above.

The contribution agreement outlines a reporting schedule, including an annual business plan, interim activity report, annual report and financial reporting. The annual report is to include performance results for each of the performance indicators listed in Appendix B to the contribution agreement. The framework outlined in the agreement supports sound management practices. Shortcomings in timeliness and completeness of reporting, outlined in section 6.2 of this report, lessen the effectiveness of the management control framework.

The Program reviews the reporting provided and is responsive to requests in adjustments to the funding provided and the allocation of the funding. The Program has initiated discussion on issues such as the low response of the industry to the distribution assistance component.

Approval of Recipients and Projects

During the history of the CNMF, Telefilm has built upon its experience in project-based funding programs to improve the efficiency of the analysis process without compromising the consistency and soundness of the approval process. CNMF has:

- ***Published Detailed Application Guidelines*** for each of the Product, Sectoral and Distribution segments of the Fund. Each guideline clearly identifies eligible applicants, eligible projects and selection criteria. For the Product and Distribution segments, the Evaluation Grid provides more detail on the weighting of the selection criteria. A standard application form and template for budget submissions encourages complete and well-organized applications.
- ***Processes to Quickly Determine Applications Most Likely to be Successful.*** The Product segment of the CNMF is highly oversubscribed. Following an application deadline, an initial review is undertaken to identify the most competitive proposals for further analysis. For the files and processes reviewed as part of the audit scope, the pre-filtering process consisted of reviewing the entire application using a subset of the evaluation criteria. Follow-up to gather any missing information, and a review of the application using the full set of criteria was only done on projects that scored highly in the pre-filter. For the

September 2003 application deadline, in order to increase the efficiency for Telefilm staff and reduce the burden on applicants who were unlikely to succeed, the applicants first submitted an “expression of interest” application, that summarized the project. Applicants that scored well on the review of this information were then asked to submit a full application for detailed evaluation.

- ***Processes to Ensure Consistency Across Telefilm’s Offices.*** Applications are processed at Telefilm’s offices in Halifax, Montreal, Toronto and Vancouver. The evaluation process is the same in each office.

The Pre-development and Development segment, the program budget is allocated to the regional offices. Each office makes funding decisions based on the scoring of their applications. Unused budget is reallocated to other offices that are oversubscribed so that the scoring cut-off for funding should be relatively consistent across the country. However, it is theoretically possible that near the scoring cut-off, a project could receive funding through one regional office while another regional office would reject an identical application as non-competitive.

Applications for production and marketing assistance are analyzed locally but compete at a national level for funding. The completed evaluation grids for each project, including factors considered in assigning scores in each section, are circulated to the New Media staff in each office before the national meeting. The funding recommendations from the national meeting are approved at an executive level within Telefilm.

The Distribution Assistance component of the Canada New Media Fund has received few applications. These applications have been critically evaluated to ensure that the project made sense and was consistent with program objectives. Projects were not approved simply because funding was available.

In addition, a review of a sample of 28 funding files demonstrated that:

- there was an appropriate business case for the projects that were funded;
- application files contained all the required documentation; and
- the anticipated outcomes of the projects funded were consistent with the requirements of the CNMF program terms and conditions.

6.2 Information for Decision-Making and Reporting

Reporting to Canadian Heritage

The intent of the Canada New Media Fund is to provide support for high-quality, original, interactive Canadian new media products and through this to support the growth, expansion and reputation of the New Media industry in Canada, in particular to support French-language productions. Annual reporting by Telefilm on their

expenditures for the Canada New Media Fund provides information on the support by language of production, by region and by stage of project development, thus providing PCH with the information required to monitor the level of support provided for French-language productions.

A secondary intent of the program is to gather information to track the evolution of the New Media industry in Canada. Since the program is designed to address a wide range of media and to support projects even at the pre-development stage, information on the number and type of applications to the program should help PCH program officials identify trends in this quickly changing industry. The contribution agreement between PCH and Telefilm requires that Telefilm submit an Interim Activity Report at the end of each intake of applications that provides the name of the applicant, project description, component, amount requested, rationale behind decision, and other relevant information.

Telefilm has not submitted Interim Activity Reports to PCH. No information is provided on the types of projects approved or rejected that could be used by PCH to monitor trends in this industry: for example, the range of applicants, the number of applicants that score well on the pre filter but are not ultimately funded, whether applicants who are not funded on their initial application are successful in subsequent rounds, the number and dollar value of applicants that are just below the funding cut off score. This type of information could be useful for PCH when it considers whether changes are required to the program so that it might better address its objectives.

The reporting received by PCH is sufficient to maintain financial administration of the program but not sufficient to plan for future financial needs. For example, PCH does not receive information on the timing of financial commitments in the contribution agreements with recipients. This is discussed in detail below.

6.2.1 Recommendation

That the Director General, Canadian Culture Online Branch, ensure that in the next agreement with Telefilm Canada for the Canada New Media Fund, the provision of funding be more tightly linked to the provision of required performance information.

6.2.1 Management Response

Recommendation accepted. In the course of the negotiation of the contribution agreement for 2004/05, Telefilm and CCO agreed on reporting requirements and a reporting schedule taking into account both Telefilm's and CCO's realities and needs. A key element in CCO's process of assessing money owed to Telefilm during 2004/05 will be to ensure that Telefilm is in compliance with these requirements.



CCO did not receive this audit report in time to be able to consider including some of the reporting indicators suggested in Section 2 of the report in the contribution agreement for 2004/05. Nevertheless, some of the changes in the new agreement go in the direction of those proposed in the audit report. For example, under the terms of the new agreement, Telefilm agreed to report on the rejection rate for the CNMF, by component and by province, calculated using both the number of eligible applications and the total number of applications. This particular indicator will help CCO better understand various aspects of the demand for CNMF funding for both language markets.

CCO is currently undergoing a review of the performance indicators for each of its programs with a view to simplifying, harmonizing and improving performance measurement. The indicators suggested in the audit report will be considered in the context of this review. Work to take place in 2004/05, in time for inclusion in the next contribution agreement.

Information Available to Telefilm on Recipients

Telefilm maintains an extensive database (SINEWEB) which is their primary source of financial and management information for the Canada New Media Program. All applications are recorded in the database, with more extensive information collected for projects that are approved for funding. The database is used to track each application through the approval process and to track milestones and payment for approved projects. Electronic copies of application evaluations, contracts, etc., can be accessed through the database. The database has flexible reporting abilities allowing for both standard and customized reporting on many aspects of the program.

Information on Funding Requirements

Projects under the Canada New Media Fund typically have three or four milestones, including the signing of the contribution agreement, intermediary steps, the final report and financial accounting. Payments to the recipient are tied to the completion of each milestone. Target dates are assigned to these steps within the terms of the individual agreements.

Contribution agreements signed in one fiscal year are often not completed until following fiscal year(s). In order to accurately forecast the funding that will be used in the fiscal year, the schedule of payments to recipients must be considered in detail. Telefilm uses the broad assumption that unpaid amounts from agreements signed in prior years will be paid in the current year, and that a percentage of the agreements signed in the second half of the fiscal year will not be completed in the fiscal year. Not all projects begun in prior years and in the current year were completed within the year, resulting in the lapsing of funds in each of 2001-2002 and 2002-2003. The use of

modified assumptions on the likelihood of projects being completed within a specific fiscal year may help to reduce the amount of funds lapsing.

The Contribution Agreement between Telefilm and Canadian Heritage requires that Telefilm submit reporting on disbursements on a quarterly basis. In fiscal 2001-2002 and 2002-2003, Telefilm only submitted claims for the actual amount of its expenditures at year-end. In both of these years, the amounts disbursed under the program were less than the amounts available. This shortfall was not identified on a timely basis that would have permitted the funds to be considered for re-profiling within the Sector or Department. Moreover, in 2002-2003, Telefilm requested extra funding which was approved in an amendment to the contribution agreement but at the year-end, this money had not been disbursed on projects, resulting in the lapse of these funds.

In 2003-2004, Telefilm began submitting actual expenditures on a quarterly basis. This change in process combined with a more accurate forecast of anticipated payments to recipients, should better enable PCH and Telefilm to identify the potential for lapsed funds prior to the fiscal year end.

6.2.2 Recommendation

That the Director General, Canadian Culture Online Branch, work with Telefilm to forecast anticipated expenditures before year end, to allow funds that may not be used in one year to be considered for re-profiling into the next year.

6.2.2 Management Response

Recommendation accepted and partially implemented. During fiscal year 2003/04, Telefilm and CCO improved collaboration and achieved better results in this area than in previous years. As noted in the audit report, Telefilm submitted actual expenditures on a quarterly basis. It has also provided CCO with multiple spending forecasts in the last months of the year, which confirmed the ability to flow the funding to CNMF recipients. CCO actually ended up amending the contribution agreement to bring the total funding available through the CNMF in fiscal year 2004/05 to approximately \$10M, and the year-end lapsed amount was only a fraction of what it had been in recent years. Additional work to take place in 2004/05, in time for inclusion into next contribution agreement.

CCO will raise this issue in the course of its regular meetings with Telefilm regarding the CNMF. We will work together to explore ways to further improve spending forecasts and reduce year-end lapses, within the framework of Treasury Board's Transfer Payment Policy, for fiscal year 2004/05 and beyond.

6.3 Risk Management Strategies and Practices

The CNMF's Key Risks

The RBAF for the Canadian Internet Cultural Content Strategy (CICCS) which encompasses the CNMF, highlights the risks pertinent to this program. These include:

- ***Unknown and Rapidly Evolving Technologies.*** The CNMF supports projects distributed through a wide spectrum of interactive media, including the Internet, off line games, installations and exhibitions in museums and other public spaces, interactive television, mobile phones and Personal Digital Assistants (PDAs). The evaluation criteria used by the program provide a rationale for project comparison and rankings regardless of the media. By requiring that the end product be interactive and represent an innovation, the program can remain relevant as the variety of interactive media grows.
- ***Current Financial Viability of Different New Media Products.*** Funding under the CNMF is provided as a conditionally repayable contribution whereby the funding provided is to be repaid from future revenues. However, not all of the new media products funded under the program have a well-established track record for generating revenues. The games industry has a fairly straightforward business model with the end user buying copies of the game. Television convergence models have a more complicated model where a television program and website may support interest in each other but the revenue is generated by selling related products that are not necessarily new media. Other Online content projects are still struggling to find a financial successful business model as many web site users and portals are reluctant to pay for content. Using a contribution model that requires matching investment in the projects provides leverage for the federal funds invested. It also ensures that other investors have reviewed the feasibility of the project before putting their investment at risk, which should serve to reduce the number of proposed initiatives that have little chance of at least recouping costs.
- ***Management of Third Parties.*** While delivering the program through a third party can enhance its delivery by leveraging their expertise and experience, it also requires careful management to ensure that the program, including reporting, is meeting federal objectives. Telefilm has considerable experience in project-based funding programs and in multimedia programs, which facilitated the roll out of the CNMF. Telefilm, however, has not been responsive to Canadian Heritage's interest in gathering market trend information based on applications for funding. Documentation on file shows that Canadian Heritage has raised this issue with Telefilm and has withheld payments to encourage compliance with the terms of the contribution agreement between Canadian Heritage and Telefilm.

- ***Familiarity of Ultimate Recipients with the Requirements of a Contribution Program.*** Many of the Canada New Media Fund applicants have limited if any experience with contribution funding and the administrative requirements associated with it. Applicants tend to be smaller, if not virtual, organizations that may not be sophisticated in their approach to project management, accounting, etc. Telefilm's experience in project-based funding programs mitigates this risk somewhat. Specifically:
 - Funding is provided in stages upon the provision of detailed financial and activity reports which reduces the likelihood of the money being spent for purposes other than the approved project.
 - Telefilm has a transparent process whereby applicants are provided with clear information on how applications will be evaluated. Telefilm staff are available to provide a debriefing to unsuccessful applicants to identify what areas need to be strengthened before reapplying.

The risks identified in the RBAF have been considered in the current design and delivery of the program.

Strategic and Operational Plans

PCH and Telefilm have taken positive action to ensure that the program was delivered in a structured, consistent manner across the country and to make adjustments as required to better target the program and to increase the efficiency of program delivery.

Telefilm submitted an annual business plan for the Canada New Media Fund to PCH for the years 2002-2003 and 2003-2004. The business plan for 2003-2004 identifies short-term priorities to be addressed during the year and long term priorities that will be addressed as part of the potential renewal and expansion of funding for the Canada New Media Fund. The plan also identifies issues in the new media environment, recent initiatives by the Fund, strategies to achieve the short-term and long-term priorities, and performance measurement.

Telefilm has identified specific staff members in each of their four regional offices to lead the Canada New Media Fund program for that region. These staff are responsible for organizing the application intake, evaluation and contracting process, follow up on existing projects, program outreach and input into program development. Other internal or contract staff are available to provide additional resources for peak periods such as the evaluation and contracting phases. Telefilm also has a national Sector Head for New Media who oversees development of policy and national materials such as the Applicant's Guide and coordinates national meetings to approve applications. Telefilm has introduced a pre-screening process consisting of an "expression of interest", which should reduce the overall level of effort required to submit and review applications, leaving the higher level of effort for more competitive proposals.

6.4 Program Design and Implementation

The stated objectives of the Canadian Internet Cultural Content Strategies (CICCS) include:

- increasing the amount, quality and visibility of Canadian cultural content Online in both official languages;
- establishing and enhancing distribution channels;
- building capacity and raising the sector's profile and presence in both domestic and foreign markets, developing better market intelligence, promoting collaboration between new media creators, providing opportunities for professional development and encouraging the involvement of a variety of partners in projects; and
- helping to brand and enhance the visibility of Canadian cultural content and fostering the development of specialized Web sites aggregating digital content on specific cultural sectors or fields and on themes targeting the needs of underserved audiences.

The objectives of the CNMF as set out in Section 1.0 of this report, directly support the first three CICCS objectives. Further, the CNMF's three program components, Product Assistance, Distribution Assistance and Sectoral Assistance, can be mapped one for one, to the first three CICCS' objectives. A separate program addresses the fourth CICCS objective.

Telefilm's primary focus is on the Product Assistance and Sectoral Assistance program components. Performance measurement and reporting for the Product Assistance focuses on the amount of funding provided and the distribution of this funding by language, region and stage of product development. For the Sectoral Assistance program, the amount of funding provided and the level of participation at events are the key measures reported. These measures are consistent with those set out in the RMAF.

To fund projects under the Product Assistance component, Telefilm requires that all applicants meet minimum criteria with respect to the use of a Canadian production team and creative talent. Additional points can be awarded for subjects, themes and concerns that are identifiably Canadian and for the cultural diversity of the subject matter and content. Projects that are awarded additional points for their content will presumably better support the objective of increasing the amount, quality and visibility of Canadian cultural content Online than those projects that meet the minimum requirement. Information such as the number of funded projects that score highly on the Canadian Cultural Content criteria, and the dollar value of the funding awarded for these projects, is not captured and reported to Canadian Heritage. This information would be useful to PCH in assessing the impact of the CNMF.

6.4.1 Recommendation

That the Director General, Canadian Culture Online Branch, ensure that the next agreement with Telefilm Canada for the Canada New Media Fund include specific reporting on funded projects that score highly on the Canadian Cultural Content criteria.

6.4.1 Management Response

Recommendation accepted. CCO is currently undergoing a review of the performance indicators for each of its programs with a view to simplifying, harmonizing and improving performance measurement. An indicator as suggested in the audit report will be considered in the context of this review. Work to take place in 2004/05, in time for inclusion into next contribution agreement.

In 1999, in response to concerns raised by Telefilm Canada and the program's new media clients, Canadian Heritage commissioned a review of the impact of the Fund's funding instrument on the financial structure of the funding recipients. The study found that the short-term loan structure was negatively impacting the ability of the recipients to attract additional financing and was depleting cash flows. In response, PCH revised the funding instrument from a loan to a conditionally repayable contribution. It also gave Telefilm the authority to revise previous agreements to reflect the changed repayment conditions.

There have been very few proposals and funded projects under the Distribution Assistance program component. It is therefore not possible to comment on the delivery, measurement or reporting associated with it. The difficulty in generating acceptable projects under this program component has been recognized by PCH, whose research plan includes researching options for this program component so that it will better address the current market situation.

ANNEX A: SPECIFIC AUDIT CRITERIA

The following are specific audit criteria for each audit objective:

A. Management Control Frameworks

- The program complies with appropriate acts, regulations, terms and conditions, policies and appropriate agreements;
- 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; and
- The decisions concerning the approval of recipients and of projects respect the concepts of due diligence, namely a sound justification, a reasonable analysis and accountability.

B. Information for Decision-making and Reporting

- The program reporting framework addresses the program's stated objective;
- 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; and
- The program control framework addresses the management information requirements and expected attributes (verifiable, relevant, complete, etc.).

C. Risk Management Strategies and Practices

- The program's 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; and
- Appropriate strategic and operational plans are developed, applied, reviewed, and updated with suitable frequency.

D. Program Design and Implementation

- Program key activities and funding mechanism are delivered, measured and reported in a way that is relevant to the departmental objective.