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REPORT ON

THE AUDIT OF THE CANADIAN TRAVELLING EXHIBITION INDEMNIFICATION PROGRAM (INDEM)

CORPORATE REVIEW BRANCH

DEPARTMENT OF CANADIAN HERITAGE

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Canada

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EXECUTIVE SUMMARY

The audit of INDEM was conducted pursuant to the approved Department of Canadian Heritage Audit and Evaluation Plan for 2003-2004. The objective of this audit was to provide program management with assurance on the soundness of processes, 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 the pre-established objectives as defined in section 2 and reflect audit work conducted between July 3 and August 1, 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 is adequate. However, management reports on the program's objective achievements have to be initiated;
- Operational risk management strategies and practices are appropriate and adequate.
- Formal strategies that would address risks related to the achievements of INDEM's objectives and ways to mitigate these risks have yet to be developed and implemented.

The audit team identified some areas where management practices and processes can be strengthened:

- Information used for decision-making and reporting on program's performance needs to be improved with the preparation of timely, relevant and reliable management reports on the program's objective achievements as suggested in the draft Results-based Management Accountability Framework;
- The program lacks a formal Risk Management Plan to help address risks related to program's objectives.

1.0 Background

The 2003-04 audit plan of the Assurance Services Directorate, Corporate Review Branch of the Department of Canadian Heritage (PCH) identified the need to conduct an audit of the Canada Travelling Exhibition Indemnification Program (INDEM). The requirement was established as a result of a departmental-wide program risk assessment.

In 1999, the Government of Canada approved the Canada Travelling Exhibitions Indemnification Act and PCH established INDEM, a program through which the government assumes financial risk, and provides compensation for damage or loss, should these occur, to approved travelling exhibitions. Within weeks the program became operational, indemnifying major exhibitions from leading museums in France, Russia, China and the USA. Within a year, Canadian museums had saved millions of dollars in insurance costs and almost a million Canadians had visited indemnified exhibitions. Applauded by the Canadian and international heritage communities, the program quickly established credibility and working relationships worldwide.

The Indemnification Program has two objectives:

- Increase access for Canadians to Canada's and the world's heritage through the exchange of artifacts and exhibitions in Canada; and
- Provide Canadian art galleries, museums, archives, and libraries with a competitive advantage when competing for the loan of prestigious international exhibitions. Both international and domestically organized exhibitions are eligible for indemnification.

Two types of exhibitions qualify for indemnification under INDEM:

- exhibitions organized domestically, in which the total fair market value of objects borrowed from within Canada exceeds the total fair market value of objects borrowed from outside Canada, with venues in at least two Canadian provinces/territories; and
- international exhibitions, in which the total fair market value of objects borrowed from outside Canada exceeds the total fair market value of objects borrowed from within Canada, with at least one Canadian venue.

From January, 2000 to April 1, 2003, attendance at indemnified exhibitions totalled 4.1 million. From January 2000 to July 2003, 50 applications for indemnification have been received and 34 exhibitions for travel to 60 venues have been approved. This

represents approximately \$4.7 billion in indemnification.

Maximum indemnification is \$450 M per exhibit, with a total maximum liability for approved exhibitions of \$1.5 B. No claims have been submitted to the program to date.

In the event that claims were to be submitted to the Department, claim settlement would be authorized by the Minister of Canadian Heritage. Department of Finance, with regard to its responsibilities in managing Crown liabilities, is informed of all indemnification approved by the Minister.

Since its inception, INDEM has published numerous guidelines describing the program process and requirements. The application review process may be summarized as follows: Institutions submit indemnity applications on behalf of all Canadian institutions that will host an exhibition for which indemnity is requested. PCH program officers assess applications, using external expert advice as required, to advise of risk associated with indemnification and whether to assume that risk in whole or in part. The Indemnity Agreements are signed between the Department of Canadian Heritage and the lender of the artefact. Also, institutions hosting indemnified travelling exhibitions must have their facilities approved for security, fire safety and preventive conservation, including environmental controls. The Canadian Conservation Institute (CCI) currently performs these activities on behalf of the program. As of March 31, 2003, twenty Canadian institutions had been approved as meeting minimum requirements for indemnification.

2.0 Objective and Scope

The objective of this audit was to provide program 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. More specifically, the objective of this audit was to determine if the following criteria were met:

- Management control frameworks and practices are appropriate to ensure compliance, effectiveness and financial integrity;
- Information used for decision-making and reporting is timely, relevant and reliable; and
- Risk management strategies and practices are suitable and deliver the intended results.

The audit examined the program in relation to the respective objectives. The scope of

the audit covered the program activities since its implementation in January 2000. This included fiscal years ended March 31, 2000 to March 31, 2003. The following table summarizes the scope of the audit:

\$ Total Liability	\$ Audited Recipients	% Total \$ of Files Audited	Total # of Approved Files	# of Approved Files Audited	% Approved Files Audited
<i>Fiscal Year 2000-2001</i>					
\$2 283 460 617	\$450 000 000	20%	12	1	8%
<i>Fiscal Year 2001-2002</i>					
\$435 147 767	\$0		7	0	0%
<i>Fiscal Year 2002-2003</i>					
\$1 559 859 156	\$22 797 400	1%	7	1	14%
<i>Total Program for the Three Fiscal Years</i>					
\$4 278 467 540	\$472 797 400	11.05%	26	2	7.69%

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.

The audit approach to address the audit objectives included the development of audit criteria against which observations, assessments and conclusions were drawn.

Work performed included:

- review of relevant program documentation. A list of these documents is presented in “Annex A”;
- interviews with program staff identified in “Annex A”;
- a risk assessment on key program activities and processes; and,
- a review of a sample of recipient files. As indicated in the table above, based on the results of the risk assessment conducted by the audit team, two files were selected to verify the adequacy, efficiency and the effectiveness of the controls in

place. These files were chosen for the value of artefacts and the number of institutions involved.

4.0 Statement of Assurance

The audit team's conclusions are based on the assessment of findings against the pre-established objectives as defined in section 2 and reflect audit work conducted between July 3 and August 1, 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 is adequate. However, management reports on the program's objective achievements have to be initiated.
- Operational risk management strategies and practices are appropriate and adequate.
- Formal strategies that would address risks related to the realization of program's objectives and ways to mitigate these risks have yet to be developed and implemented.

The audit team identified some areas where management practices and processes can be strengthened. The findings and recommendations that follow address these areas.

5.0 Findings and Recommendations

5.1 Management Practices and Processes

The management control framework presently in place is appropriate to ensure compliance, effectiveness and financial integrity.

The management control framework includes a number of strategies and processes to minimize operational risks. These strategies and practices could be summarised for each application as follows:

- Eligibility is appropriately determined by INDEM staff. When applying, institutions must demonstrate that the nature and value of their exhibitions qualify for

indemnification under INDEM.

- Validity of the information is assessed in conjunction with third parties. Based on the total exhibit fair market value, INDEM applies deductibles which range from \$30 K for exhibits with market values of \$500K to \$3M to \$500K for exhibits with fair market values of \$300M to \$450M.
- Applicants must demonstrate in their applications, which includes facilities reports, their capacity to properly care for sensitive heritage material for which they are to be responsible.

If necessary, experts in the field may be asked to assess the fair market value of objects submitted with applications. The need has never occurred since the implementation of the program.

5.2 Information Used for Decision-making and Reporting

The audit reviewed two types of management reports: operational reports and program performance measurement reports.

Operational reports (financial and narrative) account for the program day to day operations. They include reports on financial liabilities and general information on client institutions. These reports are adequate.

However, reports on the program performance have still to be initiated. At the time of the audit, the program had just completed, in a draft form, a Results-based Management Accountability Framework (RMAF). The draft RMAF suggests performance indicators, data source, and collection method to measure accomplishment against the program's objectives. INDEM has started to gather some quantitative data related to the program's objectives (tables, trends, statistics, etc.) as well as qualitative information (program strength and weaknesses, examples of success, etc.) but that data has not yet been formalized in a report for management review.

In addition, to adequately report on performance indicators, as suggested in the RMAF, INDEM directives addressing clients' Reports on Exhibitions will have to be expanded to include additional data to be reported on as a result of hosting indemnified exhibitions, such as: institutions' use of insurance savings, overall increase in visitor volume, contribution to capacity building and leverage, etc.

5.2.1 Recommendation

INDEM MANAGEMENT SHOULD:

- a) **IDENTIFY, CAPTURE AND ROLL UP PERFORMANCE INFORMATION ON THE PROGRAM;**
- b) **SPECIFICALLY IDENTIFY REQUIRED INFORMATION FROM INSTITUTIONS IN THE PROGRAM DIRECTIVES; AND**
- c) **REPORT ON THE INTENDED RESULTS FOR THE PROGRAM'S OBJECTIVES AS IDENTIFIED IN THE RMAF.**

5.2.2 Management Response

- a) **Recommendation accepted: Although performance information is gathered on an informal basis, management agrees with undertaking a more systematic approach. An Outcome Measurement Framework for the INDEM program was developed as part of the RMAF dated February 2003 and the Program will fully implement its collection methods by March 31, 2005.**
- b) **Recommendation accepted: Program guidelines will be modified to specify required information following scheduled review by Parliament as required by legislation during 2005.**
- c) **Recommendation accepted: A report on intended results will be prepared following completion of an evaluation by June 2005.**

5.3 Risk Management Strategies and Practices

In order to address the objective related to "Risk Management and Practices" the audit applied the two following criteria:

- 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;
- appropriate strategic and operational plans are developed, applied, reviewed, and updated with suitable frequency.

These criteria are based on the following Treasury Board policy documents: Integrated Risk Management Framework, Risk Management Policy, and the Policy on Active Monitoring.

The first item reviewed was operational risks management strategies and practices. As mentioned in section 5.1, operational risk management strategies and practices are appropriate and adequate. These strategies and practices include, for each application, an eligibility process, an assessment of the validity of the information provided on objects and appurtenances and a conformity process with regard to conservation, security and fire prevention regulations and practices. Consequently, the operational risk is minimal.

The second item reviewed was risk management strategies and practices related to the program's objectives and their strategic delivery. Our review of the program management framework, interviews with management, and the review of documentation highlighted the fact that INDEM lacks formal management strategies and practices to address risks related to the program's objectives and their strategic delivery. Program's objectives key risks will have to be identified, their probability of occurrence will have to be determined, their impact on the program's objectives will have to be described and formally documented, and corrective actions will have to be identified and implemented.

The organization's work plan for 2003-04 are adequate.

5.3.1 Recommendation

INDEM MANAGEMENT SHOULD DEVELOP FORMAL STRATEGIES TO ADDRESS RISKS RELATED TO PROGRAM'S OBJECTIVES, IMPLEMENT MEASURES TO MITIGATE OR CONTROL THESE RISKS AND REPORT ON THE RISK MANAGEMENT PROCESS.

5.3.2 Management Response

Recommendation accepted: By the end of December 2004, a Risk Management Plan will be developed to identify INDEM's key internal and external risks that may impact upon the successful achievement of program objectives and to design strategies to mitigate such risks.

List of Documents Reviewed During the Audit

An Act to Establish an Indemnification Program for travelling Exhibitions
Canadian Travelling Exhibition Indemnification Program, General Information
Instructions for Completing an Application for Indemnification
Application Assessment Worksheet
Draft Memorandum of Understanding Finance Department
Results-based Management Accountability Framework
Summary of International Indemnity Programs

List of Employees Interviewed During the Audit

Keith Wickens, Manager, Canada Travelling Exhibitions Indemnification Program
Marc Bédard, Program Officer, Canada Travelling Exhibitions Indemnification Program
Julie Sévigny, Program Coordinator, Canada Travelling Exhibitions Indemnification Program