



Western Economic
Diversification Canada

Diversification de l'économie
de l'Ouest Canada

Audit of Infrastructure Programs

WESTERN ECONOMIC DIVERSIFICATION CANADA

Audit, Evaluation & Disclosure Branch

February 2009

Table of Contents

1.0 Executive Summary	1
2.0 Audit Assurance	2
3.0 Introduction	3
Programs Background	4
Audit Context	4
Audit Objectives	5
Audit Criteria	5
Key Risks	5
Scope	5
Acknowledgements	6
4.0 Observations and Recommendations	7
4.1 Governance & Administration	7
4.2 Risk Management	8
4.3 Financial Management	9
4.4 Stewardship & Project Management	10
4.5 Information & Performance Reporting	10
4.6 Communication	11
4.7 Compliance	12
5.0 Conclusion	13
6.0 Audit Strategies and Approach	14
Appendix	15
Section A: British Columbia Region	15
Section B: Alberta Region	17
Section C: Saskatchewan Region	19
Section D: Manitoba Region	21

1.0 Executive Summary

- 1.1 The audit of infrastructure programs co-delivered by Western Economic Diversification Canada (WD) was identified in WD's approved 2008-11 Risk Based Audit Plan. This internal audit is a follow-up and continuation of the audit performed by WD in March 2006.
- 1.2 This audit covers the period from April 01, 2006 to March 31, 2008 and examines three active Infrastructure Canada (INFC) initiatives: Infrastructure Canada Program (ICP), Municipal Rural Infrastructure Fund (MRIF) and Canada Strategic Investment Fund (CSIF). This audit does not include new INFC initiatives such as the Building Canada Fund.
- 1.3 The objectives of this audit are to provide audit assurance that:
 - WD has applied its expertise and resources by way of sound management control frameworks towards the successful delivery of INFC programs in western Canada in order to realize the intended program results; and
 - WD roles and responsibilities as outlined in the Memoranda of Understanding (MOU) and agreements for ICP, MRIF, CSIF, have been fulfilled, and are in accordance with the Treasury Board Policy on Transfer Payments and the *Financial Administration Act*.

Findings

- 1.4 WD has fulfilled its roles and responsibilities in the Memoranda of Understanding between INFC and WD and the related federal-provincial agreements for the delivery of infrastructure programs in western Canada. WD's roles and responsibilities have been fulfilled in accordance with the Treasury Board of Canada Policy on Transfer Payments and the *Financial Administration Act*.
- 1.5 The informal and formal networks established between WD personnel and their provincial, INFC and other Federal Delivery Partners (FDP) counterparts, has created a supportive and synergetic working relationship. A critical bond of confidence has emerged between WD, as the western regional FDP, and the provincial secretariat staff.
- 1.6 WD, in collaboration with provincial counterparts, has applied its expertise and resources successfully in the delivery of federal infrastructure programs in western Canada. Sufficient and appropriate control and risk management frameworks have been established to guide the successful management of the programs.
- 1.7 Many infrastructure projects are time-sensitive and there is a real cost of delays in construction projects during a time of rising costs, such as the period examined in this audit. The ability to achieve the program objectives is impacted by delays in areas such as announcements, approvals, the flow of funding, and the start and completion of projects. The audit report includes a recommendation to strengthen management practices in this area.
- 1.8 Reliable and high-quality performance info is critical to enable INFC to report on results achieved through the infrastructure programs. WD and provincial counterparts made some observations about the performance data collection process and the quality of data being collected. This audit contains a recommendation to enhance the current process.
- 1.9 The infrastructure program joint secretariats are now in a mature stage of development, having administered the programs since 2000. As such, the joint secretariats could benefit from

additional modern management practices in areas such as: business planning, service standards, and program manuals. Opportunities for improvement are recommended in the report.

2.0 Audit Assurance

- 2.1 Based on internal audit standards and criteria selected, sufficient audit work has been completed and analyzed to support the conclusion that the expertise and resources for which WD management is responsible has been effectively exercised. WD has accomplished program objectives by implementing effective management frameworks and through collaborative and solid provincial relations.
- 2.2 In accordance with the Government of Canada internal auditing standards, the Chief Audit Executive is providing audit assurance that relevant and reliable management controls were effective in design and were operating satisfactorily for the successful delivery of the ICP, MRIF and CSIF programs in fiscal years 2006 to 2008 in the four western Canadian provinces.

3.0 Introduction

- 3.1 The Government of Canada over the years has entered into various bi-lateral agreements with the Provincial Governments to undertake federal infrastructure programs and projects in western Canada. This audit covers three of those active infrastructure programs: Canada Infrastructure Program (ICP), Municipal Rural Infrastructure Fund (MRIF), and Canada Strategic Infrastructure Fund (CSIF). Under these agreements in each province, the parties established a federal-provincial management committee to administer and manage the agreement or specific projects. The committees consist of at least four members of whom two members are appointed by Canada and two members appointed by the Province. The committees operate until all terms and conditions of the agreement have been fulfilled and all of its activities have been completed.
- 3.2 Infrastructure Canada (INFC) is the primary accountable federal department for Canada. Western Economic Diversification (WD) is the Federal Delivery Partner (FDP) for western Canada. WD and INFC have entered into various Memoranda of Understanding (MOU) for the delivery of the programs in western Canada. The MOUs set out the roles and responsibilities of the federal departments and the collaboration required with the Provincial Governments for the successful implementation of the agreements in western Canada. Under this model, INFC is able to utilize the expertise and resources of WD, the federal regional development agency in the four western provinces: British Columbia, Alberta, Saskatchewan, and Manitoba.
- 3.3 The MOUs set out WD's roles and responsibilities. INFC appoints WD officials to serve as co-chairs and members of the management committees. As federal members of the management committees, WD representatives have a number of responsibilities, including the following:
- To administer, monitor and manage the federal-provincial Agreement;
 - To liaise with the Province, municipalities and communities;
 - To develop guidelines and procedures for submitting project applications;
 - To review and rank applications against the screening and ranking criteria and make a recommendation as to each application's suitability for funding;
 - To report back to applicants;
 - To ensure that appropriate contribution agreements are entered into with recipients or, in the case of a non-delegated territory, that proper commitments by the Province are recorded in writing;
 - To review requests for project amendments;
 - To review and approve claims;
 - To oversee all related communications;
 - To administer, monitor and manage the capacity building portfolio; and
 - To monitor program compliance audits in accordance with the Canada – Province Reporting – Audit – Evaluation Guideline.
- 3.4 In addition, WD has shared responsibilities along with INFC, the Province, Joint Secretariat and municipalities in the following areas: reporting, due diligence, environmental issues, information management, resources and financial management, and communications.
- 3.5 Each of the four western management committees have established a Joint Secretariat to support the administration of the agreement utilizing regional expertise. The parties operate the Joint Secretariat with resources on a cost-shared basis in order to administer project implementation at the local government level.

Programs Background

3.6 Between 2000 and 2008, the Government of Canada's contribution to the three programs is summarized below.

Program	Number of Projects	Federal Contribution in BC \$'000	Federal Contribution in Alberta \$'000	Federal Contribution in SK \$'000	Federal Contribution in Manitoba \$'000	Total Federal Contribution \$'000
ICP	1,618	268,548	171,028	56,711	60,918	557,205
MRIF	578	73,326	88,000	38,000	41,000	240,326
CSIF	9	222,500	--	27,700	374,500	624,700
Total	2,205	564,374	259,028	122,411	476,418	1,422,231

Infrastructure Canada Program (ICP)

3.7 Through matching federal and provincial agreements, the parties provide funds by way of contribution agreements with recipient municipalities or organizations at the local government level, to assist municipalities in their infrastructure projects that qualify for funding. The purpose of ICP is to improve urban and rural local government infrastructure in Canada and the Provinces.

Municipal Rural Infrastructure Fund (MRIF)

3.8 MRIF builds on the results and successes of ICP. Its purpose is to continue to improve urban and rural local government infrastructure in the Provinces by Canada leveraging investments with the provincial, municipal and non-governmental financial contributions. Furthermore, to address the individual needs of smaller communities, a minimum of eighty per cent of MRIF investments are to be directed to projects that benefit municipalities with populations of less than 250,000.

Canada Strategic Infrastructure Fund (CSIF)

3.9 The purpose of the CSIF is for Canada and the Province to support large-scale infrastructure projects of national and regional significance. These projects are high-dollar projects with broader provincial and national benefits that are usually beyond the limited financial resources of local municipal governments or organizations.

Audit Context

3.10 In each federal-provincial agreement, the management committee is responsible for ensuring that project expenditures are audited. In addition, any party, at its own expense may audit all accounts, records, and claims for reimbursement relating to the agreement and may undertake reviews of the agreement's administrative, financial and claim certification processes and procedures to ensure compliance with the agreement. WD is conducting this internal audit in that context.

3.11 This audit does not duplicate existing monitoring of projects and any work performed by other assurance providers. This audit examined the effectiveness of processes management has established for governance, risk management and control in order to achieve its program objectives. WD conducted a similar internal audit in 2006.

- 3.12 The intent of this audit is to provide audit assurance to WD's Deputy Minister on how effectively WD has fulfilled its roles and responsibilities under the MOUs with Infrastructure Canada (INFC) in the delivery and implementation of infrastructure programs in western Canada.
- 3.13 As the scope of the audit focussed on WD's roles and responsibilities, the auditors restricted their interviews to personnel from WD, the four provincial governments, and the Joint Secretariats. The auditors did not interview any personnel from INFC.

Audit Objectives

- 3.14 The objectives of this audit are to provide audit assurance that:
- WD has applied its expertise and resources by way of sound management control frameworks towards the successful delivery of INFC programs in western Canada in order to realize the intended program results; and
 - WD roles and responsibilities as outlined in the MOUs and agreements for ICP, MRIF, CSIF, have been fulfilled, and are in accordance with the Treasury Board Policy on Transfer Payments and the *Financial Administration Act*.

Audit Criteria

- 3.15 The audit criteria have been drawn from federal-provincial agreements, INFC-WD MOUs, contribution agreements, preliminary engagement discussions and respective program documentation established by the management committees. The auditors also incorporated federal government requirements included in the Policy on Transfer Payments, the *Financial Administration Act*, and the Policy on Internal Audit.

Key Risks

- 3.16 Key risks that might impact program objectives include:
- Management or oversight committee being uninformed about unusual matters, and variances such as cost over-runs, environmental issues, projects in jeopardy, and community concerns;
 - Ineligible costs being paid;
 - Untimely or inadequate communication of information that may hinder INFC ability to reallocate funds;
 - Non-compliance with Treasury Board requirements and the terms and conditions of agreements and the MOU;
 - Performance information outlining the intended benefit is not being clarified up-front prior to commencement of project or being collected; and
 - Program criteria not being understood by the intended beneficiaries.

Scope

- 3.17 The audit covers three infrastructure programs (ICP, MRIF and CSIF) administered under INFC-WD MOUs during the period April 01 2006 to March 31 2008 in western Canada. The audit does not include new initiatives such as the Building Canada Fund.

Acknowledgements

- 3.18 The auditors would like to thank WD management and staff, their provincial counterparts, and the Joint Secretariats for the cooperation and timely assistance provided to the audit team throughout this engagement.

4.0 Observations and Recommendations

The observed conditions discussed below were analyzed based on the described audit criteria, and were assessed in relation to key risks and management control elements.

4.1 Governance & Administration

Criteria: An active, functional and appropriately composed Management Committee and Joint Secretariat exist to carry out the infrastructure program. Appropriate sub-committees are established. A Strategic or Business Plan exists to provide direction in the delivery of the program and is communicated to stakeholders for intended purposes. Policies and procedures exist to guide employees and clients in delivery of programs. There is an effective organizational structure, which collectively possesses sufficient knowledge, experience and dedicated time and resources to deliver the programs.

- 4.1.1 In all four western Provinces, Management and Oversight Committees were appropriately composed of federal, provincial, and municipal representatives to make appropriate decisions to achieve intended program objectives.
- 4.1.2 Meetings were held as necessary and were considered adequate and well attended. Meetings were in person, by teleconferences, or by way of exchange of emails. The minutes reviewed indicated management is informed about unusual matters, significant variances, environmental issues and community concerns. The co-chairs signed management committee decisions and recommendations.
- 4.1.3 All regions have set up Joint Secretariat offices that collectively administer and manage the programs and projects. The offices are resourced and staffed with federal and provincial personnel as required in the agreements. Cooperation and collaboration is evident in the documentation reviewed. Appropriate working-level sub-committees have been struck as needed to handle responsibilities such as screening, ranking and selection of projects, environmental assessments and communication.
- 4.1.4 Committee membership vacancies were filled within a reasonable time period, communicated and documented appropriately as required by the agreements. In two regions (Manitoba and Alberta), documentation to confirm the appointment of the current complement of federal members was not available during the audit. The auditors found examples where documents had not been updated for new appointments and where INFC had not responded to vacancy notifications.
- 4.1.5 The federal-provincial agreements provide the mandate and enabling provisions for program guidelines. The Joint Secretariats and WD have done a good job of adhering to the requirements of the federal-provincial agreements and using the guidelines provided as their operating tools. However, there are no formal regionally approved terms of reference nor business or strategic plans as to demonstrate modern management practices for a mature program that has been in operation since 2000.
- 4.1.6 Key WD-INFC and Joint Secretariat staff retired in 2008 in two regions. Functional organizational charts did not exist to describe the roles and responsibilities that needed to be replaced. Maintaining a functional organization chart and accurate job descriptions are good management practices. These should be reviewed on a regular basis.

Recommendation #1: WD's Management Committee representatives, in collaboration with their provincial counterparts, should consider developing a regional business plan. The business plan would communicate strategic direction, provide some metrics for measuring performance, and promote visibility of the infrastructure programs.

Recommendation #2: WD's Management Committee representatives, in collaboration with their provincial counterparts, should develop and approve terms of reference for the various sub-committees in order to define roles and responsibilities of each sub-committee created.

Recommendation #3: In Manitoba and Alberta, WD Management needs to work with INFC to formalize the current Management Committee appointments in compliance with the provisions in the federal-provincial agreements.

4.2 Risk Management

Criteria: A mechanism exists to systematically identify, assess, monitor and report on risks facing the program. A risk-based approach to monitor contribution agreements exists and is followed.

- 4.2.1 The auditors found evidence that the management committees regularly assess risk. The management committee meeting minutes indicated that the committees candidly discuss, among other items: audit plans, project audit and monitoring reports, environmental issues outstanding, annual and periodic reports, municipality concerns, INFC concerns, interpretation issues, project delays, project or program extensions, and variances. Required actions had been assigned and followed up at subsequent meetings. Meeting documentation and accompanying background material indicated that the management committee is provided with timely, reliable and relevant financial and operating information ahead of meeting schedules.
- 4.2.2 Time delays are a significant risk to infrastructure projects. In reviewing project files and other documents, recipients' main concerns centered on delays in receiving money after the initial infrastructure announcements had been made by the federal government. Delays contribute to cost overruns, and can threaten projects through skilled-labour shortages and equipment scarcity. Environmental risks and poor weather may also cause problems and other project pitfalls. The sheer number of stakeholders involved including politicians from various levels of government, staff and clients as well as challenging factors such as completing environmental assessments also contribute to delays.
- 4.2.3 It was evident that delays are discussed at management meetings. However, there was no evidence of formalized and functioning tools like lag-time service standards to measure day-to-day performance and critical paths. There is a need to measure outputs, targets and performance during the different phases of a project. An attempt by the auditors to analyze the reports for sample projects in SIMSI was not meaningful or successful because the definition of fields in the report was not consistent and varied from office to office. This would make benchmarking and the use of service standards very difficult and likely ineffective without first developing some guidelines.
- 4.2.4 Employees often attend management committee meetings to provide regular updates on projects status and communicate unusual matters. Employees at the federal and provincial level are capable, experienced and knowledgeable. This enhances risk mitigation in program delivery and facilitates the recipients' desire for quick and competent services. The one exception is that

turnover of staff at INFC has posed some challenges to provide consistent support to federal and provincial staff in the regions.

- 4.2.5 The use of auditing can help mitigate some risks associated with complex and expensive projects. The Joint Secretariats all have audit plans in place. Results of completed audits have been reviewed and no significant problems were noted. As recommended in WD's 2006 audit, all regions, except for Saskatchewan, have adopted a formal Risk Based Audit Framework to support the manner in which certain projects have been selected in ICP and MRIF for environmental and financial audits.
- 4.2.6 In Saskatchewan, audit plans and required annual reports for MRIF have yet to be produced despite the recommendation in the last internal audit. Limited staff, retirements and workload issues posed some challenges in this region. The Saskatchewan region has since filled the positions and complimented the program with additional staff in order to address these gaps.

Recommendation #4: WD Management should work with INFC to develop strategies to help mitigate the risks associated with project delays.

Recommendation #5: In Saskatchewan, WD Management needs to work with its provincial counterparts to complete the outstanding audit plans and MRIF annual reports.

4.3 Financial Management

Criteria: Proper financial systems and controls are in place and are effective. There is appropriate segregation of duties and the delegation of authorities is appropriate and effective for program delivery. Payments are subject to control, verification, and eligibility test. An accurate Other Government Department (OGD) suspense account is effectively maintained to facilitate the flow of funds between federal departments.

- 4.3.1 The INFC financial management guide to Federal Delivery Partners has been in draft for some time now but it is widely used by WD. The guide assists in the preparation of budgets, cash forecasts, year-end payables, funds re-profiling and suspense account information. When program staff encounter unusual financial issues, such as reallocations, re-profiling, and schedule changes, these are communicated to INFC for resolution.
- 4.3.2 Required financial reports and information were submitted on time. There was no exceptions feedback report from INFC regarding forecast or other report submissions, which indicates that INFC had no problem with the reports submitted.
- 4.3.3 The Joint Secretariat monitoring and payment processes in place were sound and usually detected and corrected any ineligible claims submitted. Ineligible claims were few and exceptional. Segregation of duties was adequate and delegated authorities were appropriate for the level of operation.
- 4.3.4 Sample transactions from the OGD suspense account were examined and supporting documents reviewed, and no exceptions were found. Payments were made in accordance with the *Financial Administration Act* and Treasury Board Policy on Transfer Payments.

- 4.3.5 Funding limitations, as agreed to by the federal and provincial parties, were adhered to. Cost overruns were not funded and the recipients were advised of this at the outset of the projects.

4.4 Stewardship & Project Management

Criteria: Operational authorities, roles and responsibilities are clear, communicated and understood. WD's accountabilities as defined in MOU are communicated by way of tasks, policy documents and interactions with provincial and INFC staff. There is dedicated monitoring and payment function within the Joint Secretariats. Monitoring is conducted on a regular basis for both financial and non-financial requirements.

- 4.4.1 Program guidelines, forms, links and procedures were posted on the Joint Secretariat public website. The information detailed the project application process, approval process contribution agreement administration process, and claims and reporting requirements. Applications were also available in hard copies.
- 4.4.2 Documentation from project review and ranking meetings confirmed that projects were reviewed and ranked against the mandatory screening criteria and categories. Recommendations for funding were presented to Management Committees for approval.
- 4.4.3 Procedure manuals and checklist were developed in most regions for staff use that outlined procedures for processing payment claims and the type of support documentation required. Procedures have been updated periodically to suit the program in question. When required, environmental reports and certifications were received before payments were processed.
- 4.4.4 In Manitoba and British Columbia, the auditors discovered five ICP projects that were approved five years ago but had not started. The funds were being reserved for the projects, but no funds had been expended yet. Some risks are associated with this approach: other ranked projects possibly had to forego funding and these five projects being in jeopardy due to rising costs and scarcity of tradesmen. Staff informed the auditors that once the projects are announced they cannot be pulled back or the funds reallocated. The issue of time delays is discussed more in section 4.2 of this report.
- 4.4.5 A representative sample of MRIF, ICP and CSIF project files was selected and verified against over twenty audit attributes. Similarly, external audits conducted on CSIF projects, MRIF and ICP were reviewed and discussed with the auditors involved. The Joint Secretariat has ensured that recipients and applicants comply with the terms and conditions of contribution agreements. Any exceptions noted from our sample tests were judged to be minor and inconsequential.

4.5 Information & Performance Reporting

Criteria: The Shared Information Management System for Infrastructure (SIMSI) is populated with relevant and reliable information on a timely basis. Processes and systems exist to support the roll-up and continuity of information systems within SIMSI, Provincial database, and WD systems. Financial and non-financial performance results are documented and communicated to the required management level and stakeholders on a timely basis.

- 4.5.1 The Joint Secretariats populated the SIMSI database as required. British Columbia and Saskatchewan populated and utilized SIMSI as the powerful project management tool that it was intended to be. Those regions were able to resolve most of the technical challenges that arise in SIMSI on the day-to-day basis. Data capture and input was timely and up to date. In BC and Saskatchewan, reliable project management reports were produced using SIMSI instead of an alternate application or local system. Alternatively, Alberta and Manitoba used a spreadsheet or localized database to capture and report project management information. The auditors assessed the periodically generated information to be reliable and meeting the Secretariats' needs. However, two of the four western regions are using two systems to manage infrastructure program information.
- 4.5.2 INFC likely has to address some of the system challenges in SIMSI that staff identified. Those include the inability to roll-up certain project and performance information such as intended benefits, criteria, up-to-date financial information, forecasting and chronology of event dates. Some of the expected sequential dates on SIMSI Status Dates reports were questionable (e.g., announcement or environmental dates preceding approval date). Some people interviewed felt that staff turnover in INFC has been a contributing factor preventing keeping SIMSI updated to fully serve regional needs.
- 4.5.2 Performance data collected at the time of project application were numerous, unclear, and difficult to quantify or summarize efficiently in the final report upon completion of the project. In the federal-provincial agreements, there was a requirement that any material change to project outcomes as described in the contribution agreement needs to be reviewed by the Management Committee. However, some contribution agreements do not list the numerous benefits. The auditors felt it would be difficult to report on program performance in cases where performance information was missing, unclear or was changed significantly.

Recommendation #6: WD Management, in collaboration with their provincial counterparts, should determine what business needs are currently not being met by SIMSI. WD Management should then communicate those issues to INFC in order that system enhancements are made.

Recommendation #7: WD Management, in consultation with INFC, should review performance data collection processes and data quality to ensure that appropriate performance data is being collected that will help INFC report on and evaluate program results being achieved.

4.6 Communication

Criteria: The program and its intended purpose have been formally communicated to stakeholders. Performance results of the program/projects are communicated to stakeholders. Avenues for feedback from stakeholders are created and used to drive operational planning and future INFC initiatives. There is compliance with Communication guidelines in the MOU.

- 4.6.1 Communication was coordinated with all levels of government involved. Parties to the agreements and the recipients communicated effectively in announcing the projects. Communication events included sod-cutting, newspaper articles and town hall meetings. Communication products tended to almost exclusively focus on the funding announcement prior to project initiation. The auditors found limited evidence of any communications materials aimed at telling results achieved, success stories and lessons learned.

- 4.6.2 CSIF projects involved significant funding levels and the parties collaborated effectively to give it the public visibility it deserves. Under ICP, project announcements were done in multiple batches due to relatively smaller contributions. For the most part, MRIF project announcements were done individually causing a strain on communications resources. The auditors did not assess the efficiency and effectiveness of the latter approach, but the officers interviewed indicate that the individual announcement can contribute to project delays and can have an impact on service standards due to logistic challenges.
- 4.6.3 Cities with active CSIF projects disclosed funding in their respective annual financial reports.

Recommendation #8: WD Management, in collaboration with their provincial counterparts and INFC, should assess the efficiency and effectiveness of alternative communications methods and techniques and consider increasing post-project completion communication coverage.

4.7 Compliance

Criteria: Signed Provincial Agreements, project contribution agreements and MOUs exist and are complete with schedules and guidelines. Project contribution agreements are consistent with TB decisions and the federal-provincial agreements. There is an environmental management system in place and compliance appears appropriate. Payments comply with provisions of the Financial Administration Act (FAA) and the Policy on Transfer Payments provisions.

- 4.7.1 The contribution agreements entered with recipients were consistent with the federal-provincial agreements. Funds were approved for intended target areas and their sub-categories such as green projects, local government capacity building, and communities with populations under 250,000.
- 4.7.2 The auditors sampled a number of contributions and no ineligible costs came to their attention. In the cases where recipients included ineligible costs in their claims, program staff detected and corrected them. These instances were found to be the exception rather than the norm. No material payments were made to recipients prior to completion of the environmental review. Assessed deviations at the initial stages of the programs were minor and inconsequential. Funding limitations and contributions were adhered to through the sound payment and monitoring processes in place. Project funding complied with the various program and agreement terms and conditions in place.

5.0 Conclusion

- 5.1 WD's roles and responsibilities as outlined in the Memorandum of Understanding with Infrastructure Canada and the underlining federal-provincial agreements for ICP, MRIF, CSIF, have been fulfilled in accordance with the Treasury Board Policy on Transfer Payments and the *Financial Administration Act*. Sound management practices were demonstrated.
- 5.2 WD, as the regional development organization and federal delivery partner with the enhanced knowledge of provincial needs, has successfully collaborated with provincial administrators towards the successful delivery of the joint infrastructure ICP, MRIF and CSIF programs in western Canada. Mature and knowledgeable personnel throughout the various levels of government have forged the trust and bond with their counterparts to manage the programs successfully and achieve program results.
- 5.3 The INFC program secretariats and oversight committees are now in their mature stage of development after having administered similar programs since 2000. The joint management and oversight committees would benefit from formalization of certain governance and risk management policies and procedures.
- 5.4 The opportunities for improvement suggested in this report require the collective collaboration of the management committees, INFC, provincial staff, and WD.
- 5.5 Results of selected audit criteria that were used to assess key risks and control elements, which impact achievement of program objectives, are summarized as follows:

Risk and Control Element	Assessed Criteria Results
Governance and Administration	Criteria mostly met
Risk Management	Criteria mostly met
Financial Management	Criteria met
Stewardship and Project Management	Criteria met
Information and Performance Reporting	Criteria mostly met
Communication	Criteria met
Compliance with Agreements and Policies	Criteria met

- 5.6 Appendix sections A to D provide an overview of results and observations that are specific to the regions.

6.0 Audit Strategies and Approach

Planning

- 6.1 Audit planning started in June 2008 and fieldwork was completed in December 2008 in all of the four provinces for whom WD is the FDP. Pre-engagement meetings and preliminary survey were completed to facilitate identification of key risks, audit criteria, control elements and audit strategies. WD staff, provincial officers, external assurance providers, and clients were involved as necessary. Residual audit work required after the last March 2006 program audit was incorporated in the scope of procedures and programs for this audit.

Standards and Methodology

- 6.2 Government of Canada internal auditing standards were used throughout the planning, conducting and reporting phases of the audit. The audit is evidence-based in order to ensure that the audit assurance is fully supported. All available evidence has been analyzed considering factors, logic and regional environment; and they have been examined against audit criteria and expectations. Sources of evidence included: interviews, risk analysis, review of audits by other assurance providers, discussions with other assurance providers, verification, site-visits, analytical reviews, and elaboration on cause and effect of conditions, background literature, and follow-up on previous audits.

Sampling

- 6.3 The identified key risks were prominently considered in judgmentally selecting project files for examination. As part of the audit evidence, the auditors judgmentally selected 60 representative project files from all regions and the different infrastructure programs, and tested the sample against applicable transaction attributes in the respective audit criteria.

Audit Team:

WD internal audit staff conducted the audit.

Donald MacDonald	Chief Audit Executive
John Hagan	Project Leader
Wilfredo Dimailig	Internal Auditor
Barry Neil	Internal Auditor

Appendix

Section A: British Columbia Region

A.1 In addition to the consolidated findings, conclusions and recommendations found in the main body of this report, this appendix provides an overview of results that are specific to the British Columbia region. This appendix must be read in context of the main report. This appendix provides observations specific to the Canada-British Columbia agreements.

Overview and Criteria Results

- A.2 The audit found that the joint infrastructure programs were being well managed in British Columbia. The Management Committee and the Joint Secretariat have established sound control and risk mitigation mechanism for effective program delivery. Key project and administrative decisions, and interaction with provincial partners and program recipients were documented and communicated effectively. The region consistently utilized the Shared Information Management System for Infrastructure (SIMSI) tool to capture and organize most of the day-to-day project management information. This practice of utilizing SIMSI system could be used by other jurisdictions with the devoted assistance of INFC, to accomplish the intended results.
- A.3 There were comprehensive and periodically updated procedure manuals, checklists, and guidelines to assist staff as needed. WD staff in conjunction with the Joint Secretariat, proactively track quarterly project progress reports to mitigate risks. Such information has been analyzed and utilized in forecasting cash flow, communicating milestones, potential scope changes and program extensions.
- A.4 Results of selected audit criteria that were used to assess key risks and control elements, which impact achievement of program objectives, are summarized as follows:

Risk and Control Element	Assessed Criteria Results
Governance and Administration	Criteria met
Risk Management	Criteria mostly met
Financial Management	Criteria met
Stewardship and Project Management	Criteria met
Information and Performance Reporting	Criteria met
Communication	Criteria met
Compliance with Agreements and Policies	Criteria met

Observations

A.5 In the Canada-British Columbia agreement, there was a requirement that any material change to project outcomes as described in the contribution agreement needs to be reviewed by the Management Committee. However, some contribution agreements did not list the numerous intended benefits. The auditors felt it would be difficult to report on program performance in those cases.

- A.6 In British Columbia, the auditors discovered one ICP project that was approved five years ago but had not started. The funds were being reserved for the project, but no funds had been expended yet. Some risks are associated with this approach: other ranked projects possibly had to forego funding and this project being in jeopardy due to rising costs and scarcity of tradesmen. Staff informed the auditors that once the projects are announced they cannot be pulled back or the funds reallocated. The issue of time delays is discussed more in section 4.2 of this report.
- A.7 A formal Risk Based Audit Framework document to support the manner in which certain projects have been selected in ICP and MRIF for environmental audits has not started.

Section B: Alberta Region

B.1 In addition to the consolidated findings, conclusions and recommendations found in the main body of this report, this appendix provides an overview of results that are specific to the Alberta region. This appendix must be read in context of the main report. This appendix provides observations specific to the Canada-Alberta agreements.

Overview and Criteria Results

- B.2 The audit found that the joint infrastructure programs were well managed in Alberta. Sound systems and controls are in effect at the Joint Secretariat and WD. Some exemplary practices include: process checklists, appropriate documentation, and sound environmental processes. Commendable risk based audit frameworks for financial project audits and environmental assessments have been developed since the last internal audit in 2006. Alberta is the only region that has a risk-based environmental assessment plan in place. A transparent and fully documented environmental assessment matrix and follow-ups were found to be very effective and noteworthy.
- B.3 The ranking and selection processes for MRIF projects were done in a strategic, comprehensive, transparent and fully documented manner. Interaction between WD and provincial partners, INFC, and program recipients was well documented. Staff roles and tasks among WD and provincial counterparts were detailed in organization charts and task sheets.
- B.4 Results of selected audit criteria used to assess key risks and control elements, which impact achievement of program objectives, are summarized as follows:

Risk and Control Element	Assessed Criteria Results
Governance and Administration	Criteria mostly met
Risk Management	Criteria met
Financial Management	Criteria met
Stewardship and Project Management	Criteria met
Information and Performance Reporting	Criteria mostly met
Communication	Criteria met
Compliance with Agreements and Policies	Criteria met

Observations

- B.5 The agreements require that membership vacancies should be filled within a reasonable time, communicated and documented appropriately. In the case of one federal member, it was not clear whether he was still a member of the management committee or not. The auditors' understanding is that he had moved away. The member only attended one meeting in 2006 out of the seven meetings held during the audit period. There was no documentation of an appointed replacement.
- B.6 The secretariat, on a day-to-day basis, used a parallel provincial system to capture and report project management information. The auditors assessed that the generated information to be reliable and meeting the secretariat's needs. The Joint Secretariat later populated the SIMSI database as required. However in some cases, staff found differences between SIMSI data and the parallel spreadsheet system. The region was challenged with the technical issues that arise in SIMSI on the day-to-day basis that questions SIMSI user-friendliness and reliability.

- B.7 In the Canada-Alberta agreement, there was a requirement that any material change to project outcomes as described in the contribution agreement needs to be reviewed by the Management Committee. However, some contribution agreements did not list the numerous intended benefits. The auditors felt it would be difficult to report on program performance in those cases.
- B.8 The financial Risk Based Audit Framework scoring needs to be reviewed from time to time to balance the selection of project audits, which was weighted heavily towards project dollar amounts. There are other risk factors apart from dollar materiality that need to be periodically assessed and weighted accordingly.

Section C: Saskatchewan Region

C.1 In addition to the consolidated findings, conclusions and recommendations found in the main body of this report, this appendix provides an overview of results that are specific to the Saskatchewan region. This appendix must be read in context of the main report. This appendix provides observations specific to the Canada-Saskatchewan agreements.

Overview and Criteria Results

- C.2 The Management Committee and the Joint Secretariat have established appropriate systems and procedures for the successful management of the program. Exemplary is that program staff documented virtually all activities on project and program files in spite of limited WD staff during the audit period.
- C.3 There was evidence that pro-active interaction between WD staff and provincial partners and program recipients contributed immensely to the programs' success considering the sparsely populated nature of the Province and the large number of relatively smaller dollar-valued projects. A dedicated internal auditor assigned to the Joint Secretariat further supplemented the monitoring and payment reviews. Key project and administrative decisions and other matters were effectively documented and communicated. The region consistently utilized the SIMSI tool effectively to capture and organize most of the day-to-day project management intended information.
- C.4 Results of selected audit criteria that were used to assess key risks and control elements, which impact achievement of program objectives, are summarized as follows:

Risk and Control Element	Assessed Criteria Results
Governance and Administration	Criteria mostly met
Risk Management	Criteria partially met
Financial Management	Criteria met
Stewardship and Project Management	Criteria mostly met
Information and Performance Reporting	Criteria met
Communication	Criteria met
Compliance with Agreements and Policies	Criteria met

Observations

C.5 Because of staff shortages, WD assigned limited staff to the INFC file in the audit period. Two key WD staff retired in 2008 in the region and the Joint Secretariat also has some pending retirements of key personnel. Functional organizational charts did not exist to describe the roles and responsibilities that needed to be replaced. Maintaining a functional organization chart and accurate job descriptions are good management practices. These should be reviewed on a regular basis. WD has added new resources to the file since the summer of 2008 and was clarifying staff roles and responsibilities. Given the anticipated additional retirements, this should continue to be a priority in the Saskatchewan region.

- C.6 The staff shortages during this audit period had an impact on workload and deliverables. The Annual Reports and Audit Plans with a risk based audit framework were not up-to-date. The region had not submitted its annual MRIF report. The region had processed some CSIF claims without demanding the required financial reports. There were some adequate mitigating factors due to the credibility and capacity of the recipient involved; however, failure to demand required documents compromises the integrity of the due diligence process.
- C.7 Several regional officers kept very sound documentation on their individual project files. This good practice could be introduced into as a standing operating procedure for use by all staff to ensure greater consistency in the region.
- C.8 The auditors found three cases where the recipient did not provide complete information on the final claim form as to whether or not actual benefits listed on the project applications were achieved. An effective monitoring and payments process requires some assessment of achieved results compared to intended results, and an explanation of any variances.
- C.9 Saskatchewan is the only western region that had not produced its audit plans and required annual reports for MRIF. The auditors recognize the staffing and turnover challenges that the Saskatchewan region faced over the audit period; however, the Saskatchewan region needs to address these deficiencies as soon as possible.

Section D: Manitoba Region

D.1 In addition to the consolidated findings, conclusions and recommendations found in the main body of this report, this appendix provides an overview of results that are specific to the Manitoba region. This appendix must be read in context of the main report. This appendix provides observations specific to the Canada-Manitoba agreements.

Overview and Criteria Results

D.2 The audit found that the Management and Agreement Oversight Committees and the Joint Secretariat had established sound governance, risk mitigation mechanisms and controls for the successful management of the programs. The conscientious effort by the parties to centralize resources and establish a co-located Joint Secretariat, known as Canada-Manitoba Infrastructure Programs office, has facilitated effective program delivery and satisfied clients' desire for a one-stop shop. Comprehensive annual reports were produced, communicated and publicized for use by various stakeholders. The report is exemplary of first-class transparency. Contribution agreements were found to be comprehensive, outlining project parameters, emphasizing limited liabilities and total costs of projects and communicated effectively. Key project and administrative decisions and other matters were documented.

D.3 Results of selected audit criteria that were used to assess key risks and control elements, which impact achievement of program objectives, are summarized as follows:

Risk and Control Element	Assessed Criteria Results
Governance and Administration	Criteria mostly met
Risk Management	Criteria mostly met
Financial Management	Criteria met
Stewardship and Project Management	Criteria met
Information and Performance Reporting	Criteria mostly met
Communication	Criteria met
Compliance with Agreements and Policies	Criteria met

Observations

D.4 The agreements require that membership vacancies should be filled within a reasonable time, communicated and documented appropriately. There was no up-to-date documentation of all current appointed agreement oversight committee members that could be supplied to the auditors. WD Management needs to work with INFC to formalize the current Management and Oversight Committee appointments in compliance with the provisions in the Canada-Manitoba agreements.

D.5 The secretariat, on a day-to-day basis, used a spreadsheet to capture and report project management information. The auditors assessed the periodic generated information to be reliable and meeting the secretariat's needs. The Joint Secretariat later populated the SIMSI database as required. However in some cases, the staff found differences between SIMSI data and the parallel spreadsheet system. The region was challenged with the technical issues that arise in SIMSI on the day-to-day basis that questions SIMSI user-friendliness and reliability.

- D.6 In Manitoba, the auditors discovered one ICP project that was approved five years ago but had not started. Staff confirmed that there were a total of four ICP projects in the same situation. The funds were being reserved for the projects, but no funds had been expended yet. Some risks are associated with this approach: other ranked projects possibly had to forego funding and these projects being in jeopardy due to rising costs and scarcity of tradesmen. Staff informed the auditors that once the projects are announced they cannot be pulled back or the funds reallocated. The issue of time delays is discussed more in section 4.2 of this report.
- D.7 The region has not yet produced a functional organization chart with detail documentation and clarification of roles, tasks and job descriptions. Roles and responsibilities of the combined WD-Manitoba staff were not clear from documents supplied to auditor even though the work still gets done. A functional organization chart with detail documentation and clarification of roles, tasks and job descriptions is a good management practice.
- D.8 Two key Joint Secretariat staff retired in 2008. The region should consider developing a procedures manual to allow for smooth succession planning and training of new staff.
- D.9 The auditors found three minor exceptions were during their file review: not demanding quarterly financial statements from small clients; project officers failing to document project discussions before formal adjustments take place; and some files were missing insurance documentation prior to claims being processed. These exceptions were judged to be minor and inconsequential.