



Western Economic  
Diversification Canada

Diversification de l'économie  
de l'Ouest Canada

## **Audit of International Trade Personnel Program**

**WESTERN ECONOMIC DIVERSIFICATION CANADA**

**Audit, Evaluation & Ethics Branch**

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## 1.0 Executive Summary

- 1.1** The audit of the International Trade Personnel Program (ITPP) is an internal audit assurance engagement to report on management controls used to deliver ITPP, and to identify any opportunity for improvement that could be applied to future programs. The audit topic is identified in the Western Economic Diversification Canada (WD) 2008 – 2011 Risk Based Audit Plan. To accommodate some operational efficiency, this audit was planned to be conducted simultaneously with the audit of a similar program, the First Jobs in Science and Technology. This report only covers the ITPP.
- 1.2** While using similar tools, criteria and audit programs, the objectives of the two programs were not the same. ITPP was specifically focused on the international commerce content of projects as opposed to the wide variety of science and technology projects in First Jobs in Science and Technology that could be both domestic and sometimes international nature. The graduate eligibility of ITPP was also more restrictive than permitted in the First Jobs in Science and Technology program.
- 1.3** The audit examined evidence of the effectiveness of management controls that were in place for the delivery of the ITPP program and to provide assurance to WD Senior Management whether or not payments made to recipients were in accordance with the terms and conditions of the program. The audit examined the extent to which management controls for the ITPP program met the standards and criteria established by the Treasury Board of Canada Secretariat (TBS) Policy on Transfer Payments.

### Findings

- 1.3** The audit found that the ITPP program was well managed during the audit period and until its discontinuation in 2005. Appropriate controls were established for disbursing payments to recipients in accordance with the terms and conditions of contribution agreements.
- 1.4** Results of the criteria examined are summarized as follows:

Criteria	Assessed Results
A business risk and management control framework exists	Criteria mostly met
Projects qualified for funding	Criteria met
The company and graduate were eligible and qualifies	Criteria met
WD complied with appropriate authorities	Criteria met
Claims and payments were supported by adequate documentation	Criteria met
WD performed sufficient due diligence throughout the project life cycle	Criteria mostly met

**1.5** The audit work identified some opportunities for improvement. Most of the opportunities for improvement have already been implemented based on recommendations from other recent audit engagements on grants and contributions that have occurred since the ITPP program was eliminated in 2005. The specific gaps identified through this audit were:

- Risk levels, once assessed at the project approval stage, were not reassessed during the project life cycle;
- Insufficient documentation of risk mitigation strategies was documented on file when unusual circumstances were encountered; and
- There was a general lack of evidence in measuring project results.

## **Conclusion**

**1.6** In summary, controls established for the ITPP program by management were effective in design and operated satisfactorily. Based on internal audit standards and criteria selected, sufficient audit work has been completed and analyzed to support the conclusion that the management control framework for which WD management is responsible was appropriate for the size and risks of the ITPP program.

**1.7** In accordance with the Government of Canada internal auditing standards, a reasonable assurance is provided that relevant and reliable management controls existed for the delivery of the ITPP program from 2002 through to 2005 when the program ceased.

**1.8** In addition, opportunities for improvement have been identified in this report where those controls can be strengthened in order to mitigate risk and contribute to management excellence for any future programs of similar design and delivery.

## **2.0 Introduction**

**2.1** The International Trade Personnel Program (ITPP) was launched in March 1995. The ITPP addressed two important concerns in the Canadian economy of the day: enhancing competitiveness in the global marketplace and facilitating youth employment. In addition to increasing the ability of firms in western Canada to export, the ITPP had the important goal of providing employment to recent graduates while increasing the knowledge base in trade development. The ITPP was discontinued in 2005.

### **Audit Context**

**2.2** It is possible that in the future, WD may be tasked to offer business assistance programs similar to the ITPP that WD discontinued in 2005. To support WD's commitment to management excellence, it is prudent to undertake an end-of-program internal audit to assess the effectiveness of the controls used to deliver programs like ITPP, and to identify any opportunity for improvement that could be applied to future programs of similar design and delivery. The lessons learned from this audit and the audit of First Jobs in Science and Technology, a similar program with different objectives that was completed simultaneously, will be beneficial in future program planning and design.

### **Audit Scope**

**2.3** The ITPP was announced in March 1995 and discontinued in 2005. To ensure the relevance and currency of the audit, the audit period was limited to project payments and approval transactions completed from April 01, 2002 to March 31, 2007. While project approvals ceased in 2005, WD commitments were honoured until 2007. This departmental-wide audit covered all WD regions and headquarters.

### **Audit Objectives**

**2.4** The objectives of the audit were:

- To assess the controls that were in place for the ITPP and their effectiveness;
- To provide WD Senior Management with assurance whether or not payments made to recipients were in accordance with the terms and conditions of the programs; and
- To make recommendations for control and due diligence improvements for future programs of a similar design and delivery.

## Audit Criteria

**2.5** The audit criteria were drawn from contribution agreement terms and conditions, other government wide post-graduate initiatives, WD's due diligence and program assessment review procedures, and the TBS Policy on Transfer Payments. The selected audit criteria to guide the conduct of the audit were:

- A business risk and management control framework exists;
- Projects qualified for funding;
- The company and graduate were eligible and qualified;
- WD complied with authorities;
- Claims and payments were supported by adequate documentation; and
- WD performed sufficient due diligence throughout the project life cycle.

**2.6** The results of examining these criteria have been summarized based on four ratings:

- (4) Criteria met;
- (3) Criteria mostly met;
- (2) Criteria partially met; and
- (1) Criteria not met.

## Risks Assessed

**2.7** The ITPP audit assessed the following program-specific risks to ensure the management control framework was sufficient to mitigate the following:

- WD program objective were not met;
- Federal values and ethics were not respected;
- Non-qualifying projects were approved;
- Recipients were not eligible companies;
- Projects did not have international content and initiatives;
- Individual beneficiaries were not recent graduates;
- WD did not apply appropriate due diligence in monitoring the program's success; and
- Disbursements were not made in accordance with terms and conditions of contribution agreements.

## 3.0 Observations and Recommendations

### (i) Management Controls

*Audit expectations were:*

- That management had an appropriate framework in place to set program direction, precedents, procedures, program objectives and priorities;
- That a contribution agreement setting out the terms and conditions of the project existed;
- That a sound project assessment review framework with decision sign-off stages was in place and well understood by project officers;
- That eligibility of projects, graduates and documentation was communicated and appropriately applied throughout the project cycle;
- That authorities and limitations were structured, clarified and communicated;
- That management compared results achieved against expectations on a periodic basis; and
- That program evaluation activities were used to identify program strengths, weaknesses and impacts as well as alternative ways of program delivery.

### Management Framework

- 3.1** The ITPP program was well managed. There were appropriate controls for screening and approving projects. While procedural memos, precedents and instructions existed in various forms in the regions and headquarters between 1995 and 2002, key uniform strategic directives were initiated March 2002 onwards by the Deputy Minister and the program-operations directorate to guide the renewal and administration of the ITPP program until its elimination in 2005. Implementation, administration, eligibility, cut-off dates, promotion and procedural rules were streamlined and clarified in ensuing memos. Such documentation provided the authoritative design and reference sources for staff to effectively and consistently deliver the program.
- 3.2** Projects examined were appropriately approved within the time limitations and within the dollar limits set. Projects and graduates were found to be eligible and met the program criteria. Corporate registry searches were done where warranted. Clarifications were sought where needed. In some cases, the facts were noted on file, while other times there was only a diary that client was spoken to without further details.
- 3.3** A formative evaluation of ITPP was done in 2004. The evaluation concluded that the program was relevant, making impacts and contributing to success for small and medium enterprises. There were differing views on whether the program should be delivered by WD or by a third party.
- 3.4** Documentation for more than twenty audit program points that were tested was generally strong. However, 10 of the 41 sample projects files had at least one issue associated with the examination against the various audit program points reviewed for each file.

**3.5** Table 1 summarizes the main points from the audit verification results of the sample files examined:

**Table 1: Sample Analysis**

Description	Total	Percentage
Number of active projects in audit period	176	
Number of sample projects examined	41	
Percentage of sample size to population files		23%
Project Files examined by audit	41	100%
Project Assessment Review Risk Ranking of sample		
Low	40	98%
Medium	1	2%
High	0	0%
Audit Exception Summary:		
Files with exceptions to the file review criteria established	10	24%

- 3.6** The challenge was that over 98% of the projects examined were rated as low risk. It was apparent from the files reviewed that the risk assessment completed was weighted heavily on the fact that the maximum contribution of \$20,000 was deemed as being of low significance compared to the higher contribution amounts regularly funded under other WD programs. None of the projects were assessed as high risk, and only 2% were rated as medium risk.
- 3.7** For independent audit analysis purposes, the majority of the clientele served by the program were small and medium enterprises, which often have limited resources to apply to the administration of government programs. That factor in itself becomes an inherent risk of high or moderate concern for any direct government assistance program. There have been examples in the past where other government departments have not adequately mitigated these risks.
- 3.8** Internal Audit considered that the 98% rate of low risk ranking across the population sampled was likely far too high considering all the available risk indicators. The low dollar value may have weighed too heavily in the risk assessment. For example, 75% of the projects examined were related to market research and international initiatives in their infancy, making them vulnerable to moderate and unknown risks.
- 3.9** In addition, WD could have tightened up its due diligence and monitoring processes to ensure that unusual circumstances encountered during the life of the project were fully documented and the risk ranking reassessed from that assigned at project approval.

**3.10** Overall, the opportunities for improvement were assessed as low risk given consideration to significance, the program's elimination in 2005, and potential impact given that WD currently does not deliver and similar programs. Continuous improvement efforts have already taken place based on recommendations from recent around the overall management and administration of grants and contribution programs.

**Recommendation #1:** If and when WD establishes similar programs in the future, project specific risk should be reassessed periodically. Risk is not static and needs to be reassessed throughout the life cycle of the project.

## **(ii) Monitoring and Results**

*Audit expectations were:*

- That external and internal environments were monitored to obtain information that may signal a need to re-evaluate risks and WD's objectives;
- That appropriate and timely progress reports and claim documentation was communicated;
- That financial and non-financial reporting was reviewed and approved;
- That the rigour and evidence of monitoring was commensurate with risk level;
- That processes were in place to monitor financial and operational performance on an ongoing basis; and
- That adequate and appropriate documentation supported claims.

**3.11** There were appropriate controls for disbursing payments to recipients. Pay stubs, T4s and payroll registers were used to validate salaries as appropriate. Progress reports were requested from recipients and received. Prior to payments, progress reports were required and were received. Payments made were within the limits indicated in the project approval records. Where funds were not entirely spent, they were de-committed. Companies met their obligations under the WD terms and conditions.

**3.12** There were notes on file about consultations with supervisors and reasons for decisions made. In a few instances though, rationale for disposal of unusual situations could have been better documented and these conditions are discussed in more detail below.

**3.13** In more than 15% of the samples tested, claims were not filed quarterly, but rather at the end of the project where the entire qualifying amount was then being claimed. A number of the graduate employees had already left the company before the claims were submitted. This would have hindered any opportunity for WD to interview the graduates to confirm that the program objectives were still being met.

- 3.14** There was little documentation on file to confirm that alternate procedures, such as site visits or interviewing graduates, had been done to minimize the risk of misrepresentations in the progress reports. There was little verification done by WD to confirm that the employee's claims represented what the employee was actually doing and was still eligible for funding. WD relied heavily on the companies receiving the money to accurately state the duties of the person being hired and the international impact the project made. The audit found that WD tended to rely on the information provided by the recipient and beneficiary of the funding.
- 3.15** For the one project ranked as medium risk in the sample tested, there was no documentation on the file to suggest that the processes adopted were any different from the 40 low risk files sampled. The same standardized claims review method applied to all files, regardless of their risk ranking. Despite the fact that some applicants were first-timers and others were repeat applicants, there was nothing on the files to indicate any more or less rigour of monitoring tailored to the circumstances of the recipient and its application. Internal Audit found that there was no requirement for final project reports to analyze and demonstrate accomplishments to ensure linkages to program objectives and results.

**Recommendation #2:** WD should tailor its due diligence and monitoring processes to be commensurate with the level of risk assessed.

## Conclusion

- 3.16** In summary, the controls established for the ITPP program by management were effective in design and operated satisfactorily. Based on internal audit standards and criteria selected, sufficient audit work has been completed and analyzed to support the conclusion that the management control framework for which WD management is responsible was appropriate for the size and risks of the ITPP program.
- 3.17** In accordance with the Government of Canada internal auditing standards, a reasonable assurance is provided that relevant and reliable management controls existed for the delivery of the ITPP program from 2002 through to 2005 when the program ceased.
- 3.18** In addition, opportunities for improvement have been identified in this report where controls can be strengthened for future programs of similar design and delivery.

## **4.0 Audit Strategy and Approach**

### **Planning**

- 4.1** The audit planning work started January 2008 and audit examination ended in April 2008. Sources of reference reviewed included: TBS Policy on Transfer Payments, Government of Canada Post-Secondary and Youth job programs, WD Corporate Risk Profile, previous WD audit reports of relevance in assessing risk. Other background materials about ITPP were reviewed in order to acquire deeper knowledge of the program and to identify risks. Materials from sample contribution agreements, the Treasury Board Secretariat, the Office of the Auditor General reports, and the Institute of Internal Auditors were utilized in selecting audit criteria and developing the audit program. Based on knowledge gained of the program and its challenges, Internal Audit examined the selected management controls and assessed the identified risk.

### **Standards and Methodology**

- 4.2** Government of Canada internal auditing standards were used in conducting and reporting on the audit. Emphasis was placed on factual evidence, analyzing evidence, and associated documentation. The audit objectively analyzed conditions with objectivity and against risk exposure, significance, cause and probable effect. Recommendations were selected based on risk exposure, significance, and actionable added-value points that will contribute to management excellence.
- 4.3** The option of interviewing recipient staff and/or former graduate employees where necessary was left open to be assessed after analyzing internal WD documentation files, resources, risk and current management control frameworks.
- 4.4** Consideration was given to the results of the follow-up of previous related audits and the extent that management action plans have been implemented to date. Some of the recommendations arising from previous audits from 2005 and 2007, and a formative evaluation of the program done in 2004, apply to the issues observed in this audit.
- 4.5** Through a follow-up of previous audits, Internal Audit was able to conclude that since 2005 management controls have improved significantly in terms of project review assessment processes and monitoring and payment processes.

### **Sampling**

- 4.6** Judgemental random sampling, based on stratified dollar amount ranges within the population, was used to select project files for testing. Table 2 summarizes the population of the program between 2002 and 2007 and details of the sample projects selected for testing:

**Table 2: Audit Period ITPP Population**

<b>Description</b>	<b>Total</b>	<b>Percentage</b>
Program claims for 2002 – 2005 audit period projects	\$2,833,489	100%
Dollar value of sample projects examined	\$647,291	23%
Number of active projects in audit period	176	100%
Number of sample projects examined	41	23%

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## Acronyms - Glossary

ITPP	International Trade Personnel Program
WD	Western Economic Diversification Canada
TBS	Treasury Board of Canada Secretariat

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