

Chapter

4

Accountability of Foundations

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

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Accountability of Foundations

Main Points

4.1 Despite a number of improvements to the framework for the accountability of foundations to Parliament, overall progress is unsatisfactory. Important gaps remain in the external audit regime and in ministerial oversight, two of the three areas examined in this audit. There is no provision for performance audits of foundations that are reported to Parliament. Nor do mechanisms for ministerial oversight adequately provide for the government to make adjustments in foundations where circumstances have changed considerably.

4.2 Improvements have been made in reporting to Parliament and the public, the third area examined in this audit. The government is committed to better reporting in foundations' corporate plans and summaries and their annual reports, and in the Estimates reports of sponsoring departments. However, performance information remains insufficient for parliamentary scrutiny and needs improvement.

4.3 There are inconsistencies in the governance regime for foundations. The independence of foundations still poses risks for reporting and ministerial oversight, and the application of the transfer payment and alternative service delivery policies is unclear.

Background and other observations

4.4 In 1997, the government introduced a new approach to achieving policy objectives by transferring public funds to foundations—non-profit corporations considered to be at arm's length from the government. In our sample, three foundations were established by direct legislation and the others were established under provisions such as the *Canada Corporations Act*. At 31 March 2004, more than \$9 billion in grants had been paid to foundations.

4.5 In the Auditor General's observations on the government's summary financial statements in the Public Accounts of Canada, we have raised concerns about the governance and the accountability of and accounting for government transfers to foundations. These are up-front payments made many years in advance of need. Our performance audits in 1999 and 2002 found that accountability to Parliament was placed unnecessarily at risk—the government had failed to meet the essential requirements for accountability to Parliament, namely credible reporting of results, effective ministerial oversight, and adequate provision for external audit.

4.6 In Budget Plan 2003, the government announced improvements in the accountability of foundations, commitments that it repeated in Budget Plan 2004. In this follow-up audit, we examined the progress it had made.

4.7 This chapter does not express a view on the merits of foundations as a vehicle to achieve the government's policy objectives. Our findings should not be interpreted in any way as a criticism of the individuals in charge of the foundations.

The government has responded. The Treasury Board of Canada Secretariat's response, on behalf of the government, disagreed with our conclusion that overall progress has been unsatisfactory and with our recommendation that the Auditor General, with a few exceptions, be appointed as external auditor of foundations. The government recognized the need for further improvement in a number of areas and expressed a willingness to explore the areas of disagreement to see if solutions that respect the independence of foundations and overall policy objectives can be identified.

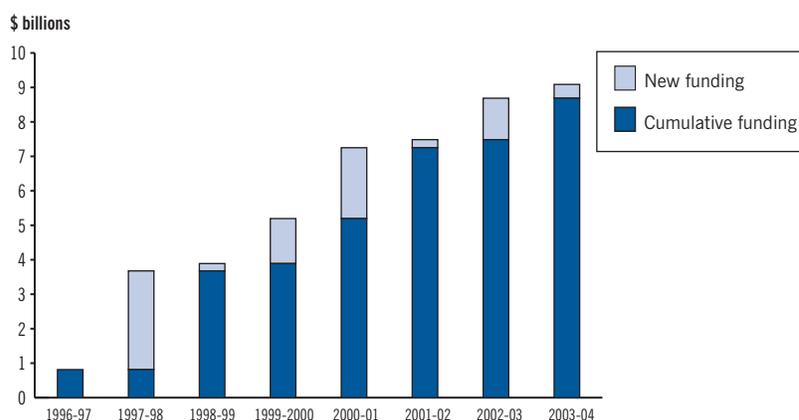
Introduction

4.8 In Budget Plan 2003 (Appendix A), the government referred to foundations as a new approach to meeting the needs of Canadians:

Foundations use up-front endowment funding and independent arm's-length boards of directors made up of experienced and knowledgeable individuals ... foundations have become important tools for implementing policy...

4.9 From 1996–97 to 2003–04, the government transferred more than \$9 billion to foundations—\$1.2 billion in 2002–03 alone and \$400 million in 2003–04 (Exhibits 4.1 and 4.2). These are up-front payments made many years in advance of need. With transfers of this magnitude, concerns about the accountability of foundations have grown. This audit examined 6 sponsoring departments in relation to 11 foundations (Appendix B).

Exhibit 4.1 Transfers to foundations



Source: Public Accounts of Canada

4.10 Accounting for transfers to foundations and accountability are long-standing issues. Our Office first raised concerns in 1997. Since then, both we and the Standing Committee on Public Accounts have made recommendations to the government, and Parliament has shown a growing interest in these issues (Exhibit 4.3).

4.11 The Budget plans 2003 and 2004 contained commitments to improve the accountability of foundations. The government noted that the improvements are to be implemented on a “going forward” basis—that is, they are to be implemented for new foundations or through amended funding agreements for existing ones. The government stated that it would consult with foundations to explore the incorporation of its new commitments in existing funding agreements.

Exhibit 4.2 Summary financial information on foundations, 1996–97 to 2003–04

Foundation ¹	Year announced	Funding received ²	Grants provided ³	Interest earned	Administration	Balance 31 March 2004 ⁴	Funding commitments signed ⁵
	(\$ millions)						
Canada Foundation for Innovation	1997	3,651	1,230	740	39	3,122	1,529
Canada Millennium Scholarship Foundation ⁶	1998	2,500	1,155	690	47	1,988	9
Canada Health Infoway Inc.	2001	1,200	51	83	30	1,202	42
Endowment Funds ⁷	Between 2000 and 2002	389	10	48	11	416	104
Genome Canada	2000	375	188	52	19	220	198
Aboriginal Healing Foundation	1998	350	241	86	43	152	139
Sustainable Development Technology Canada	2001	350	6	10	7	347	37
Canadian Health Services Research Foundation	1997	152	37	14	7	122	21
Other foundations under \$125 million ⁸	Between 2000 and 2002	120	36	13	4	93	16
Total		9,087	2,954	1,736	207	7,662 ⁹	2,095

1 The foundations reflected in this table have each received over \$10 million in total funding from the government since 1997, specifically for spending in a future year more than a year ahead.

2 Transfers include \$100 million announced in the March 2004 Budget that were receivable by the foundations at 31 March 2004.

3 In addition to grants, this column includes eligible project expenses.

4 These balances are at the date of the latest annual reports, where 31 March 2004 financial statements are not yet available—modified to include the \$100 million announced in the March 2004 Budget.

5 Figures are based on representations from foundations, where not disclosed in their financial statements.

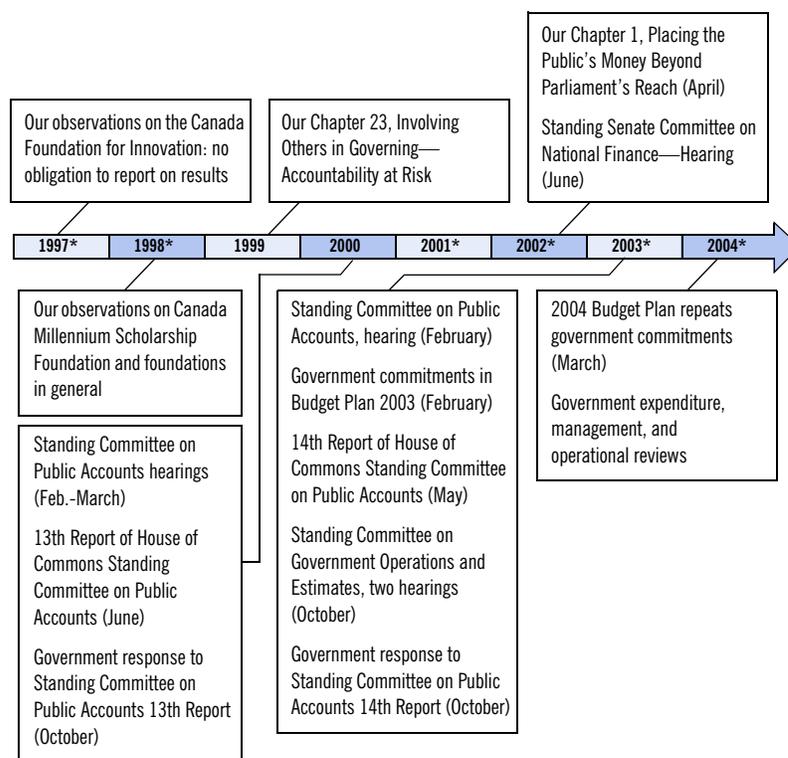
6 The \$9 million reported is related only to the excellence awards. As at 31 December 2003, the Foundation was committed to pay bursaries of approximately \$250 million during 2004.

7 For endowment funds, only the earnings are disbursed: these include Green Municipal Investment Fund; Pierre Elliott Trudeau Foundation; Clayoquot Biosphere Trust Society; Pacific Salmon Endowment Fund Society; Canadian Institute for Research on Linguistic Minorities, University of Moncton; and Frontier College Learning Foundation.

8 These are Foundation for Climate and Atmospheric Sciences and Forum of Federations.

9 In addition to funding for foundations and endowments, \$550 million had been transferred to other organizations at arm's length from the government, \$391 million of the transferred amount had yet to be used at 31 March 2004. These organizations are Canadian Institute for Health Information; Green Municipal Enabling Fund; Precarn; Canadian Network for Advancement of Research, Industry and Education; Canadian Institute for Advanced Research and Canadian Centre for Learning.

Source: Adapted from Public Accounts of Canada 2004

Exhibit 4.3 Concerns about foundations have grown

* Our observations on the Financial Statements of the Government of Canada: accounting for transfers and accountability of foundations in the Public Accounts of Canada

4.12 In 2004 the Treasury Board Secretariat of Canada asked the Auditor General for input to its management and operational reviews, including the review of governance in Crown corporations and other government institutions. We reinforced our concerns about the lack of a comprehensive governance and accountability framework for foundations and encouraged the government to develop an appropriate regime—for example, by considering the findings in our April 2002 Report.

Accounting issues

4.13 Since 1997–98, the Auditor General's observations on the government's summary financial statements in the Public Accounts of Canada have raised concerns about how the government accounts for transfers to foundations.

4.14 The government has recorded these payments as expenses, even though the foundations do not expect to use the funds for many years. At 31 March 2004, nearly \$7.7 billion of these funds were still in the foundations' bank accounts and investments, earning interest. This accounting treatment has resulted in a reduction of the reported annual surplus when funds are transferred to foundations, rather than when funds

are distributed to the ultimate intended recipients or used for the ultimate purposes that the government announced for this spending.

4.15 While we have questioned the government's accounting for these transfers, we cannot state unequivocally that the government's method of accounting for foundations contravenes the accounting standards established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. We have therefore continued to issue unqualified opinions on the government's summary financial statements, while raising this as an "Other Matter" in the Report of the Auditor General on the financial statements of the Government of Canada.

4.16 To resolve this outstanding disagreement, we have looked to developments in accounting standards; specifically, we have been following the progress of two relevant PSAB projects.

4.17 The accounting standard recently issued by the PSAB for implementation in 2005–06 provides guidance on determining whether an organization is controlled by the government. If the foundations were deemed to be controlled by the government pursuant to this new standard, then payments to them could not be recorded as expenses, since the foundations would then be considered to be within the government reporting entity. We are currently discussing the implications of this PSAB standard with officials of the Treasury Board Secretariat.

4.18 We are also continuing to monitor progress on a second PSAB project, which seeks to revise guidance on accounting for government transfer payments, including multi-year funding.

4.19 The Auditor General's observations on the government's financial statements in the 2003–04 Public Accounts of Canada have noted the link between accounting issues and the need to improve accountability:

The accountability and governance structures for the foundations may be influenced by the desire to ensure that transfers to foundations can be treated as expenses immediately, rather than when these funds are used by the foundations for their ultimate purposes. In my view, decisions on funding and accountability should be based on the need for sound management of public funds; they should not be based on the goal of achieving a desired accounting result.

Focus of the follow-up

4.20 Our audit examined selected departments that sponsor foundations (Exhibit 4.4), including their action on the government's commitments and our previous recommendations in three areas: reporting to Parliament and the public, ministerial oversight, and provision for external audit and evaluation. Our objectives were to assess the extent to which the government, central agencies, and sponsoring departments have acted to

improve the accountability of government-sponsored foundations to Parliament and the implications for the accountability framework presented in Chapter 1 of our April 2002 Report (Appendix C).

4.21 We looked for improvements in accountability in a number of areas, including the extent to which the government's Budget commitments adequately addressed our recommendations and those of the Standing Committee on Public Accounts; whether provisions were introduced with respect to these recommendations; and, where provisions exist, what actions had been taken.

4.22 On 15 November 2004, the government tabled Bill C-21, with the objective of modernizing the governance framework for federal not-for-profit corporations. Several of the foundations that are mentioned in this audit will be subject to the new regime. However, the amendments proposed by this bill

Exhibit 4.4 Sponsoring departments selected for audit, and government funding to foundations

Sponsoring departments and foundations	Previous Auditor General reports	Total funding 31 March 2004 (\$ millions)
Natural Resources Canada and Environment Canada		
Sustainable Development Technology Canada	2002	350
Green Municipal Investment Fund*	2002	200
Green Municipal Enabling Fund*	2002	50
Industry Canada		
Genome Canada	2002	375
Canada Foundation for Innovation	1999 & 2002	3,651
Pierre Elliott Trudeau Foundation	Not applicable	125
Canadian Institute for Advanced Research	Not applicable	25
Health Canada		
Canada Health Infoway Inc.	2002	1,200
Canadian Health Services Research Foundation	1999 & 2002	152
Human Resources and Skills Development Canada		
Canada Millennium Scholarship Foundation	1999 & 2002	2,500
Indian and Northern Affairs Canada**		
Aboriginal Healing Foundation	Not applicable	350

* Federation of Canadian Municipalities administers these funds

** The sponsoring department is now Indian Residential Schools Resolution Canada

Source: Public Accounts of Canada 2001–02 to 2003–04 inclusive

do not address our concerns about the lack of performance audits and an appropriate mechanism for ministerial oversight.

4.23 More details on the audit objectives, scope, approach, and criteria are found in **About the Follow-Up** at the end of the chapter.

Observations and Recommendations

4.24 In our 2002 audit, we noted that both foundations and granting councils (for example, the Natural Sciences and Engineering Research Council of Canada) redistribute public money for a variety of purposes, at arm's-length from the government. Unlike the granting councils, foundations are not answerable to Parliament through a minister. The government achieves public policy objectives through foundations. However, the foundations are independent corporations in law, which, in our view, raises the question of how the government can be held to account for the transferred funds.

Reporting to Parliament and the public

Provisions for corporate plans and annual reports have improved

4.25 All the foundations in our sample, except for the Aboriginal Healing Foundation and the Canada Millennium Scholarship Foundation, are now required by their funding agreements to provide corporate plans each year to sponsoring ministers. With respect to ministers tabling corporate plans or summaries in Parliament, only the Canada Foundation for Innovation (CFI) has such a provision. However, the CFI corporate plan summary was tabled by the minister in Parliament as part of the CFI annual report. In our view, corporate plans or summaries should be tabled separately to allow timely consideration.

4.26 In 2003 all the foundations in our sample submitted their annual reports to sponsoring ministers and made them public. However, only five of these annual reports were tabled in Parliament by sponsoring ministers, including the three foundations that are required to do so by legislation (Canada Millennium Scholarship Foundation, Canada Foundation for Innovation, and Sustainable Development Technology Canada).

Performance information can be improved

4.27 We examined the information in the corporate plans and annual reports of the foundations included in our audit. Most foundations provided information on how much money was spent and how many projects were funded. Improvements are needed, however, with respect to information on the results achieved by the foundations.

4.28 Some efforts are underway to improve performance reporting, including the following:

- The Treasury Board Secretariat is developing a government-wide framework for reporting on federally supported climate change activities

and has invited the Green Municipal Funds and Sustainable Development Technology Canada to participate.

- The Green Municipal Funds introduced a set of performance indicators in their 2003–2004 *Annual Statement of Plans and Objectives* and a Project Performance Reporting System that required all project applicants to quantify their environmental results in a consistent reporting framework.

Further efforts are needed to improve information on results.

4.29 Recommendation. Sponsoring ministers should table in Parliament the corporate plans or summaries and the annual reports of foundations in a timely manner. In consultation with the foundations, the sponsoring departments should encourage them to include meaningful information on results in their plans and reports.

Government's response. We agree with the Auditor General's conclusion that improvements have been made in reporting to Parliament and the public.

In Budget Plan 2003, the government committed to undertaking a number of measures to improve the provision of information to Parliament on the plans and results of foundations. All statutory reporting requirements to Parliament are being met. For many years now, ministers have tabled the annual reports of foundations in Parliament, representing 80 percent of all transfers to foundations. To the extent there are other significant foundations whose reports are not tabled in Parliament, the Treasury Board Secretariat will encourage departments to do so.

In addition, departments are required to report on the significant plans and results of foundations in their reports on plans and priorities and departmental performance reports. They are also required to situate these within the overall plans and results of the department. This horizontal reporting requirement exceeds the expectations of the Auditor General. The Treasury Board Secretariat has issued guidelines on these reporting requirements.

The government believes a considerable amount of information on plans and results is available through these reports tabled in Parliament and the Web sites of both departments and the foundations. Opportunities therefore exist for the engagement of ministers and the foundations. As an example, many foundations have appeared before parliamentary committees.

Nevertheless, the government acknowledges that further improvement in the quality and comprehensiveness of reporting on foundation plans and results can be made, and it undertakes to do so.

Reporting by sponsoring departments **Insufficient information for Parliament**

4.30 Additional transfers of funds by government to foundations are often in larger amounts than the initial grant (Exhibit 4.5). This indicates the need for good information in the Estimates documents each year. However, the independence of foundations raises the concern that sponsoring departments may not always be able to obtain the necessary information for Parliament.

4.31 The Treasury Board transfer payment policy, which came into effect in June 2000, requires sponsoring departments to report to Parliament on transfer payments exceeding five million dollars. They must include information such as objectives and expected results in reports on plans and priorities, and evidence of related results achieved in departmental performance reports. Budget Plan 2003 reinforced these requirements, and it added that sponsoring departments are expected to situate the information on foundations in the context of their overall priorities and results, a commitment that went beyond our recommendations in 2002.

Exhibit 4.5 Examples of the flow of government funding to foundations

Foundation	Initial funding	Second payment	Third payment	Fourth payment	Fifth payment
\$ millions (fiscal year of payment)					
Genome Canada	160 (1999–2000)	140 (2000–01)	75 (2002–03)	-	-
Canada Foundation for Innovation	801 (1996–97)	200 (1998–99)	900 (1999–2000)	1,250 (2000–01)	500 (2002–03)
Canada Health Infoway Inc.	500 (2000–01)	600 (2002–03)	100 (2003–04)	-	-

Source: Public Accounts of Canada 2001–02, 2002–03; Budget plans 2003 and 2004

Outcomes were not adequately reported

4.32 Our review of Estimates documents tabled since our last audit (reports on plans and priorities for 2002–03 to 2004–05 and departmental performance reports for 2001–02 to 2003–04) suggests that improved reporting will take more time. We found more information each year on foundations in the Estimates documents of all the sponsoring departments. The information focussed mainly on the foundations' expenditures and activities or on broad objectives that in many cases were not measurable. The outcomes or benefits for Canadians resulting from the billions of dollars transferred to foundations were not adequately reported. One exception was Environment Canada. Although many of the actual results for projects funded by the Green Municipal Funds will not be known for some time, the Department has begun to report estimated figures on the key environmental impacts the projects will achieve.

Need to integrate reporting on results of foundations and sponsoring departments

4.33 We noted that as part of their commitment to undertake independent evaluation, nine foundations in our sample have developed evaluation or results-based management and accountability frameworks. These frameworks have the potential to help the foundations implement results-based management and eventually report on results.

4.34 Foundations often are not the only government-funded entities in a public policy area. For example, when Genome Canada and the Canada Foundation for Innovation were created in Industry Canada's portfolio, Technology Partnerships Canada was already a special operating agency in the Department. All three organizations distribute public funding to improve Canada's innovation performance.

4.35 In their Estimates documents, most sponsoring departments do not show the links between their results and those of foundations where they both deliver in a common public policy area. Such links are needed for sponsoring departments to integrate foundations' expected and actual results with their own overall priorities and results.

4.36 Recommendation. Sponsoring departments engaged in public policy areas that involve foundations should, in consultation with foundations, develop frameworks for reporting that link to the way the foundations measure and report results.

Government's response. The horizontal integration of public policy is a key priority of the government. As acknowledged by the Auditor General, considerable effort and progress has been made in developing results-based management and accountability frameworks. Following the commitment made in Budget Plan 2003, some departments now have the ability to undertake evaluations that can assess the horizontal integration of their programs with those of the foundations. Further efforts will be made to undertake these evaluations and to ensure effective integrated reporting on results to Parliament.

External audit and evaluation

Disagreement on performance audit

4.37 The external audit regime for foundations does not include provision for performance audits that are reported to Parliament. The government has not made a commitment in this regard. In its 14th Report, the Standing Committee on Public Accounts recommended that for those foundations either created through legislation or receiving significant federal funding (at least \$500 million), the federal government

- seek amendments to the funding agreements to provide for periodic program evaluation, value-for-money audits, and independent assessment of the fairness and reliability of the performance information...; and
- appoint the Auditor General of Canada as external auditor of these foundations.

The government disagreed with these recommendations and, by implication, our similar recommendation.

4.38 The government responded:

Requiring foundations to accept the public sector-type standards and operations as well as establishing the Auditor General of Canada as their auditor...could undermine the independence of the foundations, reduce their operational flexibility and organizational effectiveness and thereby reduce their usefulness in achieving the government's policy objectives... It is the responsibility of foundation members to appoint their external auditor and [the authority] to whom the external auditor reports. It should be left to foundations to determine whether to establish such measures as value-for-money audit, independent assessments of the "fairness" of the information presented in reports, or the selection of the Auditor General of Canada as their auditor.

4.39 In Budget Plan 2003, the government stated that foundations will be subject to independent evaluations, comprehensive performance reporting, and compliance audits of the use of federal funding and that these would cover most of the expectations relating to value-for-money (now performance) audits.

4.40 The government has transferred billions of dollars to foundations to achieve its policy objectives. In receiving these up-front transfers, foundations are effectively exempted from the kind of periodic scrutiny by Parliament that occurs when funds are appropriated annually. Once taxpayers' money is transferred to a foundation, the government relies on the foundation's directors and members to achieve public policy objectives.

4.41 Given the magnitude of these transfers, the public policy purposes involved, and the reduced opportunities for parliamentary scrutiny, the existing provisions for audit and evaluation in funding agreements with foundations are not adequate. In our view, performance audit is needed to provide Parliament with information and assurance on due regard for economy and efficiency; on procedures to measure and report on effectiveness, environmental effects, propriety, compliance with authorities, and adequacy of internal controls; and on verification of performance information. The Auditor General is well placed to conduct this work. However, where foundations involve provincial or territorial governments, or where the federal government is not a major contributor, other audit arrangements may be more appropriate.

4.42 In October 2003, the Standing Committee on Government Operations and Estimates, whose mandate includes the review of foundations, held hearings at which government officials, the Auditor General, and the heads of a number of foundations appeared as witnesses. A member of the committee asked foundation officers what problems would be caused if a foundation were subject to audit by the Auditor General, access to information law, and reporting to Parliament through a minister. Committee

members agreed that foundations should respond in writing to these questions. We would welcome such responses to the Standing Committee on Government Operations and Estimates.

4.43 Recommendation. The federal government should ensure that foundations are subject to performance audits that are reported to Parliament. The Auditor General should be appointed as the external auditor of foundations, with a few exceptions.

Government's response. The government believes that the current framework, including the independent audit of the foundations' financial statements, compliance audit, independent evaluation, and comprehensive performance reporting in annual reports, already addresses most of the expectations relating to performance (value-for-money) audit. Nevertheless, the government will undertake to encourage foundations to implement performance audit regimes where appropriate.

It may be possible, with the agreement of foundations, for performance audits to be undertaken as an extension to the scope of the compliance audit provisions of existing agreements. Such audits could be undertaken by the external auditors or internal auditors, or, at the discretion of the relevant minister, a request may be made to the Auditor General to perform this work. Professional standards, such as those of the Canadian Institute of Chartered Accountants, exist to guide such audits.

It should also be noted that the framework that exists is similar to that for many other federal transfer payments to other governments, not-for-profit organizations, and businesses. As with these programs, the Auditor General has similar abilities to undertake performance audits and report these to Parliament.

With respect to the appointment of their external auditor, the government believes that the independence of these not-for-profit organizations and the requirements of their incorporation demand that this decision be left to the membership. Existing legislation and assurance auditing standards require the appointment of professionally accredited auditors. These provide assurance to all stakeholders as to the integrity and the reliability of the financial statements of these organizations.

The government believes that it is generally appropriate for the Auditor General, as Parliament's auditor, to be the auditor of most, if not all, federal government entities. Foundations are independent from and external to the federal government. As such, it believes the appointment of their external auditor should remain a fundamental right of the membership of these organizations, as it is for all private not-for-profit sector organizations. It should also be noted that it is not necessary to be appointed external auditor of an organization in order to have the ability to undertake an audit of the use of federal funding.

Need for evaluation standards

4.44 The foundations set their own terms of reference for evaluations required by funding agreements. In our view, consistent application of evaluation standards is needed to assess whether foundations have met the major government objectives set for them. Departments follow the standards set out in the Treasury Board's evaluation policy. Comparable standards could be used by foundations. This is a new element in our accountability framework for foundations (Appendix C).

4.45 We did not examine the evaluations or related documents commissioned by foundations but did find some good practices; for example, some foundations have asked officials in sponsoring departments to comment on evaluation documents such as draft terms of reference.

4.46 **Recommendation.** In new or amended funding agreements, sponsoring departments should seek to ensure that evaluations commissioned by foundations meet recognized evaluation standards.

Government's response. The government agrees that foundations should use recognized evaluations standards. However, it is very important to note that the Auditor General did not examine the evaluations or related documents commissioned by foundations and, as such, is not suggesting that such standards are not being followed. It is also important to note that departments are already obliged to follow the Treasury Board Evaluation Policy in the conduct of their evaluations.

Progress by sponsoring departments and foundations in evaluation

4.47 We found that 10 of the 11 funding agreements between sponsoring departments and foundations in our sample have provisions for independent evaluations. We did not expect evaluation studies to be available for more recently established foundations, such as Sustainable Development Technology Canada. In general, foundations have scheduled dates for evaluation and are meeting them. For example, in May 2003 the Canada Millennium Scholarship Foundation completed the five-year review mandated in its legislation. This report was tabled in Parliament in November 2003. Some foundations have included significant evaluation findings in their annual reports. We noted that the Aboriginal Healing Foundation has voluntarily undertaken three evaluations.

Provisions for compliance audit but little action

4.48 With respect to its commitment for independent compliance audits, the government indicated that these audits could be undertaken by departmental internal auditors, external auditors, or the Auditor General.

4.49 We found that eight funding agreements gave sponsoring ministers the authority to undertake compliance audits, but none was planned or underway at the time of our audit. We also noted that three foundations, the Green Municipal Investment Fund, the Green Municipal Enabling Fund, and the Aboriginal Healing Foundation, had undertaken their own compliance audits and review of the funding agreement. In addition, the Canada Health

Infoway Inc. funding agreement requires an annual compliance audit by an independent third party, and the first of these has been completed.

Financial audit information is being provided

4.50 All the foundations in our sample have provisions for a financial statement and a report by an external auditor who is appointed by the board or members of the foundation. The annual reports of the foundations included audited financial statements, prepared in accordance with Canadian generally accepted accounting principles.

Ministerial oversight

4.51 We expected to see mechanisms that would allow sponsoring departments to make adjustments if foundations did not perform as expected or if circumstances changed considerably. Such oversight typically requires strategic monitoring to gather more information than is contained in annual or other reports. The Budget plans announced commitments to include provisions for ministerial intervention in the event of significant deviation from the funding agreement, and for dispute resolution. These commitments deal with only part of our recommendations on ministerial oversight (Appendix D). There was no commitment by the government to introduce a mechanism to make adjustments in the face of changing circumstances.

Mechanisms are needed to allow positive adjustments

4.52 At present, with some exceptions, the government typically introduces adjustments by amending the existing funding agreement when it provides additional funding to a foundation. For example, when additional funds were provided to Sustainable Development Technology Canada and the Canada Foundation for Innovation, the funding agreements were amended to expand the project eligibility criteria to reflect changes in government policy.

4.53 As we recommended in 2002, an adjustment mechanism is needed to allow sponsoring ministers and their departments to intervene when a foundation is clearly not meeting its purpose or when circumstances in a specific public policy area have changed considerably since its creation. Such a mechanism would ensure that foundations do not work at cross-purposes with sponsoring departments. The adjustment mechanism should not rely on the allocation of additional funding and revisions to the funding agreement.

New provisions for extreme situations

4.54 All the funding agreements in our sample have provisions to deal with extreme situations such as default or the foundation breaking the agreement. The agreements define default (for example, false or misleading representation and information, or any significant failure in performance and/or compliance) and prescribe the procedures for remedies and/or arbitration. All the foundations in our sample also have dispute resolution clauses in their funding agreements.

4.55 Some funding agreements give the government authority to terminate the agreement if defaults are not remedied to the satisfaction of the sponsoring minister. Furthermore, as we recommended in our 2002 Report,

most funding agreements now contain a right for the minister to recover unspent public funds on winding up the foundation.

Some good practices in strategic monitoring

4.56 Departmental officials have attended board meetings of some foundations as observers and have established procedures to obtain and comment on information and documents presented to boards. There are also arrangements for departmental officials to sit on foundations' advisory boards, audit and evaluation committees, and other governance bodies.

4.57 Industry Canada officials told us that in addition to attending such meetings, they have regular contact and consultations with, for example, the Canada Foundation for Innovation and Genome Canada. They stated that this approach lets them play an effective role in strategic monitoring and the prevention of disputes. We also noted examples of good practices with the Green Municipal Funds and Sustainable Development Technology Canada (Exhibit 4.6).

Exhibit 4.6 A good practice in strategic monitoring

The Green Municipal Funds (Green Municipal Enabling Fund and Green Municipal Investment Fund) are administered by the Federation of Canadian Municipalities (FCM) and, as such, are unique in our sample.

The Funds are co-sponsored by Environment Canada and Natural Resources Canada. Although the FCM's National Board of Directors is the formal and final authoritative body governing the Funds, the Board is advised by the 15 member Green Municipal Fund Council. Five of the council members are federal employees: currently, two are from each sponsoring department and one from Transport Canada. They act as a unified voice for the federal government, are briefed on the government's position on specific issues, and can intervene to influence decisions if necessary.

The federal members of the council also have an opportunity to review and comment on draft documents, such as the corporate plan and the annual report, prior to their publication. They also receive quarterly updates on the Funds' performance indicators, information that is then provided to federal departments.

The procedures have been formalized in a memorandum of understanding between the two sponsoring departments.

Central agency roles

4.58 We expected leadership from central agencies, in working with sponsoring departments, to improve the accountability framework for foundations and to implement Budget plan commitments.

4.59 In our 2002 Report, we recommended that the Privy Council Office (PCO) ensure that legislation to establish foundations met the essential requirements for good governance and accountability to Parliament, and that departments had fully defined the roles and responsibilities of federal appointees to foundation boards. The PCO did not indicate that it planned to take any action in response to our recommendations directed to it.

4.60 Although we did not make any recommendations to Finance Canada, our 2002 audit recognized the Department's role in the Budget process with

respect to the levels of funding provided to foundations. Finance Canada elaborated on this role but referred most of our questions about the Budget plan commitments to the Treasury Board Secretariat.

The Treasury Board Secretariat needs to clarify the policy framework for foundations

4.61 Policy on transfer payments. We recommended that the Treasury Board Secretariat review the use of exemptions to the transfer payments policy that allow payments to be made to foundations in advance of need; it has planned no such review. We believe that paying more than \$9 billion in advance of need could limit the flexibility of future parliaments and governments to respond to changing circumstances and priorities.

4.62 The transfer payment policy does not define “conditional grant,” the type of transfer payment used for foundations. Treasury Board Secretariat officials informed us that the specific policy on conditional grants is under development and may be included in the revised policy on transfer payments. The officials also indicated that the policy direction for sponsoring departments was provided in Budget Plan 2003, in remarks by Secretariat officials before parliamentary committees, in guidance to departments, and in their publications.

4.63 Policy on alternative service delivery. The Budget plans state that the policy principles (Appendix A) are consistent with the alternative service delivery (ASD) policy that took effect in April 2002. Treasury Board Secretariat officials told us that this policy applies to departmental ASD initiatives including foundations that are classified as shared governance corporations. Our sample includes six such foundations. Since the ASD policy came into effect, a new foundation also classified as a shared governance corporation was funded by the federal government. However, Secretariat officials informed us that the ASD policy did not apply in this instance because the new foundation was incorporated under the *Canada Corporations Act*, by parties outside the government. The application of the ASD policy with respect to foundations is not clear.

4.64 The ASD policy requires departments to prepare a case analysis as part of the approval process for new initiatives, with some exceptions. The analysis must address key policy considerations that reflect the public interest, including questions on governance, results to be achieved, service delivery, and values and ethics. However, some sponsoring departments informed us that they had first learned of the amount to be paid to foundations only when federal budgets were announced. In our view, case analyses or their equivalent are needed to ensure that the amount and timing of the payments are fully justified prior to funding announcements.

4.65 The ASD policy does not require case analyses for additional payments to existing foundations. However, Treasury Board Secretariat officials told us that departments are required to make their case in submissions to the Treasury Board for funding to foundations, including increases to existing ones following public announcements.

4.66 Recommendation. The Treasury Board Secretariat should clarify the application of the policy on alternative service delivery with respect to foundations and include a requirement for case analyses (or equivalent) prior to announcements of funding for new or existing foundations.

Government's response. The Policy on Alternative Service Delivery, effective 1 April 2002, applies to the government organizations named in Schedules I, I.1, and II of the *Financial Administration Act* when seeking to create new organizations structured as shared governance corporations. Several foundations meet the policy criteria; however, they were created prior to the policy coming into force. The policy cannot be applied retroactively; however, should these foundations be considered for restructuring in the future, the policy would then apply in that instance. The policy does not apply to third parties that create foundations.

It is important to distinguish between organizational form decisions and funding decisions. The purpose of the Policy on Alternative Service Delivery is to ensure that the choice of organizational form is in the public interest. Funding decisions do not fall under the Policy. However, many of the same principles found in the Policy apply to the funding of organizations, such as foundations, through transfer payments. For example, the decision to fund the one foundation privately created after the Policy on Alternative Service Delivery came into effect in 2002 was made after a case analysis was completed. The transfer payment funding proposal was then approved by the Treasury Board. The Policy on Transfer Payments is currently under review, and the requirement for a case analysis prior to funding will be considered for inclusion.

4.67 Federal appointees. As noted earlier, six foundations in our sample are shared governance corporations—corporate entities to whose governing bodies Canada has a right to appoint or nominate one or more members. The President of the Treasury Board's 2003 *Annual Report to Parliament, Crown Corporations, and Other Corporate Interests of Canada* shows the proportion of board members of shared governance corporations who are federally appointed. This information aims to provide an indicator of the degree of federal influence over the entity where control cannot be expressed in terms of share ownership. The government's response to the 14th Report of the Standing Committee on Public Accounts stated that federal appointees do not represent the department or the government and, like other board directors, they have a fiduciary responsibility to act in the best interests of the foundations.

4.68 Treasury Board Secretariat and Privy Council Office officials also informed us that guidance to federal appointees on their responsibilities as board directors should come from the foundations themselves. In our view, the government's position does not deal clearly with the manner in which government officials, appointed to the foundation boards, are expected to exercise federal influence.

Evaluation concerns remain

4.69 The Budget Plan commitments did not address our recommendation for a government-wide evaluation of the use of new governance arrangements, including foundations, and for the results of this evaluation to be tabled in Parliament. Reliable information from a government-wide evaluation would allow Parliament to assess whether foundations have proved to be an effective policy instrument.

Accountability framework

4.70 In our 2002 audit, we suggested a framework for new governance arrangements, including foundations. In this follow-up audit, we assessed the elements of this framework that are essential to accountability to Parliament (Appendix C). We found that these elements are still relevant and added the following as a result of our audit:

- the government's commitment to situate foundations' significant expected results within sponsoring departments' reports on plans and priorities and significant results achieved within departmental performance reports; and
- that evaluations commissioned by foundations apply recognized evaluation standards.

Conclusion

4.71 We found a number of improvements in the accountability of foundations to Parliament. However, the government's overall progress is unsatisfactory because important gaps remain in the areas of the external audit regime and ministerial oversight:

- The government has no commitment to provide for performance audits reported to Parliament. Thus, Parliament does not have adequate information and assurance on the use of more than \$9 billion in public funds already transferred to foundations.
- Inadequate provision has been made for the government to adjust foundations' mandates or policy directions where circumstances have changed considerably.

4.72 We also found that

- the independence of foundations raises questions about the government's ability to ensure adequate accountability to Parliament, in particular through reporting by sponsoring departments and by foundations;
- with a few exceptions, commitments to report on results are not being met; and
- departments need leadership from the Treasury Board Secretariat—in particular, clarification of the policy framework for sponsoring departments.

4.73 The government has made commitments to improve a number of elements of the accountability framework, particularly reporting. To meet these commitments, the sponsoring departments have introduced provisions in funding agreements and have implemented a number of them.

4.74 We assessed our accountability framework for foundations and concluded that it is still relevant, with the addition of the federal government's commitments on reporting and our new element on the need for evaluation standards.

Government's overall response. The government is pleased that the Auditor General has recognized that progress has been made in improving the accountability framework relating to foundations. However, it does not share her conclusion that overall progress is unsatisfactory.

In order to evaluate the progress made, it will be important to consider the principles, as outlined in Budget Plan 2003, which the government applies when using a foundation to deliver public policy:

- Foundations should focus on a specific area of opportunity, in which policy direction is provided generally through legislation and/or a funding agreement.
- Foundations should harness the insight and decision-making ability of independent boards of directors with direct experience in and knowledge about the issues at stake.
- Decisions by foundations should be made using expert peer review.
- Foundations should be provided with guaranteed funding that goes beyond the annual parliamentary appropriations to give the foundations the financial stability needed for the comprehensive medium- and long-term planning that is essential in their specific area of opportunity.
- Foundations should have the opportunity and hence the ability to lever additional funds from other levels of government and the private sector.

In direct response to previous recommendations by both the Auditor General and the Standing Committee on Public Accounts, the government undertook in Budget Plan 2003 to strengthen the accountability regime relating to transfer payments to foundations.

Funding agreements were renegotiated and in some cases legislation was amended, to put in place measures that strengthened accountability while at the same time respecting the independence of these not-for-profit organizations.

To improve transparency and accountability, reporting to ministers, Parliament, and the public was strengthened. Ministers table in Parliament the annual reports containing audited financial statements of foundations, representing 80 percent of the transfers noted by the Auditor General.

Foundations regularly report their plans and results to departments who are required to incorporate significant items in their reports on plans and priorities and departmental performance reports to Parliament. Some of the

measures introduced, such as the requirement to situate the plans and results of foundations within those of departments, actually exceed the expectations of the Auditor General.

Regarding the audit and evaluation regime, a number of steps were taken to supplement the previous requirement for independent professionally accredited external auditors and periodic evaluations. New requirements include compliance audits to ensure adherence to the terms and conditions of the funding agreements and departmental evaluations to permit horizontal assessments of different programs. As noted in Budget Plan 2003, the Auditor General can undertake the compliance audits at the discretion of ministers. The foundations' external auditors are required under professional auditing standards of the Canadian Institute of Chartered Accountants to assess the adequacy of internal controls. Foundations are also required to report on their performance in their annual reports, which is subject to review by their external auditors, who could also conduct performance audits.

With respect to ministerial oversight, changes have been made that strengthen the default provisions of the funding agreements to enable corrective action if things go wrong. In addition, funding provisions and legislative changes have been made to permit the recovery of unspent funds in the event a foundation is wound down. It has been possible to effect other adjustments through the renegotiation of funding agreements and changes to legislation. These adjustments respect the independence of these organizations and do not involve the unilateral redirection of funds by the government. As with all transfer payments to other governments and not-for-profit organizations, funds are transferred based on agreements between arm's length organizations. It would not be appropriate for the federal government to unilaterally redirect these funds or the assets purchased with them. The government believes that the level of parliamentary and ministerial oversight is appropriate given the independence of these organizations.

Finally, with respect to the accounting for transfers to foundations, the government continues to hold the view that its accounting treatment respects the objective accounting standards of the Canadian Institute of Chartered Accountants. These are accounted for in a manner consistent with the treatment of other transfers such as those to provinces, which the Auditor General has accepted. Such transfers provide long-term stable funding that is needed to attract financial resources and expertise into areas of strategic importance. Decisions relating to such transfers take place once the government has the financial flexibility to fund these priorities. Such decisions and announcements have been made throughout the year and not only at year-end.

In conclusion, the government has taken a number of steps to strengthen overall accountability and transparency relating to transfer payments to foundations. It is willing to explore with the Auditor General those recommendations that will further improve this framework, while at the same time respecting the independence of these organizations and legitimate policy objectives sought.

About the Follow-Up

Objectives

Our audit objectives focussed on developments and potential changes to the governing framework for new governance arrangements as it applies to sponsoring departments and foundations. Specifically, we sought

- to assess the extent to which the government, central agencies, and sponsoring departments have acted to improve the accountability of government-sponsored foundations to Parliament; and
- to reassess, in light of the findings of this audit, the elements of the governing framework presented in our 2002 audit that we considered essential for effective accountability to Parliament.

Scope and approach

This follow-up audit looked at developments in accountability since January 2002 by examining three highly inter-related areas—that is, the elements of the governing framework identified in our 2002 chapter that we considered essential for accountability to Parliament:

- **Reporting to Parliament and the public.** This includes reporting by sponsoring departments as part of the Estimates process and reporting by foundations in corporate plans, annual reports (with evaluation results), and audited financial statements.
- **Ministerial oversight.** This includes strategic monitoring mechanisms (for example, compliance audit of funding agreements by sponsoring departments) and procedures to allow the government to make adjustments and deal with mandate and performance issues.
- **External audit and evaluation.** This includes broad-scope audit and a combination of credible and independent audits and evaluations.

Sample. In addition to some of the sponsoring departments and foundations we examined in 2002, we included the Aboriginal Healing Foundation as an early example of a foundation; the Pierre Elliott Trudeau Foundation to which the government first applied many of its accountability improvements; and, for comparative purposes, the Canadian Institute for Advanced Research, which has received ongoing funding as well as up-front funding. Indian Residential Schools Resolution Canada is the sponsoring department for the first foundation and Industry Canada for the other two.

Criteria

We expected that

- sponsoring departments have taken action to ensure that adequate provision for reporting of foundations' financial and non-financial performance and results to Parliament and the public is included in the enabling legislation, funding agreements, ministerial direction or other mechanisms, and that such reporting is taking place, or planned;
- sponsoring departments have taken action to ensure that adequate provision for external audit, program evaluation, and review in foundations is included in the enabling legislation, funding agreements, ministerial direction, or other mechanisms, and that such audit, evaluation, and review is taking place, or planned;
- sponsoring departments have taken action to ensure that adequate provision for ministerial oversight of foundations is included in the enabling legislation, funding agreements, ministerial direction, or other mechanisms, so that adjustments can be made in foundations' delivery of public policies, or that such a mechanism is planned; and
- the Privy Council Office, Finance Canada, and the Treasury Board Secretariat have taken a leadership role in providing guidance and developing best practices for use by sponsoring departments, and that sponsoring departments are following Treasury Board policies in setting up and monitoring foundations, and in ensuring accountability to the government and Parliament.

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Appendix A Budget Plan 2003—Commitments on the accountability of foundations

In 1997 the Government introduced a new approach to meeting the needs of Canadians—foundations. Foundations use up-front endowment funding and independent arm's-length boards of directors made up of experienced and knowledgeable individuals. Their arm's-length nature, financial stability and focused expertise allow them to address specific challenges in a highly effective, non-partisan manner. As a result, foundations have become important tools for implementing policy, in particular in areas such as research and development and education, where expert knowledge, third-party partnerships and stable long-term funding are especially important.

To clarify the circumstances under which foundations are used by the Government, this budget sets out principles which the Government would consider in using a foundation to deliver public policy:

- Foundations should focus on a specific area of opportunity, in which policy direction is provided generally through legislation and/or a funding agreement.
- Foundations should harness the insight and decision-making ability of independent boards of directors with direct experience in and knowledge about the issues at stake.
- Decisions by foundations should be made using expert peer review.
- Foundations should be provided with guaranteed funding that goes beyond the annual parliamentary appropriations to give the foundations the financial stability needed for the comprehensive medium- and long-term planning that is essential in their specific area of opportunity.
- Foundations should have the opportunity and hence the ability to lever additional funds from other levels of government and the private sector.

These policy principles are consistent with the Treasury Board's new Policy on Alternative Service Delivery, which came into effect on April 1, 2002.

A key ingredient of the success of foundations is their independence. However, this has led to some concern as to their transparency and accountability. Current funding agreements with foundations specify their mandates and the conditions under which they operate. Further, directors are fully responsible for the actions of foundations, and all foundations are subject to annual independent audits of their financial statements.

As part of its ongoing effort to improve transparency and accountability, the Government will make a number of changes to improve the accountability of foundations to Canadians and parliamentarians.

Parliamentary Approval: The Government is taking steps to ensure that the establishment and funding of foundations is adequately reviewed by Parliament.

- The Government is committed to parliamentary approval of purpose and funding through direct legislation for those foundations that are significant either from a policy or financial perspective. In all cases Parliament will need to approve funding for foundations. As noted above, the Government's use of foundations will respect the requirements of the Treasury Board's Policy on Alternative Service Delivery.

Public Reporting: To improve the transparency and therefore the accountability of foundations to the public, the Government will take the following steps:

- Foundations will be required to provide corporate plans annually to the Minister responsible for administering the funding agreement over the duration of the agreement. Such corporate plans will include planned expenditures, objectives and performance expectations relating to the federal funding. Summaries of these plans will be made public by the responsible Minister and provided to Parliament.
- In addition, the departmental Reports on Plans and Priorities, which are tabled in Parliament, will incorporate the significant expected results to be achieved by the relevant foundations and situate these within the Department's overall plans and priorities. As well, the Department responsible for administering the funding agreement will report on the significant results achieved by the foundation(s) in its Departmental Performance Report for the duration of the funding agreement and situate these within the Department's overall results achieved.

- The Annual Report for each foundation, including relevant performance reporting, audited financial statements and evaluation results, will be presented to the Minister responsible for the funding agreement and made public. The Annual Reports of foundations created explicitly through legislation will be tabled in Parliament by the responsible Minister.
- All foundations' Annual Reports will contain performance information as well as audited financial statements prepared in accordance with Generally Accepted Accounting Principles. As foundations are independent, not-for-profit organizations that have their own governance structures and members, it is the members, as "shareholders" of the foundation, who appoint their external auditor and to whom the external auditor reports.

Compliance With Funding Agreements: The accountability of foundations will be further enhanced through the following measures:

- Foundations will be required to conduct independent evaluations, present these to the Minister responsible and make them public. Departments will incorporate any significant findings in their annual Departmental Performance Reports, which are tabled annually in Parliament.
- Funding agreements reached with foundations arising from the 2001 budget contain provisions for independent audits of compliance with funding agreements and for program evaluations. There will also be provisions for intervention in the event the responsible Minister feels there have been significant deviations from the terms of the funding agreement. The provisions will provide for dispute resolution mechanisms.
- Further, in all new funding agreements provisions will be put in place so that the responsible Minister may, at his/her discretion, recover unspent funds in the event of winding up.

The above is on a going-forward basis. The Government will also consult with existing foundations to explore making changes to their agreements with the Government to incorporate these new requirements.

The adoption of these requirements addresses many of the issues about accountability of foundations that were raised in the April 2002 Report of the Auditor General of Canada.

Appendix B Description of foundations in the audit

Foundations and sponsoring departments	Description
Eight foundations followed up from the April 2002 audit	
Canada Foundation for Innovation Established in 1997 Industry Canada	An independent, non-profit corporation created under the <i>Budget Implementation Act</i> , 1997 for the purpose of making grants to universities, colleges, hospitals, and other not-for-profit institutions to increase the capability of carrying out high-quality research in Canada.
Canada Health Infoway Inc. Established in 2001 Health Canada	A non-profit corporation whose purpose, through collaboration with the public and private sector, is to accelerate the development and adoption of modern systems of information and communication technology in the health sector while ensuring common standards and interoperability.
Canadian Health Services Research Foundation Established in 1997 Health Canada	The foundation's mission is to support evidence-based decision making in the organization, management, and delivery of health services through funding research, building capacity and transferring knowledge.
Canada Millennium Scholarship Foundation Established in 1998 Human Resources and Skills Development Canada	An independent body created through the <i>Budget Implementation Act</i> , 1998 to manage a \$2.5 billion federal endowment for 10 years starting in 2000. It grants scholarships to students.
Genome Canada Established in 2000 Industry Canada	Genome Canada invests and manages large-scale projects in key selected areas such as agriculture, environment, fisheries, forestry, health, and new technology development. Genome Canada also supports research projects aimed at studying and analyzing the ethical, environmental, economic, legal, and social issues related to genomics research.
The Green Municipal Enabling Fund (GMEF) and Green Municipal Investment Fund (GMIF) Established in 2000 Natural Resources Canada and Environment Canada	The Federation of Canadian Municipalities administers these funds. The GMEF provides cost-shared grants for feasibility studies on projects designed to improve air, water, and soil quality. The GMIF provides interest-bearing loans, loan guarantees, and grants that enable recipients to carry out energy and environmental projects in municipal operations.
Sustainable Development Technology Canada Established in 2001 as the Foundation for Sustainable Development Technology in Canada Natural Resources Canada and Environment Canada	An arm's-length foundation, established by federal legislation to provide funding to consortia from the private sector, universities, research organizations, and not-for-profit corporations for technology development and demonstration, namely for climate change and air quality solutions. The foundation will complement sustainable development activities of other government departments.

Foundations and sponsoring departments	Description
Three additional foundations referred to in this audit	
<p>Aboriginal Healing Foundation Established in 1998 Indian and Northern Affairs Canada*</p>	<p>The foundation is funded by the Government of Canada to support the projects and programs that address the healing needs of Aboriginal people affected by the legacy of abuse in residential schools.</p>
<p>Canadian Institute for Advanced Research Established in 1982 Industry Canada</p>	<p>A corporation that provides researchers with the means to meet, interact, and collaborate with peers from across Canada and around the world to respond to the scientific and social challenges of tomorrow.</p>
<p>The Pierre Elliott Trudeau Foundation Established in 2001 Industry Canada</p>	<p>Created as a not-for-profit corporation, the foundation seeks to commemorate the late Prime Minister Pierre Elliott Trudeau by funding advanced study and research in Canada in the humanities and human sciences. The foundation also grants fellowships to mid-career researchers and mentorships to seasoned professionals who work in the field of public policy.</p>

* The sponsoring department is now Indian Residential Schools Resolution Canada

Appendix C Our accountability framework for foundations

Changes to the governing framework since our April 2002 Report are in italics.

Element	Description
To ensure accountability to Parliament	
Reporting to Parliament and the public	
Corporate plans	Plans including objectives, strategies to be pursued, and expected accomplishments should be made public and tabled in Parliament. Provision for an initial corporate plan and an update at least every three years would be reasonable. <i>The significant results expected from the relevant foundation should be situated within the department's overall plans and priorities in its Report on Plans and Priorities.</i>
Annual performance reporting, including audited financial statements	Timely, appropriate, and credible information on the extent to which the <i>foundation</i> has accomplished its federal policy objectives, and at what cost, should be reported to the ministers responsible, Parliament, and the public in an annual report or a departmental performance report, as appropriate. <i>The significant results achieved by the foundation should be situated within the department's overall results, reported in its Departmental Performance Report.</i>
Evaluation results	The findings from independent evaluations should be tabled in Parliament.
External audit and evaluation regime	
<i>Performance</i> audit reported to Parliament	In <i>foundations</i> , the external auditor should carry out attest, compliance, and <i>performance</i> audits. In all cases, audits would be reported to the board of directors, the sponsoring minister, and Parliament.
<i>Evaluation standards</i>	<i>Sponsoring departments should ensure that evaluations commissioned by foundations pursuant to legislation or funding agreements apply recognized evaluation standards.</i>
Ministerial oversight	
Strategic monitoring mechanisms, including compliance audit	Strategic monitoring by the sponsoring department should be in place to ensure that timely information is available on stewardship, the results achieved, and overall compliance with terms and conditions.
Procedures to deal with non-performance	Reasonable provisions should be in place to deal with non-performance of the <i>foundation</i> , and termination, if needed. In <i>foundations</i> , the government should be able to intervene in the exceptional case where the public purpose of the arrangement is clearly not being met or circumstances have changed considerably since the creation of the arrangement. In the event of termination, or windup for any reason, the federal government should be able to recover any remaining federal moneys.

Appendix D Progress on recommendations

Recommendations of our April 2002 Report, Chapter 1	Recommendations of the 14 th Report of the Standing Committee on Public Accounts	Recommendation accepted or rejected by the government	Progress made by the government
<p>1.37 If the federal government decides to create delegated arrangements that involve significant changes in policy or significant commitment of public funds or assets, it should do so through direct legislation.</p> <p>The Privy Council Office should ensure that this legislation meets the essential requirements for good governance and accountability to Parliament.</p>		<p>Accepted regarding direct legislation</p> <p>No clear response from the Privy Council Office</p>	○
<p>1.49 To ensure adequate reporting to Parliament on delegated arrangements, sponsoring ministers should table the following in a timely manner:</p> <ul style="list-style-type: none"> • multi-year plans [now called corporate plans]; • the findings of evaluations; and • annual reports on what has been accomplished that include audited financial statements. <p>These documents should be referenced in the sponsoring departments' Estimates documents.</p>	<p>That the government seek every opportunity to persuade existing foundations to incorporate amendments to their accountability and reporting framework that will strengthen the reporting to Parliament and to the public, including the reporting of performance expectations, performance results achieved, and disclosure of audited financial statements and evaluation reports.</p>	Accepted	●
	<p>That the government seek amendments to the funding agreements of existing foundations, either created through legislation, or receiving significant funding (at least \$500 million) from the federal government, that would require them to table in Parliament separate annual reports, reports on plans and priorities, and departmental performance reports.</p>	Rejected	

● Satisfactory ○ Unsatisfactory

Recommendations of our April 2002 Report, Chapter 1	Recommendations of the 14 th Report of the Standing Committee on Public Accounts	Recommendation accepted or rejected by the government	Progress made by the government
<p>1.54 The federal government should ensure that adequate mechanisms are in place for broad-scope audit of all delegated arrangements. The Auditor General should be appointed as the external auditor of foundations, with a few exceptions.</p>	<p>That for those foundations either created through legislation, or receiving significant federal funding (at least \$500 million), the federal government seek amendments to the funding agreements that provide for periodic program evaluation, value-for-money audits, and independent assessment of the fairness and reliability of the performance information, the results of which are to be reported through ministers to Parliament.</p> <p>That for those foundations either created through legislation, or receiving significant federal funding (at least \$500 million), the federal government appoint the Auditor General of Canada as external auditor of these foundations.</p>	Rejected	
<p>1.62 The federal government should ensure that an adjustment mechanism is in place that allows sponsoring ministers to intervene in a delegated arrangement in the exceptional case where the arrangement is clearly not meeting its public purpose or where circumstances have changed considerably since its creation.</p>	<p>That the government seek every opportunity to persuade all existing foundations to incorporate into their existing accountability and governance framework, new provisions that will strengthen the ministerial oversight function, including strategic monitoring, redress procedures in case of non-performance, clearly defined provisions enabling departmental audit and evaluation of foundation activities, and mechanisms to recover unspent federal funds in case of the winding up or termination of the foundations.</p>	Accepted in part for extreme situations	○
<p>1.63 The federal government should ensure that provision is made to allow sponsoring departments to undertake compliance audits of delegated arrangements.</p>		Accepted	●
<p>1.64 In the event of the winding up or termination of any delegated arrangement, the federal government should recover unspent federal funds.</p>		Accepted	●
<p>1.69 The Privy Council Office should ensure that departments fully define the roles and responsibilities of federal appointees to boards of delegated arrangements. The federal government should resolve the issue of the potential conflict of duties.</p>		Rejected	

● Satisfactory ○ Unsatisfactory

Recommendations of our April 2002 Report, Chapter 1	Recommendations of the 14 th Report of the Standing Committee on Public Accounts	Recommendation accepted or rejected by the government	Progress made by the government
<p>1.115 The Treasury Board Secretariat should ensure that its database on alternative service delivery collects and makes available adequate information on the types and number of new governance arrangements created by federal departments. The database should also provide government managers with information on lessons learned and good practices by arrangements.</p>		Accepted	●
<p>1.116 The Treasury Board Secretariat should review exemptions to the Treasury Board policy against making payments in advance of need. The findings of this review should be reported to Parliament.</p>		Rejected	
<p>1.117 The Treasury Board Secretariat should develop an evaluation framework and undertake, after a suitable interval, a government-wide evaluation of the use of new governance arrangements as instruments of public policy. The results of this evaluation should be reported to Parliament.</p>		Rejected	

● Satisfactory ○ Unsatisfactory

