



AUDIT

OF THE

CONTRIBUTION TO THE
ASIA PACIFIC FOUNDATION OF CANADA

April 2003

Table of Contents

Executive Summary	1
Scope and Objectives	2
Overview of the Asia Pacific Foundation of Canada (APF Canada)	3
Purpose of the APF Canada	3
Financial Dependency on the Federal Government	4
Subsidiaries of the APF Canada	4
Governance Framework	5
Detailed Observations	6
Justification for Recent Contribution Agreements	6
Accountability for the Use of Funds & Value-For-Money Received	8
Conditional Approval of Renewal of Asia Pacific Program	11
Annual Reports	11
Appendix A Schedule of Financial Support Provided by the Federal Government since 1994.	

Executive Summary

The Internal Audit Division's (SIV) audit of the Contribution to the Asia Pacific Foundation of Canada (APF Canada) is part of its review of Departmental Grants and Contributions. The scope of the audit focussed on DFAIT's management of this contribution arrangement. The orientation of the audit is not the APF Canada itself, but rather on the efforts made by DFAIT to manage its relationship with the Foundation.

Based on our review of the departmental records and discussions with DFAIT officials, we were unable to:

- Satisfy ourselves that the \$2 million in contributions made to the APF Canada in each of the fiscal years 1999/2000 and 2000/2001 are justified, given the reserves available to the Foundation to fund its core activities.
- Establish the extent to which funds are used, as intended or prudently.
- Establish the extent to which value-for-money has been received.

DFAIT Management does not possess sufficient and appropriate information to ensure that the contribution funds are used as intended or prudently, nor to assess the benefit derived from this continuing contribution agreement with the APF Canada. The management framework appears to be reasonable, but unenforced.

Our key recommendations to DFAIT program management are to:

- Exercise the management framework in place by ensuring proper ongoing monitoring of the APF Canada's operations and follow-up, analysis and assessment of deliverables.
- Clarify and harmonize reporting and audit requirements working with both CIDA and the APF Canada, ensuring all parties to this arrangement clearly understand their responsibilities and obligations to each other and to the Crown.
- Complete and implement the accountability and performance measurement strategy and an evaluation framework and risk-based audit framework, as required by the Treasury Board in its approval for the renewal of the Asia Pacific Program.

We understand that the last annual report prepared by the APF Canada was for the year ending March 31, 1997. This places the APF Canada in contravention with the Asia-Pacific Foundation of Canada Act, 1984, which requires that an annual report be produced within four months of the end of each fiscal year.

Scope and Objectives

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The orientation of the audit is not the APF Canada itself, but rather on the efforts made by DFAIT to manage its relationship with the Foundation and to ensure:

- Contributions agreements are justified;
- Funds paid out under the agreement have been used as intended and prudently;
- Value-for-money has been received.

In determining our audit approach, we considered both the annual financial audits, which are performed in accordance with the 1984 Act establishing the APF Canada, and the February 1999 audit report of CIDA's core funding project contribution agreement. Accordingly, we did not perform a detailed examination of transactions.

To undertake this audit, we reviewed relevant documentation and interviewed departmental personnel within the Asia Pacific Regional Planning and Coordination Unit (PNSP), the ADM, Asia Pacific, and Acting Director, Finance and Administration, APF Canada.

The primary focus of our audit is the contributions made for 1999/2000 and 2000/2001. Prior to 1999/2000, DFAIT funding to the Foundation was made through by way of a grant. That changed in 1999/2000 to provide improved accountability for the use of funds by the APF Canada.

The Treasury Board decision made on August 28, 2000 regarding the "Renewal of Authority for Asia Pacific Regional Program Under a Restructured Class of Contributions for Asia Pacific Initiatives", approved the renewal of this program subject to the following conditions:

- "that DFAIT provide Treasury Board Secretariat (TBS) with a copy of the audit of the Asia Pacific Program currently being conducted within a month of its completion; and,
- that DFAIT develop a results-based accountability framework and risk-based audit framework for the Asia Pacific Initiatives and provide a copy of these frameworks to TBS by November 30, 2000."

The audit of the Asia Pacific Program, as required by the Treasury Board, is in fact two audits. This audit report represents one of two audits conducted on the Asia Pacific Program. In addition to providing financial support to the APF Canada, individuals receive funding under the Research and Conference Fund. The audit of the Research and Conference Fund was completed in September 2001.

Overview of the Asia Pacific Foundation of Canada

Purpose of the APF Canada

In 1984, the APF Canada was established by an Act of Parliament.

“The purpose of the Foundation is to develop closer ties between the peoples and institutions of Canada and the peoples and institutions of the Asia-Pacific region by:

- Promoting mutual awareness and understanding of the cultures, histories, religions, philosophies, languages, life styles and aspirations in the Asia-Pacific region and Canada and their effects on each other’s societies;
- Supporting development cooperation between organizations, institutions and associations in Canada and in the Asia-Pacific region;
- Promoting collaboration among organizations, institutions and associations in private and public sectors in Canada and in the Asia-Pacific region;
- Promoting closer economic and commercial ties between Canada and the Asia-Pacific region;
- Promoting, in Canada, scholarship in and expertise on economic, cultural, social and other subjects relating to the Asia-Pacific region, and, in the Asia-Pacific region, scholarship in and expertise on economic, cultural, social and other subjects relating to Canada; and
- Collecting information and ideas relating to Canada and the Asia-Pacific region and disseminating such information and ideas within Canada and the Asia-Pacific region.¹

¹ The *Asia-Pacific Foundation of Canada Act*, Article 3.

This national institution for the Asia Pacific region was created as a non-governmental, non-profit organization, in the expectation that the APF Canada would be able to offer flexibility and independence in the delivery of certain programs in a way that government cannot. "It does this by responding with speed, economy, and flexibility in areas where it is difficult for governments to operate effectively, due to their recognized constitutional and political constraints."²

Financial Dependency on the Federal Government

In discussion with the ADM, Asia Pacific, we learned that it was expected that the APF Canada would one day become a financially viable and self-sustaining entity. Consistent with this corporate mandate for the APF Canada, the Article 4 of the Act grants the Foundation the "capacity of a natural person." Article 31 defines the Government's financial commitment to the Foundation, such that a five-year, \$1,000,000 per year commitment was made to establish the APF Canada.

"Since the Foundation's creation sixteen years ago, the federal government has provided the APF Canada with approximately \$24 million [for core funding], divided almost equally between DFAIT and CIDA."³ The recently approved Treasury Board submission provides for another \$10 million over the next five years, ending March 2005. A schedule of financial support provided by the federal government since 1994⁴ is provided in Appendix A.

Subsidiaries of the APF Canada

The APF Canada created two wholly owned subsidiaries in order to pursue different lines of business, outside its mandate, as defined by the Act. In December 1992, the Globe Foundation of Canada was created to promote understanding of the impact of business on the environment on a global basis and to operate functions, such as lectures, conferences, trade fairs and seminars on business and the environment.⁵ In April 1997, Letters Patent were granted to establish the CEC (Canadian Education Centre) Network Inc. The 1996/1997 APF Canada Annual Report describes the CEC Network's mandate as to promote and market Canada as a destination for international students and as a provider of international, corporate and group training.

² DFAIT's Treasury Board Submission for the five year Renewal of Authority for Asia Pacific Regional Programs, for the fiscal years starting 2000/2001.

³ *ibid.*

⁴ 1994 is the last year for which financial records were readily available from Departmental files.

⁵ The *Globe Foundation of Canada's* Articles of Incorporation.

Subsequent to the year ending March 31, 1999, "Atlas Education Marketing, Ltd. (AEM) was incorporated under the Canadian Business Corporations Act. AEM is 51% owned by CEC and its business purpose is to promote Canada as a study destination for international students through its interactive website and CD ROMs. No transactions occurred in AEM in the year ended March 31, 1999."⁶

Governance Framework

The Governance Framework is composed of a Board of Directors to whom the APF Canada's President is accountable. Article 7 of the Act of Parliament establishing the APF Canada provided for a Board of Directors of up to 30 members. The Board's responsibilities include the following:

- Appointment of a President of the Foundation who shall have supervision over and direction of the activities and staff of the Foundation (Article 17)
- Fixing by by-law the payment of travel and living expenses for Board members (Article 22)
- Fixing of the President's remuneration and expenses (Article 23)
- Appointment of an Executive Committee or advisory or other committees, as described by Board by-laws (Article 25)
- Making of by-laws respecting the conduct of Board meetings or its committees; expenses paid to the members of the Board; the constitution of committees, roles and duties of such committees, and expenses, if any, to be paid to committee members; employment, remuneration, expenses and duties of officers, employees and agents of the Foundation; and, generally, the conduct and management of the affairs of the Foundation (Article 26)

The authorities vested in the Board are broad and afford the Board the ability to provide direction to the President on any matter concerning the APF Canada's programs and operations.

The APF Canada is subject to an annual audit of its financial statements by a firm of public accountants, which provides the Board with assurances regarding the fair representation of the financial position and financial results of its operations.

⁶ CECN's Audited Financial Statements for the year ending March 31, 1999. No information was provided on the 49% minority interest in AEM.

Detailed Observations

Our observations are organized under the following themes:

- Justification for Recent Contribution Agreements
- Accountability for the Use of Funds & Value-For-Money Received
- Conditional Approval of the Renewal of Asia Pacific Program
- Annual Reports

Justification for Recent Contribution Agreements

We examined the merit of the \$2,000,000 contributions paid by DFAIT to the APF Canada for fiscal years 1999/2000 and 2000/2001, in light of the significant and growing reserves⁷ of the recipient.

The reserves available to the APF Canada, not considering the reserves of its wholly-owned subsidiaries, as at March 31, 2000, were a little less than \$2,000,000. If we consider the reserves of the two subsidiaries, the APF Canada's reserves on a consolidated basis were approximately \$6,800,000. Analysis of the APF Canada's financial statements over time indicate a continuing trend of increasing reserves for the Foundation.

The resources available to the APF Canada may in fact be greater, given the existence of deferred revenue and deferred contributions, as reported in the financial statements of the APF Canada, Globe and CECN. We were unable to establish the nature or source of these deferred amounts, as reported as liabilities in the unconsolidated financial statements of the APF Canada, Globe and CECN.

The continuing growth in the APF Canada's net assets is essentially due to the grants and contributions made by DFAIT over the years, which were in excess of need. Based on limited information available, similar practices by DFAIT appear to exist for the subsidiaries. CECN's financial statements for the years ending March 31, 1998 and 1999 indicate surpluses realized by this subsidiary are directly attributed to excess funding provided by DFAIT.⁸

⁷ The reserves of the APF Canada are disclosed as its net assets in the financial statements. Net assets equal assets less liabilities. Consolidated net assets of the larger Foundation grew by approximately \$1,500,000 in fiscal 1999/2000, based on the notes from APF Canada's audited financial statements. Globe - \$1,000,000. CECN - \$400,000. The APF Canada - \$100,000.

⁸ The source of the surpluses for Globe are not possible to ascertain. Board minutes from 1997 indicate that Globe receives financial support from both government and the private sector in the range of \$1,000,000 to 1,500,000 for the biennial GLOBE Series of International Conferences and Trade Fairs.

The financial statements indicate that APF Canada had most of the funds needed to fund its core activities, without need for the contributions entered into by DFAIT for fiscal years 1999/2000 and 2000/2001. While it would appear that the APF Canada cannot currently sustain its operations from its existing revenue base, the larger Foundation may in fact be self-sufficient, given the growth of net assets of the subsidiaries, especially that of Globe. Without access to additional financial information on Globe's operations and current financial information on CECN, we are unable to determine the complete financial position of the Foundation.

In summary, justification for the recent contributions, as paid out to the APF Canada for fiscal years 1999/2000 and 2000/2001 is not apparent.

Recommendation for Asia Pacific Branch:

- 1. Re-profile contribution funds in consideration of the reserves available to the APF Canada.**

Asia Pacific Branch Response:

- 1. The auditors' concerns related to the reserve of the APF Canada have been noted and were raised with the President and CEO of the APF Canada. The President responded to these concerns formally in a meeting at DFAIT on October 2, 2001, noting that the APF Canada Board of Directors had approved the existence of the reserve and defined its maximum size so as to address potential liabilities in the event of a closure of the Foundation.**

In response to this recommendation, it was determined that for fiscal year 2001-2002 DFAIT's maximum contribution to the APF Canada would be \$750,000 rather than \$1 million. For FY 2002-2003, following discussions with the APF Canada and DFAIT auditors and in an effort to move funding to a more project-specific orientation, it was decided that the DFAIT contribution would consist of \$600,000 in core funding plus up to \$250,000 for specific projects developed by mutual agreement. As a result, the APF Canada's reserve will be reduced to slightly over \$1 million, the minimum level which the Foundation acknowledges is necessary for its prudent operation.

Accountability for the Use of Funds & Value-For-Money Received

Accountability framework for the contribution payments made to the APF Canada is defined by the two contribution agreements for "Core Funding", as developed by DFAIT and CIDA. Together these two agreements provide details on the Government's

expectations of the APF Canada to justify, through its plans and operational budgets, how contribution funding is to be used, and to report on and account for results achieved, in direct comparison to its plans and budgets.

The DFAIT APF Canada contribution agreement for “core funding”, as stated in the Treasury Board submission, is but one half of the Government’s related transfer payments. CIDA matches the funds paid by DFAIT to the APF Canada. This is explicitly recognized in the two separate contribution agreements both entities have with the APF Canada. The terms and conditions of the contribution agreement with the APF Canada are consistent with DFAIT policy, such that it defines eligibility requirements for the reimbursement of expenditures, establishes DFAIT’s right to audit and obligates the Foundation to return funds paid in excess of need.

While the DFAIT agreement speaks generally to the purpose of the agreement and the eligibility of expenditures, it makes explicit reference to the more detailed requirements of CIDA’s agreement with the APF Canada. Under CIDA’s agreement, eligible expenditures and allowances, such as for employee benefits, are specifically defined. For example, any travel related expenses must conform with Treasury Board Policy and Guidelines.

Performance requirements are also defined by the CIDA agreement. The DFAIT agreements for both 1999/2000 and 2000/2001 directly link its agreements with CIDA’s agreements for core funding. The DFAIT agreement makes specific reference to the requirement for an annual report, as at year-end, consistent with the Act, and incorporates CIDA’s more detailed reporting requirements by reference into DFAIT’s agreement.

Under the CIDA agreement for 1999/2000, the APF Canada is required to provide:

- Inception Report, due four months after signing. The agreement was signed January 24, 2000. The report, describing strategy for results-based management, a detailed first annual workplan, proposed reporting formats and revised budget estimates, was due May 24, 2000.
- Quarterly Financial and Progress Reports, due within 45 days of the end of each quarter. Quarterly reports are to provide detailed information on expenditures by project budget item, revised budget estimate for next quarter and reasons for differences between actual and estimated expenditures.
- Annual Report, Workplan and Budget Forecast, due annually, by April 1st. The report must describe detailed revised plans of inputs, activities and outputs/results with corresponding financial forecasts compared to accomplishments of the preceding year and to the previous annual workplan.

- Final Report, due 90 days prior to the termination of the Contribution Agreement (January 2004), and a revised final report within 30 days of receipt of CIDA's comments on the draft report.

As a general requirement, clause 12 of DFAIT's agreements requires that the APF Canada "in its reports to DFAIT indicate the manner in which women will benefit from and participate in its activities. [The APF Canada] is required by DFAIT to reflect this concern in its planning and program implementation."

In discussion with both the CIDA and DFAIT program managers responsible for monitoring the APF Canada's performance under the terms and conditions of the related Contribution Agreements, the inception report and quarterly reports for the first three quarters have not been received. Program managers are not aware of the existence or status of these reports. The last report in the Asia Pacific Regional Planning and Coordination Unit's (PNSP's) possession is the annual report for the year ending March 31, 1997.

In summary, while the management framework designed for this contribution arrangement provides reasonable assurances regarding the appropriate use of funds, consistent with public expectations for transfer payments, DFAIT is not actively monitoring and enforcing the performance requirements, as laid out in its contribution agreement. Without adequate budget information on the APF Canada's activities and an approved business plan, it is difficult to determine what was expected of the APF Canada for a given reporting period. In the absence of any formal reporting on results achieved, it is not possible to assess the value-for-money derived from the investment made by the federal government in the APF Canada's operations and for DFAIT's program management to publicly account for the use of the transfer payments made to the APF Canada.

In our review of the two agreements, we observed a number of inconsistencies between the two agreements, including reporting requirements. A key difference pertains to the duration of the two agreements. DFAIT enters into a new agreement each year. CIDA's agreement is for five years.⁹ This introduces differences in position between the two government entities in the calculation and the timing of recoveries. While both agreements establish the right to audit, opportunities for coordination between DFAIT and CIDA exist regarding the effort and approach in the conduct of audits, which would serve to reduce the administrative burden on the APF Canada and the overall costs to the Crown.

⁹ CIDA's agreement covers five fiscal years, ending April 30, 2004.

Recommendations for Asia Pacific Branch:

- 2. Exercise the management framework in place by ensuring proper:
S ongoing reporting on and monitoring of the APF Canada's
S operations; and
S follow-up, analysis and assessment of deliverables.**
- 3. Enter into discussions with the APF Canada to obtain management commitment for the provision of overdue deliverables.**
- 4. Clarify and harmonize the duration of the contribution agreements and reporting and audit requirements, working with both CIDA and the APF Canada, ensuring all parties to this arrangement clearly understand their responsibilities and obligations to each other and to the Crown.**

Asia Pacific Branch Responses:

- 2. The recommendations of the auditors have been noted and action taken to address the concerns raised. Since the initial findings of the audit, the DFAIT contribution agreement has been re-drafted to include consultations on the APF Canada's annual business plan prior to its submission to the institution's Board of Directors. The contribution agreement also requires the provision of progress reports at the time of financial reporting, and a final report at the end of the project detailing successes and/or failures in terms of meeting project objectives, problems encountered, actions taken, results and lessons learned, conclusions, and recommendations. These amendments to the APF Canada's reporting requirements take into account the new Results-based Management Accountability Framework for the Asia Pacific Initiatives Program.**
- 3. The new contribution agreement, along with the more active role for DFAIT in managing the relationship, should ensure much greater consultation with the APF Canada during the planning, execution and follow-up stages of its work. It is expected that this will ensure greater complementarity between the activities of APF Canada and DFAIT, while respecting the independence of the APF Canada.**
- 4. CIDA has been provided with a copy of the Draft Audit and is, therefore, aware of the auditors' recommendations in this area. We have committed to work together in close collaboration with respect to issues such as reporting and the analysis of results achieved**

through our contributions to the APF Canada. CIDA and DFAIT are also working closely on other issues raised by the auditors, such as the question of the APF Canada reserve. Both DFAIT and CIDA are aware of the potential difficulties surrounding the differing time frames for their contribution agreements. CIDA's current contribution agreement expires in 2004, at which time DFAIT will examine closely with CIDA the options for harmonizing further contributions.

Conditional Approval of Renewal of Asia Pacific Program

The Treasury Board granted approval of the renewal of the Asia Pacific Program upon condition that DFAIT develop a results-based accountability framework and risk-based audit framework for the Asia Pacific Initiatives and provide a copy of these frameworks to TBS by November 30, 2000.

Both the Accountability and Performance Measurement Strategy, an Evaluation Framework and Risk-Based Audit Framework remain to be completed and are overdue.

Recommendations for Asia Pacific Branch:

- 5. Complete and implement the strategies and frameworks, as required by the Treasury Board.**

Asia Pacific Branch Response:

- 5. A Results-Based Management Accountability Framework has been completed as per the requirements of the Treasury Board authority. This framework incorporates and is part of our movement towards specific project-oriented agreements.**

The APF Canada's Annual Reports

The APF Canada Act, Article 36, states that "[T]he President shall, within four months after the end of each fiscal year of the Foundation, submit to the Board a report of the activities of the Foundation for that year, including the financial statements of the Foundation and the auditor's report thereon, and the Board shall make such report available for public scrutiny at the principal office of the Foundation."

Discussions with the APF Canada's Acting Director, Finance & Administration stated that the APF Canada had not prepared any reports since 1997 such that the APF Canada is in contravention with the Asia-Pacific Foundation of Canada Act. Given the provisions of CIDA's agreement and by DFAIT directly incorporating CIDA's more detailed reporting requirements by reference into its agreement, it would appear that the

APF Canada is also in breach of the terms and conditions of the current contribution agreements for both government entities.

Recommendations for Asia Pacific Branch:

6. **Advise the Chairman of the Board and President and CEO of the APF Canada that annual reports as required by the Asia-Pacific Foundation of Canada Act, for the years ending March 31, 1998, 1999 and 2000 are overdue.**

Asia Pacific Branch Response:

6. **The President and CEO and the Chairman of the Board of the APF Canada were notified of this recommendation. In a meeting on October 2, 2001, the President and CEO of the APF Canada undertook to ensure that DFAIT and CIDA had the required annual reports. He noted that the format of these reports had changed several times over the years in question. These reports have now been received.**

Appendix A

Schedule of Financial Support Provided by the Federal Government since 1994

	2000	1999	1998	1997	1996	1995	1994
Gross Revenue	3,530,161	3,505,280	5,385,668	7,351,845	6,157,898	7,746,595	7,905,537
less							
Management fees and recoveries	492,202	433,850	770,926	639,516	567,611	636,099	975,786
Restricted funding-(sponsored events)	578,256	1,305,137	2,147,872	3,984,059	2,178,305	3,129,882	3,428,025
Net Revenue available to Fund APFC's Core activities	2,459,703	1,766,293	2,466,870	2,728,270	3,411,982	3,980,614	3,501,726
Federal Core Funding	2,000,000	1,000,000	1,650,000	1,927,651	2,315,040	2,868,985	2,670,000
Provincial Funding (core)	301,032	541,032	572,731	547,656	750,000	840,000	650,000
NET Core Funding	2,301,032	1,541,032	2,222,731	2,475,307	3,065,040	3,708,985	3,320,000
NET Core Funding/Net Revenue available to Fund APFC's Core activities	93.55%	87.25%	90.10%	90.73%	89.83%	93.18%	94.81%
Private Sector Core Funding	\$ 75,423	92,063	95,220	111,732	162,427	135,351	98,924
Private Sector Core Funding/ Net Revenue available to Fund APFC's Core activities	% 3.07%	5.21%	3.86%	4.10%	4.76%	3.40%	2.83%
Donations in Kind (per notes to AFS) includes rent free use of facilities, air fare, and hotel accommodations	196,446	188,095	186,951	153,240	132,858	190,331	281,915

Note 1

Breakdown of Core Funding between DFAIT and CIDA was not available at the time of the audit.