Canadian Partnership Against Cancer Performance Audit conducted by KPMG

September 8, 2011

Foreword by the Canadian Partnership Against Cancer

In the spring of 2011, as the Canadian Partnership Against Cancer Corporation (CPACC) approached the end of its initial five year mandate, the organization's management team engaged KPMG to provide an independent assessment of the Partnership's processes for the approval, contracting, funding and monitoring of projects. Specifically, the audit examined whether processes for approving, contracting, funding and monitoring projects undertaken with partner organizations provide reasonable assurance that approved projects are consistent with the Partnership's objectives, are approved in a transparent manner, supported by contractual and financial processes, and that project funding is used in accordance with the agreed upon terms and conditions.

The following document includes the executive summary of KPMG's audit findings as well as the Partnership management's response to the findings and recommendations. Overall, the audit concluded the Partnership has made significant progress in building and improving its business practices since inception. It identified some areas for improvement, all of which have been or are being addressed. Areas of focus are revising monitoring tools and practices to improve consistency, enhancing risk-based monitoring of projects, and developing a risk-based audit framework.

Audit Objectives and Scope

The audit plan was developed using a risk-based approach through which key risks facing the achievement of CPACC's strategic objectives and expected results were identified through interviews with management and through documentation review. Key risks were then linked to the core processes and practices in place within CPACC that are designed to mitigate key risks of relevance to partnerships and project management. This information was used to determine the objectives and scope of the audit.

The overall objective of the audit is to provide an independent assessment of the efficiency and effectiveness of CPACC's management practices of relevance to the approval, contracting, funding, and monitoring of projects conducted with partner organizations. The specific audit objectives as developed based on the risk assessment process are to assess whether:

- Processes for initiating, executing, and monitoring funded projects provide reasonable assurance that approved projects are consistent with CPACC's strategic focus, are approved in a transparent manner, are appropriately supported by clear terms and conditions, and that project funding is used for intended purposes; and
- Performance measurement, monitoring, and reporting mechanisms for partnership projects allow for management to effectively and efficiently oversee the status and impact of projects.

The audit examined the most recent project selection, procurement, financial management and project management activities occurring in fiscal 2010/ 2011.

Our work was limited to, and our recommendations are based on, the procedures conducted, and the findings and recommendations should be considered in the context of the procedures performed. We relied on information from and representations of management to support our findings.

Summary of Findings

Overall, we found that CPACC has made significant progress in building and improving its project management practices since its inception. CPACC has introduced a number of sound practices that help management monitor and report on project progress, including: implementing standard funding agreement terms and conditions, enhancing project monitoring tools, and providing consolidated reporting of project status that includes detailed project risk analysis. In addition, the Board has recently approved a performance measurement framework that will be incorporated into regular project reporting to help ensure information on performance results is captured in a consistent and timely manner.

Although management has implemented a number of sound practices, inconsistencies were identified in the extent to which the organization's "best " or leading practices have been implemented across all projects. In this regard, six key areas for improvement were identified through the audit which are summarized below:

- In some cases when significant delays are experienced by the funding recipient in signing funding agreements, payments may be allowed to be sent to the recipient in advance of a signed contract for provincial government agencies. This practice is a departure from practices followed in other federally funded organizations and programs that generally will not allow recipient payments to flow until a signed contract is in place. It is recommended that management modify their policies to require completed contracts to be in place prior to the release of any recipient funding. Waiting to pay expenses until signed agreements are in place will help to ensure that CPACC's interests are protected.

- Inconsistencies were identified in the manner in which initial project budgets are reviewed for reasonableness in the project approval phase. It is recommended that management develop clear guidelines and clarify responsibilities for assessing the reasonableness of proposed project budgets and develop and communicate additional guidance on eligible expenditures, such as overhead and administrative fees. This will help to ensure that funding approval decisions are completed in a consistent and transparent manner.

- Opportunities to improve the risk-based monitoring of project funding agreements were identified. It is recommended that management develop and implement a risk-based audit framework that clearly defines expected financial and operational monitoring procedures that are escalated based on the project's assessed risk. This will help better align the effort and level of due diligence provided through project monitoring activities with the underlying risk.

- During our examination of a sample of 15 project files, we noted a number of inconsistencies in the tools and practices used for project monitoring. It is recommended that management work to improve the consistency in the format and nature of project monitoring tools by building off of sound and leading practices currently being utilized in selected projects.
- Improvements could be made to the reporting of project spending variances on the Risk and Forecast Summary to allow for actual spending variances to be reflected, including variances that are both over and under budget.
- Some inconsistencies were identified in the terms and conditions of projects examined in our sample. We recommend that management consider revising its standard terms to address roll forward and contract extensions and renewal terms.

Canadian Partnership Against Cancer
Management Responses to Performance Audit

Recommendation # 1: It is recommended that management modify their funding policies to require completed contracts to be in place prior to the release of recipient funding.

Management Response:
Management agrees that in general, completed contracts should be in place prior to the release of recipient funding. The release of funding without a completed contract occurred rarely and was done only in instances where the following criteria were met: 1) the project was multi-year with an approved multi-year budget but the contracts with the funding partners, for various reasons, were annual 2) at least one annual contract had already been in place 3) the funding recipient was a provincial government organization or an agency of a provincial government 4) the risk of discontinuing funding to the multi-year project was assessed to be detrimental to CPACC's ability to meet its deliverables and 5) the terms and conditions of the contract including the budget and project deliverables had already been agreed to.

This practice has been discontinued and no funding will be advanced to recipients without a fully executed contract. In addition, staff will review the funding processes in conjunction with the actions noted for recommendations 3, 4 and 5 to improve the alignment with the nature of the project.

Recommendation # 2A: It is recommended that management develop clear guidelines and responsibilities for assessing the reasonableness of proposed project budgets during the project approval phase, and more clearly define the requirements and related process to periodically re-assess the continued reasonableness of project budgets through the project life cycle.

Recommendation # 2B: It is recommended that CPACC develop consistent guidelines and policies regarding eligible expenditures, particularly for expenditures in which there may be wide interpretations and variations in the calculation method, such as overhead and administrative charges. These policies should then be adopted consistently and should be communicated to prospective funding recipients.

Management Response:
Management agrees that the responsibility and the process for reviewing project budgets should be more clearly defined both at the project approval stage as well as during the project life cycle.
Management also agrees that consistent guidance on eligible expenditures would be helpful to prospective funding recipients as well as contributing to an improvement of the project budget review process.
The process for reviewing budgets during the project approval phase and throughout the project life cycle is being examined and consistent guidelines and policies regarding eligible expenditures will be developed.

Recommendation #3: We recommend that management consider revising existing contracting tools and practices to improve consistency in the extent to which carry forward terms are offered in contracts and to align the length of the agreement with the expected project duration.

Management Response:
Management agrees with this recommendation. In conjunction with recommendation #1, a review of contracting tools and practices will be undertaken to align them better to the nature and risk of a project. The use of a completed risk-based audit framework as a basis will also help to improve consistency in contracting tools and practices and more importantly better align these with the level of project risk
Contracting tools including terms and conditions have evolved since CPACC's inception, particularly in the past 2 years as organizational processes have matured, and are being employed more explicitly as risk management tools depending upon a project's nature. For example, the instance of the 20% carry forward mentioned in the report was done to support the success of a large innovative project launched in 2009. The use of annual contracts was also seen as a risk management tool in some projects.

Recommendation # 4: It is recommended that CPACC develop a risk-based audit framework to define the required verification procedures to be performed to assess and monitor the reasonableness of project funding claims and project progress based upon each project's risk profile.

Management Response:
Management agrees with this recommendation and is taking steps to develop a risk-based audit framework. Such a framework will provide a solid basis on which to create an audit program to verify the reasonableness of project funding claims and project progress. A risk-based audit framework will also be beneficial to improving the effectiveness of the overall third party funding processes, including project monitoring processes, to better align resources and efforts with the level of project risk.

Recommendation # 5: It is recommended that management consider revising monitoring tools and practices to improve the consistency of its monitoring practices, given consideration to the suggestions indicated in the observation above.

Management Response:
Management agrees with this recommendation in that developing a risk-based audit framework, as previously noted, will inform CPACC's efforts to make revisions to the current monitoring tools and practices that will not only improve consistency but more importantly better align these tools and practices with the level of project risk. While the nature of CPACC's projects will not allow a "one size fits all" approach, it is recognized that the variation in current practices, resulting simply from the evolution of the organization, is not effective on a go-forward basis.

Following the development of a risk-based audit framework, a review of monitoring tools and practices will be undertaken with the aim of revising them for the next 5-year mandate.

Recommendation # 6: It is recommended that management report actual spending variances (both over and under) on the Risk and Forecast Summary.

Management Response:
Management agrees that including the year-to-date financial variances on the Risk and Forecast Summary would increase the effectiveness of the report. Currently financial variances are included and explained in the quarterly financial statements, and the fiscal year budget, along with the actual quarterly financial results, are included in the Risk and Forecast Summary. The change to the Risk and Forecast Summary report will be implemented for the current fiscal's quarter 1 reporting.

Management also agrees that the definition of spending variances should be broadened to include not only those that will potentially be over-budget but also those that will be significantly under-budget. This change to the spending variance definition was implemented effective with the latest Risk and Forecast Summary as at May 31, 2011 which covered the fiscal year ended March 31, 2011.