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List of acronyms and abbreviation

CA	Cultural Affairs
CMMD	Corporate Material Management Directorate
FAA	Financial Administration Act
FBM	Frankfurt Book Fair
FT	Frankfurt Team
GoC	Government of Canada
GoH	Guest of Honour
LoE	Lines of Enquiry
OCAE	Office of the Chief Audit Executive
PCH	Canadian Heritage
PSPC	Public Services and Procurement Canada
RMD	Resource Management Directorate
TB	Treasury Board

1. Background and Context

1.1 Background of the Frankfurt Book Fair and Canada's Role

- The Frankfurter Buchmesse (Frankfurt Book Fair or FBM) is considered the largest gathering of publishing industry professionals in the world; it is held annually in October.
- In October 2016, the Government of Canada (GoC) signed an agreement committing Canada to act as Guest of Honour (GoH) for the 2020 FBM; as GoH, Canada was provided the opportunity to showcase its literature and culture in line with Canada's Creative Export Strategy.
- As GoH, Canada assumed significant financial and operational obligations, including presenting content and artists, creating an on-site pavilion, and hosting dignitaries, among others.
- Canadian Heritage (PCH) was tasked with managing and delivering these obligations including responsibility to coordinate both with other GoC Organizations and private sector organizations, including Canada FBM2020, which was a consortium of key Canadian publishers created to identify and create content for the event;
- The COVID-19 Pandemic had significant impacts on the FBM, including:
 - FBM 2020 being held virtually; and
 - A late decision was made to hold an in-person event in 2021 and Canada agreed to once again act as GoH; this is the first time any country acted as GoH for back-to-back events.

1. Background and Context (Cont'd)

1.2 Context of this Audit

- Responsibility to deliver PCH's lead role fell to PCH's Cultural Affairs Sector (CA).
- Within CA, a dedicated Frankfurt Team (FT) was assembled to fulfill Canada's obligations.
 - Corporate Material Management Directorate (CMMD) and Finance supported the FT on matters such as procurement, facilitating payments and managing agreements.
- PCH incurred costs of approximately \$17.5M in connection with its responsibilities for the 2020 virtual event and the 2021 in-person event.
- As noted earlier, the Pandemic had considerable impacts on FBM; this included the extent and nature of financial risks borne by PCH as Canada's lead organization. For example, financial risks related to:
 - Tight timelines that reflected relatively late-stage decision-making (e.g. determining 2021 would be an in-person event and that Canada would once again be the GoH);
 - Increased costs associated with adhering to German pandemic measures;
 - Exasperated labour and supply chain challenges in Germany; and
 - Various challenges within PCH, including CMMD and Finance, associated with the Pandemic.
- Based on this profile of financial risk, PCH's Risk-Based Audit Plan identified the need for a limited scope audit of the financial controls in place to support the virtual and in-person events.

2. About this Audit of the Frankfurt Book Fair Controls

2.1 Objective and Scope

The objective of the engagement was to identify the extent to which appropriate financial controls were in place and functioning effectively for both the virtual and in-person events for purposes of identifying potential lessons learned.

Based on a risk assessment undertaken during planning, a scope* for the engagement was established to include the following Lines of Enquiry (LoE):

- LoE #1 - **Construction Management** (i.e. management and monitoring associated with construction of the on-site pavilion in Germany);
- LoE #2 - **Contractual Arrangements** with public sector partners;
- LoE #3 - **Procurement** of goods and services; and
- LoE #4 - **Financial Payments** to contractors.

2.2 Criteria

Based on the risk assessment referenced above, specific criteria were developed to focus the work on financial controls associated with each of the four LoE. Please refer to [Appendix A: Audit Program Results](#) for a description of the audit criteria associated with the LoE.

*The original scope of work included a Health & Safety Element related to the COVID-19 Pandemic. That work was completed, and reported separately, in early October 2021 such that recommendations could be implemented prior to the in-person event.

2. About this Audit of the Frankfurt Book Fair Controls (Cont'd)

2.3 Approach

The approach for the engagement included three phases: Planning, Conduct, and Reporting.

The **Planning Phase** took place in Q2 of 2021/22 and involved:

- A review of documents that set out and support the key financial processes in place;
- An interview with representatives from PCH's Frankfurt Book Fair team within the Cultural Affairs Sector;
- Developing a risk assessment that identified events that could negatively affect the Department in the planning and implementation of the events;
- Based on the risk assessment, determining the in-scope areas for the engagement and developing audit criteria;
- Developing and sharing a Terms of Reference for the engagement; and
- Developing a detailed Audit Program that set out the procedures to be completed in the Conduct Phase, including the selection of a sample of contractual arrangements, contracts, and payments to be reviewed.

2. About this Audit of the Frankfurt Book Fair Controls (Cont'd)

2.3 Approach (Cont'd)

The **Conduct Phase** took place from Q3 2021/22 through Q3 2022/23* and involved:

- Conducting eight interviews with representatives from Frankfurt team, the applicable Resource Management Directorate (RMD), the Contracting and Material Management Directorate, and the Accounting Operations and Reporting Directorate;
 - A review of additional documentation provided by interviewees that further defines and supports financial controls that were in place; and
 - A comprehensive review of controls associated with three contractual arrangements with public sector organizations, nine contracts with suppliers, and thirteen payments to suppliers.
-
- The **Reporting Phase** involved:
 - An analysis of evidence and additional information to establish findings and conclusions against the engagement criteria, and develop recommendations;
 - Developing a draft report to validate with Management; and
 - Finalizing the draft report to present to Executive Committee and the Departmental Audit Committee.

*The conduct phase occurred over a longer than anticipated timeframe due to delays in obtaining procurement-related documentation. This is described further in Section 3 of this Report.

3. Observations and Considerations

3.1 LoE #1 - Construction Management

Context

- As GoH, Canada was responsible for the design and construction of a pavilion (i.e. a stage) at the FBM exhibition site to present artists and content during the 2021 in-person event.
- Public Services and Procurement Canada (PSPC) ran a competitive procurement process on behalf of PCH and awarded a contract to Matane Production Inc. (“Matane”) in January 2020.
- When the 2020 FBM shifted to a virtual event, the contract end date was extended to retain Matane for an additional year; at that time much of the design work had already been completed.
- The on-site construction period was approximately 10 days, commencing on October 11, 2021.

Key Observations

- Monitoring of the construction involved daily meetings with Matane that included standing agenda items to assess progress against budget and schedule (among other items).
- In addition, two members of PCH’s Frankfurt Team were on-site to monitor progress during the entire construction period.

Conclusion for this Line of Enquiry

- Controls associated with the management and monitoring of the on-site construction of the pavilion reflect the criteria established for this Audit.

3. Observations and Considerations (Cont`d)

3.2 LoE #2 - Contractual Arrangements

Context

- The Frankfurt team, with the support of CMMD, entered into a number of contractual arrangements (i.e. Letters of Agreement) with GoC Organizations to fulfill its GoH obligations (see [Appendix B](#) for a list of partner GoC Organizations).
- During both FBM events the Treasury Board (TB) *Guidelines on Contractual Arrangements* was in place and included provisions that encouraged departments to structure arrangements so that they are able to certify goods/services received in accordance with the *Financial Administration Act*, including defining expected outcomes, schedules of payments, and responsibilities of the parties.
- The *Guidelines on Contractual Arrangements* were archived in May 2022, and direction related to the use of contractual arrangements now falls under the May 2021 TB *Directive on the Management of Procurement*, which requires business owners (i.e. Technical Authorities) to:
 - Clearly define the intended outcomes of procurement so that they are aligned with the departmental mandate and priorities; and
 - Monitor, document, and certify that goods/services received meets the provisions of the contract or contractual arrangement (including such criteria as quality, standards, and service levels).
- In addition, during the planning phase, PCH had established a draft procedure for the use and processing of contractual arrangements that set out the administrative steps associated with establishing them.

3. Observations and Considerations (Cont'd)

3.2 LoE #2 - Contractual Arrangements (Cont'd)

Key Observations

- The contractual arrangements established for FBM set out the amount to be transferred to the partnering department/agency and, generally, how funds were to be used.
- Project roles and responsibilities were documented for key stakeholders (e.g. Global Affairs Canada and the Canada Council for the Arts), but not for all GoC partners.
- Monitoring of activities associated with contractual arrangements largely involved updates provided by federal partners during regular meetings of various established working groups (i.e. programming, communications, pavilion build, etc.).
- While the department had established a draft procedure for the use and processing of contractual arrangements, it did not provide any requirements on the structure or content of them, including expectations related to defining, monitoring, and reporting against outcomes.

Conclusion for this Line of Enquiry

- Controls in place associated with contractual arrangements do not fully reflect all the criteria established for this Audit. Gaps were noted related to departmental expectations in defining and monitoring outcomes to better align with current Treasury Board Secretariat requirements.

Consideration 1: When PCH directly engages in similar activities in the future, requirements for a performance management framework should be included in contractual arrangements, to clearly define how funds are to be used to support departmental objectives, the expected performance outcomes, and reporting expectations against outcomes.

3. Observations and Considerations (Cont`d)

3.3 LoE #3 - Procurement

Context

- CMMD had established and documented departmental procurement processes within PCH's *Manager's Guide to Procurement*.
- The Frankfurt Team, with the support of CMMD and PSPC, undertook various procurement activities to secure needed goods and services for the events, which included competitive processes, sole source contracts, establishing a supply arrangement, and using acquisition cards.
- In some instances, the Frankfurt Team was required to sole source with FBM's "preferred suppliers" as a condition of Canada's GoH agreement; these were local vendors providing on-site services such as catering, lighting, etc. Sole source justifications were provided in these instances.
- Due to the COVID-19 pandemic and Canada acting as GoH for two years, contracts with key suppliers were extended and contract values increased. The two most significant examples of contract increases were:
 - An increase from \$1.5M to \$3.3M in the PSPC-issued contract with Matane for the construction of the pavilion due to increased construction costs, and to incorporate additional mandated COVID-19 health and safety measures; and
 - An increase of 50% (from \$1.4M to \$2.15M) in the contract with Canada FBM2020 (i.e. the consortium of Canadian publishers) for the creation and securing of additional content for the two years of programming.

3. Observations and Considerations (Cont'd)

3.3 LoE #3 – Procurement (Cont'd)

Key Observations

- The Office of the Chief Audit Executive (OCAE) Audit Team experienced numerous issues in obtaining procurement-related documentation, which resulted in significant delays during the conduct phase.
 - Documentation that was obtained was provided over the course of several months by multiple sources including former Frankfurt Team members, the RMD, CMMD, and directly by the Audit Team (via a scan of the Department's financial system).
- While most key documents were eventually obtained and demonstrated that procurement activities complied with departmental processes, a few gaps remained (see [Appendix C](#) for procurement file testing results).
 - Notwithstanding, due largely to the delays in obtaining the documentation, it was clear that sufficient procurement-related documentation requested during this engagement was not being appropriately maintained in an accessible repository.

3. Observations and Considerations (Cont'd)

3.3 LoE #3 - Procurement (Cont'd)

Conclusion for this Line of Enquiry

- Controls in place associated with procurement do not fully reflect all the criteria established for this Audit. While there is evidence of appropriate procurement controls and compliance with defined processes, there were gaps in the availability and accessibility of procurement-related documentation.

Consideration 2: This is further supporting evidence to the documentation and information management related recommendation from the recent Audit of Procurement Practices. In addition to the management action plan already set out, the Chief Financial Officer should continue to pursue establishing requirements to better ensure that procurement-related documentation is adequately maintained to support related decision-making and demonstrate compliance. A quality assurance check should also be regularly conducted on a sample of files to ensure required documentation is being maintained.

3. Observations and Considerations (Cont'd)

3.4 LoE #4 - Financial Payments

Context

- The Financial Administration Act (FAA) sets out specific requirements associated with the purchase of goods or services by PCH as a federal department. These include **certification** (Section 34 of the FAA) and **payment** authority (Section 33 of the FAA).

Key Observations

- Evidence was provided, for all 13 transactions reviewed by the OCAE that demonstrate an appropriate individual with delegated Certification Authority (i.e. s.34) provided approval to certify that work was performed and that goods were supplied, or services were rendered as expected;
- In all instances, s.34 approval was provided by the Director of the Frankfurt Team.

3. Observations and Considerations (Cont'd)

3.4 LoE #4 - Financial Payments (Cont'd)

Key Observations (Cont'd)

- Evidence was also provided to demonstrate that an individual, with delegated Payment Authority (i.e. s.33), provided approval to demonstrate that account verification of the transaction was undertaken as per established departmental processes;
 - For the 11 transactions, s.33 approval was provided by an individual within the Accounting Operations and Financial Policies Directorate; and
 - There were two transactions where s.33 approval could not be found within the Department's financial system. However, the Audit Team was notified that these transactions involved purchases made via acquisition card. As such, s.33 approval would have been applied to the applicable acquisition card statement (along with other transactions made with the card).

Conclusion for this Line of Enquiry

- Controls associated with FAA Section 33 and 34 authorities related to financial payments reflect the criteria established for this Audit.

Appendix A: Audit Program Results

Lines of Enquiry	Audit Criteria (i.e. Anticipated controls and related practices)	Conclusion (Met / Partially Met / Did Not Meet)
Construction Management	Regular reports to management during the construction process confirming progress and identifying project risks and challenges.	Met
	On site monitoring by PCH to confirm progress and address issues on a timely basis.	Met
Contractual Arrangements	PCH decision documents and approvals to transfer funding to other federal departments, agencies and crown corporations clearly indicate how the funding will be used to support PCH objectives for the Frankfurt Book Fair 2021 – Canada as Guest of Honour.	Met
	The Letters of Agreement or the Interdepartmental Transfers include provisions to support effective performance management and monitoring of outcomes associated with PCH’s objectives.	Partial
	Letters of Agreements and Interdepartmental Transfers require federal organizations to report back to PCH on the performance outcomes on a scheduled timeframe.	Partial
	PCH has a process in place to follow up with federal organizations on reporting on performance outcomes.	Met

Appendix A: Audit Program Results (Cont'd)

Lines of Enquiry	Audit Criteria	Conclusion (Met / Partially Met / Did Not Meet)
Procurement	Procurement processes have been established by Contracting and Material Management Directorate.	Met
	PCH managers are required to follow the appropriate process, including Treasury Board policies and guidelines, and ensure the procurement documents are prepared and included in the contract file.	Did Not Meet
	At PCH, several procurement processes are in place including competitive, non-competitive (sole source), acquisition cards, purchase orders, Task Authorizations, call ups and service contracts.	Met
Financial (Payments)	Account verification of section 34 of the Financial Administration Act requires the Certification Authority to certify that work was performed and that goods were supplied, or services were rendered as contracted.	Met
	Payment Authority pursuant to section 33 of the Financial Administration Act provides assurance of the adequacy of the section 34 account verification, and there exists auditable evidence of the verification process which includes identification of the various individuals who performed the verification.	Met

Appendix B: Partnering Federal Organizations

The following are GoC Organizations that PCH partnered with, via contractual arrangements, to fulfill Canada's GoH obligations:

- Global Affairs Canada*
- Canada Council for the Arts*
- Telefilm Canada*
- Canadian Museum for Human Rights
- Canadian Broadcasting Corporation / Radio Canada
- Canadian Museum of History
- National Film Board
- National Gallery of Canada
- Canadian Museum of Nature
- Ingenium
- Library and Archives Canada

* Indicates that an associated Letter of Agreement was reviewed as part of this engagement.

Appendix C: Procurement File Testing Results

Vendor	Final Value	Process	Contract Request Form	Statement of Work / Requirements	Proposal / Quote	Signed Contract	Sole Source Justification	Solicitation Documents	Amendments
Matane Production Inc.	\$3,309,089.00	Competitive (PSPC)	N/A (Not required at the time)	Yes	Maintained by PSPC	Yes	N/A	Maintained by PSPC	Supporting docs provided
Canada FBM2020	\$2,155,838.00	Sole Source (ACAN)	Yes	Yes	Yes	Yes	N/A	N/A (ACAN)	Supporting docs provided
Fleishman Hillard High Road Corp.	\$1,191,842.45	Competitive – Supply Arrangement	N/A (Not required at the time)	Yes	Yes	Yes	N/A	Yes	Supporting docs provided
Frankfurter Buchmesse	8,190.00 Euros	Sole Source	Yes	Yes	Yes	Yes	Yes	N/A	N/A
Frankfurter Buchmesse	6,008.80 Euros	Sole Source	Yes	Yes	Yes	Yes	Yes	N/A	N/A
PR3 Media	\$105,196.21	Sole Source	Yes	Yes	Yes	Yes	Yes	N/A	N/A
PR3 Media	\$58,051.00	Sole Source	Yes	Yes	Yes	Yes	Yes	N/A	N/A
Bright Studio (*Preferred Supplier)	51,403.95 Euros	Sole Source	Yes	Yes	Yes	Yes	Yes	N/A	N/A
Accente Catering (*Preferred Supplier)	\$50,000 Estimated	Sole Source	N/A (A-Card purchase)	Not available	Yes	A-Card purchase –Threshold exception not available	Yes	N/A	N/A