

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
1. INTRODUCTION.....	5
1.1 Background.....	5
1.2 Related Policy	6
1.3 Audit Objectives	7
1.4 Scope and Methodology	7
2. DETAILED FINDINGS.....	9
2.1 Audit Management Framework	9
2.2 Audit Planning	18
2.3 Management Information System.....	23
2.4 Methodology for Conducting Contribution Audits.....	24
3. CONCLUSION	29
4. RECOMMENDATIONS AND MANAGEMENT RESPONSE.....	31

EXECUTIVE SUMMARY

This audit assessed the level and effectiveness of contribution agreement auditing in the Department of Justice.

At the time of the audit, the Operations Directorate within Programs Branch was responsible for planning and scheduling all audits of contribution agreements except for audits of the National Crime Prevention Centre (NCPC) and firearms contribution agreements. In 2001–2002, the Operations Directorate conducted approximately 30 contribution agreement audits at a cost of about \$145,000. There were no significant findings/issues from those 30 audits.

The Department is proactive in meeting Treasury Board Secretariat (TBS) transfer payment policy requirements. The Department has written a Draft Contribution Agreement Audit Policy, which we found to be adequate and to comply with the TBS Policy on Transfer Payments. In accordance with this TBS policy, the Department of Justice Policy Sector has developed a generic risk-based audit framework (RBAF). New contribution program RBAFs have been developed for the National Crime Prevention Centre, the Aboriginal Justice Strategy, and the Justice Partnership and Innovation Program. Our review of these RBAFs found that they generally adhered to the format specified in the Department's generic RBAF, but that the selection criteria documented in these program RBAFs were inconsistent. We also found that the risk matrix tool described by the generic RBAF was not mentioned in any of the existing program RBAFs. This report recommends that program RBAFs more carefully adhere to the Department's generic RBAF and that some revisions be made to the generic RBAF to reduce risks to the Department. Not all contribution programs are using RBAFs. As contribution programs are renewed or developed, RBAFs will be developed for them.

At the time of the audit, all contribution agreement audits were contracted to Consulting and Audit Canada (CAC). The Operations Directorate receives annual funding from the various contribution programs to pay for the services of CAC. When CAC conducts the audits, the working papers generated by CAC to validate the findings are kept in the local CAC office

conducting the audit. This means that the Department does not have easy access to any evidence substantiating CAC audit findings. We found that audit files did not contain some evidence needed to confirm that TBS transfer payment policy objectives were being met through audits of contribution recipients. We recommend improvements to ensure that audits and audit files clearly document recipient compliance with the financial terms and conditions which we have found to be appropriately documented, and non-financial terms and conditions of contribution agreements”.

Due to the heavy workload on the one financial officer in the National Crime Prevention Centre the Centre did not conduct any audits of its contribution agreements in 2001–2002. The Centre has taken corrective action and has recently hired an additional financial officer.

The Canadian Firearms Centre has not conducted any audits of its contribution agreements in the past two years. It has now taken corrective action and is in the process of auditing agreements with Ontario and Québec. Before the end of the 2002–2003 fiscal year it plans to audit agreements with New Brunswick, Nova Scotia, and Prince Edward Island.

Except as noted here, we found the Department to have an effective process for auditing contribution agreements.

The management response to the recommendations contained in this report was provided by the Senior Assistant Deputy Minister, Policy, on May 15, 2003.

List of Acronyms

AJS—Aboriginal Justice Strategy

GCIMS—Grants and Contribution Information Management System

JPIP—Justice Partnership and Innovation Program

NCPC—National Crime Prevention Centre

PLEI—Public Legal Education and Information

RBAF—Risk-Based Audit Framework

RMAF—Results-Based Management and Accountability Framework

TBS—Treasury Board Secretariat

1. INTRODUCTION

At the time of the audit, we were told that Department of Justice transfer payments of grants and contributions to various justice-related programs comprise over 61 percent of the Department's budget and involve more than approximately 250 staff (full-time equivalents) and associated operating costs.¹ The current Estimate, Part III – RPP 2003-2004 indicates that transfer payments of grants and contributions currently comprise approximately 47.7% of the Department's net planned spending.

The Department is responsible for auditing recipients to ensure that they have complied with the terms and conditions of their contribution agreements. To further ensure that the Department is effectively auditing contribution recipients the Audit and Evaluation Committee approved an internal audit of its contribution agreement auditing processes for the 2002–2003 fiscal year. This report details the findings of that audit.

1.1 Background

The Department's Internal Audit Division also conducted an audit of grants and contributions in the 2000–2001 fiscal year. It should be noted that this audit is not a follow-up of that earlier grants and contributions audit. Rather, this audit of contribution agreement auditing processes assessed the level and effectiveness of contribution agreement auditing in the Department of Justice. However, summarizing some of the earlier audit report findings provides a useful background to the information and findings in this report.

The 2001 audit report showed that the Department of Justice adequately managed and controlled its processes for distributing funds, and that funds were allocated in accordance with applicable policies and procedures. However, the audit also showed that there was inconsistency in the level

¹ These statistics come from a May 2002 Programs Branch presentation to the departmental BYTE Committee called "Towards a New Transfer Payment Information Management System for Justice Canada," page 3.

of documented procedures and assessment/review criteria designed to assist analysts to evaluate funding proposals and to ensure that recipient's project reports were adequately evaluated.

1.2 Related Policy

The 2001 audit report showed that the Department's existing funding programs adhered to most of the requirements contained in the new Treasury Board Secretariat (TBS) Policy on Transfer Payments that was issued in June 2000. At the time of the 2000–2001 audit the Department had already begun the process of modifying its funding policies and procedures to ensure they would meet the requirements of the new TBS policy.

The TBS Policy on Transfer Payments stipulates that departments must obtain TBS approval of the terms and conditions of all contribution programs (Section 7.3.1). The policy further states that TBS submissions for this approval should include a results-based management and accountability framework and a risk-based audit framework that cover audit and evaluation plans (Section 8.1.1, xv, xvi).² The content of a risk-based audit framework and internal audit plan should depend on many factors such as management requests, legal obligations, pre-established cycles, and the needs and expectations of Central Agencies or other partners. But in order to use audit resources where they are the most needed, risk should be a driving force in the making of an audit plan. A risk-based audit framework is an effective way of achieving this objective. It is a coherent and disciplined approach to detect, assess, and deal with risk.

According to TBS policy, the Department of Justice is responsible for determining whether its transfer payment recipients have complied with the terms and conditions applicable to their agreements. This responsibility includes auditing recipients when deemed necessary. Notably, conducting audits of contribution agreements is part of determining an appropriate level of due diligence in the management of public funds.

² The Policy on Transfer Payments can be found on the TBS Web site <www.tbs-sct.gc.ca>.

1.3 Audit Objectives

The objectives of this audit were to review and assess:

- the adequacy of the management framework in place in the Department for auditing contribution agreements,
- the appropriateness of the procedures for contribution auditing,
- the level of contribution audit activities in the Department,
- the extent to which contribution auditing practices conform with Central Agency requirements.

1.4 Scope and Methodology

This audit reviewed the practices and procedures of contribution agreement auditing in the Department of Justice. The methodology used consisted of a review of pertinent documentation, interviews with departmental staff, and appropriate testing. Testing included reviewing financial files of contribution agreements, verifying calculations documented in these files and ensuring those files contained financial statements certified by accountants or other approved persons.³ The methodology of this audit conformed to TBS requirements for auditing contribution audit activities, as described in the *TBS Guide on Grants, Contributions and Other Transfer Payments*, and the TBS Policy on Transfer Payments (see also the TBS Web site for a document called *Implementation Issues and Clarification*).

Departmental staff involved in the following programs/areas were consulted or interviewed:

- Aboriginal Justice Strategy
- Community Safety and Crime Prevention
- Child Support Strategy
- Youth Justice Renewal Initiative
- Firearms Program

³ The Department of Justice has contracted Consulting and Audit Canada (CAC) to do the audits of contribution recipients. Local CAC offices conducted the audits (of files we reviewed) and therefore kept all files associated with the audits. Files shipped from CAC offices were not received in Ottawa in time for us to review. Therefore, we were only able to review the financial files of the Department, which did contain copies of CAC reports. Since the CAC audit files were not available we were not able to review the CAC's sampling methodologies for individual audits. We were also unable to review the CAC's justification/evidence to support their audit conclusions. See Recommendation 9.

- Family Violence Initiative
- Legal Aid Program
- Native Courtworker Program
- Young Offenders
- Justice Partnership and Innovation Program

The fieldwork for this audit was conducted between July 2002 and November 2002.

2. DETAILED FINDINGS

2.1 Audit Management Framework

2.1.1 Audit Policy

All transfer payments to contribution recipients are subject to public scrutiny and must be managed in a manner that is open and transparent to the public, and with due regard to economy, efficiency, and effectiveness. To help the Department better manage its transfer payments the Department originally implemented a Contribution Audit Policy in August 1991.

In June 2000 the TBS revised its policy on transfer payments. To comply with this new policy the Department of Justice Policy Sector has developed a new Draft Contribution Agreement Audit Policy. The draft policy was released to contribution programs in March 2002, and while not yet officially approved at the time of this audit, some contribution programs had begun using the draft policy as a guideline. This draft policy applies to contribution programs managed by the Department of Justice and outlines the purpose of program and recipient audits for all departmental contribution programs. The objective of the draft policy is to ensure sound management of, control over, and accountability for the delivery of contribution programs and to ensure compliance with related Central Agency and departmental policies and regulations. The draft policy is consistent with the TBS Policy on Transfer Payments.

All contributions made by the Department are subject to audit to ensure that all contribution agreement conditions, both financial and non-financial, have been met. The right of the Department to undertake an audit must be clearly established in the contribution agreement, whether or not it is exercised.

The Department's draft policy states that:

- contribution programs and payments are audited to ensure the adequacy of the management control framework for the programs and to ensure the integrity and probity of payments made pursuant to contribution agreements;
- audits of recipients are carried out to determine whether claimed amounts are fair and reasonable and whether funds were used in accordance with the terms and conditions of the contribution agreement;
- the purpose of recipient audits is to express an opinion on whether:
 - contributions are used by the recipient in accordance with the terms and conditions of the agreement;
 - the recipient has complied with the financial terms and conditions of the agreement;
 - the claimed amount is fair and reasonable.

Further, the audit of a contribution recipient is an examination of the accounting records, operations, and other supporting evidence. The examination is meant to determine whether a claim submitted by a recipient constitutes a fair presentation of the requirements of the related contribution agreement and to determine the extent to which the terms and conditions of a contribution agreement are being complied with.

According to the draft policy the objectives of a contribution audit are to determine whether:

- federal contributions were used by the recipient in accordance with the terms and conditions of the contribution agreement;
- the recipient used financial and other administrative procedures with adequate internal controls to protect federal interests, to safeguard assets, to ensure accuracy and reliability of accounting and operational data, to maintain adherence to prescribed policies and the terms and conditions of the contribution agreement;
- the financial information included in the recipient's claim is presented fairly and in accordance with generally accepted accounting principles and meets the financial terms and conditions of the contribution agreement.

We found the Department's Draft Contribution Agreement Audit Policy to be adequate and to comply with the TBS policy.

Because the departmental Draft Contribution Agreement Audit Policy was not yet approved at the time of our audit, we reviewed the 2001–2002 site audit reports against the TBS Policy on Transfer

Payments (June 2000). Our findings are reported under the section titled “Findings of Contribution Audits.”

2.1.2 Risk-Based Audit Framework (RBAF)

In accordance with the new TBS Policy on Transfer Payments, the Department hired Consulting and Audit Canada (CAC) to develop a results-based management and accountability framework (RMAF) and a risk-based audit framework (RBAF) to guide its future program implementation for all contribution programs. These documents were issued to the Department in March 2002. Both the RMAF and RBAF are required as part of the Department’s submissions to TBS for approval of grant and contribution terms and conditions. The RBAF provides the strategy for auditing contribution recipients, supports internal audit planning and should include the budgeted costs relating to these requirements. The RMAF is intended to serve as a blueprint for managers to help them focus on measuring and reporting on outcomes throughout the lifecycle of a policy, program, or initiative. We examined the RBAF as it was part of the scope of this audit.

The Department’s Policy Sector has developed a generic RBAF for use by the various programs and the National Crime Prevention Centre (NCPC), the Aboriginal Justice Strategy (AJS), and the Justice Partnership and Innovation Program (JPIP) have created customized RBAFs for their programs. There should be at least one RBAF document for each contribution program; if the contribution program has a number of distinct funds with different risk profiles, then separate risk assessments and audit frameworks should be prepared and submitted. At the time of this audit, not all contribution programs were using RBAFs. TBS policy does not require that ongoing programs develop RBAFs, but does require that RBAFs are created as contribution programs are renewed or developed.

The Department’s generic RBAF refers to a recipient risk assessment tool called the “Risk Matrix for the Selection of Contribution Recipients for Audit.” This tool identifies the different risk criteria associated with contribution agreements. The matrix identifies the following risk selection criteria:

- the number of years the recipient has received funds from the program;
- the program’s communication and working relationship with the recipient;
- the quality of the information received about the recipient from other government departments;

- how well the recipient met the requirements of the contribution agreement in terms of the operational objectives and activities set out in the agreement and with respect to the provision of financial and progress reports;
- the recipient's administrative capacity to carry out the funded activities and to maintain proper financial records;
- the total level of funds given to the recipient by the program each year;
- the level of peer review involved when assessing agreements of the recipient (i.e. the number of people involved in reviewing the agreement);
- the completeness of the documentation from the previous year's program and financial file (i.e. if an agreement is an on-going agreement);
- the length of time since the recipient's last audit;
- the reaction of the recipient to previous audits (i.e. has the recipient been receptive to auditors or have the auditors been refused entry);
- with respect to past audits, the type of recommendations made (i.e. immediate action required);
- the completeness of the financial and project activity reports (i.e. whether all the program requirements were met);
- the quality of the communication between the program and other parties who are concerned with the performance and results of the recipient (i.e. does the program ensure that it has all the information about a recipient and all other parties (e.g. other government departments) before and during the life of the agreement);
- the degree of public scrutiny, due either to the nature of activities or the specific program's public profile, that this project will be subjected to;
- whether the financial officer has other concerns regarding the contribution and/or recipient;
- whether the program officer has other concerns regarding the contribution and/or recipient.

Each criteria is assigned a numeric score and recipients are assessed and assigned a score. Numeric scores rank from 1 (low risk) to 5 (high risk). The sum of all the scores provides a risk assessment for the recipient. The minimum score is 13, and indicates that the recipient is a very low risk. The maximum score is 85, and indicates that the recipient is a very high risk. The generic RBAF does not include a guide that identifies the minimum score required to conduct a recipient audit. Without this guideline, it is possible that staff (program officers in consultation with financial officers) may not be adequately assessing whether a recipient should be audited. It is our opinion that a minimum risk score should be included in the generic RBAF. Further, individual programs may have different levels of risk and therefore should be able to set their own minimum score, but a program's minimum risk score should not be lower than the minimum risk score of the generic RBAF.

The risk matrix is meant to be completed by program officers in consultation with financial officers and is evaluated on an individual program or fund basis. The program manager should use the results of these assessments to identify and select recipients for audit. Although the risk matrix was not required to be used during the period of the files we reviewed, we did find that the programs used some criteria from the generic RBAF and had developed some of their own criteria.

When we reviewed the RBAFs for the JPIP, the AJS, and the NCPC we found that these documents describe selection criteria for identifying recipient audits, but that the criteria used by each program differ slightly. In fact, the risk matrix tool described in the generic RBAF is not mentioned in any of the program RBAFs. Table 1 shows the audit selection criteria that are in the program RBAFs.

Table 1: Audit Selection Criteria Used by Departmental Programs

Selection Criteria		Generic RBAF	JPIP RBAF	AJS RBAF	NCPC RBAF
1	Audits performed by other donors		X	X	
2	Availability of audit resources				X
3	Component coverage by region, size of project, type of recipient		X	X	X
4	Concerns of program managers		X	X	X
5	How well the recipient met the requirements of the contribution agreement in terms of the operational objectives and activities set out in the agreement and with respect to the provision of financial and progress reports	X	X		X
6	Quality of the information received about the recipient from other government departments	X			
7	Regional coverage		X	X	X
8	Results of prior audit recommendations		X	X	X
9	Status of the program				X
10	The completeness of the documentation from the previous year's program and financial file if an agreement is an on-going agreement	X	X	X	X
11	The length of time since the recipient's last audit	X			X
12	The level of peer review involved when assessing agreements of the recipient (i.e. the number of people involved in reviewing the agreement)	X			

Selection Criteria		Generic RBAF	JPIP RBAF	AJS RBAF	NCPC RBAF
13	The number of years the recipient has received funds from the program	X			
14	The program's communication and working relationship with the recipient	X			
15	The recipient's administrative capacity to carry out the funded activities and to maintain proper financial records (complexity of the organization or agreement)	X	X	X	
16	The total level of funds given to the recipient by the program each year	X	X	X	X

Although all the criteria are satisfactory for identifying recipients to audit, there appears to be some inconsistency in the use of the selection criteria between the RBAFs. This exposes the Department to the risk of inconsistent audit selection of recipients between programs. There is also a risk that a recipient may not be selected when, in fact, the recipient should have been selected if the appropriate criteria were applied. Audit results of programs may differ for similar types of organizations because the selection criteria for one program may select a recipient whereas the selection criteria for another program may not select a recipient with the same attributes.

In addition, the departmental generic RBAF does not identify the frequency for using the risk matrix. This exposes the Department to the risk of selecting low-risk recipients to audit if programs only use the risk matrix every two or three years. It is our opinion that better selection practices will result from annual use of the risk matrix tool. As well, this will help the Department to identify the audit resources required to audit all recipients meeting the risk criteria.

Other than the inconsistent selection criteria between programs and the exclusion of the risk matrix tool, the RBAFs for the JPIP, the AJS, and the NCPC adhered to the template found in the Department's generic RBAF.

Recommendations and Management Response

1. It is recommended that the Senior Financial Advisor, Senior Assistant Deputy Minister's Office, Policy Sector, ensure that:

a) All programs are using the same selection criteria for selecting recipients to audit.

It is agreed that all programs should use the same selection criteria for selecting recipients to audit.

In fact, over a period of time, the Senior Financial Advisor (SFA), Policy Sector, has identified the issue of consistency in assessment criteria for contribution audit selection. With the cooperation of the Excellence in Programs Working Group, Stream 2, work has been undertaken to look at consistency in program tools. The Working Group, with the assistance of the SFA, was able to develop a tool called the "Generic Risk-Based Audit Framework (RBAF)". We agree with the recommendation and we will take the necessary action to make changes to the "Generic RBAF" as per the above recommendation. After approval by the Senior Assistant Deputy Minister (SADM), Policy Sector, we will proceed with the implementation of the generic RBAF Guide in the Policy Sector.

b) The Department's generic RBAF is revised to state that the risk matrix must be used annually for all contribution recipients.

c) Program RBAFs include the risk matrix tool and that existing RBAFs are revised to include the risk matrix tool.

These recommendations are supported.

d) The generic RBAF is revised to identify a minimum risk score required to select a recipient to audit and that the individual program RBAFs identify a minimum risk score, which cannot be lower than the minimum of the generic RBAF.

Following the G&C Audit Advisory Committee implementation, a small group of people will be put together to look at establishing and implementing a minimum risk score required to select recipients to be audited. The G&C Audit Advisory Committee will ensure the implementation. We could expect implementation by end of May 2003.

2.1.3 Roles and Responsibilities

Both the generic RBAF and the Draft Contribution Agreement Audit Policy describe the roles and responsibilities of the main partners involved in reviewing and delivering contribution programs.

Internal Audit

The Audit and Management Studies Division is responsible for internal auditing. As such, it:

- provides advice and tools, such as the selection of auditors and related development of terms of reference for the internal audits of contribution programs;
- conducts internal audits of contribution programs in accordance with the TBS Policy on Internal Audit;

Program Managers

The program manager uses the results of the risk assessments (described in the section on RBAFs) to identify and select recipients for audit. Program managers are responsible for monitoring the overall program including the achievement of program objectives and ongoing monitoring of the recipient's compliance to terms and conditions.

Program managers are responsible for:

- preparing RMAFs and RBAFs for their programs;
- proposing recipients to be audited and providing reasons for this action;
- determining whether the scope, frequency, and scheduling of audits meet program requirements;
- determining audit agents to carry out recipient field audits;
- coordinating audits with others involved in the audit of the same recipients;
- determining follow-up action required on audit findings;
- consulting with the Audit and Management Studies Division to determine a course of action when irregularities, misappropriation of funds, or fraud is suspected.

Financial Officers

Departmental financial officers, when requested, are responsible for:

- providing financial support services to program managers, on an optional basis, to ensure that the Department's financial commitments to contribution recipients meet the program's budget;
- providing functional guidance and support to program managers, on an optional basis, in determining compliance to the financial terms and conditions applicable to the contributions;
- providing advice to program managers on the scope and objectives of recipient audits, and on the selection of auditors to carry out these audits.

Grants and Contributions Audit Advisory Committee

According to the Department's Draft Contribution Agreement Audit Policy, a Grants and Contributions Audit Advisory Committee should be created and chaired by the Senior Financial Advisor to the Senior Assistant Deputy Minister, Policy Sector. The committee is supposed to be composed of representatives from the Corporate Services Branch and each of the departmental contribution programs. Its principal role is to act as a governance committee for the oversight of the Department's management of its grants and contribution programs. It is also supposed to prepare an annual report on the status and results of contribution audits. We noted that this committee is not a requirement of the TBS Policy on Transfer Payments, but we are of the opinion that such a committee could be a useful body.

The Grants and Contributions Audit Advisory Committee would be responsible for:

- reviewing and making recommendations regarding RMAFs and RBAFs prepared by program managers;
- approving RBAFs;
- creating an annual report on the results of contribution audits;
- approving specific plans for audits of recipients;
- reviewing internal audit reports on contribution programs;
- approving recommendations for action to deal with deficiencies following internal audits of contribution programs;
- advising whether changes are required to the Contribution Agreement Audit Policy or the annual audit plan.

The Grants and Contributions Audit Advisory Committee has not yet been established. This may be because the committee is a requirement of the Department's draft policy, and therefore would not be formed until after the policy is approved. In the meantime, the Department is exposed to the risk that an annual report on results of contribution audits may not be produced and that certain required approvals (as noted in the committee's responsibilities) may not be obtained.

It is our opinion that the existing roles and responsibilities are adequately described to support contribution programs. Further, as already stated, we think the Department would benefit from the creation of the Grants and Contributions Audit Advisory Committee.

Recommendations and Management Response

2. It is recommended that the Senior Assistant Deputy Minister, Policy Sector, establish the Grants and Contributions Audit Advisory Committee.

The revised Contribution Agreement Audit Policy, when approved, will improve the ability to provide integrated reporting and consistency not only in the Policy Sector but also within the department. This Policy when approved will provide the framework to implement the Grants & Contributions Audit Advisory Committee (G&C AAC). The Policy Sector expects to implement the Policy by mid-May 2003.

2.2 Audit Planning

At the time of the audit, the Operations Directorate, Programs Branch, was responsible for annual audit planning and for scheduling audits of contribution agreement recipients. The only two exceptions were audits of firearms contribution agreements, which are the responsibility of the Canadian Firearms Centre and the National Crime Prevention Centre (NCPC) audits, which were the responsibility of the NCPC.

Audits of contribution recipients are known as field audits, site audits, or recipient audits. The field audits are carried out by the CAC using generally accepted auditing standards. The Operations Directorate monitors the activities of the recipients and oversees audits of certain projects to ensure that recipients have complied with the terms and conditions of the contribution agreement. The Directorate is not only responsible for scheduling contribution agreement audits but is also responsible for conducting desk audits. These desk audits are the financial monitoring of contribution agreements. In this capacity, Directorate financial advisors become familiar with

the quality of the recipients financial documents. This knowledge is used by the financial advisors to identify possible field audits.

We examined past processes for preparing annual audit plans. The Director of the Operations Directorate would meet with all program areas having contribution agreements. As part of the process of selecting recipients for field audits, all contribution files were reviewed against established departmental criteria. Program areas provided a list of agreements to audit based on several factors including but not limited to the performance of the recipient, the quality of the reports submitted to the program, and program management's opinion on the overall management of the recipient. This list was compared to a list prepared by Operations Directorate staff as part of their monitoring function. If agreements appeared on both lists then the agreement was placed on the audit plan. Otherwise, the Director of Operations would ask program managers to identify the agreements to audit. By the end of the audit period, RBAFs were being used to evaluate recipients for audit. It is our understanding that, in the future, RBAFs will be used to prepare annual audit plans instead of these described processes.

In the fiscal year 2001–2002, 30 field audits were completed of recipients that received contributions valued, in total, at \$5,804,458. All the audits were contracted to CAC for a total cost to the Department of approximately \$145,000. The Operations Directorate receives annual funding from the various contribution programs to pay for the services of CAC.

We reviewed the following examples of Programs Branch audit planning with respect to specific contribution programs.

Justice Partnership and Innovation Program (JPIP)

In 1995, the Department of Justice altered its program of discretionary grants and contributions in response to ongoing and growing fiscal pressures and calls for improved linkages between grants and contributions, departmental priorities, and emerging issues. Among the changes during this period was the consolidation of 25 different funds into one fund, the Grants and Contributions Program.

A summative evaluation of the Department of Justice Grants and Contributions Program concluded in January 2002. It pointed to a number of issues that emerged over the prior five years as a result of the consolidation of 25 funds and subsequent decentralization of priorities into “special initiatives.”

The Programs Branch considered the issues and recommendations raised in the evaluation and developed a new vision for the Grants and Contributions Program. The new vision sought to, first and foremost, clarify the role of the program by renaming it the Justice Partnership and Innovation Program (JPIP). This program provides financial support to successful applicants engaged in activities that are of interest to the Department.

In developing the new vision for the JPIP, the Programs Branch reviewed previously funded activities/projects, past priority areas, and the results of the 2002 summative evaluation. It concluded that the majority of activities funded were related to access to justice issues and other emerging issues. Neither of these two areas are covered by any of the special initiatives within the Department, thereby eliminating the chance of duplicating efforts. The area of access to justice includes such activities as providing public legal education and information (PLEI), providing training to the legal community, and improving awareness of justice-related issues.

The JPIP is considered to be low risk in view of the size of the program, the nature of the recipients, and the individual amounts awarded. With respect to PLEI organizations, which make up a significant portion of the recipients, these have been audited over the past years and it was found that monies awarded were used for the intended purposes.

The JPIP English RBAF states that Program Branch management has agreed that since the majority of the contribution recipients are non-profit organizations and the individual amounts awarded are low, it is expected that four to six field audits per year (to a maximum total annual cost of \$60,000) will be sufficient to ensure an acceptable degree of scrutiny. This wording suggests a relationship between non-profit status and audit eligibility. Subsequent to our review of the JPIP RBAF we discovered that wording in paragraph 4.6.1 of the English RBAF is misleading. The translation from French to English of the JPIP RBAF is incorrect. There is no relationship between the non-profit status of organizations and the selection of organizations to audit.

Public Legal Education and Information (PLEI)

The RBAF for the JPIP, issued within the Department in May 2002, indicates that the JPIP has \$2.7 million for contribution agreements of which over \$1 million is provided as core funding to PLEI organizations. Each province receives a minimum of \$70,000 in funding for PLEI organizations. Over the past years, the PLEI organizations have been audited and the Department is satisfied that the monies awarded have been used for the intended purposes. In

addition, the average funding awarded to a PLEI recipient is about \$25,000; therefore the risks associated with such contributions remain low.

In 2001–2002 there were audits of four PLEI contribution agreements—the agreements had a total value of approximately \$213,000—with no significant findings.

Legal Aid Program

Over the past 10 years there have been two on-site field audits conducted for the Legal Aid Program. Only two field audits were conducted because the Department has determined that there is minimal risk with these types of agreements that are cost-shared with the provinces and territories. In addition, provincial/territorial auditors are required to attest to the accuracy of the provincial/territorial claims.

For 2001–2002 there were no field audits of the Legal Aid Program. In 2002–2003 there will be one legal aid field audit. Desk audits are completed on all legal aid agreements.

Child Support Strategy

The majority of the Child Support agreements are with the provinces and territories. There are 12 agreements (Nunavut became a territory after the agreements were established). When the program was first established the provinces and territories conducted their own internal audits of the recipients. Starting in 1998, the Department conducted field audits in four jurisdictions per year. Recipients to audit were selected based on materiality (financial amount) of the agreement and the resources available to conduct the audit. All jurisdictions have now been audited.

The Child Support Strategy did not plan to conduct any more site audits in the 2002–2003 fiscal year because it was seeking renewal of the program agreement and planned to build RBAFs into its program renewal. It is our opinion that this is an acceptable approach.

Youth Justice Renewal Initiative

The Youth Justice program began in 1999 and the first recipient audits were conducted in 2000. PLEI groups also receive funds from Youth Justice and are targeted for audits each year; Youth Justice pays for the audits. Recipients are selected for audit based on the materiality of the agreement, whether funds were transferred from a recipient to any other organizations, and results of desk audits conducted by the Operations Directorate.

Youth Justice has planned for the Operations Directorate to conduct eight field audits in the 2002–2003 fiscal year.

National Crime Prevention Centre (NCPC)

There were no audits of NCPC agreements in 2001–2002. During that year, the NCPC's one financial officer was required to prepare detailed proposals to renew the program and therefore did not have sufficient time to conduct any audits, which were postponed to 2002–2003. The NCPC has recently hired an additional financial officer.

In 2000–2001 there were four scheduled field audits for NCPC. Of the four scheduled field audits, two did not happen. One recipient asked to postpone the audit to the summer of 2001 because of a reorganization happening within the recipient organization. The NCPC agreed to this postponement, but in 2001–2002 did not conduct any field audits. The NCPC plans to conduct desk audits of this recipient for the current year.

Regarding the other 2000–2001 field audit that was not completed, the NCPC decided to conduct a desk audit instead because it thought there would not be enough time in the 2000–2001 fiscal year to complete a field audit. As noted, no field audits were conducted in 2001–2002. Since the recipient provided everything the NCPC required, it decided to close the file with the completion of the desk audit.

Canadian Firearms Centre

The Canadian Firearms Centre conducted a preliminary audit (to determine if a more detailed audit was needed) in 2000 of the contribution agreement with British Columbia, found nothing significant, and decided not to conduct any audits of its other contribution agreements. The Canadian Firearms Centre has not conducted any audits of its contribution agreements in the past two years. They have now taken corrective action and are in the process of auditing the 2000–2001 and 2001–2002 agreements with Ontario and Quebec. Before the end of the 2002–2003 fiscal year they plan to audit the 2000–2001 and 2001–2002 agreements with New Brunswick, Nova Scotia, and Prince Edward Island. During the summer of 2003 they plan to audit the 2002–2003 agreements.

Recommendations and Management Response

- 3. It is recommended that the Director, Operations Directorate, correct the English translation in the JPIP RBAF to ensure there is no confusion between the relationship of non-profit status organizations to their selection as audit candidates.**

The Director of Innovations, Analysis & Integration (IAI), Programs Branch will be responsible for the proper translation of the JPIP RBAF.

- 4. It is recommended that the Executive Director of the NCPC ensure that audits of contribution agreement recipients are conducted on an annual basis.**

We support this recommendation. While the NCPC currently conducts desk audits on 100% of all contributions before payments are made, it is agreed that complete audits of contribution agreement recipients are a necessity and are identified as a priority of the NCPC. The management team of the NCPC is committed to an effective audit program.

2.3 Management Information System

There is no centralized, common information management or project tracking system in use to support transfer payments. The internal audit in 2001 identified critical deficiencies in departmental systems and processes with respect to transfer payments. At that time the Project Control System (PCS) was not used by all program areas and was incapable of meeting the Department's requirements. The Department developed a list of requirements and conducted research to find the most suitable management information system supporting transfer payment management. The Department selected the Grants and Contribution Information Management System (GCIMS) currently used by Canadian Heritage.

Although the Canadian Heritage GCIMS currently serves 49 programs, 700 users, and manages 6000 funding applications annually, the Department of Justice wanted to ensure that GCIMS would work with its program files. Therefore a full-time project manager was hired by the Innovations, Analysis and Integration Directorate (Programs Branch) in January 2002 and in March 2002 a business simulation was conducted using GCIMS. This simulation confirmed the suitability of the system for the Department. In April 2002 the Excellence In Programs Steering Group approved a pilot test of GCIMS in the NCPC and the Programs Branch. The NCPC allocated \$200,000 to support the pilot test, which was planned for the fall of 2002.

The success criteria for the pilot test include whether:

- GCIMS meets the basic data capture, tracking, and reporting requirements identified by stakeholder programs and departmental responsibilities under the TBS Policy on Transfer Payments;
- data collected supports information requirements in RMAFs, RBAFs, and program-specific evaluation frameworks;
- national and regional participants indicate satisfaction with system performance.

GCIMS has cost over \$4 million to develop and Canadian Heritage would like to partner with the Department of Justice in order to share the costs of further development and customization.

The implementation of a comprehensive, centralized transfer-payment information system will assist the Department in planning for recipient audits. In the fall of 2002, the Excellence In Programs Steering Group will recommend whether to use GCIMS and will then prepare a detailed implementation work plan.

At this point in time we cannot provide any opinion or recommendations on GCIMS.

2.4 Methodology for Conducting Contribution Audits

2.4.1 Audit Tools

Within the Programs Branch the Innovations, Analysis and Integration Directorate manages the JPIP Program. This Directorate has developed an Audit Activity Checklist for use by its program officers when they accompany CAC on site audits of recipients. The checklist defines the responsibilities of the Operations Directorate and the Innovations, Analysis and Integration Program Analyst. It is a good tool that can be used to ensure that key activities are completed during site audits.

The Programs Branch also has an Audit Site Summary Report used by program officers during site audits of recipients. It should be completed and placed into recipient files. We also found this report to be a good tool. The Summary Report documents the following important general information concerning the audited recipient:

- contact information;
- audit schedule;
- names of auditors, program analysts, and financial officers involved in the audit;
- operations assessment of financial transactions;
- program analyst file assessment;
- program analyst site audit data-gathering issues;
- audit report schedule.

In our review of the 2001–2002 audited recipient files we did not find any Audit Activity Checklists or Audit Site Summary Reports. Without these items in the files there is no evidence to substantiate that all audit activities were completed. This exposes the Department to the risk of audited activities not being completed and summary information on audit results not being available.

Recommendations and Management Response

- 5. It is recommended that the Director General, Programs Branch, ensure that both the Audit Site Summary Report and the Audit Activity Checklist be completed and placed in all audited recipient files.**

The Director General, Programs Branch, supports this recommendation. It is unclear if the recommendation made to the Director General, Programs Branch should also be directed to the Executive Director, NCPC, as Programs Branch has no direct mandate nor identified responsibility associated with NCPC.

The NCPC view is that the requirements to ensure audit documentation is completed and placed on file are supported by their management team. This would be the recommended action only after careful review and input of all audit documentation available and with the advice and concurrence of the Director, Operations Administration and Director, Research and Evaluation of the NCPC. This position is taken to ensure that implementation of any recommendation should result in a complete and self-sustaining solution and the recommendation may not go far enough.

2.4.2 Findings of Contribution Audits

As noted elsewhere in this report, because the Department's Contribution Agreement Audit Policy remains a draft that was only released in March 2002, we reviewed the 2001–2002 CAC site audit reports against the TBS Policy on Transfer Payments (June 2000). Section 7.11.7 of the TBS policy states that contributions are subject to audit to ensure that all conditions, both financial and non-financial, have been met. In addition, the audit objectives identified in the *TBS Guide on Grants, Contributions and Other Transfer Payments* (page 8) indicate that one of the audit objectives is to ensure that the funds are used in accordance with the terms and conditions of the relevant agreement.⁴

We found that the recipient financial files that we reviewed contained copies of reports of CAC site audits. CAC reports stated that audited amounts fairly presented the costs in accordance with generally accepted accounting principles and the terms of the agreements. The reports also indicate that the adjusted amounts fairly represent the total approved costs incurred for the period audited. CAC reports did not document any conclusions on the adequacy of financial and administrative controls as set forth in the objectives of the TBS policy. This exposes the Department to the risk that recipients are not adequately safeguarding related assets. Without an independent conclusion on the use of funds the Department is exposed to the risk of inappropriate use of contribution funds.

There was no evidence in the files indicating whether the scope of the site audits included audits of non-financial terms and conditions such as reporting requirements, management framework, or achievement of objectives. We found no reports or evidence indicating whether recipients audited complied with program terms and conditions. This exposes the Department to the risk that funding recipients did not comply with agreement terms and conditions.

Files reviewed did contain evidence that program managers are monitoring the non-financial terms and conditions. When program managers found that non-financial terms and conditions were not being met, then payments were held back. We note that the departmental generic RBAF for contributions programs states that recipient compliance audits determine whether funds were used for the purposes intended and whether recipients complied with program terms and conditions.

And, although the risk matrix was not required to be used during the time period we reviewed, files reviewed should still have documented the reasons why recipients were or were not selected for

⁴ This guide, dated July 2002, is available on the TBS Web site at <www.tbs-sct.gc.ca>.

audit. We found no evidence on file of these reasons. Without this kind of information, we were unable to assess whether the audits conducted were based on appropriate reasons. We found that the generic RBAF does not require that the reasons for auditing be documented. Until RBAF audit selection criteria and the risk matrix tool are effectively used and recorded on file, the Department is exposed to the risk that recipients requiring audit may not be audited and recipients that were audited may not have been required to be audited.

Recommendations and Management Response

- 6. It is recommended that the Senior Financial Advisor, Senior Assistant Deputy Minister's Office, Policy Sector, ensure that the generic RBAF is revised to state that the heads of contribution programs are required to ensure that:**
- a) recipient audit reports identify whether funds were used in accordance with the terms and conditions of the agreements;**
 - b) recipient audit reports document a conclusion on the adequacy of internal controls.**

This recommendation is supported and will be implemented with the approval of the Contributions Audit Policy and the Generic RBAF guide.

- 7. It is recommended that the Director General, Programs Branch, ensure that recipient compliance audits are completed based on program RBAFs and that evidence of audits of non-financial terms and conditions is included in all contribution recipient files.**

The Director General, Programs Branch, supports this recommendation. Again, It is unclear if the recommendation is also being directed to the Executive Director, NCPC.

- 8. It is recommended that the Senior Financial Advisor, Senior Assistant Deputy Minister's Office, Policy Sector, revise the generic RBAF to include a paragraph requiring each recipient file to include the completed risk matrix and to document the reason for conducting or not conducting an audit.**

This recommendation is supported and will be implemented with the approval of the Contributions Audit Policy and the Generic RBAF guide.

2.4.3 Audit Work Papers

Auditing contribution recipients provides informed opinions about the quality of recipient reporting to the Department. Opinions are formulated based on selecting, examining, and organizing sufficient evidence for drawing logical and verifiable conclusions.

Audit work papers (files) provide the evidence of the work done on an audit and support the opinions given on the reports. Work papers normally document the objectives of the audit, scope of the audit, methods and detail procedures followed by the auditor, results of the audit, the auditor's appraisal of the findings, and a commentary on any variances between what was reported and what was found.

After completing an audit, the CAC audit work papers are kept in the local CAC office performing the audit. These work papers are not easily accessible for departmental staff to review audit results. Without easy access to these work papers, the Department is at risk of not being able to substantiate the results of an audit.

Recommendations and Management Response

- 9. It is recommended that the Director, Operations Directorate, ensure that all CAC audit work papers are given to the Operations Directorate at the conclusion of an audit.**

This recommendation should apply to all DOJ programs. Nevertheless, the Director Operations, Programs Branch and the Director Operations, NCPC will undertake to do their best to obtain all relevant audit working papers upon CAC concluding an audit.

3. CONCLUSION

Based on the audit work completed and the files we reviewed, we conclude that, while some improvements are needed, the contribution agreement audit planning within the Department is adequately performed. Although there are still some inconsistencies in the individual programs' selection criteria as documented in their RBAFs, the Department is working towards standardizing RBAFs for all programs that have transfer payments.

4. RECOMMENDATIONS AND MANAGEMENT RESPONSE

1. It is recommended that the Senior Financial Advisor, Senior Assistant Deputy Minister's Office, Policy Sector, ensure that:15

a) All programs are using the same selection criteria for selecting recipients to audit.

It is agreed that all programs should use the same selection criteria for selecting recipients to audit.

In fact, over a period of time, the Senior Financial Advisor (SFA), Policy Sector, has identified the issue of consistency in assessment criteria for contribution audit selection. With the cooperation of the Excellence in Programs Working Group, Stream 2, work has been undertaken to look at consistency in program tools. The Working Group, with the assistance of the SFA, was able to develop a tool called the “Generic Risk-Based Audit Framework (RBAF)”. We agree with the recommendation and we will take the necessary action to make changes to the “Generic RBAF” as per the above recommendation. After approval by the Senior Assistant Deputy Minister (SADM), Policy Sector, we will proceed with the implementation of the generic RBAF Guide in the Policy Sector.

b) The Department’s generic RBAF is revised to state that the risk matrix must be used annually for all contribution recipients.

c) Program RBAFs include the risk matrix tool and that existing RBAFs are revised to include the risk matrix tool.

These recommendations are supported.

- d) The generic RBAF is revised to identify a minimum risk score required to select a recipient to audit and that the individual program RBAFs identify a minimum risk score, which cannot be lower than the minimum of the generic RBAF.**

Following the G&C Audit Advisory Committee implementation, a small group of people will be put together to look at establishing and implementing a minimum risk score required to select recipients to be audited. The G&C Audit Advisory Committee will ensure the implementation. We could expect implementation by end of May 2003.

- 2. It is recommended that the Senior Assistant Deputy Minister, Policy Sector, establish the Grants and Contributions Audit Advisory Committee.....18**

The revised Contribution Agreement Audit Policy, when approved, will improve the ability to provide integrated reporting and consistency not only in the Policy Sector but also within the department. This Policy when approved will provide the framework to implement the Grants & Contributions Audit Advisory Committee (G&C AAC). The Policy Sector expects to implement the Policy by mid-May 2003.

- 3. It is recommended that the Director, Operations Directorate, correct the English translation in the JPIP RBAF to ensure there is no confusion between the relationship of non-profit status organizations to their selection as audit candidates.....23**

The Director of Innovations, Analysis & Integration (IAI), Programs Branch will be responsible for the proper translation of the JPIP RBAF.

- 4. It is recommended that the Executive Director of the NCPC ensure that audits of contribution agreement recipients are conducted on an annual basis.....23**

We support this recommendation. While the NCPC currently conducts desk audits on 100% of all contributions before payments are made, it is agreed that complete audits of contribution agreement recipients are a necessity and are identified as a priority of the NCPC. The management team of the NCPC is committed to an effective audit program.

- 5. It is recommended that the Director General, Programs Branch, ensure that both the Audit Site Summary Report and the Audit Activity Checklist be completed and placed in all audited recipient files.25**

The Director General, Programs Branch, supports this recommendation. It is unclear if the recommendation made to the Director General, Programs Branch should also be directed to the Executive Director, NCPC, as Programs Branch has no direct mandate nor identified responsibility associated with NCPC.

The NCPC view is that the requirements to ensure audit documentation is completed and placed on file are supported by their management team. This would be the recommended action only after careful review and input of all audit documentation available and with the advice and concurrence of the Director, Operations Administration and Director, Research and Evaluation of the NCPC. This position is taken to ensure that implementation of any recommendation should result in a complete and self-sustaining solution and the recommendation may not go far enough.

- 6. It is recommended that the Senior Financial Advisor, Senior Assistant Deputy Minister's Office, Policy Sector, ensure that the generic RBAF is revised to state that the heads of contribution programs are required to ensure that:.....27**

- a) recipient audit reports identify whether funds were used in accordance with the terms and conditions of the agreements;
- b) recipient audit reports document a conclusion on the adequacy of internal controls.

This recommendation is supported and will be implemented with the approval of the Contributions Audit Policy and the Generic RBAF guide.

- 7. It is recommended that the Director General, Programs Branch, ensure that recipient compliance audits are completed based on program RBAFs and that evidence of audits of non-financial terms and conditions is included in all contribution recipient files.....27**

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This recommendation is supported and will be implemented with the approval of the Contributions Audit Policy and the Generic RBAF guide.

9. It is recommended that the Director, Operations Directorate, ensure that all CAC audit work papers are given to the Operations Directorate at the conclusion of an audit.....28

This recommendation should apply to all DOJ programs. Nevertheless, the Director Operations, Programs Branch and the Director Operations, NCPC will undertake to do their best to obtain all relevant audit working papers upon CAC concluding an audit.