



Report of the Auditor General of Canada to the Board of Directors of Telefilm Canada

Independent Auditor's Report

Special Examination—2020



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada



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Special examination reports

Special examinations are a form of performance audit that is conducted within Crown corporations. The Office of the Auditor General of Canada audits most, but not all, Crown corporations.

The scope of special examinations is set out in the *Financial Administration Act*. A special examination considers whether a Crown corporation's systems and practices provide reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

More details about the audit objective, scope, approach, and sources of criteria are in *About the Audit* at the end of this report.

Ce document est également publié en français.

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Office of the
Auditor General
of Canada

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27 May 2020

To the Board of Directors of Telefilm Canada:

We have completed the special examination of Telefilm Canada in accordance with the plan presented to the Audit and Finance Committee of the Board of Directors on 27 February 2019. As required by Section 139 of the *Financial Administration Act*, we are pleased to provide the attached final special examination report to the Board of Directors.

The Office of the Auditor General of Canada will present this report for tabling in Parliament shortly after it has been made public by Telefilm Canada.

I would like to take this opportunity to express my appreciation to the board members, management, and the corporation's staff for the excellent cooperation and assistance offered to us during the examination.

Yours sincerely,

A handwritten signature in cursive script that reads "N. Chartrand".

Nathalie Chartrand, CPA auditor, CA
Principal (responsible for the audit)
240 Sparks Street
Ottawa, Ontario K1A 0G6

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Introduction

Background

Role and mandate

1. Telefilm Canada finances Canadian film projects and supports companies that promote and export Canadian content at film festivals, markets, and events. The *Telefilm Canada Act* gives the corporation the power to
 - invest in Canadian audio-visual productions in return for a share in the proceeds from them
 - make loans to producers of Canadian audio-visual productions and charge interest on those loans
 - make awards for outstanding accomplishments in Canadian audio-visual productions
 - make grants to audio-visual industry professionals who reside in Canada to assist them in improving their craft
 - advise and assist Canadian audio-visual producers in the distribution of their works and in the administrative functions of audio-visual production
2. Telefilm Canada is a Crown corporation that reports to the Minister of Canadian Heritage.

Nature of business and operating environment

3. In the 2018–19 fiscal year, the corporation reported that it provided financial support to 134 Canadian feature films, 301 film development projects, and 113 film festivals, markets, and events. It also reported that it provided marketing support to 95 feature films and helped 103 Canadian feature films travel to 24 countries.
4. The corporation generates revenue by recovering some of the money it provides to production and distribution companies, as set out in its financing agreements with them. It also administers financing programs on behalf of the Canada Media Fund, a not-for-profit corporation that supports the Canadian television and digital media industries. The corporation charges management fees to provide this service.
5. In the 2018–19 fiscal year, the corporation employed 190 people, about 60 of whom were dedicated to administering the Canada Media Fund’s financing programs. Funding from Parliament covered approximately 75% of the corporation’s expenses. The remaining expenses were covered by revenues, including investment revenues, recoveries of advances, and management fees from the Canada Media Fund (Exhibit 1).

Exhibit 1 The corporation's financial results (in millions of dollars)

	2015–16	2016–17	2017–18	2018–19
Revenues	25.7	28.8	23.9	24.5
Expenses	120.2	125.8	132.0	134.7
Government funding	95.4	97.5	103.6	101.9
Surplus (deficit)	0.9	0.5	(4.5)	(8.3)
Accumulated surplus	26.1	26.6	22.1	13.8
Source: Telefilm Canada's annual reports				

6. In the 2018–19 fiscal year, the corporation completed a transformation to a new information technology (IT) system called Dialogue. This change allowed applicants, such as production and distribution companies, to electronically access the system to submit funding applications, report on contract requirements, and declare revenues and amounts that they owed the corporation from financed projects.

Focus of the audit

7. Our objective for this audit was to determine whether the systems and practices we selected for examination at Telefilm Canada were providing it with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively, as required by section 138 of the *Financial Administration Act*.

8. In addition, section 139 of the *Financial Administration Act* requires that we state an opinion, with respect to the criteria established, on whether there was reasonable assurance that there were no significant deficiencies in the systems and practices we examined. A significant deficiency is reported when the systems and practices examined do not meet the criteria established, resulting in a finding that the corporation could be prevented from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

9. On the basis of our risk assessment, we selected systems and practices in the following areas:

- corporate management practices
- management of operations

The selected systems and practices, and the criteria used to assess them, are found in the exhibits throughout the report.

10. More details about the audit objective, scope, approach, and sources of criteria are in **About the Audit** at the end of this report (see pages 16–19).

Findings, Recommendations, and Responses

Corporate management practices

The corporation had good corporate management practices in some areas but needed improvement in others

What we found

11. We found that the corporation had some good corporate management practices in place. However, we found areas for improvement in practices related to board oversight; board independence; performance measurement, monitoring, and reporting; and risk mitigation, monitoring, and reporting.
12. The analysis supporting this finding discusses the following topics:
- Corporate governance
 - Strategic planning
 - Corporate risk management

Context

13. The corporation is governed by a Board of Directors composed of 6 members appointed by the **Governor in Council** and the Government Film Commissioner, who is appointed under the *National Film Act*.
14. The board is supported by the Audit and Finance Committee, the Strategic Planning and Communications Committee, and the Nominating, Evaluation and Governance Committee.
15. In October 2018, the board had 3 vacant positions, including the Chairperson. In December 2018, a member resigned. The vacant positions were filled with 1 appointment in November 2018, 1 in February 2019, and 2 in May 2019 (including the Chairperson). As a result, for most of the period covered by our audit, the board functioned with less than a full complement of members and with an interim Chairperson.
16. The corporation is headed by an Executive Director appointed by the Governor in Council. A new Executive Director was appointed for a 5-year term beginning on 30 July 2018, one month prior to the start of this special examination. Furthermore, there were numerous changes in the senior management team during the period covered by our audit.

Governor in Council—The Governor General, who acts on the advice of Cabinet and, as the formal executive body, gives legal effect to those decisions of Cabinet that are to have the force of law.

17. The corporation is exempt from certain sections of Part X of the *Financial Administration Act*. As a result, it does not have to submit an annual corporate plan or an operating and capital budget for government approval. While the corporation is exempt from submitting a corporate plan, it publicly released its 2018–20 strategic plan in March 2018.

Recommendations

18. Our recommendations in this area of examination appear at paragraphs 22, 25, 30, 36, and 39.

Corporate governance

19. **Analysis.** The corporation had good systems and practices for setting strategic direction and for board appointments and competencies. However, we found that aspects of board oversight and board independence needed improvement (Exhibit 2).

Exhibit 2 Corporate governance—Key findings and assessment











Systems and practices	Criteria used	Key findings	Assessment against the criteria
Board oversight	The board carried out its oversight role over the corporation.	<p>The roles and responsibilities of the board and its committees were clearly defined.</p> <p>Internal audits were regularly conducted, and results were reported to the Audit and Finance Committee.</p> <p>The board evaluated its performance and the performance of its committees annually.</p> <p>The board assessed the Executive Director’s performance against set objectives.</p> <p>Weakness</p> <p>The board did not exercise complete oversight in 2 areas.</p>	
Board independence	The board functioned independently.	<p>The board made decisions independently from management and held regular private meetings without management in attendance.</p> <p>The board and its committees sought declarations of conflicts of interest at the beginning of their meetings.</p> <p>An annual process was in place for board members to declare any financial interest in the audio-visual industry.</p> <p>Weakness</p> <p>The corporation did not have a code of conduct for its board members.</p>	
<p>Legend—Assessment against the criteria</p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			

Exhibit 2 Corporate governance—Key findings and assessment (continued)

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Setting strategic direction	The board provided strategic direction.	The board participated in setting the corporation's strategic direction. The board was involved in developing the Executive Director's annual performance objectives, which aligned with the corporation's strategic objectives.	
Board appointments and competencies	The board collectively had capacity and competencies to fulfill its responsibilities.	Although the board had operated with 3 or 4 members for most of the period covered by our audit, there were no vacancies as of the end of the period. The board determined the skills and expertise it needed to be effective and periodically assessed whether its directors had the appropriate skills, competencies, and knowledge to carry out their responsibilities. The board communicated its needs for member appointments to the responsible minister. The corporation provided new members with orientation material and sessions.	
<p>Legend—Assessment against the criteria</p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			

20. **Weakness—Board oversight.** The board did not exercise complete oversight in the following 2 areas:

- **Performance indicators and targets related to the corporation's strategic objectives.** The board was responsible for overseeing the implementation of the strategic plan and for monitoring the corporation's performance. However, there were no performance indicators and targets associated with the objectives of the 2018–20 strategic plan. As a result, the board could not fully assess the corporation's performance (see paragraph 27).
- **Risk mitigation measures.** The board was responsible for overseeing risk management. However, we found that during most of the period covered by our audit, management did not provide information to the board on its progress in implementing all of the risk mitigation measures (see paragraph 37).

21. This weakness matters because without this information, the board could not fully perform its oversight role.

22. **Recommendation.** The corporation should ensure that it develops and monitors performance indicators and targets for its strategic objectives, and that it reports on progress regularly to the Board of Directors. It should also continue to provide information to the board on its progress in implementing risk mitigation measures.

The corporation's response. Agreed. Although the corporation reported to the board on progress against activities established in support of strategic objectives, the corporation is currently developing performance measures to monitor the achievement of objectives stemming from its 2020–22 strategic plan. The corporation will complete this matter by the end of the 2020–21 fiscal year. Progress on the achievement of those objectives will be regularly reported to the Board of Directors. The corporation will also continue to carry on with providing the board with updates on its progress in implementing risk mitigation measures.

23. **Weakness—Board independence.** The corporation informed board members about legislative and policy requirements that covered the values, ethics, behaviours, and conflicts of interest that they were subject to. Board members also declared conflicts of interest at the beginning of their meetings and annually declared whether they had any financial interests in the audio-visual industry. However, we found that the corporation did not have a code of conduct for its board members that was supported by a process to ensure that they complied with all requirements they were subject to.

24. This weakness matters because a code of conduct for board members contributes to ensuring that they carry out their role in a manner that is consistent with the legislative and policy requirements they are subject to.







25. **Recommendation.** The corporation should develop a code of conduct for members of the Board of Directors and ensure that it is followed.

The corporation's response. Agreed. The corporation will develop a code of conduct for its board members and put in place an annual process for members to declare their adherence to the code. The corporation will have this process in place by the end of the 2020–21 fiscal year.

Strategic planning

26. **Analysis.** We found that the corporation had good systems and practices for strategic planning. However, performance measurement and performance monitoring and reporting needed improvement (Exhibit 3).

Exhibit 3 Strategic planning—Key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Strategic planning processes	The corporation established a strategic plan and strategic objectives that were aligned with its mandate.	The corporation developed a 2018–20 strategic plan that was approved by the board. The plan contained strategic objectives that aligned with the corporation’s mandate.	
Performance measurement	The corporation established performance indicators in support of achieving strategic objectives.	In December 2017, the corporation established activities in support of strategic objectives set for the first year of its 2018–20 strategic plan. These activities were later revised and included in the new Executive Director’s objectives. Weakness The corporation established a limited number of strategic and operational performance indicators, with associated targets, to assess its performance in achieving its strategic objectives.	
Performance monitoring and reporting	The corporation monitored and reported on progress in achieving its strategic objectives.	The corporation monitored and reported to the board on its progress on activities established in support of strategic objectives and on the Executive Director’s objectives for the 2018–19 fiscal year. In its 2018–19 annual report, the corporation reported on activities carried out for each strategic objective set out in its 2018–20 strategic plan. Weakness Because the corporation had set a limited number of performance indicators and targets for its strategic and operational objectives, it could not fully monitor and report on its performance against its objectives.	
Legend—Assessment against the criteria  Met the criteria  Met the criteria, with improvement needed  Did not meet the criteria			

27. **Weaknesses—Performance measurement, monitoring, and reporting.** We found that the objectives in the 2018–20 strategic plan did not contain performance indicators with associated targets. As a result, the corporation could not regularly monitor and report to senior management and the board on its achievement of strategic objectives. The following are examples:

- For the strategic objective related to exporting, the corporation aimed to promote the Canadian brand and talent. No performance indicator had been set to measure whether this goal would be achieved.
- For the strategic objective related to innovation, the corporation aimed to improve the discoverability of and access to Canadian content on all platforms. No performance indicator had been set to measure whether this goal would be achieved.

28. We also found that the corporation established a limited number of performance indicators with associated targets to monitor its operations. In some cases, performance indicators existed, but associated targets were under revision. For example, the target associated with the response time for production financing decisions was being redefined. In other cases, performance indicators were in development, such as the measure associated with the level of financing for each region.

29. These weaknesses matter because setting and monitoring performance indicators and targets would allow the corporation to take timely action should it be at risk of not achieving its objectives.







30. **Recommendation.** The corporation should ensure that its strategic and operational objectives are supported by performance indicators and targets that are specific, time bound, and measurable, and that it regularly monitors and reports on its performance.

The corporation's response. Agreed. In support of its 2020–22 strategic plan, the corporation is currently developing performance measures to monitor the achievement of its strategic objectives. The corporation is also in the process of reviewing and improving its current performance measurement for monitoring its operations. The corporation will complete these matters by the end of the 2020–21 fiscal year.

Corporate risk management

31. **Analysis.** We found that the corporation had good practices for identifying and assessing risk, but risk mitigation, monitoring, and reporting needed improvement (Exhibit 4).

Exhibit 4 Corporate risk management—Key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Risk identification and assessment	The corporation identified and assessed risks to achieving strategic objectives.	<p>The corporation identified and assessed its strategic, operational, and financial risks biannually.</p> <p>The corporation assessed inherent and residual risks for each risk identified and documented them in a risk register.</p> <p>The corporation defined risk management roles and responsibilities for the board and management.</p>	
Risk mitigation	The corporation defined and implemented risk mitigation measures.	<p>In its risk register, the corporation defined mitigation measures for all identified risks.</p> <p>Weaknesses</p> <p>The corporation did not assign timelines to the risk mitigation measures that were not yet implemented.</p> <p>The corporation did not set its risk appetite and tolerance levels to guide management in its decision making.</p> <p>The corporation did not implement some mitigation measures for risks related to fraud, business continuity, and achieving its strategic objectives.</p>	
Risk monitoring and reporting	The corporation monitored and reported on the implementation of risk mitigation measures.	<p>The corporation provided management and the board with the risk register biannually.</p> <p>Weaknesses</p> <p>Senior management did not monitor the implementation of all mitigation measures.</p> <p>The corporation did not report its progress to the board in implementing all mitigation measures.</p>	
<p>Legend—Assessment against the criteria</p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			

32. **Weaknesses—Risk mitigation.** The corporation had a risk register that described its risks and identified mitigation measures for each of them. However, we found that during most of the period covered by our audit, the corporation did not assign timelines to the risk mitigation measures that were not yet implemented. Assigning timelines would have allowed senior management and the board to better monitor whether these measures were being implemented.

33. We also found that the corporation did not set its risk appetite and tolerance levels. The risk appetite level is the degree of risk that the corporation is prepared to accept in pursuing its objectives. The risk tolerance level is the corporation's readiness to bear a particular risk after mitigation is implemented. Because the corporation did not establish these risk parameters, management was left to make decisions without guidance on how much risk the corporation would accept before responding with mitigation measures.

34. In addition, we found that the following risk mitigation measures were not implemented:

- **Fraud risk.** The corporation identified a risk of internal and external fraud in its risk register. However, we found that it had not completed an assessment of fraud-related risks since 2014, which was prior to the implementation of the Dialogue IT system. While an assessment had been planned for the 2019–20 fiscal year, it had not been started by the end of the period covered by our audit. Therefore, the corporation could not define and implement measures to address the potential new risks that would be identified through that fraud-risk assessment.
- **Business continuity risk.** The corporation identified risks of business interruption and to information security. However, we found that it had not completed a threat and risk assessment of all components of its Dialogue IT system. Thus, the corporation could not define and implement measures to address the potential new risks that would be identified through that exercise.
- **Strategic plan risk.** The corporation identified a risk of not achieving its 2018–20 strategic objectives. However, it had not developed a performance measurement framework to assess whether it would achieve these objectives.

35. These weaknesses matter because complete risk information would support decision making and help ensure that the corporation's operations and reputation are not at risk. Also, mitigation measures are important to address identified risks that need to be managed.

36. **Recommendation.** The corporation should set risk tolerance and appetite levels and ensure that all risk mitigation measures have a timeline for implementation. It should also implement mitigation measures according to set timelines.

***The corporation's response.** Agreed. The corporation, in consultation with the Board of Directors, will set risk tolerance and appetite levels. The corporation will complete this matter by the end of the 2020–21 fiscal year. Starting in June 2019, the corporation set timelines for all mitigation measures to be implemented that were included in its 2018–19 risk register. The corporation will ensure that it implements those mitigation measures against set timelines. Furthermore, following the conclusion of the Dialogue IT system project, the corporation completed in December 2019 a fraud risk assessment, and in February 2020, a threat and risk assessment of all components of this system.*

37. **Weaknesses—Risk monitoring and reporting.** We found that for most of the period covered by our audit, senior management did not monitor the implementation of all mitigation measures included in the risk register. For most of this period, it also did not report to the board its progress on the mitigation measures that were not yet implemented.

38. These weaknesses matter because monitoring the implementation of risk mitigation measures would help the corporation to assess whether the measures are effective and to act when they are not. Furthermore, reporting on the progress of implementing risk mitigation measures informs decision making and helps the board to perform its oversight role.

39. **Recommendation.** The corporation should regularly monitor and report to the Board of Directors on its progress in implementing all risk mitigation measures.

***The corporation's response.** Agreed. Since June 2019, senior management has been monitoring the implementation of all mitigation measures included in its 2018–19 risk register. Also since June 2019, the corporation has been providing the Board of Directors with its progress in implementing all risk mitigation measures included in its 2018–19 risk register.*

Management of operations

The corporation had good practices for managing its operations, but some practices for managing its financing programs needed improvement

What we found

40. We found that the corporation had good operations management practices in place. However, we found that the management of financing programs needed improvement.

41. The analysis supporting this finding discusses the following topic:

- Operations management

Context

42. The corporation established various programs for applicants to obtain financing if they met eligibility requirements. Applicants included film production and distribution companies, commercial theatre operators, sales agents, and Canadian film festival organizations.

43. Through these financing programs, the corporation supported the following:

- development, production, and post-production of feature films, documentaries, co-productions, and web content
- marketing and distribution of Canadian films in theatres across Canada and on multiple viewing platforms
- activities held in Canada and internationally that promote Canadian content and audio-visual work, such as film festivals and national awards ceremonies
- participation in international festivals and events, including travel, press, and promotion expenses
- international distribution of Canadian feature films

44. To manage its financing programs, the corporation set guidelines and procedures to assess the eligibility of applicants, evaluate applications, and issue contracts and payments.

45. The corporation also had a services agreement with the Canada Media Fund, which was renewed annually. The agreement allowed the corporation to administer the Canada Media Fund financing programs to fund eligible projects.

Recommendation

46. Our recommendation in this area of examination appears at paragraph 51.

Operations management

47. **Analysis.** We found that the corporation had good systems and practices in place for operational planning, administering the Canada Media Fund Services Agreement, and performance monitoring and reporting. However, we found that the management of financing programs needed improvement (Exhibit 5).

Exhibit 5 Operations management—Key findings and assessment











Systems and practices	Criteria used	Key findings	Assessment against the criteria
Operational planning	The corporation defined operational plans that were aligned with strategic plans and the mandate.	The corporation’s operational planning process included the establishment of budgets and regular tracking of progress against them. It also included the development of senior management’s performance objectives, which were aligned with the corporation’s mandate and strategic plan objectives.	
Management of financing programs	The corporation managed its financing programs in accordance with approved guidelines and procedures.	<p>The corporation established financing program guidelines and procedures and periodically updated them.</p> <p>The corporation established processes and controls to manage its financing programs in accordance with approved guidelines and procedures.</p> <p>The corporation had processes in place to ensure that payments complied with the terms of its financing contracts.</p> <p>Weaknesses</p> <p>The corporation did not fully follow its procedures for some of the financing projects that we examined.</p> <p>The corporation’s procedures did not specify the steps it should take in some situations related to projects that we examined.</p>	
Administration of the Canada Media Fund Services Agreement	The corporation administered the Canada Media Fund’s financing programs in accordance with the terms of the services agreement.	<p>The corporation established processes and controls to administer the Canada Media Fund’s financing programs in accordance with the services agreement. It also reported exceptions to Canada Media Fund representatives.</p> <p>The corporation provided monthly statements to the Canada Media Fund attesting that it had assessed the eligibility of the approved projects in accordance with the Fund’s guidelines and procedures.</p>	
<p>Legend—Assessment against the criteria</p> <p> Met the criteria</p> <p> Met the criteria, with improvement needed</p> <p> Did not meet the criteria</p>			

Exhibit 5 Operations management—Key findings and assessment (continued)

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Performance monitoring and reporting	The corporation monitored and reported on its operational results.	<p>The corporation compared financial operational results with its budget, explained variances, and reported on them quarterly to the board. These results included costs incurred to administer the Canada Media Fund’s financing programs.</p> <p>The corporation held regular management meetings to discuss operational results related to the corporation and the administration of the Canada Media Fund Services Agreement.</p>	
<p>Legend—Assessment against the criteria</p> <ul style="list-style-type: none">  Met the criteria  Met the criteria, with improvement needed  Did not meet the criteria 			

48. **Weaknesses—Management of financing programs.** We examined 24 applications for which the decision to finance the projects was made during the period covered by our audit. (More details about the selection of the applications is in **About the Audit** at the end of this report.) For 3 of these applications, we found that the corporation did not fully follow its procedures. For example, for 2 of the applications examined, a document required from the applicant to support eligibility was not on file, and no rationale had been documented for not following this procedure.

49. For the financing program that supported film production, once a submitted project had been approved, the corporation set a closing date for producers to meet the required conditions to access financing. For 2 of the 24 applications we examined that related to the production financing program, the producers had not met the conditions by the set date, and the corporation did not set a new date or document a rationale for extending the deadline. Furthermore, for these applications, the financing contracts were signed after the projects were completed. This does not align with a financing program’s objective to provide timely financing to producers. We found that the procedures did not clearly address these situations.

50. These weaknesses matter because establishing and following clear and complete procedures would ensure objective, fair, and transparent decision making.

51. **Recommendation.** The corporation should ensure that procedures are clearly established and that it applies them effectively and consistently.

The corporation's response. Agreed. The corporation is currently improving its procedures to clearly address situations where a producer does not meet the conditions to access financing by the set date. Also, the corporation will establish clear procedures to address situations where a financing contract is signed after the project is completed. The corporation will also ensure that staff applies procedures effectively and consistently. The corporation will complete these matters by the end of the 2020–21 fiscal year.

Conclusion

52. In our opinion, on the basis of the criteria established, there was reasonable assurance that there were no significant deficiencies in the corporation's systems and practices we examined. We concluded that Telefilm Canada maintained its systems and practices during the period covered by the audit in a manner that provided the reasonable assurance required under section 138 of the *Financial Administration Act*.

About the Audit

This independent assurance report was prepared by the Office of the Auditor General of Canada on Telefilm Canada. Our responsibility was to express

- an opinion on whether there was reasonable assurance that during the period covered by the audit, there were no significant deficiencies in the corporation's systems and practices that we selected for examination
- a conclusion about whether the corporation complied in all significant respects with the applicable criteria

Under section 131 of the *Financial Administration Act*, the corporation is required to maintain financial and management control and information systems and management practices that provide reasonable assurance of the following:

- Its assets are safeguarded and controlled.
- Its financial, human, and physical resources are managed economically and efficiently.
- Its operations are carried out effectively.

In addition, section 138 of the act requires the corporation to have a special examination of these systems and practices carried out at least once every 10 years.

All work in this audit was performed to a reasonable level of assurance in accordance with the Canadian Standard for Assurance Engagements (CSAE) 3001—Direct Engagements, set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook—Assurance.

The Office of the Auditor General of Canada applies the Canadian Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we complied with the independence and other ethical requirements of the relevant rules of professional conduct applicable to the practice of public accounting in Canada, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

In accordance with our regular audit process, we obtained the following from the corporation:

- confirmation of management's responsibility for the subject under audit
- acknowledgement of the suitability of the criteria used in the audit
- confirmation that all known information that has been requested, or that could affect the findings or audit conclusion, has been provided
- confirmation that the audit report is factually accurate

Audit objective

The objective of this audit was to determine whether the systems and practices we selected for examination at Telefilm Canada were providing the corporation with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively, as required by section 138 of the *Financial Administration Act*.

Scope and approach

In this audit, we examined Telefilm Canada. The scope of the special examination was based on our assessment of the risks the corporation faced that could affect its ability to meet the requirements set out by the *Financial Administration Act*.

In performing our work, we reviewed key documents related to the systems and practices selected for examination. We tested the systems and practices in place to obtain the required level of audit assurance. We also examined a selection of activities, such as financing applications, payments, producers' and distributors' remittances, and terms of the services agreement with the Canada Media Fund. The activities were selected on the basis of assessed risk and professional judgment. We also interviewed members of the Board of Directors, senior management, and other employees of the corporation. In addition, we observed meetings of the Board of Directors and its committees.

In our examination of the financing applications and producers' and distributors' remittances we selected, we included sampling approaches. Our sampling covered 345 applications submitted between September 2018 and February 2019. Of these, 317 had been approved by the corporation, and 28 had been rejected. The approved applications represented \$10 million in financing. We randomly sampled data that the corporation extracted from its Dialogue IT system. We selected

- 19 approved applications to examine whether set guidelines and procedures had been followed from the assessment of the eligibility to the issuance of the contract
- 4 rejected applications to examine whether set guidelines and procedures had been followed in assessing eligibility
- 13 producers' and distributors' remittances to examine whether the calculation of the remittance complied with the contract and to determine whether any amount due to the corporation was invoiced to the producers and distributors and then paid

In addition to the 19 approved applications, we selected 5 other projects on the basis of assessed risk and professional judgment. Therefore, in total, we selected 24 approved applications to examine whether the guidelines and procedures had been followed from the assessment of the eligibility to the issuance of the contract.

In our examination of the payments we selected, we also included sampling approaches. Our sampling covered 743 payments made between September 2018 and February 2019, which represented \$63.5 million. We randomly sampled data that the corporation extracted from its financial system. We selected 22 payments to examine whether appropriate amounts had been paid to producers and distributors.

In our examination of the corporation's administration of the Canada Media Fund Services Agreement, we selected, on the basis of assessed risk and professional judgment, certain terms of the services agreement to examine whether the corporation had processes in place to ensure its compliance with these terms. We did not sample applications submitted for programs financed by the Canada Media Fund.

The systems and practices selected for examination for each area of the audit are found in the exhibits throughout the report.

In carrying out the special examination, we did not rely on any internal audits.

Sources of criteria

The criteria used to assess the systems and practices selected for examination are found in the exhibits throughout the report.

Corporate governance

Meeting the Expectations of Canadians: Review of the Governance Framework for Canada's Crown Corporations, Treasury Board of Canada Secretariat, 2005

Corporate Governance in Crown Corporations and Other Public Enterprises—Guidelines, Department of Finance Canada and Treasury Board, 1996

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2013

Performance Management Program for Chief Executive Officers of Crown Corporations—Guidelines, Privy Council Office, 2016

Practice Guide: Assessing Organizational Governance in the Public Sector, The Institute of Internal Auditors, 2014

20 Questions Directors Should Ask about Risk, second edition, Canadian Institute of Chartered Accountants, 2006

Strategic planning

20 Questions Directors Should Ask about Strategy, third edition, Canadian Institute of Chartered Accountants, 2012

20 Questions Directors Should Ask about Risk, second edition, Canadian Institute of Chartered Accountants, 2006

Meeting the Expectations of Canadians: Review of the Governance Framework for Canada's Crown Corporations, Treasury Board of Canada Secretariat, 2005

Corporate Governance in Crown Corporations and Other Public Enterprises—Guidelines, Department of Finance Canada and Treasury Board, 1996

Recommended Practice Guideline 3, Reporting Service Performance Information, International Public Sector Accounting Standards Board, 2015

Corporate risk management

20 Questions Directors Should Ask about Risk, second edition, Canadian Institute of Chartered Accountants, 2006

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2013

Corporate Governance in Crown Corporations and Other Public Enterprises—Guidelines, Department of Finance Canada and Treasury Board, 1996

Operations management

Plan-Do-Check-Act management model adapted from the Deming cycle

Telefilm Canada programs' guidelines and analysis guides

Telefilm Canada Act

Financial Administration Act

Canada Media Fund Services Agreement

Period covered by the audit

The special examination covered the period from 1 September 2018 to 30 June 2019. This is the period to which the audit conclusion applies. However, to gain a more complete understanding of the significant systems and practices, we also examined certain matters that preceded the starting date of this period.

Date of the report

We obtained sufficient and appropriate audit evidence on which to base our conclusion on 25 March 2020, in Montréal, Canada.

Audit team

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List of Recommendations

The following table lists the recommendations and responses found in this report. The paragraph number preceding the recommendation indicates the location of the recommendation in the report, and the numbers in parentheses indicate the location of the related discussion.

Recommendation	Response
Corporate management practices	
<p>22. The corporation should ensure that it develops and monitors performance indicators and targets for its strategic objectives, and that it reports on progress regularly to the Board of Directors. It should also continue to provide information to the board on its progress in implementing risk mitigation measures. (20–21)</p>	<p>The corporation’s response. Agreed. Although the corporation reported to the board on progress against activities established in support of strategic objectives, the corporation is currently developing performance measures to monitor the achievement of objectives stemming from its 2020–22 strategic plan. The corporation will complete this matter by the end of the 2020–21 fiscal year. Progress on the achievement of those objectives will be regularly reported to the Board of Directors. The corporation will also continue to carry on with providing the board with updates on its progress in implementing risk mitigation measures.</p>
<p>25. The corporation should develop a code of conduct for members of the Board of Directors and ensure that it is followed. (23–24)</p>	<p>The corporation’s response. Agreed. The corporation will develop a code of conduct for its board members and put in place an annual process for members to declare their adherence to the code. The corporation will have this process in place by the end of the 2020–21 fiscal year.</p>
<p>30. The corporation should ensure that its strategic and operational objectives are supported by performance indicators and targets that are specific, time bound, and measurable, and that it regularly monitors and reports on its performance. (27–29)</p>	<p>The corporation’s response. Agreed. In support of its 2020–22 strategic plan, the corporation is currently developing performance measures to monitor the achievement of its strategic objectives. The corporation is also in the process of reviewing and improving its current performance measurement for monitoring its operations. The corporation will complete these matters by the end of the 2020–21 fiscal year.</p>
<p>36. The corporation should set risk tolerance and appetite levels and ensure that all risk mitigation measures have a timeline for implementation. It should also implement mitigation measures according to set timelines. (32–35)</p>	<p>The corporation’s response. Agreed. The corporation, in consultation with the Board of Directors, will set risk tolerance and appetite levels. The corporation will complete this matter by the end of the 2020–21 fiscal year. Starting in June 2019, the corporation set timelines for all mitigation measures to be implemented that were included in its 2018–19 risk register. The corporation will ensure that it implements those mitigation measures against set timelines. Furthermore, following the conclusion of the Dialogue IT system project, the corporation completed in December 2019 a fraud risk assessment, and in February 2020, a threat and risk assessment of all components of this system.</p>
<p>39. The corporation should regularly monitor and report to the Board of Directors on its progress in implementing all risk mitigation measures. (37–38)</p>	<p>The corporation’s response. Agreed. Since June 2019, senior management has been monitoring the implementation of all mitigation measures included in its 2018–19 risk register. Also since June 2019, the corporation has been providing the Board of Directors with its progress in implementing all risk mitigation measures included in its 2018–19 risk register.</p>

Recommendation	Response
<p>Management of operations</p> <p>51. The corporation should ensure that procedures are clearly established and that it applies them effectively and consistently. (48-50)</p>	<p>The corporation's response. Agreed. The corporation is currently improving its procedures to clearly address situations where a producer does not meet the conditions to access financing by the set date. Also, the corporation will establish clear procedures to address situations where a financing contract is signed after the project is completed. The corporation will also ensure that staff applies procedures effectively and consistently. The corporation will complete these matters by the end of the 2020-21 fiscal year.</p>

