

Chapter

# 5

**Canadian International Development  
Agency**

Financial Compliance Audits and  
Managing Contracts and Contributions

*All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.*

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# Canadian International Development Agency

## Financial Compliance Audits and Managing Contracts and Contributions

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### Main Points

**5.1** Overall, CIDA has made satisfactory progress on our recommendations made in 1999 and 2000. Progress has been made in the key areas of competition of agreements, deposits to counterpart funds, the monitoring of project risks and sustainability of benefits, and the documentation of decisions related to its audits of contribution agreements.

**5.2** We noted improvement in CIDA's use of non-competitive contributions. In the files we examined, the use of unjustified sole-sourcing of contributions had decreased significantly. In addition, the total value of sole-source contracts awarded had decreased significantly since our previous audit. For the counterpart funds we audited, we found only minor cases of non-compliance with CIDA policy.

**5.3** In 1999 we observed that CIDA rarely documented the rationale for its decisions not to recover amounts found to be in error by its financial compliance audits of contribution and contract agreements. CIDA has improved its documentation of this type of decision, but in the files we examined, half of such decisions had still not been justified or were not properly documented.

**5.4** During the course of our follow-up, we became aware of weaknesses in three additional but related areas: in-kind contributions, authorities for releasing amounts due from executing agents, and the management of grants. We found that CIDA officers rarely analyze the value of in-kind contributions that recipients of its funding claim they will make or verify that there is no provision for profit by the recipient—as is required by CIDA policy. In many cases, CIDA officers decided to release the Canadian executing agencies from the obligation to repay money received for expenditures that were not covered under the terms of their agreements. Since our 2000 audit, CIDA has sharply increased the use of grants rather than contributions to fund aid projects. We are concerned that, without having assessed the probable impact on expected development results, by using grants CIDA may be sacrificing a degree of control and oversight over how recipients spend CIDA funding. CIDA also disbursed grant funds in advance of need without a proper explanation on file.

### Background and other observations

**5.5** The primary objective of this follow-up was to assess what CIDA had done to address the issues and recommendations that were raised in two of our previous reports, the November 1999 Report, Chapter 28, Canadian

International Development Agency—Financial Controls over Projects; and the October 2000 Report, Canadian International Development Agency—Managing Contracts and Contribution Agreements. The follow-up focussed on four main areas: the process for awarding contracts and contribution agreements related to aid projects, how CIDA has responded to the results of financial compliance audits concerning non-compliance with agreement terms, controls over payments into counterpart funds, and project implementation processes for managing project risks and outcomes. We did not follow up on several other issues raised in those chapters including: general financial controls, project design, or Partnership Branch agreements. We also audited three additional issues related to the previous observations: in-kind contributions by recipients, the use of grant agreements, and the authorities related to non-collection of amounts identified for recovery by financial compliance audits.

**5.6** CIDA is responsible for managing about \$2.6 billion of Canada's international assistance. The Agency's program expenditures consist of transfer payments made to its executing agents and partners under the terms of the formal funding agreements. These include contracts, contribution agreements, and grant agreements. Government Contracts Regulations and the Treasury Board contracting policy govern the awarding of aid contracts. CIDA's contributions and grants are governed by the Treasury Board approved Terms and Conditions for International Development Assistance and the associated framework policy.

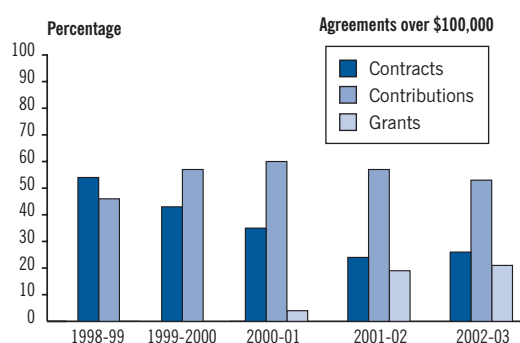
**The Canadian International Development Agency has responded.** CIDA has indicated the actions it intends to take to address the recommendations. Its detailed response follows each recommendation throughout the chapter.

## Introduction

**5.7** This audit is a follow-up of key issues raised in two previous audits that our Office carried out. In November 1999, we reviewed the financial controls that CIDA had put in place for managing its development projects. In October 2000 we examined how CIDA managed its contracts, contribution agreements, and other types of agreements for goods and services, including the selection of Canadian executing agencies to deliver projects. The Public Accounts Committee held one hearing on the 2000 Chapter and issued a report that supported our observations and recommendations.

**5.8** The Canadian International Development Agency is responsible for managing about \$2.6 billion of Canada's international development assistance. CIDA's program expenditures consist of contracts, contributions, grants, and other transfer payments. CIDA makes these payments to institutions in Canada and developing countries, provincial governments and their organizations and agencies, and to Canadian private-sector firms. Payments relate to funding specific development projects, programs, and activities. CIDA's relationship with its partners is governed by the formal agreements they sign with these organizations. Exhibit 5.1 shows the distribution of contracts, contributions, and grant agreements over \$100,000 by dollar value in the Geographic Branches, excluding food aid. The Geographic Branches carry out geographic programs, also referred to as bilateral or country-to-country programs; they also manage contracting and other types of agreements for goods and services, including the selection of Canadian executing agencies to deliver projects.

**Exhibit 5.1** Distribution of contract, contribution, and grant agreements over \$100,000 in CIDA's Geographic Branches



Source: CIDA (unaudited)

**5.9** CIDA is accountable for selecting its partners and for developing and managing its agreements with them. The awarding of contracts for both aid and corporate services is subject to Government Contracts Regulations and Treasury Board contracting policy. CIDA's grant and contribution agreements are not subject to the Government Contracts Regulations and are governed

by the Terms and Conditions for International Development Assistance approved by Treasury Board effective 22 March 2001 and the associated Framework Policy for International Development Assistance.

### Focus of the follow-up

**5.10** The primary objective of this follow-up was to assess what CIDA had done to address the issues and recommendations that were raised in our two previous reports:

- We examined the contractor-selection process for contracts, contribution agreements, and grants to ensure that they respected Treasury Board directives, the Terms and Conditions for International Development Assistance, and CIDA's internal policies. Our focus was on ensuring that, when required, CIDA carried out a proper competitive-selection process.
- We assessed how CIDA had dealt with the results of financial compliance audits of contracts and contributions.
- We reviewed a set of issues around controls for payments to counterpart funds that we raised in 2000 (and previously in 1998).
- We reviewed the progress that CIDA has made regarding various project implementation issues.

**5.11** Further details about the follow-up can be found in **About the Follow-Up** at the end of the chapter.

## Observations and Recommendations

### Contractor selection

**Contributions**—Conditional transfers in which specific terms and conditions must be met or carried out by the recipients before costs are reimbursed.

**Grants**—Unconditional transfer payments, where eligibility criteria and applications received in advance of payment is sufficient assurance that the payment objectives will be met.

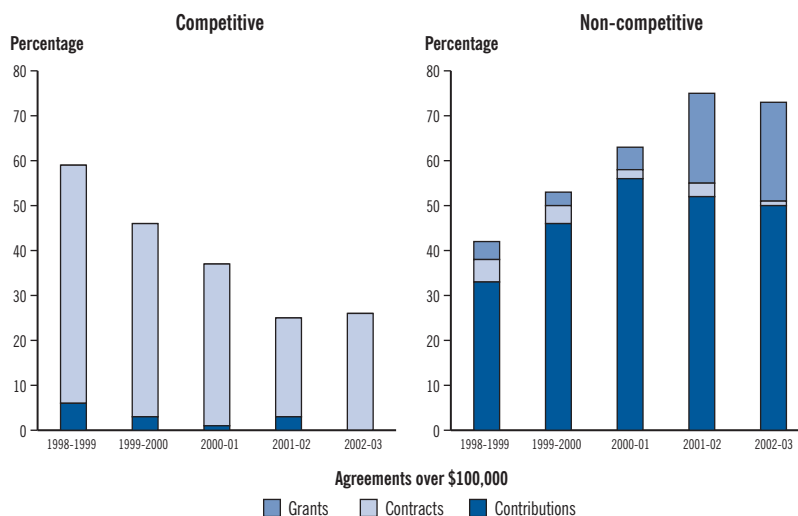
### Competitive and non-competitive contribution agreements

**5.12** An open, competitive bidding process provides the best guarantee that qualified vendors will have a fair chance to do business with the government and that the government will receive good value for its contracting dollars. The Government Contracts Regulations affirm that competition is the norm, and that departments are to solicit bids before entering into a contract. It is also standard government practice to award **contributions** without competition to support non-governmental organization projects or activities.

**5.13** Exhibit 5.2 shows the distribution of competitive and non-competitive agreements over \$100,000 signed in the Geographic Branches from 1998–99 to 2002–03. These include goods and services contracts, contributions, and grants. CIDA's Manager's Guide to Contribution Agreements explains the main features of both contracts and contribution agreements in CIDA (see Exhibit 5.3); it does not cover **grants**.

**5.14** In our 2000 audit, we said that over the years CIDA had subscribed to the principles of competition for contracts, but not for contribution agreements. We noted that CIDA's terms and conditions for contribution agreements that Treasury Board had approved in 1996 were very general. The terms and conditions did not provide any direction on the use of either



**Exhibit 5.2 Competitive and non-competitive agreements over \$100,000 in CIDA's Geographic Branches**

Source: CIDA (unaudited)

the competitive or non-competitive approaches to entering into contribution agreements. We found that the lack of clear direction had resulted in instances in which CIDA staff used a non-competitive process for contributions relating to solicited proposals when, according to the then-current policy, they should have followed a competitive process.

**5.15** In June 2000, Treasury Board issued a new policy on transfer payments (grants and contributions). The objective of the policy is “to ensure sound management of, control over and accountability for transfer payments.” The policy calls for departments and agencies to submit for approval new terms and conditions for their transfer payment programs before April 2005.

**5.16** In our 2000 audit, we recommended that CIDA should include a framework that clarifies how and when it will use contribution agreements when submitting its next set of terms and conditions to the Treasury Board for approval in 2001. In response, CIDA said that it would introduce a more structured framework to provide better guidance to CIDA staff on using contribution agreements, especially for solicited proposals.

#### **CIDA updated its policies on contribution agreements, but gaps exist**

**5.17** CIDA received Treasury Board approval for its renewed Terms and Conditions for International Development Assistance in March 2001. They included a Framework Policy for International Development Assistance. However, these documents did not include a clearer framework for using contribution agreements. Unlike the framework that governs contracts, CIDA's Terms and Conditions and the Framework Policy for International Development Assistance still do not clarify the circumstances under which a competitive or a non-competitive process can be used for contribution agreements involving non-responsive/solicited proposals.

**Exhibit 5.3** Main features of contract and contribution agreements in CIDA

	Contract	Contribution
<b>Purpose</b>	To engage the services of a supplier, purchase goods, and/or lease real property	To provide funding to an independent party's development project
<b>Legal status</b>	Legally binding	Legally binding
<b>Subject to</b>	<ul style="list-style-type: none"> <li>• Trade agreements</li> <li>• Government Contracts Regulations</li> <li>• Contracting authorities delegated by Treasury Board</li> <li>• CIDA contracting policies</li> </ul>	<ul style="list-style-type: none"> <li>• Treasury Board Policy on Transfer Payments</li> <li>• CIDA's Terms and Conditions for International Development Assistance (approved by Treasury Board)</li> <li>• CIDA's Framework Policy for International Development Assistance</li> </ul> <p>Note: While contribution agreements are not subject to the Government Contracts Regulations and Treasury Board contracting policy, CIDA project managers are expected to reflect the spirit of the Government Contracts Regulations when using contribution agreements.</p>
<b>Profit</b>	Profit is allowed for the proponent and subcontractors	No profit is allowed for the proponent
<b>Cost-sharing</b>	Not applicable	Taken into account when assessing proposals
<b>Agreement mechanism</b>	<p><b>Must be open to competition</b>, with four types of exceptions allowed for sole-sourcing under the Government Contracts Regulations.</p> <p>The exceptions, when used inappropriately, are the focus of our audit observations.</p>	<p><b>Responsive</b> (idea proposed to CIDA): No competition is required.</p> <p><b>Non-responsive/solicited</b> (idea originates in CIDA): CIDA requires competition as the norm, with undefined exceptions allowed. These exceptions are the focus of our audit observations, in cases where they would not meet the four exceptions under the Government Contracts Regulations if they were contracts.</p>

Source: Adapted from CIDA's Manager's Guide to Contribution Agreements

**5.18** The Government Contracts Regulations and the Treasury Board contracting policy do not apply to contributions. However, CIDA's Manager's Guide to Contribution Agreements indicates that "project managers are expected to reflect the spirit of the Government Contracts Regulations when using contribution agreements."

**5.19** CIDA's Contracting Guide for Managers, which was issued in 2000, included a chapter on using contributions. CIDA's Manager's Guide to Contribution Agreements, which was published in 2002, helps staff to better understand how they can use contribution agreements to advance the Agency's programming priorities. Both the Manager's Guide to Contribution Agreements and the Contracting Guide for Managers try to clarify the circumstances under which the process for awarding contributions should be competitive or non-competitive. Both guides indicate that for responsive/

unsolicited proposals (that is, when an outside agency has developed the idea for a project), non-competitive contribution agreements may be used. For non-responsive/solicited proposals (those for which CIDA has originated the idea for a project), competitive contributions are appropriate. Both documents allow for exceptions.

**5.20** For example, CIDA's Contracting Guide for Managers says that, "whenever practical," competition is the rule for solicited proposals for contributions. However, neither the Contracting Guide for Managers nor the Manager's Guide to Contribution Agreements clearly defines the circumstances under which exceptions are allowed. As a result, there is uncertainty about when a non-competitive contribution can be used in a situation where CIDA solicited the proposal. Although our sample showed much less use of sole-sourcing than in the sample in our 2000 audit, we still found instances where CIDA awarded contributions without competition for solicited proposals. This continuing uncertainty has led us to conclude that the problems we observed in our 2000 audit with the use of contribution agreements have not been conclusively resolved by CIDA policies.

**5.21** We audited 19 contribution agreements out of a total of about 1,400 agreements that were over \$100,000 in value, and that were awarded between January 2001 and August 2003. Nine files were coded as "responsive contribution agreements" (that is, arising from unsolicited proposals), and these contributions were awarded without competition, which was according to CIDA policy. Another ten files were coded as "traditional contribution agreements" (that is, those that were not open for competition). In our opinion, two of those agreements should have been open to competition because CIDA solicited them, and the files showed that there may have been other potentially qualified suppliers. Those two did not follow CIDA policy. Overall, these results were a considerable improvement over our findings in 2000 where 6 of 11 contributions we audited had not followed CIDA policy.

**5.22** In 2000, we recommended that a separate group within CIDA should review all proposed non-competitive contracts and contribution agreements over \$100,000 for compliance with authorities and CIDA policy. CIDA agreed to act on this recommendation. In our follow-up, we found that CIDA had decided that each branch would carry out its own reviews but did not make them mandatory. For the non-competitive contracts and contribution agreements that we audited, we saw no evidence on file of any such review.

### **CIDA managers do not consistently verify recipients' share of contributions**

**5.23** In contribution agreements, the recipient often provides its own contribution toward the project, which may be "in-kind" such as volunteer time or donated equipment. The nature and extent of the recipient's own contribution is an important element in CIDA's decision to award a contribution. CIDA's Manager's Guide to Contribution Agreements states that contribution agreements should clearly indicate the nature, dollar value, and terms and conditions attached to in-kind contributions. We expected that CIDA would have verified the nature of the in-kind contributions, and

that they had, indeed, occurred. However, this was not the case. The Contribution Guide does not give guidance on how to verify the existence or value of in-kind contributions. We found that managers had usually noted the recipient's intention to provide in-kind contributions in the contribution agreements. However, these agreements had not always clearly indicated what the in-kind contributions were to be. Of the 19 files that we reviewed, 12 had in-kind contributions. For 11 of those, we found no indication on file that CIDA had analyzed the in-kind contributions that were to be part of the contribution agreement, to determine their true value.

**5.24** The Contribution Guide also states that no profit may be associated with a contribution agreement. Only 3 of the 19 contribution agreements that we audited showed evidence that CIDA had considered the elements of the project costs to ensure that no profit factor had been included.

**5.25 Recommendation.** CIDA should clarify the specific circumstances under which it considers awarding an agreement on a sole-source basis for solicited contributions acceptable.

**CIDA's response.** CIDA agrees with this recommendation and will develop a clear definition and clarify the context for the use of solicited contributions. By 1 February 2005, the necessary changes will be incorporated into CIDA's Manager's Guide to Contribution Agreements and into the Agency's training courses on the management of contributions.

**5.26 Recommendation.** CIDA's Manager's Guide to Contribution Agreements should make clear the steps required to analyze the value of proposed in-kind recipient contributions and that there is no provision for profit. Guidance should also be provided on how to verify that the recipient has made its contribution as agreed.

**CIDA's response.** CIDA agrees with this recommendation. Accordingly, by 1 February 2005, the Agency will define acceptable in-kind contributions from its development partners, develop criteria for assessing their value, and formulate guidelines for verifying that development partners have made in-kind contributions identified in contribution agreements. The Agency will also develop measures to ensure that there is no provision for profit in its contribution agreements. These will be incorporated into the Agency's Manager's Guide to Contribution Agreements as well as into training courses on the management of contributions.

## Contract agreements

### Sole-sourcing and contract splitting

**5.27** In our 2000 audit, we observed instances in which contracts did not comply with either the Treasury Board contracting policy or the Government Contracts Regulations. In 2002, CIDA's internal audit unit published a report on the use of contracts awarded on a sole-source basis. The report highlighted several problems with the manner in which CIDA had applied Treasury Board policy, and included a number of recommendations for improvement. A follow-up audit was carried out in the fall of 2003 to assess the progress that CIDA managers had made toward respecting the policy. That audit had not yet been completed at the time our field work ended.

**5.28** In our follow-up, we found that considerable progress had been made in this area, as the dollar value of sole-source contracts awarded in CIDA has decreased significantly since our 2000 audit. We selected five, large, sole-source contracts awarded after 2000 to determine whether CIDA had followed Government Contracts Regulations and Treasury Board policy in awarding these contracts. We again found cases where the Agency had not complied with government policy in this area. In our view, three of the five contracts we examined should have been open to competition.

**5.29** One contract showed evidence of contract splitting, although both the Treasury Board policy and Public Works and Government Services Canada guidelines forbid this practice. It was one of two similar contracts to Hydro Quebec International for \$95,000 and \$98,000 that were let sequentially and fell just under the approved dollar threshold of \$100,000 for sole-source contracts. Another contract of \$62,000 for government-on-line development had been let as an aid contract instead of an administrative contract. The permitted dollar-threshold for sole-sourcing administrative contracts is \$25,000, while the threshold for aid contracts is \$100,000. Therefore, it should have been awarded on a competitive basis.

**5.30 Recommendation.** CIDA should ensure that the Government Contracts Regulations and the Treasury Board policy regarding the sole-sourcing of contracts are respected in all cases.

**CIDA's response.** The Agency agrees with this recommendation. CIDA will remind its contract officers of the Treasury Board's rules and guidelines associated with sole-source contracting. CIDA will implement a contracting compliance and performance monitoring function, at the outset of fiscal year 2005–06, that will include monitoring the compliance of sole-source contracts with the Treasury Board rules and government regulations and with CIDA contracting templates. The results of such monitoring will be reported to the Agency's Audit and Evaluation Committee on a regular basis.

## Implementation

### "Off-ramps" for larger agreements have not been implemented

**5.31** In 2000, we noted that to have a large project planned and approved, tendered, contracted, and operationally planned can take anywhere from one to four or five years. It involves considerable expense and effort on the part of both CIDA and the host country partner. Given this large investment in resources, it is difficult for CIDA to decide to cancel the agreement when the expected results from the project are not forthcoming. CIDA did not build into its management of project agreements any formal requirement or mechanism for "off-ramp" provisions (clauses that allow CIDA to make a decision to withdraw from a project). We recommended that CIDA build a provision for a formal review point into its larger service agreements at which time a decision could be made on whether the project should be continued, cancelled, or have the scope changed. CIDA agreed.

**5.32** In this audit, we found that CIDA has not done this. In the 24 contracts and contribution agreements examined, with the exception of

one case, there were no specific off-ramp provisions included, other than the standard clauses for ending an agreement.

### **CIDA is doing a better job of monitoring risks and ensuring sustainability**

**5.33** In our 2000 audit we observed that generally CIDA and its executing agencies had been slow or unable to take responsibility to react when critical assumptions failed to materialize, and problems ensued. During our field visits as part of this follow-up, we found that for the projects we visited, CIDA and the Canadian executing agents' staff were monitoring project risks and updating critical assumptions.

**5.34** A sustainable project is one whose benefits last after aid funding stops. For CIDA, sustainability is one of eight key factors that the Agency uses to measure a project's success. In our 2000 audit, we noted that CIDA should be more consistent in making sure that its agreements with Canadian executing agencies contain built-in provisions to ensure sustainability.

**5.35** In this follow-up, our sample included 17 agreements where specific clauses related to sustainability would have been relevant. Fifteen of those agreements did contain clauses indicating how the Canadian executing agency would support or help ensure that the project would yield sustainable benefits. This represents a substantial improvement over what we found in our previous audit. We also found during our field visits that for the relevant cases, CIDA and Canadian executing agency staff were generally monitoring project activities designed to ensure sustainability of the project benefits.

## **CIDA grants**

**5.36** Grants and contributions are two of CIDA's key funding mechanisms. Exhibit 5.4 highlights certain key aspects of these two funding mechanisms.

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### **Exhibit 5.4 Important differences between grants and contributions**

CIDA uses grants and contributions to transfer funds to organizations involved in aid projects. These mechanisms differ in several key respects.

Contributions differ from grants in the management requirements that general government policy imposes on departments and on the recipients. An individual or organization that meets the eligibility criteria for a grant can usually receive the payment without having to meet any further conditions. In contrast, contributions are subject to performance conditions that are specified in a contribution agreement. The recipient must show that it continues to meet the performance conditions over the life of the agreement in order to be reimbursed for specific costs. The government can audit the recipient's use of a contribution, whereas audits are not required for grants.

For contributions, interest earned on CIDA payments must be used for the purpose of the program or project; unexpended balances must be repaid; and typically, there is a 10 percent holdback provision. Grants are unconditional transfer payments, and these provisions do not apply.

Source: CIDA and our reports

### **CIDA has sharply increased the use of grants in the past three years**

**5.37** When carrying out this audit, we noted that since the 1999–2000 fiscal year, the trend toward grants has increased markedly. The sharpest increase

coincided with the new Terms and Conditions for International Development Assistance approved by the Treasury Board on 22 March 2001. This document allows CIDA to use grants according to “channels-of-delivery.” This term, channel-of-delivery, refers to the type or purpose of aid, for example, bilateral aid; international humanitarian assistance; or assistance against hunger, malnutrition, and disease. The previous terms and conditions had placed restrictions on certain branches in the organization; for example, the former Bilateral Branches (now termed the Geographic Branches) had not been allowed to give grants. The new terms and conditions allow grants for the bilateral aid channel-of-delivery only on an exception basis.

**5.38** The Terms and Conditions for International Development Assistance approved by the Treasury Board in 2001 delegate funding authority to CIDA. CIDA’s Framework Policy for International Development Assistance is intended to further articulate a number of criteria for using grants or contributions, depending on CIDA’s channels-of-delivery. The terms and conditions called for CIDA to continue publishing the specific criteria for individual channels-of-delivery in program documents. We found that since issuing the terms and conditions, CIDA has published no further specific criteria for using particular channels-of-delivery.

**5.39** CIDA believes that grant support to the programs of multilateral institutions improves development results and reduces its own risks. In September 2002, CIDA issued a new policy statement on strengthening aid effectiveness, *Canada making a difference in the world*. It explains that the international community has identified principles of effective development and that there is a need to move toward more comprehensive and integrated approaches. In this context, CIDA intends to rely less on its traditional projects and more on a program approach. This involves co-ordinating with other donors and integrating its aid activities with the policies and plans of recipient governments.

**5.40** Contributing to the programs of multilateral institutions provides CIDA’s geographic programs with opportunities to benefit from those institutions’ established delivery capacities, extensive field presence, technical expertise, and local credibility. CIDA also benefits from the due diligence efforts, technical and country expertise, and programming experiences of other donors. CIDA considers that the risk of non-performance associated with multilateral institutions is relatively low compared with traditional stand-alone projects using executing agencies working under a contract or contribution agreement.

**5.41** Exhibit 5.5 shows the trend for the 1999–2000 to 2002–03 period. The use of grants by the Geographic Branches increased from approximately \$6 million to \$148 million, or from less than one percent to over eight percent of total Agency grants and contributions. The proportion of grants to the total amount of CIDA grants and contributions has increased from approximately 26 percent to 38 percent for the same time period.

**5.42** We decided to select eight grants for more detailed audit. Our objective was to determine why CIDA was using grants as opposed to other funding

**Exhibit 5.5** CIDA grants and contributions 1999–2000 to 2002–03 (\$ millions)

Fiscal year	Grants				Contributions		Grants and contributions
	Geographic Branches (including former Bilateral Branches)		Agency total		Agency total		Agency total
	\$	%	\$	%	\$	%	\$
1999–2000	6.1	0.4%	374.4	25.7%	1,083.0	74.3%	1,457.4
2000–01	13.7	0.9%	498.2	31.8%	1,070.3	68.2%	1,568.5
2001–02	74.3	4.3%	625.2	36.6%	1,082.7	63.4%	1,707.9
2002–03	148.1	8.4%	660.3	37.6%	1,095.6	62.4%	1,755.9

Source: CIDA (unaudited data)

mechanisms. We also aimed to assess certain aspects of CIDA's administration of grants to the recipients.

**5.43** The particular channel-of-delivery was not clearly indicated on file for five of the grants that we examined, and it was difficult for us to identify the channel based on the broad descriptions in the framework policy.

**5.44** According to feedback from project officers and the descriptions of channels-of-delivery in the framework policy, three of the eight grants in our sample could belong to the bilateral-aid channel. The policy states that

Bilateral Aid is provided through projects and programs with eligible recipients, in accordance with the objectives of the Canadian foreign policy and the Official Development Assistance program, which are within the general categories of economic and development assistance.

Program finance staff charged the grants to the multilateral-institutional-funding channel, which “promotes sustainable development and supports humanitarian assistance by providing core funding support and support to multilateral institutions and by providing funding for global programs of multilateral institutions.” For example, CIDA gave a grant to the Inter-American Development Bank for the implementation of a new procurement system for the Government of Nicaragua. Although this initiative could be interpreted as belonging to the bilateral-aid channel-of-delivery, it was charged to the multilateral-institutional-funding channel by CIDA program finance staff.

**5.45** The Framework Policy calls for the use of contributions when funding the bilateral-aid channel. All proposals for exceptions are to be submitted to the Vice President, Human Resources and Corporate Services, who must undertake appropriate consultations before recommending to the Executive Committee and the President that the minister approve the exception. For



the three grants that could be considered as being under the bilateral-aid channel-of-delivery, there was no indication on file that CIDA officers followed the required procedure for exceptions to the policy by obtaining proper approvals for this channel-of-delivery. The three grants were coded to another channel-of-delivery that did not require special approval.

**5.46** Given the broad definitions of channels-of-delivery, we are concerned that grants may be used for bilateral aid without proper authorization because they have been improperly categorized.

**5.47 Recommendation.** CIDA should continue publishing specific criteria for individual channels-of-delivery in program documents. The channels-of-delivery should be defined more precisely and should be clearly documented in grant files. CIDA officers should obtain proper authorization for bilateral grants.

**CIDA's response.** CIDA agrees with this recommendation. While the Agency believes that its files almost invariably identify accurately the channel-of-delivery through which its grants are made, the Agency also acknowledges the importance of having well-defined channels-of-delivery and ensuring that the channel-of-delivery is accurately identified in project files. Accordingly, by 1 February 2005, the Agency will review the current definitions and incorporate any changes in definition into documents such as the Manager's Guide to Contribution Agreements and the Explanatory Notes for the Delegation of Selection Authorities and Contractual and Financial Signing Authorities Document. Training courses will also be adapted to emphasize the channels-of-delivery.

#### **The rationale for using a grant rather than a contribution was often unclear**

**5.48** The objective of the Treasury Board's Policy on Transfer Payments is to ensure sound management of, control over, and accountability for transfer payments. It requires departments to establish policies and procedures to ensure that proper program and other relevant documents are maintained to provide documentary evidence of decisions made.

**5.49** Grants require less accountability than contributions (Exhibit 5.4). CIDA assumes a greater risk the recipient will not meet the goals of the program than it would if it used a contribution funding mechanism for the same initiative with the same recipient.

**5.50** For the eight files that we looked at, we found that in most cases CIDA had not specified the reason for using a grant rather than a contribution. In our sample, we found that six of the eight recipients had received funding in the past. In all of these cases, CIDA had previously used contributions. One recipient had been receiving funding through contributions for about 20 years. In 2000, this recipient had, for the first time, received grant funding. We noted other cases involving recipients who had been receiving funding primarily through contributions until 2001, but who have since begun to receive grants. The files we examined did not contain an analysis of how the change in funding mechanism would affect expected results or the reasoning for using the grant mechanism. We recognize that the principles behind the

policy statement on strengthening aid effectiveness may favour greater use of grants than in the past. However, we still expect that the merits for using grants instead of other funding mechanisms and the effect on the expected result would be clearly evaluated and documented for each case. This is especially important as the grant mechanism does not impose any conditions on the recipient.

**5.51** We are concerned that, without having assessed the probable effect on the expected development results, CIDA may be sacrificing a degree of control and oversight over how recipients spend CIDA funding.

**5.52 Recommendation.** The rationale for choosing a grant as the mechanism for funding a project should be documented and clearly explained in terms of the degree of desired control and the effect on the expected results.

**CIDA's response.** CIDA agrees with this recommendation and, by 1 February 2005, will develop criteria to determine when to use a grant or a contribution and the rationale for this choice in view of the need for appropriate controls and the effect on expected results. These will be incorporated into managerial guides and training courses on the management of grants and contributions.

#### **CIDA has disbursed grant funds in advance of need**

**5.53** CIDA's Terms and Conditions for International Development Assistance state that the Agency should schedule instalment payments of grants to recipients according to their cash-flow requirements. However, exceptions are permitted. CIDA may pay grants in a single instalment in circumstances such as emergencies, or when required by Canada's overall foreign policy interests.

**5.54** We found that for seven of the eight cases we looked at, CIDA had disbursed the entire grant as a single payment rather than in instalments. For six of those seven cases, we believe that CIDA could have disbursed the funds in instalments. In these six cases, CIDA had not demonstrated in its files its reasons for making an exception.

**5.55** For example, CIDA advanced full payment of \$2 million for a five-year membership in a newly established Advisory Centre on World Trade Organization Law because it had the funds available in that fiscal year. The entity's financial regulations allow for membership payments to be made in five, equal, annual instalments.

**5.56 Recommendation.** CIDA should respect the government's transfer payment policy and the Terms and Conditions for International Development Assistance when paying grants in a single instalment. The rationale for making an advance payment in a single instalment, which does not reflect the recipient's cash-flow needs, should be properly documented.

**CIDA's response.** CIDA agrees that all payments of grants should fully respect the Treasury Board Policy on Transfer Payments and the Terms and Conditions for International Development Assistance. To guard against the

possibility of payments exceeding the immediate cash flow requirements of grant recipients, financial staff assigned to program delivery branches will be required to sign off on each grant payment to ensure that it is consistent with the Treasury Board policy. Training courses will also be modified to emphasize Treasury Board policy.

### CIDA is working to provide guidance on administering grants

**5.57** CIDA recognized the need to develop material to guide staff in using and managing grants. In September 2003, the Contracting Management Division made available a draft copy of the Manager's Guide to CIDA Grants. This document discusses grant-related roles and responsibilities and provides information in areas such as using, approving, and managing grants. It also provides partial guidance on selecting a channel-of-delivery. CIDA staff told us that more work on the guide—including communication activities, developing a training course, and developing a grant template agreement—is in progress.

## Financial compliance audits

**5.58** In 1999 we examined the financial compliance audits that the Contract and Contribution Audit Unit had carried out on behalf of CIDA. In 2000 the Contract and Contribution Audit Unit was re-named the Financial Compliance Unit.

**5.59** The main objective of these audits was—and continues to be—to make sure that all expenditures claimed by a Canadian executing agency are properly documented and comply with the terms and conditions of its agreement with CIDA. Financial Compliance Unit auditors identify possible ineligible expenses and refer them to CIDA staff for action (see Exhibit 5.6). Given the wide range of projects, the dollars involved, and the variety of documentation that supports recipient claims under the contract and contribution agreements, these audits are a key control for maintaining financial probity.

**5.60** Our 1999 audit observed that the amounts identified as **audit adjustments** totalled \$32.2 million or about three percent of the total value of expenditures claimed. The Contract and Contribution Audit Unit auditors

### Exhibit 5.6 Terms CIDA uses in its financial compliance audits

CIDA uses certain terms relating to the results of financial compliance audits and how the organization deals with them.

**Audit adjustment**—an item that an auditor identifies as an ineligible expenditure, that is, an expenditure not supported by proper documentation or not allowed under the terms of an agreement.

**Release**—a decision resulting from further investigation and negotiation between CIDA and an executing agency, that an audit adjustment is an eligible expenditure, for which CIDA will pay.

**Maintained adjustment**—a decision that CIDA will not pay for an item because it does not comply with the agreement. Therefore, it represents an ineligible expenditure, which CIDA will recover from the executing agency.

had found persistent non-compliance problems and had identified a number of adjustments. We then looked at CIDA's **release** decisions to determine whether they had been justified and whether Canadian executing agencies had supported their claims with adequate documentation, such as proper receipts and other records.

**5.61** We found that CIDA staff had released a high proportion of ineligible expenses that Canadian executing agencies had claimed, even though these agencies had not provided adequate documentation or other evidence to support their claims. We concluded that CIDA's releases were not always justified. We also found that certain standard clauses in the agreements were ambiguous. We noted that CIDA should clarify these clauses to reduce uncertainty and the risk of misinterpretation that could, in turn, lead to adjustments.

**5.62** Since 1999, CIDA has acted on our recommendation to clarify key clauses in its agreements. The Contracting Management Division developed standard agreements for CIDA's geographic programs, and it is working to standardize all agreements across the Agency. The Financial Compliance Unit has also instituted the practice of initial visits; CIDA staff meet with Canadian executing agencies at the beginning of projects to clarify requirements for financial reporting and acceptable evidence to support a claim.

#### **Justification for releases has improved since 1999, but problems persist**

**5.63** Despite these improvements, we noted a lack of independent oversight over the release of adjustments identified by financial compliance audits. The audit adjustments propose corrections for errors in payments to Canadian executing agencies that the project officer or program manager had previously approved under section 34 of the *Financial Administration Act*. Financial officers are involved in the internal discussions as to whether or not to release the adjustments, at times actively challenging the decisions made by the program staff. However, prior to the release of the adjustment, they provide no formal review or approval comparable to when they sign off under the *Financial Administration Act* for the initial payment. It is the program officer or manager who at this stage of the process again has the primary responsibility for making the final decision to release an audit adjustment. This decision is made after review and negotiation with the Canadian executing agency and in consultation with the Financial Compliance Unit, which plays an advisory role in the release process.

**5.64** In 1999, only about 12 percent of CIDA's release decisions were justified and well-supported with documentation. Our follow-up examined a sample of 20 Financial Compliance Unit audit files (including 14 chosen statistically), from a total of 391 audits where CIDA had made a decision as to the release or maintenance of the proposed audit adjustments reported from 1 April 2000 to 30 September 2003. The follow-up showed that just fewer than 50 percent of the files that were reviewed showed proper justification and documentation for release decisions. Although this represents an improvement since 1999, our audit found that problems persist

with unjustified and/or inadequately documented releases of audit adjustments. Given our initial findings from 1999, we would have expected to see a more formalized role played by financial officers in approving the release of audit adjustments such as an independent sign-off for the release.

**5.65** In this follow-up, we observed that, overall, the amounts identified as audit adjustments by financial audits initiated from April 2000 to September 2003 totalled \$33.5 million or about three percent of expenditures claimed. CIDA officers released audit adjustments of \$12.2 million, **maintained adjustments** of \$9.1 million in ineligible expenditures, and had not yet made a decision on the remaining \$12.2 million in audit adjustments. In our sample, we found a number of releases where claimed expenses clearly fell outside the terms of the agreements between CIDA and its Canadian executing agencies. By granting those releases, project officers and program managers allowed the claims. Section 34 of the *Financial Administration Act* requires that payments are made only for goods received and services rendered as per the contractual terms of the agreement. CIDA officers did not contravene section 34 of the *Financial Administration Act*. However, for a number of release decisions, CIDA ultimately did not ensure that it paid only for those goods received and services rendered according to the terms of the agreement. Accordingly, CIDA should have maintained these adjustments, amended the agreement, or sought appropriate authority for the release. CIDA has no clear guidelines for these situations, as to who may approve the releases or how appropriate authority should be exercised. Exhibit 5.7 provides examples of cases where project officers and/or program managers accepted expenditures that were outside the terms of the agreement.

**5.66** We also noted that, in a number of cases, the rationale for the release was on file, but the documentation to support it was missing or inadequate. In our view, release decisions should be based on supporting evidence that is

**Exhibit 5.7** Examples in which adjustments were released without assurance that goods and services were received as per agreement

Unauthorized releases by CIDA officers of audit adjustments for amounts that were outside the terms of the agreement	Inadequate documentation to support release decisions
<p>Two audit adjustments were released for reimbursable costs claimed by a Canadian executing agency for its contractors, at the higher rates applying to its employees.</p> <p>An audit adjustment was released for salaries claimed separately by a Canadian executing agency. These costs were already included in an overhead allowance provided under the agreement.</p> <p>An adjustment for overtime costs that were in excess of the salary budget allowed in the agreement was released.</p>	<p>An adjustment for a travel advance claimed was released based solely on a financial statement submitted by the Canadian executing agency that did not indicate whether the advance had been spent.</p> <p>An adjustment relating to salaries paid for work on statutory holidays and annual vacation was released without proof that the employees were present on those days.</p>

commensurate to that required by the Financial Compliance Unit auditors during the initial audit. Releasing an adjustment without sound, well-documented reasons and without supporting evidence means that CIDA may be paying for unauthorized items. Examples of poor documentation to support the release decision are shown in Exhibit 5.7.

**5.67** A cutback made in the number of planned Financial Compliance Unit audits may weaken this important control over expenditures. In October 2000, CIDA's Management Committee made it mandatory that all agreements of more than \$3 million be audited after the first year of operation. CIDA expected that the audits would identify any emerging contractual and administrative problems more quickly. However, for budgetary reasons, CIDA dropped these audits, along with random reviews, from the Financial Compliance Unit's audit plan for 2003–04, although both were important elements in CIDA's risk-based audit framework. We also noted that the number of financial compliance audits planned for the 2003–04 year had been substantially reduced. This reduction contrasted sharply with the trend that had occurred over the previous four years toward more audit coverage. We are concerned that CIDA's cutbacks in the work done by the Financial Compliance Unit may result in less compliance with agreements by Canadian executing agencies and fewer recoveries of overpayments.

**5.68** As we said in 1999, compliance audits are an important financial control, and CIDA needs to be more insistent about maintaining adjustments and about challenging Canadian executing agencies with respect to expenditures that do not comply with their agreements. This audit indicates that despite some improvement, CIDA's current practices for dealing with audit adjustments need strengthening.

**5.69 Recommendation.** CIDA should ensure that every release is properly and independently authorized and that adequate supporting documentation is on file to justify the release.

**CIDA's response.** CIDA agrees with this recommendation. Accordingly, by 1 February 2005, the Agency will require that the Finance Division's Financial Compliance Unit formally sign off on each audit adjustment that is to be released. A condition of this sign-off will be that adequate documentation supporting a release be available on file.

While CIDA's financial situation in 2003–04 necessitated budget reductions in most of the Agency's operations, including the Financial Compliance Unit, the budget of the Unit was completely restored at the outset of 2004–05. The reinstatement of funding underscores the Agency's commitment to ensuring the effectiveness of the Financial Compliance Unit.

## Counterpart funds

**5.70** In two previous reports (1998 and 2000) we raised concerns about CIDA's control over counterpart funds. Exhibit 5.8 explains the basics of the counterpart fund concept.

**5.71** We raised concerns in 1998 about the need to revise or update the policy and guidelines for managing counterpart funds, particularly with

respect to dealing with cases in which products had not been fully monetized. CIDA agreed to strengthen its procedures in this area.

**5.72** In our October 2000 audit of CIDA, we again noted monetization gaps, that is, where recipient countries had not deposited the full amount of money owed to their counterpart funds even though they had agreed to do so. CIDA agreed to scrutinize funds more consistently and “take appropriate action where needed.”

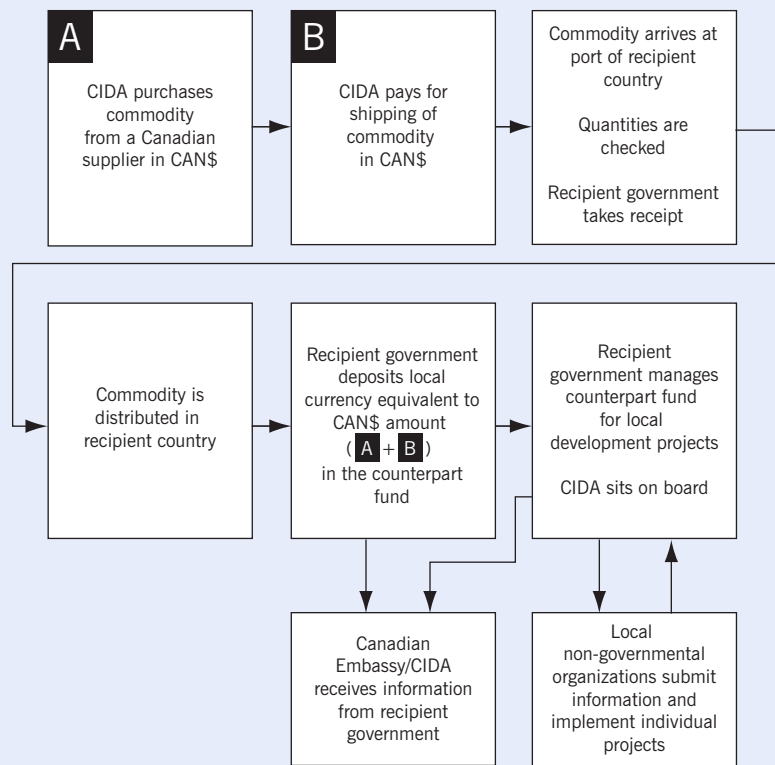
#### Exhibit 5.8 Counterpart funds and monetization

Counterpart funds are well-established funding mechanisms that enable CIDA to convert Canadian goods into funding for locally-managed aid projects.

Under counterpart funding, CIDA buys a commodity (for example, wheat) from a Canadian supplier. When the recipient government or a local purchaser takes possession of the product, the government must then deposit into a counterpart fund an amount of local currency equivalent to what CIDA originally paid the Canadian supplier for the product, plus shipping costs. In doing so, the recipient government is monetizing that commodity. Where a government deposits the full equivalent amount, the commodity is considered fully monetized. In some cases, CIDA allows the recipient government to deduct a small amount for its administration costs.

The fund, known as a counterpart fund, is used by the recipient government to finance local development projects. CIDA often has representation on the board of directors of the fund.

##### Typical operation for a counterpart fund



Source: CIDA and our reports.

**5.73** CIDA has not yet updated its 1994 policy and guidelines for managing counterpart funds, although in 1998, 2000, and again in 2003, it made commitments that it would update its Counterpart Fund Policy. The Agency noted that the revised, updated policy would address the issues of accountability and management raised by the Office of the Auditor General and internal CIDA audits. As of October 2004, the new Policy and Guidelines for the Management of Counterpart Funds remained in draft form.

**5.74** We noted that CIDA's Internal Audit directorate has not audited any counterpart funds since 1998. Nor has it done any follow-up to determine what the Agency has done to respond to problems noted in two of its previous audits of counterpart funds. Internal audit staff told us that they have been waiting for a new counterpart fund policy before undertaking more work on these funds.

**5.75** The 1994 counterpart fund policy requires program managers to submit brief annual reports to CIDA's Policy Branch on the counterpart funds for which they are responsible. The purpose of these reports was to enable the Agency to centrally collect data on counterpart funds. We found that managers have not submitted these reports as required. The branch had not received any of these reports in three years. In our view, the lack of current and adequate information compromises the Agency's ability to monitor counterpart funds properly and to account for their results.

#### **Monetization gaps were minor**

**5.76** In 2000, we found two out of six funds, for which the recipient countries had deposited less than 100 percent of the monetized value of commodities, contrary to CIDA policy. We again examined six funds for the follow-up. CIDA was unable to produce documentation that should have been on its files relating to the fund that operated in Haiti. The situation in Haiti prevented CIDA from reconstructing the documentation from other sources. We were thus unable to determine if and when the funds were deposited for that counterpart fund. For the remaining five funds audited, other than minor variances relating to exchange rates, we found that full equivalent value had been deposited in accordance with CIDA policy. For two of the remaining five funds, we could not determine whether the countries had deposited the money according to the agreed-upon schedule because CIDA could not provide us with the necessary information (Exhibit 5.9).

**5.77** With respect to the funds in Mali and Bangladesh, the exchange rate that those governments used to determine how much to deposit into the counterpart fund differed from the rate we obtained from an independent source. The differences in rates for Mali translated into potentially 2.7 percent less of the value of purchases from Canadian suppliers (about \$380,000 out of \$13.8 million). For Bangladesh, the differences translated into potentially 1.3 percent less than the value of purchases from Canadian suppliers (about \$560,000 out of \$43.2 million). We could find no evidence on file that CIDA had verified that the exchange rates used for monetization were acceptable.



**Exhibit 5.9 Problems with monetization for projects we examined**

Counterpart fund/finding	Deposit less than 100% value	Potential deposit differential due to exchange rates used	Timing of deposits
<b>Haiti</b>	No documented evidence available	No documentation available	No documentation available
<b>Mali</b>	No problem noted	About \$380,000 less	Unable to determine exact date of deposits from documentation on file
<b>Bangladesh</b>	Deposited at less than full value, but justified as per CIDA policy requirements	About \$560,000 less	No problem noted
<b>Mauritania</b>	No problem noted	No problem noted	Unable to determine exact date of deposits from documentation on file
<b>Philippines</b>	No problem noted	No problem noted	No problem noted
<b>Cambodia</b>	No problem noted	No problem noted	No problem noted

**5.78** In our view, the CIDA managers responsible for the monetization of the funds where problems were noted did not demonstrate sufficient vigilance in implementing CIDA policy.

**5.79 Recommendation.** CIDA should update its policy on the monetization of counterpart funds without delay. The new policy should make clear the acceptable boundaries for monetization and address issues such as exchange rates and the required timing of deposits.

**CIDA's response.** CIDA's draft counterpart fund policy update is currently scheduled to be presented to the Policy Committee for approval before 1 February 2005.

The draft policy indicates that CIDA must justify the percentage of the value of goods and services provided in Canadian dollars that is to be collected in local or foreign currency. It also stipulates that the bilateral arrangement between CIDA and the recipient government must define, among other things, how to determine the exchange rate between the value of the goods or services in Canadian dollars and in local or foreign currency, as well as the timing of deposits of local or foreign currency into the Counterpart Fund account.

## Conclusion

**5.80** The results of this follow-up audit indicate that CIDA has made satisfactory progress on the key issues we raised in previous years, such as the use of sole-source contracting, monetization of counterpart funds, clarification of key clauses in agreements to reduce ambiguity, and monitoring of project risks. While some areas still need attention, overall, CIDA has made satisfactory progress on our recommendations.

**5.81** CIDA has made efforts to provide direction on the appropriate use of sole-source contributions and contracts. We found that as a result, the unjustified use of sole-source agreements diminished significantly. CIDA needs to make further efforts to ensure that the spirit and the letter of its own and government policies are being respected.

**5.82** CIDA has improved its project management by including clauses in agreements to make Canadian executing agencies more responsible for the sustainability of project benefits. The Agency has also improved its risk management of projects.

**5.83** CIDA conducts a number of audits to ensure that Canadian executing agencies comply with the terms and conditions of the contract and contribution agreements. Those audits recommend the recovery of unjustified or improperly documented amounts that CIDA has paid. Frequently, CIDA decides to release the Canadian executing agency from the requirement to repay some of those amounts. CIDA has clarified its standard agreement and shown some improvement in documenting and justifying those release decisions. However, we are concerned that in the files we audited, half of those release decisions made were still unjustified or not properly documented. In these cases, we believe that CIDA is in effect deciding to pay for items where it is not apparent that the goods were received or the services rendered according to the terms of the agreement.

**5.84** For counterpart funds, CIDA has shown substantial improvement in this area as the problems we found were minor compared to those found in the previous audits.

**5.85** During the course of our audit, we observed that CIDA is increasingly using grants as a funding mechanism. We note there are cases of CIDA using grants where it formerly used contributions to fund projects. While the use of grants is consistent with CIDA's recent approach to partnering with other donors, for the cases we audited, the rationale—in terms of obtaining better developmental results—was not on file for using a grant rather than a contribution. In addition, CIDA had not properly justified disbursing grants in advance of need.

## About the Follow-Up

### Objectives

The primary objective of this follow-up was to assess what CIDA has done to address issues and recommendations that were raised in two of our previous reports: Chapter 28 of the November 1999 Report and Chapter 14 of the October 2000 Report.

### Scope and approach

The follow-up focussed on four main areas addressed in our previous chapters:

- **Contractor selection.** Our examination focussed on the process for selecting contracts, contribution agreements, and grant agreements related to aid projects. Using a risk-based approach, we selected for audit non-statistical samples of 5 non-competitive contracts, 19 contribution agreements, and 8 grant agreements. Our samples were chosen from aid agreements that were over \$100,000 in value and that had been entered into between January 2001 and August 2003. During this period, those agreements included over 40 non-competitive contracts totalling about \$110 million, over 1,400 contribution agreements totalling about \$2.1 billion, and 755 grant agreements worth about \$1.6 billion.
- **Non-compliance with contracts and contribution agreements—Financial Compliance Unit.** We looked at how CIDA had dealt with the results of financial compliance audits. Overall, the amounts identified as audit adjustments by financial audits initiated from April 2000 to September 2003 totalled \$33.5 million or about three percent of expenditures claimed. We reviewed a sample of 20 audit files chosen from 391 financial compliance audits initiated between 1 April 2000 and 30 September 2003 for which a decision about the release or maintenance of the proposed audit adjustments had been made by CIDA. These included a statistical sample of 14, chosen through the use of the statistical Chi-squared sampling methodology, in order to evaluate whether or not CIDA had improved its documentation and justification of release decisions since our previous audit.
- **Controls over payments into counterpart funds.** We examined and assessed six out of approximately 23 counterpart funds (including some for which we had reported problems in 1998 and 2000) to determine what CIDA had done to strengthen financial management controls over counterpart funds.
- **Implementation of agreements.** The 2000 audit raised a number of issues around how well contracts and contribution agreements had been executed. In our follow-up field visits, we examined CIDA's and the executing agency's processes for managing project risks and critical assumptions, for ensuring project sustainability, and for terminating projects. We examined and made visits to 10 projects in the Philippines, Egypt, and Cuba.

From the 1999 report, we followed up on the following:

- **The results of audits.** Whether or not CIDA had clarified standard contract clauses to reduce ambiguity, and whether CIDA maintained audit adjustments unless the recovery of the unauthorized expenses was clearly not cost-effective.
- **The role of performance review.** Whether or not the Performance Review Branch (now the Performance and Knowledge Management Branch) had periodically assessed the Financial Compliance Unit audits of contracts and contributions to determine whether they are providing the required level of financial control.

Areas we did not follow up on were

- project financial controls, and
- the role of performance review in auditing the quality and accuracy of information reports by Canadian executing agencies.

From the 2000 report, we followed up on the following:

- **Agreement planning and design.** Provisions for sustainability.

- **Selection.** The use of non-competitive contribution agreements instead of competitive agreements, and the use of sole-sourced contracts.
- **Execution of agreements.** Controls over payments into counterpart funds, management of the assumptions deemed critical to project success, and building off-ramp provisions into agreements.

Areas we did not follow up on were

- the realism of the planned and expected project results, and
- Canadian Partnership Branch agreements.

Additional areas audited that relate to the issue areas followed up include the increased use of grant agreements for aid projects, CIDA's analysis of the value and existence of in-kind contributions by recipients of its contributions and the restriction that there be no profit, and the application of section 34 of the *Financial Administration Act* when dealing with audit adjustments.

We conducted our work at CIDA's headquarters and visited selected projects in the field. We reviewed project documentation and interviewed Canadian executing agencies and CIDA officials. We also reviewed CIDA status reports on how it has responded to our recommendations.

### Criteria

The audit criteria from the 1999 and 2000 chapters remain relevant and were largely derived from CIDA's internal guidelines and from Treasury Board policies. We therefore expected to find the following:

- Treasury Board directives (including the Terms and Conditions for International Development Assistance and the associated Framework Policy approved by Treasury Board in 2001), Government Contracts Regulations, and CIDA internal policies should be respected.
- The contracting plan should contain an analysis of different options for the particular project, with competition being the norm.
- Contract and contribution performance should be monitored and evaluated against the terms and conditions of the agreement.
- Decisions to release financial compliance audit adjustments should be appropriately supported and taken at the proper decision-making level.
- Issues identified in audit reports should be analyzed, and corrective action taken as needed.
- Decisions to recover or write off amounts owed to CIDA should be documented and taken by the appropriate decision-making authority.

We also expected CIDA to have carried out the actions it had indicated it would take in response to previous observations and recommendations from our 1999 and 2000 reports.

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