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**DEPARTMENT OF CANADIAN HERITAGE**

**FINAL REPORT**

**AUDIT OF THE  
BOOK PUBLISHING INDUSTRY DEVELOPMENT PROGRAM**

**May 28, 2003**

**Canada**

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## Executive Summary

The objective of the Book Publishing Industry Development Program (BPIDP) is to ensure choice of and access to Canadian-authored books that reflect Canada's cultural diversity and linguistic duality in Canada and abroad. BPIDP is structured around four funding components as follows: Aid to Publishers; Aid to Industry and Associations; Support for the Canadian Book Industry Supply Chain Initiative; and International Marketing Assistance. The International Marketing Assistance component is administered on behalf of the Department of Canadian Heritage (PCH) by the Association for the Export of Canadian Books (AECB) pursuant to a Memorandum of Agreement (MOA).

The audit of the Book Publishing Industry Development Program was conducted pursuant to the approved Department of Canadian Heritage Audit and Evaluation Plan for 2002-2003.

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.

The audit team's conclusions are based on the assessment of findings against pre-established criteria and reflect audit work conducted between September 9, 2002 and January 15, 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 and deliver the intended results.

The audit team did however identify some areas where management practices and processes can be strengthened. Our findings are as follows:

- Advance payments made to recipients in the Aid to Publishers component are for the total contribution amount. No holdback is withheld by PCH. This is not compliant to the Treasury Board Policy on Transfer Payments.



- The consolidation of individual recipient performance information obtained from recipients for departmental senior management reporting purposes is limited.
- Reporting of program performance is not compliant with the requirements of the TBS Policy on Transfer Payments.
- The Memorandum of Agreement between PCH and the Association for the Export of Canadian Books (AECB) is weak in ensuring the accountability of ultimate recipients and minimizing financial risk.
- The AECB has earned interest on contribution funds received from PCH in prior years and these funds have not been recovered by PCH.
- The AECB has recovered overpayments of contributions made to recipient publishers in prior years and these funds have not been recovered by PCH.

## 1.0 Background

The objective of the Book Publishing Industry Development Program (BPIDP) is to ensure choice of and access to Canadian-authored books that reflect Canada's cultural diversity and linguistic duality in Canada and abroad. The program seeks to achieve this objective by fostering a strong and viable Canadian book industry that publishes and promotes Canadian-authored books.

BPIDP is managed by the Publishing Policy and Programs Branch of the Cultural Affairs Sector of the Department of Canadian Heritage (PCH).

The budget for the program for the 2002-03 fiscal year is \$39.4 million and is broken down by component as follows.

<input type="checkbox"/>	Aid to Publishers	\$ 27.2 million
<input type="checkbox"/>	Aid to Industry and Associations	\$ 3.3 million
<input type="checkbox"/>	Support for the Canadian Book Industry Supply Chain Initiative	\$ 4.1 million
<input type="checkbox"/>	International Marketing Assistance	\$ 4.8 million

As of January 31, 2002, additional funding and revised terms and conditions of BPIDP have been approved. These additional contributions have been earmarked in the fiscal framework for 2001-02 (\$6.5 million), 2002-03 (\$8.0 million) and 2003-04 (\$8.0 million). These changes refocus the Aid to Publisher's components in regards to the viability assessment of applicants, the endorsement of the government strategy to modernize the distribution of books and broaden the recipient sectorial representation by including groups such as booksellers, distributors and wholesalers. Therefore, renewal in the program activities such as recipient review, selection methodology and due diligence activities have been introduced.

BPIDP is currently structured around four funding components with each having its own objectives.

### Aid to Publishers

The main objective of the Aid to Publishers component is to ensure the ongoing production and marketing of Canadian-authored books in Canada and abroad. The assistance is provided through the application of a funding formula based on a publisher's sales of

eligible books in relation to the total eligible sales of all the publishers in the component. Approximately 240 applications are received per fiscal year.

**Aid to Industry and Associations**

The main objective of Aid to Industry and Associations component is to provide the industry with the necessary tools to expand the presence and profile of works by Canadian authors. There are four categories of projects in this component; Marketing and Promotion, Research, Professional Development, and Publishing Internships. Priority is given to projects that are national in scope, that encourage closer ties among the various segments of the industry and seek to foster greater awareness of Canada's cultural diversity. Approximately 150 applications are received per fiscal year.

**Support for the Canadian Book Industry Supply Chain Initiative**

The main objective of the Support for the Canadian Book Industry Supply Chain Initiative component is to support all sectors of the Canadian book industry in strengthening and modernizing the supply chain of books in Canada so that it is more effective and efficient in bringing Canadian books to readers in Canada. The funding is intended to improve relationships across industrial sectors, and to build a more efficient communications and distribution infrastructure. As of 2002-03, a new supply chain strategy had been developed. Approximately 45 applications are received per fiscal year.

**International Marketing Assistance**

The principal objective of this component is to develop and sustain Canadian publishers export sales and to increase the distribution and marketing of Canadian titles abroad, with a view to increasing the visibility of Canadian authors around the world. International Marketing Assistance is made up of two forms of assistance - the Foreign Rights Marketing Assistance Program (FRMAP) and the Export Marketing Assistance Program (EMAP).

The FRMAP objective is to support Canadian publishers' participation in international trade events and to assist in negotiation of distribution agreements with foreign distributors and publishers.

The EMAP objective is to assist Canadian publishers to develop and strengthen their sales to foreign markets and to expand foreign markets for their Canadian books.

The International Marketing Assistance is administered on behalf of Canadian Heritage by the Association for the Export of Canadian Books (AECB). Approximately 275 applications are received per fiscal year.

BPIDP is delivered from the headquarters of Canadian Heritage, in Gatineau, Quebec.

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

## 2.0 Audit 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.

Sub-criteria addressed include:

- The program complies with appropriate authorities including the Treasury Board approved terms and conditions for the program and the TB Policy on Transfer Payments.
- The program control framework identify the intended results, are monitored and assessed on a regular basis and support sound management practices.
- The program applies sound judgment in the approval of special circumstances governing eligibility of recipients.

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

Sub-criteria addressed include:

- The program reporting framework addresses the program's stated objective.
- Performance reports, forms, guidelines, and project application files are provided in a way that are conducive to their use in the program accountability and decision making-process.
- The program management control framework addresses the management information requirements and expected attributes.



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

Sub-criteria addressed include:

- The program's key risks expressed and assessed in specific results-oriented terms relate to client needs and program objectives and, in a way that permits measurement and evaluation.
- Appropriate strategic and operational plans are developed, applied, reviewed, and updated with suitable frequency.
- The activities implemented in the program RBAF are reflected in the program decision-making process and management control frameworks.

The audit examined the four funding components of the program in relation to their respective objectives. The scope of the audit covered fiscal years ended March 31, 2002 and March 31, 2003.

### 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.

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 Transfer Payment Policy.

Work performed included:

- conducting interviews with program management and officers;
- conducting interviews with AECB management and staff;
- conducting interviews with representatives from PCH Finance Branch, Grants and Contributions Secretariat, and Corporate Review Branch;
- reviewing relevant program documentation;
- conducting a risk assessment on key contribution program activities and processes;





- and,
- conducting detailed reviews of a representative sample of recipient files.



The audit coverage achieved is outlined below:

<b>2002/2003</b>						
<b>PROGRAM COMPONENT</b>	<b>\$ AUDITED RECIPIENTS</b>	<b>TOTAL PROGRAM BUDGET</b>	<b>% TOTAL \$ AUDITED</b>	<b># FILES AUDITED</b>	<b>TOTAL # FILES</b>	<b>% FILES AUDITED</b>
Aid To Publishers	\$ 5,399,074	\$ 27,200,000	20%	22	217	10%
Aid To Industry and Associations	313,531	3,280,000	10%	7	97	7%
Support for the Canadian Book Industry Supply Chain Initiative	808,567	4,100,000	20%	3	28	11%
International Marketing Assistance	114,422	4,800,000	2%	10	277	4%
<b>TOTAL</b>	<b>\$ 6,635,594</b>	<b>\$ 39,380,000</b>	<b>16%</b>	<b>42</b>	<b>619</b>	<b>7%</b>
<b>2001/2002</b>						
<b>PROGRAM COMPONENT</b>	<b>\$ AUDITED RECIPIENTS</b>	<b>TOTAL PROGRAM ACTUAL \$</b>	<b>% TOTAL \$ AUDITED</b>	<b># FILES AUDITED</b>		<b>% FILES</b>
Aid To Publishers	\$10,027,473	29,338,690	34%	30	217	14%
Aid To Industry and Associations	251,667	2,520,497	10%	7	74	9%
Support for the Canadian Book Industry Supply Chain Initiative	211,135	1,303,315	16%	3	15	20%
International Marketing Assistance	112,735	3,519,525	3%	7	286	2%

<b>TOTAL</b>	<b>\$10,603,010</b>	<b>\$ 36,682,027</b>	<b>29%</b>	<b>47</b>	<b>592</b>	<b>8%</b>

#### 4.0 Statement of Assurance

The audit team’s conclusions are based on the assessment of findings against the pre-established criteria as defined in section 2 and reflect audit work conducted between September 9, 2002 and January 15, 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; and,
- risk management strategies and practices are suitable and deliver the intended results.

The audit team did, however, identify 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 Program Monitoring of Funds Spent by Recipients

The TBS Policy on Transfer Payments requires that a portion of a contribution should only be paid following the final accounting for the contribution by the recipient. This requires that departments withhold a portion of funds for a given year until all reporting requirements are met. This amounts to a holdback, which is usually applied at a rate of 10%. The policy further states that Departments must seek TBS approval for any exception to the cash management policy.



All components of the BPIDP program where advance payments are made have a holdback provision with the exception of the Aid to Publishers component. In the components where holdbacks are used, the audit team found that holdbacks are paid to recipients once the final reports on use of funds are received and reviewed by the program officers. The full amount of the contribution in the Aid to Publishers component is made in one payment during the year. The terms and conditions of the Aid to Publishers component state that advances and reimbursements of expenditures will be made in accordance with the TB Policy on Transfer Payments. The payment of 100 % of the Aid to Publishers contribution as an advance to Publishers is an exception to the cash management policy. No explicit approval has been obtained from Treasury Board and consequently it is non compliant with the TBS Policy on Transfer Payments.

The Aid to Publishers Component Applicant Guidelines state that recipients must provide PCH with a report on the use of the funds. This report is used by the program officer to assess whether spending was in accordance with prior year contribution agreement terms and conditions. The program application guidelines further provide for these reports to be submitted in the year following the receipt of the contribution as part of the next years application. The audit team found that reports were received as required in the following year as part of the next years application.

To reduce the risk of overpayments and to strengthen compliance to the TBS Policy on Transfer Payments and the terms and conditions of the program component, a portion of the Aid to Publishers contribution should be withheld and paid following the receipt of the report on the use of funds from the recipient.

## **Recommendation**

**5.1.1 The Manager, BPIDP, should withhold a portion of the Aid to Publishers contribution until the report on the use of funds from the recipient is received.**

### **5.1.1 Management Response**

**Agreed. Beginning with the 2003-2004 contributions, a holdback will be implemented for Aid to Publishers contributions until the report on the use of funds is received.**



## **5.2. Reporting of Program Performance and Results**

### **5.2.1 Internal Reporting of Program Performance and Results**

The Results-based Management and Accountability Framework (RMAF) for the program identifies intended key results, direct outcomes, outputs, and data sources/collection methods. The RMAF does not identify measurement frequency and who has the responsibility for collecting and reporting the data. The audit team found that the consolidation of individual recipient performance information obtained from recipients for departmental senior management reporting purposes is limited. The program has been going through significant change over the past year and program management has plans to undertake activities to implement performance reporting in accordance with the RMAF in the 2003/4 fiscal year. This will entail developing processes to standardize the capture of information and the reporting from recipients to enable consolidated reporting on overall results of the program components.

### **Recommendation**

**5.2.1 The Manager, BPIDP, should develop a performance measurement plan and process to capture and roll up performance information from recipients on the program.**

### **5.2.1 Management Response**

**Agreed. As reported in the auditor's findings, program management has plans to implement performance reporting in accordance with the program's Results-based Management and Accountability Framework. This work will be begun during the 2003-2004 fiscal year and is expected to be completed by the end of the following fiscal year.**

### **5.2.2 External Reporting of Program Performance and Results**



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

The audit team found that the following reporting on the program does not comply with the above requirements :

- the PCH 2002-2003 Estimates - Part III Report on Plans and Priorities provides only a brief narrative description of elements of the BPIDP program; and
- the Performance Report for the period ending March 31, 2001 includes only summary financial information on total program spending.

We understand that external reporting of program performance and results is a departmental issue. External reporting is coordinated by the Corporate Planning and Management Branch with information provided by the programs.

### **Recommendation**

**5.2.2 The Manager, BPIDP, should work closely with the Corporate Planning and Management Branch to ensure that performance reporting be implemented for the 2003/2004 fiscal year as required by the TBS Policy on Transfer Payments.**

### **5.2.2 Management Response**

**The program has expressed its agreement with the previous recommendation, which deals with improved internal reporting. Unlike internal reporting, however, the program does not have complete control over external reporting since, as the audit report states, “external reporting is coordinated by the Corporate Planning and Management Branch with**



information provided by the programs.” Taking into account the divided responsibility over this departmental issue, the program will make every effort to work with the Corporate Planning and Management Branch to help them implement effective performance reporting.

### **5.3 Third Party Delivery Agreement**

#### **5.3.1 Third Party Delivery Agreement - International Marketing Assistance**

The International Marketing Assistance component is administered by the Association for the Export of Canadian Books (AECB), a Third Party Delivery Agent. The AECB provides funding to eligible organizations through the Foreign Rights Marketing Assistance Program (FRMAP) and the Export Marketing Assistance Program (EMAP). The terms and conditions of this relationship are documented in a Memorandum of Agreement (MOA) between the department and the AECB.

The TBS Policy on Transfer Payments requires that in situations where a Third Party Delivery Agent further disperses funds to ultimate recipients that specific provisions be included in their agreement to ensure that due diligence is exercised by the Third Party Delivery Agent in selecting and managing projects. These provisions also strengthen the accountability of the Third Delivery Agent and the ultimate recipient to the Department.

The audit team compared the terms and conditions of the MOA to the requirements of the TBS Policy on Transfer Payments. The audit team identified that the following provisions required in agreements with Third Party Delivery Agents are not present in the MOA with the AECB:

- Description of the AECB’s management and accountability framework;
- Provisions requiring the AECB operation plan to include annual performance expectations and a description of the process used to select and approve projects; and,



- Description of the redress provisions for the ultimate recipients affected by decisions of the initial recipient.

The absence of these elements as part of the agreement weakens accountability between all parties and is not in compliance to the TBS Policy on Transfer Payments.

## Recommendation

**5.3.1 The Manager, BPIDP, should ensure that the MOA with the AECB include the provisions as outlined above.**

### 5.3.1 Management Response

**Agreed. To strengthen accountability, the provisions identified by the auditors will be added to the 2003-2004 memorandum of agreement between the Department and the AECB.**

### 5.3.2 Advance Payments to AECB

TBS Policy on Transfer Payments states that Departments must base advance payments of a contribution on prudent cash management principles. It further states that in order to reduce risk of overpayments, a portion of a contribution should only be paid following the final accounting for the contribution by the recipient. Where advance payments are made, they should be limited to the immediate cash requirements of the recipient and not exceed specific payment frequencies as defined in Appendix B to the Policy on Transfer Payments.

For contributions over \$500,000, the TBS Policy on Transfer Payments - Appendix B states that payments should be limited to the immediate cash requirements of the recipient with a payment frequency not exceeding monthly. The MOA with the AECB





provides for three advance payments during the year. These advance payments are not supported by cash flows forecasts and interim financial statements to justify the cash requirements. In addition, the agreement provides for a holdback of 1% pending receipt of a final activity report and a complete accounting in relation to the project which will include a final statement of actual expenditures and revenues for each of the budget items for the total cost of the project. Given advance payments are not supported by monthly cash flow forecasts and that the holdback is 1% of the total funding, the risk of overpayment is increased.

Our analysis of AECB cash requirements has revealed that the AECB holds back 25% of EMAP contribution amounts from recipients until receipt of a final report. This final report is received in the year following the contribution year. Therefore the cash requirement is not until the following year. As a result, the AECB financial statements of March 31, 2002 reported an amount of \$1,022,035 under the cash item and \$942,291 under accounts payable/accrued liabilities. Advancing all the funds to the AECB during the contribution year results in the Crown incurring an interest cost on the funds. The following amounts 2002 - \$20,547, 2001 - \$34,963, 2000 - \$34,989 are reported in the financial statements of AECB as interest revenue. In our opinion, these amounts relate to interest earned on contribution funds received from PCH. Upon review of TBS Policy on Transfer Payments, it is the opinion of the audit team that the funds should be returned to the Crown.

To reduce interest costs to the Crown, risk of overpayment, demonstrate good financial management and enhance compliance with the TBS Policy on Transfer Payments, the holdback on the AECB funds should be increased and advance payments should be supported by monthly cashflow forecasts.

## Recommendations

**5.3.2.1 The Manager, BPIDP, should recover interest earned on PCH contributions received in prior years.**

**5.3.2.1 Management response**

**Agreed. The program intends to recover interest earned by the AECB on BPIDP contributions received in prior years. First, discussions will be held with the AECB to determine the circumstances surrounding the interest. By**



**November 30, 2003, the program will have consulted with the AECB and have drawn up an appropriate plan, depending on the circumstances, to recover the interest.**

**5.3.2.2 The Manager, BPIDP, should make advance payments to the AECB based upon cash flow requirements as required by the TBS Policy on Transfer Payments.**

**5.3.2.2 Management response**

**Agreed. The 2003-2004 memorandum of agreement between the Department and the AECB will contain a provision that advance payments to the AECB be based upon cash flow requirements.**

**5.3.2.3 The Manager, BPIDP, should increase the holdback on advance payments to the AECB in accordance with the final accounting for the contribution by the recipient.**

**5.3.2.3 Management response**

**Agreed. The 2003-2004 memorandum of agreement between the Department and the AECB will contain a provision for an increased holdback pending a final accounting for the contribution.**

### **5.3.3 Contribution Agreements with Recipients**

The AECB provides funding to eligible organizations through the EMAP and documents the terms and conditions of this funding in the form of a generic contribution agreement with standard terms and conditions. This agreement provides for an advance payment of 75% of AECB's contribution towards the anticipated eligible project expenses and a 25% holdback.

For the funding provided to recipients under the FRMAP component, no contribution agreement is prepared. The money paid out under this component is based on claims submitted by recipients after attending previously approved eligible international



marketing events. The AECB provides approval to eligible recipients in advance in the form of a letter which identifies the number of events and delegates who may attend as well as how funding is determined and claims procedures.

The approval letter does not contain all the standard terms and conditions of a contribution agreement as required by the TBS Policy on Transfer Payments and as a consequence increases the risk of financial exposure to the Department and the AECB as well as weakens accountability. An example of an important clause that is absent which reduces financial exposure to both AECB and the Department is the following:

“AECB agrees, subject to the appropriation of funds by Parliament and to the maintenance of current and forecasted program budget levels and to the terms and conditions of this Agreement, to make a contribution of funds based on ...”

The approval letter should be replaced by a contribution agreement with the appropriate standard terms and conditions as required by the TBS Policy on Transfer Payments to minimize financial exposure and strengthen accountability.

## Recommendation

**5.3.3 The Manager, BPIDP, should require that the AECB execute a contribution agreement with standard terms and conditions as required by the TBS Policy on Transfer Payments with eligible recipients of the FRMAP.**

### 5.3.3 Management response

**Agreed. The program will assist the AECB in preparing a FRMAP contribution agreement with standard terms and conditions for the 2003-2004 fiscal year.**

### 5.3.4 Recovery of Unused Prior Year Contributions Funds

The audit team found that the AECB, in conducting their monitoring activities of recipients, identifies and recovers unspent EMAP contribution funds. This occurs when the contribution amount advanced to recipients and the related holdback are greater than the actual final project expenses incurred by the recipient. The following amounts



2002 - \$22,382, 2001 - \$78,038, 2000 - \$43,003 are reported in the financial statements of AECB as recoveries from EMAP contribution funds. The amounts relate to contribution funds received from PCH in the year prior to recovery and are essentially overpayment of advances.

Upon review of the TBS approved terms and conditions for the International Marketing Assistance component, the Memorandum of Agreement with the AECB, contribution agreements with the recipients and the TBS Policy on Transfer Payments, it is the opinion of the audit team that the funds should be returned to the department or off-set against any sum of money that may be due or payable to the AECB.

The practice of not recovering overpayments from the AECB is not compliant with the TBS approved program component terms and conditions, the Memorandum of Agreement with the AECB, the TBS Policy on Transfer Payments and the Financial Administration Act.

## Recommendation

**5.3.4 The Manager, BPIDP recover overpayments of contributions made to recipient publishers in prior years which have been recovered by the AECB.**

### 5.3.4 Management response

**Agreed. The program intends to recover overpayments that were recovered by the AECB from the ultimate recipients in prior years. First, discussions will be held with the AECB to determine the circumstances surrounding the overpayments. By November 30, 2003, the program will have consulted with the AECB and have drawn up an appropriate plan, depending on the circumstances, to recover the overpayments.**