

## At a Glance

### **Audit of the administration of the grants and contributions for the Low Carbon Economy Fund, Environment and Climate Change Canada**

Environment and Climate Change Canada (ECCC) is the lead federal department for strategic action on a wide range of environmental matters, including action on clean growth and climate change, preventing and managing pollution, conserving nature, and predicting weather and environmental conditions.

In December 2015, Canada and 194 other countries reached the Paris Agreement. As a result, Canada committed to lowering its greenhouse gas (GHG) emissions to 30% below 2005 levels by 2030. Canada also committed to working with provinces, territories, Indigenous peoples, domestic stakeholders and international partners to reach this goal. Every year, Canada reports on progress in meeting its commitment.

In December 2016, Canada's First Ministers adopted the Pan-Canadian Framework on Clean Growth and Climate Change (PCF). The PCF represents a joint commitment by the federal, provincial and territorial governments to work together to address climate change on four pillars:

- carbon pollution pricing
- mitigation (complementary actions to reduce emissions)
- adaptation and resilience
- clean technology, innovation and jobs

### **What the audit examined**

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- The objective of the audit and evaluation was to assess the governance, risk management and controls in place to administer G&Cs under the Low Carbon Economy Fund (LCEF).

- The audit addressed the four LCEF funding streams, namely the Leadership Fund, the Energy Savings Rebate Program and the Champions and Partnerships Streams of the Challenge Fund.
- The audit focused on the administration of G&Cs, including project eligibility assessment, selection and approval, funding agreement development, claims processing and project monitoring and closing. The audit scope also included program governance and risk management.
- The audit scope covered the period from the announcement of the LCEF in [Budget 2016](#) to the substantial completion of the conduct phase of the audit in January 2020.

## What the audit found

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### Processes for the administration of the grants and contribution for the Low Carbon Economy Fund

Program infrastructure and processes for the administration of the G&Cs for the LCEF are in place including engagement, communication and outreach with applicants, project selection and approval and funding agreement establishment.

Some opportunities for improvement were identified with respect to meeting departmental G&Cs service standards, updating funding agreements in a timely manner, establishing risk-based project monitoring, strengthening the claims review process and reinforcing the expenditure initiation and commitment approval process.

### Overall financial oversight

Overall, the roles and responsibilities of LCEF staff at the project level were clearly defined and implemented. However, no specific role was identified with the responsibility for overall financial tracking and analysis.

### Governance

Appropriate governance structures were designed and implemented to oversee the LCEF and the agreements with provinces and territories. However, these committees are not fully meeting their mandate to provide oversight and monitoring of LCEF as a whole and implementation of provincial and territorial agreements.

## **Risk management**

The project selection, implementation and monitoring phases were designed and conducted based on risks. However, there is no formal risk management framework at the program level to enable the LCEF to monitor emerging risks.

## **Information management strategy implementation**

Various means are used to store LCEF program information and data, including the LCEF G&Cs system and the ECCC shared corporate drives. However, not all documentation of business value that supports decision making and approvals is being saved in these repositories. The LCEF has not developed an information management strategy and guidance to support staff in understanding what and where information must be retained.

## **Performance measurement**

Performance measurement for the LCEF has been designed at the project level and at the program level. At the project level, the LCEF developed a performance indicator methodology for estimating GHG reductions for use across all sectors. The methodology is applied to collect estimate GHG reductions for each project at the proposal assessment phase, during the implementation phase and at the project closure phase. All relevant information is stored in the LCEF system.

## **Recommendations and management response**

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In response to these findings, the audit team has put forward five recommendations. The Pan-Canadian Framework Implementation Branch has accepted the recommendations and has developed a management action plans in response.

### **Recommendation 1 – processes for grants and contributions administration**

**The Assistant Deputy Minister, Pan-Canadian Framework Implementation Branch, should review, refine, document and monitor the Low Carbon Economy Fund business processes for funding agreement management, project monitoring and claims processing, to ensure that:**

- departmental service standards are met**
- approved projects are documented through timely amendments to funding agreements and approved projects that have been withdrawn by the applicant are formally rescinded**

- projects are monitored effectively according to their risk level as per strategy and guidance provided to staff
- the role of the Methodology and Evaluation Division in the technical review of reporting on projects is defined
- claims are processed with the appropriate due diligence and holdbacks are released only on receipt of all required information
- relevant ECCC delegation of authority requirements (expenditure initiation, commitments) are followed and documented

**Management response:** PCFIB considers the following notes to be important context regarding its experience with the LCEF:

- The LCEF was designed and launched on an expedited basis to enable timely announcements.
- PCFIB capacity that had been supporting LCEF implementation was redeployed to design and deliver new climate change programming, which was also expedited as a government priority.
- The LCEF was resourced for simpler program implementation. Subsequent decisions made to address public criticisms and respond to federal-provincial dynamics led to more complexity, such as additional program stream intakes and lower minimum contributions that resulted in more agreements to be managed.

The Pan-Canadian Implementation Branch (PCFIB) will review and revise existing business processes for tracking service standards, amending and withdrawing funding agreements, project reporting and monitoring, and claims processing to improve the procedures and reporting related to programming initiatives funded through LCEF.

## **Recommendation 2 – overall financial monitoring**

**The Assistant Deputy Minister, Pan-Canadian Framework Implementation Branch, should review staff roles and responsibilities to ensure that all Low Carbon Economy Fund financial responsibilities are assigned and carried out in a timely manner, to support sound management and effective decision making regarding the overall Low Carbon Economy Fund program.**

**Management response:** PCFIB will lead a review of roles and responsibilities related to overall financial monitoring, in collaboration with Corporate Services and Finance Branch.

PCFIB will identify staff roles and the expertise needed to carry out overall program financial tracking, analysis and reporting.

## **Recommendation 3 – governance**

**3.1 The Assistant Deputy Minister, Pan-Canadian Framework Implementation Branch, should review the overall governance structure to address the evolving oversight needs of the Low Carbon Economy Fund, including strategic direction, operational and financial monitoring, to support decision making and ensure that Low Carbon Economy Fund priorities and performance objectives are addressed.**

**3.2 The Assistant Deputy Minister, Pan-Canadian Framework Implementation Branch, should reinforce the monitoring role and activities of the Agreement Oversight Committees to support compliance with the Leadership funding agreements and the delivery of projects and programs at the provincial and territories level.**

**Management response:** PCFIB will review options for program-level governance structures in light of evolving oversight needs of the LCEF. The processes and procedures of the LCEF Director General Governance Committee will be updated as needed to respond to current and future priorities and performance objectives of the LCEF.

PCFIB will reinforce the monitoring role and activities of the Agreement Oversight Committees (AOC). Each AOC will meet at least twice a year (and more if needed) to ensure proper monitoring of the progress of the portfolio components to support compliance with the Leadership funding agreements and the delivery of projects and programs at the provincial and territorial level.

## **Recommendation 4 – risk management**

**The Assistant Deputy Minister, Pan-Canadian Framework Implementation Branch, should develop, document and implement an evergreen risk management strategy that formalizes the analysis of external and internal risk factors and documents risk tolerance and risk mitigation plans, to support strategic and operational objectives.**

**Management response:** PCFIB will develop and implement a risk management strategy that will support the strategic and operational objectives of the LCEF. The strategy will highlight roles and responsibilities, methodology, guidance, tools, templates, risk tolerance and activities.

The strategy will be used to formalize a quarterly review of risks, risk tolerance and mitigation and to monitor activities as documented in the risk registry.

## **Recommendation 5 – information management strategy implementation**

**The Assistant Deputy Minister, Pan-Canadian Framework Implementation Branch, should:**

- **develop and implement an information management strategy, to ensure that all supporting documentation and information of business value are stored appropriately**
- **provide guidance to staff regarding what constitutes information of business value and where it should be stored**

**Management response:** PCFIB will lead a data management task force to develop and implement an information management strategy to guide the identification and storage of information of business value.

The strategy will ensure that there is a central repository of all PD data of business value. The task force will develop guidance on the maintenance of the repository, as well as work with partners from Corporate Services and Finance Branch to ensure that, moving forward, information available is accessible and useful for intended users.