

March 30, 2012

Mr. Guy D'Aloisio  
Vice-President, Finance  
Genome Canada  
2100-150 Metcalfe Street  
Ottawa, Ontario K2P 1P1

Dear Mr. D'Aloisio:

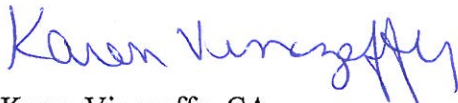
**Re: Industry Canada Audit**

Please find enclosed a copy of our final audit report.

Should you have any questions or require further information, please do not hesitate to contact the undersigned.

Yours very truly,

**Welch LLP**



Karen Vinczeffy, CA  
Senior Manager

Encls.

cc: Ms. Ana Weicker  
Industry Canada

**Genome Canada**

**Recipient Audit Report**  
**For the Period of April 1, 2010 to March 31, 2011**

**March 9, 2012**

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## Appendix A - Recipient's and Welch LLP's Comments on Draft Report

## I. Executive Summary

### 1.0 Background

Established in February 2000 under the *Canada Corporations Act*, Genome Canada ("GC" or "Recipient") is a not-for-profit organization that invests in genomics research in key sectors of strategic and economic importance to Canada, and fosters networks of expertise across Canada and globally with a view to generating economic and social benefits for Canadians.

Working in collaboration with six Genome Centres across Canada, GC's mandate is to develop, implement and maintain a national strategy in genomics research in sectors such as health, agriculture, environment, forestry and fisheries.

All research projects supported by GC through federal investments are required to be co-funded with other parties, including provinces, universities, the private sector, and other national and international organizations. A rigorous competitive process determines which research projects and Science and Technology Centres ("STICs") throughout Canada will be funded. Projects are selected through a system of peer review which includes an assessment of the scientific merit of the proposal and a concurrent due diligence review of the proposed management structure, the proposed budget and related financial data, including co-funding. Reviewers are chosen for their recognized expertise in the science and management of large-scale genomics/proteomics projects and are all primarily from the international scientific community to avoid conflict of interest. GC's Board of Directors makes the final decision on which proposals to fund, based on recommendations received from the international panel of reviewers.

In accordance with the terms and conditions of the funding agreements with each of the six Genome Centres, GC disburses funds to each for approved projects and STICs. In turn, each Centre directs the funds to individual projects and STICs located within its region. The operations of the Centres themselves are also partially supported by GC.

GC operates within a governance framework that is reflective of its not-for-profit corporation status. It is governed by a Board of Directors comprising up to 16 individuals drawn from the academic, private and public sectors. These individuals bring unique skills and experiences as well as strong interests and insights to successfully fulfill GC's mission. The Board also benefits from the strategic advice and expertise offered by its Science and Industry Advisory Committee as well as the presidents of five major federal research funding agencies - the Canada Foundation for Innovation, the Canadian Institutes of Health Research, the National Research Council, the Natural Sciences and Engineering Research Council, and the Social Sciences and Humanities Research Council.

## **2.0 Audit Objective**

The objective of the audit is to provide assurance that GC is in compliance with all of the requirements of the Industry Canada Funding Agreement.

## **3.0 Audit Scope**

Industry Canada ("IC") engaged Welch LLP to conduct a recipient audit of GC for the audit period from April 1, 2010 to March 31, 2011 regarding GC's compliance with the original funding agreement and the 2010 amendment.

## **4.0 Audit Methodology**

Welch LLP examined GC's records in relation to this funding agreement for the period of April 1, 2010 to March 31, 2011. The recipient audit was based on the audit criteria developed by Welch LLP and approved by IC. The audit was conducted at the GC offices in Ottawa, Ontario. At the conclusion of the audit, this report was prepared summarizing our significant findings and recommendations. A separate audit opinion in accordance with Section 5815 of the CICA Handbook was issued and is included in Section II.

Upon completion of the audit on February 17, 2012, an end-of-project interview was held with the GC's VP Finance. A copy of the draft report was sent to GC for fact validation on March 15, 2012. GC's comments are provided in Appendix A along with our response.

## 5.0 Overall Conclusion

According to our audit procedures for the period audited, we are of the opinion that GC did comply with the requirements of its funding agreement with Industry Canada. We noted during the course of our audit the following audit findings and recommendations.

**Audit Finding #1** (refer to section 2.0, Audit Criteria #5 on page 10 for additional comments.)

The external investment advisor and portfolio manager were selected through a Request for Proposal (RFP) process and approved by the board in May 2000. The Investment Committee at the request of the Board of Directors prepared an analysis of the investment management fees in September 2010. The Investment Committee found that the management fees were reasonable as compared to other similar organizations and for the active management investment policy used by the recipient. We noted that both the investment advisor and portfolio manager's performance have not been formally evaluated since their selection in May 2000.

**Recommendation #1:** The recipient should evaluate the effectiveness of the external investment advisor and portfolio manager on a regular interval.

**Audit Finding #2** (refer to section 2.0, Audit Criteria #6 on page 10 for additional comments.)

The funding agreement and recipient investment policy criteria limits the maximum individual holdings to 10% in non-government bonds.

The recipient has an individual investment in January 2011 and February 2011 valued at greater than 10% of the overall portfolio. The GE Canada Capital bond was valued at 11.25% (cost) and 11.58% (FMV) of the total portfolio for these months. In March 2011 approximately half of the bond units were sold thereby reducing the individual non-government bond holding to under 10%.

**Recommendation #2:** The recipient should ensure their percentage holdings on non-government bonds comply with the criteria of the funding agreement and the recipient investment policy.

**Audit Finding #4** (refer to section 10.0, Audit Criteria #2 on page 16 for additional comments.)

The annual corporate plan for 2011-2012 includes all the criteria specified in article 14.6 of the funding agreement. The annual corporate plan was released to IC seven weeks before the fiscal year-end as per the letter dated February 7, 2011. The annual corporate plan was one week late as per the required due date in the funding agreement and is available on the recipient website in both official languages.

**Recommendation #3:** The annual corporate plan should be released two months prior to the year-end as specified in the funding agreement.

**Audit Finding #4** (refer to section 13.0 on page 17 for additional comments.)

Genome Canada has a conflict of interest policy that complies with the criteria of article 17 of the funding agreement.

During our review of the approval of the Eligible Recipient projects, we noted one project had, and continues to have, a member of the recipient Board of Directors as its project leader. This project is funded under The Science and Technology Centre (STIC) platform through the Ontario Genomics Institute (OGI), one of the six Genomes Centers.

The recipient Board of Directors approved the project in August 2005 for eligible project funding. The project had its interim project review in November 2007.

The individual became a member of the recipient Board of Directors in June 2008. They were present and did not abstain from voting when the recipient Board of Directors approved a funding extension in February 2009 for all of the STIC eligible projects based on the August 2005 eligible project competition.

The member did not attend or vote at the March 24, 2011 recipient Board of Directors meeting where the 2010 STIC competition eligible recipient projects were approved for funding for the 2011 to 2013 fiscal years.

The member has signed the conflict of interest statement as it is a requirement of all recipient Board of Director members.

**Recommendation #4:** The recipient should ensure all the Board of Director members state potential conflict of interest, abstain from voting and request a conflict of interest ruling.

**II. AUDITOR'S REPORT ON COMPLIANCE WITH AGREEMENT**

**To: Industry Canada**  
**Funding Agreement and Amendment**  
**For the period of April 1, 2010 to March 31, 2011**

**Between: Industry Canada**  
**and**  
**Genome Canada**

We have audited Genome Canada's compliance with the aforementioned agreement for the period April 1, 2010 to March 31, 2011 with the criteria established in the articles of the agreement dated March 31, 2008 and the amendment of March 30, 2010. Compliance with the criteria established by the agreement is the responsibility of the management of Genome Canada (Recipient). Our responsibility is to express an opinion on this compliance based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the Recipient complied with the criteria established by the provisions of the agreement referred to above. Such an audit includes examining, on a test basis, evidence supporting compliance with the agreement, and where applicable, assessing the accounting principles used and significant estimates made by management.

In our opinion, as at March 31, 2011, the Recipient is in compliance, in all material respects with the criteria of the aforementioned agreement.

The auditor's report is prepared to assist Industry Canada in assessing Genome Canada's compliance with the financial terms and conditions of its contribution agreement with Industry Canada. As a result, the auditor's report may not be suitable for another purpose. Our auditor's report is intended solely for Industry Canada and Genome Canada and should not be distributed to parties other than Industry Canada or Genome Canada.



Chartered Accountants  
Licensed Public Accountants

Ottawa, Ontario  
March 9, 2012.



### III. Financial Information and Summary of Audit Adjustments

Below is a summary of amounts reported by GC for the period April 1, 2010 to March 31, 2011. Budget amounts have not been provided as this project is a multi-year agreement. The total approved funding under this agreement is \$140,000,000 for the three year period from April 1, 2010 to March 31, 2013. GC has received \$49,600,000 of the grant from IC for the period, April 1, 2010 to March 31, 2011.

<u>Genome Canada Operations</u>	<u>As Reported</u>
General and administrative	\$ 4,193,979
Communication and public outreach	500,498
External committees	1,370,142
Workshops and symposiums	39,387
Ethical, environmental, economic, legal and Social issues related to genomics (GE3LS)	118,364
Amortization of capital assets	<u>32,303</u>
Sub-totals	<u>6,254,673</u>
<u>Genome Centres and Eligible Recipients</u>	
Genome Atlantic	1,425,468
Genome Quebec	11,475,969
Ontario Genomics Institute	19,463,565
Genome Prairies	5,259,629
Genome Alberta	5,143,867
Genome British Columbia	<u>10,723,518</u>
Sub-totals	<u>53,492,016</u>
Totals	<u>\$ 59,746,689</u>

Note: The audit testing of the Genome Canada Operations and the funding disbursed to the Genome Centres and Eligible Recipients indicated no audit adjustments were required to the amounts reported by Genome Canada to Industry Canada.

## **IV. Findings and Recommendations**

### **1.0 Representations and Warranties**

**Audit Criteria #1:** The recipient's Board of Directors does not contain members of the Senate or House of Commons.

**Verification Procedure(s) Performed:** Examine the recipient's Board of Director's membership list and biographies for April 1, 2010 to March 31, 2011.

**Findings:** The recipient's Board of Directors does not contain any members of the Senate or House of Commons as per the corporate by-laws. The recipient's governance manual also state that members of the Board of Directors must resign if they are a candidate in a federal election.

Dr. Kevin Ogilvie was appointed to the Senate on August 27, 2009 and had resigned his place on the recipient's Board of Directors as per by-law 4, article 3 of the recipient's governance manual.

Dr. Kellie Leitch resigned her place on the recipient's Board of Directors on March 3, 2011 as she was a candidate in the federal election.

**Audit Criteria #2:** The federal government representatives or agents do not comprise a majority or quorum to effect any decision of the recipient's Board of Directors.

**Verification Procedure(s) Performed:** Review the Board of Directors membership list to determine the number of federal government representatives or agents. Review the governance by-laws on quorum.

**Findings:** There are no federal government representatives or agents with voting power on the recipient's Board of Directors.

The recipient's corporate governance by-laws on quorum, by-law 4, article 10 and by-law 5, article 8, specify that quorum is 50% plus 1 of the board of director's members and that the federal government representatives or agents shall not comprise a majority of the quorum.

### **2.0 Investment Management of the Amount**

**Audit Criteria #1:** The recipient has established an investment committee to oversee all matters relating to the grant.

**Verification Procedure(s) Performed:** Verify the existence of the recipient's investment committee, through verification of the corporate governance by-laws establishing the investment committee, its responsibilities and membership. Review the investment committee meeting minutes for the audit period April 1, 2010 to March 31, 2011

**Findings:** The recipient has established an investment committee as specified in article 4 of the funding agreement.

**Audit Criteria #2:** The principal amount of the grant that has not been disbursed or committed is invested.

**Verification Procedure(s) Performed:** Test the receipt of grant funds during the 2010-2011 fiscal year, and verify the investment committee policy and high-level cash-flow analysis for fund disbursements.

**Findings:** The investment committee policy is to transfer all grants received to their investment account and then withdraw funds based on the expected disbursement requirements for both the recipient operating expenses and the funding necessary for the Genome Centres and eligible recipients. The Industry Canada grant for the audit period of \$49,600,000 was received in the operating account in April 2010 and immediately transferred to the recipient investment account

**Audit Criteria #3:** The investment committee will establish a written statement of investment policy.

**Verification Procedure(s) Performed:** Obtain a copy of the investment policy and agree the policy criteria and recommendations to article 4.4, and 4.8 to 4.12 of the funding agreement.

**Findings:** The investment policy established by the investment committee is reviewed annually by the investment committee and approved by the Board of Directors and agrees with the criteria specified in the funding agreement.

**Audit Criteria #4:** The investment committee will establish an investment strategy.

**Verification Procedure(s) Performed:** Review the quarterly meeting minutes of the investment committee to ensure that the investment strategy is in agreement with the investment policy.

**Findings:** The investment strategy employed by the investment committee is in agreement with article 4 of the funding agreement, the recipient's investment policy and is reviewed annually.

**Audit Criteria #5:** The investment committee shall recommend to the board for their approval one or more independent external investment advisors and portfolio managers to manage the investment in accordance with the investment policy and funding agreement.

**Verification Procedure(s) Performed:** Verify the selection process and criteria used by the investment committee for the independent external investment advisor and the portfolio manager. Verify the meeting minutes for the Board of Directors approval of the independent external investment advisor and the portfolio manager.

**Findings:** The external investment advisor and portfolio manager were selected through a Request for Proposal (RFP) process and approved by the board in May 2000. The Investment Committee at the request of the Board of Directors prepared an analysis of the investment management fees in September 2010. The Investment Committee found that the management fees were reasonable as compared to other similar organizations and for the active management investment policy used by the recipient. We noted that both the investment advisor and portfolio manager's performance have not been formally evaluated since their selection in May 2000.

**Recommendation:** The recipient should evaluate the effectiveness of the external investment advisor and portfolio manager on a regular interval.

**Audit Criteria #6:** The recipient has invested the principal amount of the grant not disbursed in accordance with its investment policy and the funding agreement.

**Verification Procedure(s) Performed:** Obtain the investment committee quarterly meeting minutes. Review the quarterly summary and verification letter provided by the portfolio manager. Test the monthly portfolio summaries provided by the portfolio manager to the investment policy criteria; both eligible investments and prohibited investments (articles 4.7 to 4.12).

**Findings:** The funding agreement and recipient investment policy criteria limits the maximum individual holdings to 10% in non-government bonds.

The recipient has an individual investment in January 2011 and February 2011 valued at greater than 10% of the overall portfolio. The GE Canada Capital bond was valued at 11.25% (cost) and 11.58% (FMV) of the total portfolio for these months. In March 2011 approximately half of the bond units were sold thereby reducing the individual non-government bond holding to under 10%.

**Recommendation:** The recipient should ensure their percentage holdings on individual non-government bonds comply with the criteria of the funding agreement and the recipient investment policy.

### 3.0 Eligible Costs

**Audit Criteria #1:** The funds provided under the funding agreement and amendment was used for the purposes described and for the intended program outcomes. The recipient is eligible to utilize a portion of the grant for its own operations as per the amended funding agreement article 3.1 and the funding agreement article 5.2.

**Verification Procedure(s) Performed:** Select a sample of the operation expenses incurred by the recipient. Verify the approved invoice and proof of payment for the operating expense is eligible under the funding agreement and amendment.

**Findings:** The recipient has incurred only eligible operating expenses as per the funding agreement and amendment. The audit sample tested was \$2,656,847 of the reported operating expenses of \$6,254,673 or 42.5% of the eligible operating expenses.

**Audit Criteria #2:** The funds provided under the funding agreement and amendment were used for the purposes described and for the intended program outcomes. The recipient has provided funding to the eligible recipients and the costs claimed by eligible recipients are eligible costs as per the funding agreement and amendment.

**Verification Procedure(s) Performed:** Test the quarterly payments made to the Genome Centres from the recipient. Verify that the payments agree to the approved draw request submitted by the Genome Centres. Test a sample of the eligible recipient projects funded through the Genome Centre quarterly payments. Verify copies of the agreements between the recipient and Genome Centres and enquire about the monitoring process the recipient utilizes for the Genome Centres and eligible recipients.

**Findings:** The signed agreements between the recipient and the Genome Centres include the eligible cost criteria, article 5.3 and the ineligible cost criteria, article 5.4 as specified in the funding agreement.

The quarterly payments from the recipient to the Genome Centres are for eligible recipient project costs and eligible Genome Centre operating costs as per the funding agreement. The quarterly payments are supported by approved draw requests from the Genome Centres. The eligible recipients submit quarterly financial and activity reports to the Genome Centres; these reports form the basis of the quarterly draw requests.

The recipient monitors the eligible recipient projects through the initial project application criteria and the interim project review. Based on a formal risk assessment tool developed in consultation with Genome Canada, the Centres select funded projects that will be subject to a recipient audit. The recipient audits are managed by the Centre, with a copy of the Audit Report provided to Genome Canada. The cost of the recipient audits are shared equally between the Centres and Genome Canada.

All of the disbursements to the six Genome Centres were tested to ensure they were properly supported. A sample of the eligible recipient projects was selected. The eligible recipient project sample was 16 projects of the 86 funded, 18.6%, the sample projects were funded for \$19,137,110 by the recipient out of total disbursements to the six Genome Centres of \$53,491,016 or 35.7%.

#### **4.0 Selection Criteria**

**Audit Criteria #1:** The recipient shall establish a process for assessing eligible projects submitted by the eligible recipients.

**Verification Procedure(s) Performed:** Discuss with the recipient the eligible recipient process and the supporting documentation required for the funding process.

**Findings:** The recipient funds all the eligible projects through the six Genome Centres located across Canada. The project assessment process is as follows:

- the recipient Board of Directors announces a competition for funding based on the requirements of the funding agreement;
- applicants submit a detailed application for funding that includes scientific, budgetary and other related information as specified in the Competition Guidelines;
- the applications are assessed by a peer review panel comprised primarily of international members that is supported by the recipient;
- the peer review panel recommends to the recipient's Board of Directors the project applications to be funded;
- projects that are approved for funding by the Board receive a Notice of Award and have six months to sign an agreement (through their host institutions) with the Genome Centres and;
- Once the agreement is signed, the eligible recipient projects must report quarterly to the Genome Centre and provide interim and final reports to the recipient at the specified time.

The recipient has engaged in two international projects. These projects are the Cancer Stem Cell Consortium (CSSC) and the Structural Genomics Consortium (SGC). These international projects have part of their scientific activities outside of Canada and are partly funded through the recipient, the Genome Centre and International funders.

In order to manage these programs, both Canadian and International funders have created a separate not-for-profit and board governance structure. The recipient has a seat on the consortium Board of Directors.

**Audit Criteria #2:** The eligible project proposal shall include a research and implementation plan as specified in article 6.1(a) and 6.1(b).

**Verification Procedure(s) Performed:** Test the sample of eligible recipients selected to ensure the required proposal and implementation plan have been submitted.

**Findings:** The eligible recipients have submitted the required documentation for the proposal and implementation plan.

**Audit Criteria #3:** The grants awarded to the eligible recipients must meet the requirements of article 6.2 of the funding agreement.

**Verification Procedure(s) Performed:** Test the sample of eligible recipients selected to ensure the required proposals include the minimum amount of co-funding as per article 6.2

**Findings:** The eligible recipient's project proposals include the minimum co-funding amounts and the quarterly draw requests include the year-to-date amounts of the co-funding received by the eligible recipients.

**Audit Criteria #4:** The grants awarded to the eligible recipients must meet the requirements of article 6.3 and 6.4 of the funding agreement.

**Verification Procedure(s) Performed:** Test the sample of eligible recipients selected to ensure the recipient's Board of Directors have approved the eligible recipients based on the objectives of the funding agreement and the recommendations of the internal peer review.

**Findings:** The eligible recipients have been approved by the recipient Board of Directors based on the requirements of article 6.3 and 6.4.

## 5.0 Covenants of Genome Canada

**Audit Criteria #1:** The recipient should maintain a relationship with the Canada Foundation for Innovation (CFI)

**Verification Procedure(s) Performed:** Discuss the relationship with CFI with GC management.

**Findings:** CFI has a non-voting membership on the recipient Board of Directors. The CFI president is invited to attend all of the recipient's Board of Director's meetings.

The recipient has proposed the development and creation of a National Network of Science and Technology Innovation Centres as per the recipient's Board of Directors May 11, 2010 meeting minutes. The recipient and CFI have discussed this initiative, as well as others, to determine the most appropriate mechanism through which CFI and the recipient could support the Science and Technology Innovation Centres in a co-ordinated way.

**Audit Criteria #2:** Encourage the Genome Centres to develop collaborative relationships with the private and voluntary sector and all levels of government.

**Verification Procedure(s) Performed:** Discuss the development of collaborative relationships with GC management and review the Genome Centres agreements.

**Findings:** The Genome Centres obtain co-funding as part of the eligible project process from other levels of government and the private and voluntary sector.

**Audit Criteria #3:** The recipient must secure commitments of at least \$141,000,000 to support the eligible research activities.

**Verification Procedure(s) Performed:** Test the co-funding amounts for the Genome Centres and for the sample of the eligible projects selected.

**Findings:** The co-funding amounts are secured by the Genome Centres and the eligible recipients. These amounts are not paid directly to the recipient.

The co-funding amounts are reported as part of the initial project application and the year-to-date amounts received are reported as part of the quarterly draw request to the recipient.

The co-funding committed to the Genome Centres is at least \$141,000,000 as per the requirements of the funding agreement.



## 6.0 General

**Audit Criteria #1:** Ensure the recipient has established agreements with the Genome Centres.

**Verification Procedure(s) Performed:** Verify the existence of the agreements between the Genome Centres and the recipient.

**Findings:** There are agreements signed with the recipient and all six Genome Centres and include the criteria specified in article 8.1 of the funding agreement.

**Audit Criteria #2:** The recipient shall carry out an independent third party evaluation of its grants to the eligible projects.

**Verification Procedure(s) Performed:** Obtain copies of the independent third party evaluation. Verify that the evaluation includes the review criteria as per article 8.2. Ensure the evaluation was submitted to Industry Canada

**Findings:** The recipient completed an evaluation and performance audit on May 22, 2009. The requirements of article 8.2 were met. The reports are available on the recipient's website and were submitted to Industry Canada.

**Audit Criteria #3:** The recipient has complied with the reporting requirements per article 8.3 of the funding agreement.

**Verification Procedure(s) Performed:** Obtain copies of the annual report and corporate strategy. Verify if any other reports were requested by Industry Canada as per articles 8.4 to 8.6.

**Findings:** The recipient has completed its annual report and corporate strategy for the 2010-2011 fiscal year. In 2006, a compliance audit was conducted by Industry Canada (IC) at IC's expense. GC was found to be in compliance with the funding agreement at that time.

## 7.0 Confidentiality

**Audit Criterion:** The recipient shall develop a policy relating to confidentiality.

**Verification Procedure(s) Performed:** Obtain a copy of the corporate governance manual and verify the confidentiality policy.

**Findings:** The recipient has a confidentiality policy in place as specified by article 11 of the funding agreement.

## 8.0 Intellectual Property

**Audit Criterion:** The intellectual property created or acquired as part of the eligible projects has been addressed in the Genome Centres Agreements.

**Verification Procedure(s) Performed:** Verify the recipient agreements with the six Genome Centres include the intellectual property policy.

**Findings:** The recipient has an intellectual property policy in its corporate governance manual and this policy is reflected in the agreements with the six Genome Centres.

## 9.0 Books of Account

**Audit Criterion:** The recipient shall maintain financial and management controls to ensure the grant is expended in accordance with the funding agreement.

**Verification Procedure(s) Performed:** Review the internal controls and accounting process in place for the management of the grant funds and the general administrative and operating expenses of the recipient.

**Findings:** The recipient has effective internal controls and accounting processes to ensure both components of the grant; recipient operating costs and eligible recipient project disbursements are expended in accordance with the funding agreement.

The recipient has developed effective governance processes to guide the portion of the Industry Canada grant invested and the selection and funding process for the eligible recipient projects.

## 10.0 Annual Report and Corporate Plan

**Audit Criteria #1:** The recipient shall provide IC with an annual report approved by the board in both official languages and within four months of the year end.

**Verification Procedure(s) Performed:** Obtain copies of the annual report, verify that it is released in both official languages and on a timely basis.

**Findings:** The 2010-2011 annual report is posted on the recipient's website in both official languages. The annual report complies with the criteria of article 14.4 of the funding agreement and was released on July 29, 2011 before the required due date in the funding agreement.

**Audit Criteria #2:** The recipient shall provide an annual corporate plan to Industry Canada two months before year-end.

**Verification Procedure(s) Performed:** Obtain copies of the annual corporate plan for 2011-2012 and ensure it was provided to IC on a timely basis.

**Findings:** The annual corporate plan for 2011-2012 includes all the criteria specified in article 14.6 of the funding agreement. The annual corporate plan was released to IC seven weeks before the fiscal year-end as per the letter dated February 7, 2011. The annual corporate plan was one week late as per the required due date in the funding agreement and is available on the recipient website in both official languages.

**Recommendation:** The annual corporate plan should be released two months prior to the year-end as specified in the funding agreement.

**Audit Criteria #3:** The recipient shall provide IC with an addendum to the 2010-2011 annual corporate plan by June 30, 2010.

**Verification Procedure(s) Performed:** Obtain copies of the addendum to the 2010-2011 annual corporate plan.

**Findings:** The recipient provided an addendum to the 2010-2011 corporate plan to IC on June 28, 2010, prior to June 30, 2010 as specified by article 14.7 of the amended funding agreement.

## **11.0 Public Communications**

**Audit Criterion:** All communication products and activities in connection with the implementation of the agreement were completed in accordance with the communication protocols of article 15 in the funding agreement.

**Verification Procedure(s) Performed:** Verify that the recipient has implemented a communication policy and guidelines as part of their corporate governance. Verify a sample of communication products and activities to ensure they are in accordance with the funding agreement and the communication policy.

**Findings:** The recipient has implemented a communication policy and guidelines. The communication products and activities were in accordance with the criteria specified in article 15 of the funding agreement.

## 12.0 Official Languages

**Audit Criterion:** The recipient shall provide its communications and services to the public in both official languages.

**Verification Procedure(s) Performed:** Verify if corporate documents are available in both office languages.

**Findings:** The recipient has provided corporate documents and information in both official languages, such as the annual report, the corporate plan and information included on its website.

## 13.0 Conflict of Interest

**Audit Criterion:** The recipient shall include in its by-laws provisions to allow for an eligible recipient to request a ruling on a potential conflict of interest, as per article 17 of the funding agreement.

**Verification Procedure(s) Performed:** Verify the corporate governance manual for the recipient's conflict of interest policy. Enquire and review the minutes of the Board of Directors' meetings to determine if an Eligible Recipient has requested a conflict of interest ruling.

**Findings:** Genome Canada has a conflict of interest policy that complies with the criteria of article 17 of the funding agreement.

During our review of the approval of the Eligible Recipient projects, we noted one project had, and continues to have, a member of the recipient Board of Directors as its project leader. This project is funded under The Science and Technology Centre (STIC) platform through the Ontario Genomics Institute (OGI), one of the six Genomes Centers.

The recipient Board of Directors approved the project in August 2005 for eligible project funding. The project had its interim project review in November 2007.

The individual became a member of the recipient Board of Directors in June 2008. They were present and did not abstain from voting when the recipient Board of Directors approved a funding extension in February 2009 for all of the STIC eligible projects based on the August 2005 eligible project competition.

The member did not attend or vote at the March 24, 2011 recipient Board of Directors meeting where the 2010 STIC competition eligible recipient projects were approved for funding for the 2011 to 2013 fiscal years.

The member has signed the conflict of interest statement as it is a requirement of all recipient Board of Director members.

**Recommendation:** The recipient should ensure all the Board of Director members state potential conflict of interest, abstain from voting and request a conflict of interest ruling.

#### 14.0 **Miscellaneous**

**Audit Criterion:** The recipient has ensured that all lobbyists have been registered.

**Verification Procedure(s) Performed:** Discuss the use of third-party or in-house lobbyists with GC management and verify the corporate governance manual for the lobbyist policy.

**Findings:** The recipient does not utilize third-party lobbyists or pay any contingency fees based on the funding agreement. The recipient has registered three members of its executive as in-house lobbyists.

## RECIPIENT'S COMMENTS AND WELCH LLP'S RESPONSE

Recommendation	Recipient's Response	Welch LLP Response
<p><b><u>Recommendation #1</u></b> The recipient should evaluate the effectiveness of the external investment adviser and portfolio manager on a regular interval.</p>	<p>Genome Canada concurs with the recommendation. Although not a formal external evaluation, the scope of the exercise undertaken by Management in FY 2010-11 that is referred to in the Findings, included not only an assessment of the management fees of HSBC (which were compared to those of a number of other asset management organizations), but also a comparison of Genome Canada's overall approach to the management of investments to those of similar organizations including the Canadian Foundation for Innovation, Sustainable Development Technology Canada, and the Canadian Health Services Research Foundation. It also included comparing returns actually realized by Genome Canada to returns that would have been generated through Government of Canada treasury bills and bond yields over a given period. This exercise could be viewed as a type of evaluation of the management of the portfolio. After considering the data and analyses provided, the Board's Investment Committee concluded that:</p> <ul style="list-style-type: none"> <li>- <i>returns to date have been at a very respectable level comparing very well to established benchmarks</i></li> <li>- <i>management fees paid to HSBC are lower than those of other firms for the same level of professional services provided</i></li> <li>- <i>there was no compelling evidence that the management fees associated with a buy and hold strategy could in fact be lower than those now incurred for an active management approach, and certainly no guarantee that any potential reduction in fees resulting would not be offset by a poorer performance.</i></li> </ul> <p><i>In considering the above observations, the Committee was of the view that Genome Canada should continue to use HSBC Global Asset Management to manage its investments using its current active management approach to the portfolio".</i></p>	<p>Since Genome Canada concurs with the recommendation, we have no further comments.</p>

## RECIPIENT'S COMMENTS AND WELCH LLP'S RESPONSE - Cont'd.

Recommendation	Recipient's Response	Welch LLP Response
<p><b>Recommendation #2</b> The recipient should ensure that their percentage holdings on non-government bonds comply with the criteria of the funding agreement and the recipient's investment policy.</p>	<p>Genome Canada concurs with the recommendation. For context with respect to this particular Finding, it is should be noted that the rise in the percentage to over 11% was not the result of a purchase of the Bond, but rather the result of a drop in the total value of the portfolio which dramatically lowered the denominator used in the calculation.</p> <p>Genome Canada issues its cash advances to the Genome Centres on a quarterly basis, with the majority of these payments released in the first month of each quarter. As at December 31, 2010, the GE Capital Canada bond represented 8.97% of the portfolio. As funds were withdrawn from the portfolio in January 2011, the portfolio value fell from \$50.86 million as at December 31, 2010 to \$39.46 million as at January 31, 2011. Due to this significant drop in portfolio value (22%) over a short period of time (less than one month), the percentage represented by the GE Capital bond increased to 11.58% of the portfolio. The holding was subsequently reduced so that as at March 31, 2011 it represented only 5.21% of the portfolio.</p> <p>For investment portfolios of this kind, it is generally accepted and understood that the investment manager must be provided with a reasonable transitional period to bring the portfolio back into compliance with any restrictions of the investment policy, keeping in mind market conditions during the period and what is best for the organization with respect to overall returns.</p> <p>In this case, Genome Canada is of the opinion that the transitional period was in fact reasonable, and that the asset mix was back in compliance with the investment policy within a reasonable time period.</p> <p>Genome Canada management discussed this particular bond with HSBC Asset Management when it was first known, and the percentage high of the bond was disclosed to the Investment Committee in HSBC's compliance certificate dated April 14, 2011.</p>	<p>Since Genome Canada concurs with the recommendation, we have no further comments.</p>

## RECIPIENT'S COMMENTS AND WELCH LLP'S RESPONSE - Cont'd.

Recommendation	Recipient's Response	Welch LLP Response
<p><b><u>Recommendation #3</u></b> The annual corporate plan should be released two months prior to the year-end as specified in the funding agreement.</p>	<p>Genome Canada concurs with this recommendation. The Board of Directors, at its December 9, 2010 meeting, mandated the Board's Executive Committee to review and approve the final draft of the 2011-12 Corporate Plan. The Executive Committee held its meeting January 31, 2011, at which time the Corporate Plan was approved, and authorization given to formally submit the Plan to Industry Canada. Our records indicate that our Vice President of External Relations briefed Mr. Mitch Davies, Assistant Deputy Minister Science and Innovation Sector, on the Corporate Plan submission on February 3<sup>rd</sup> and the report was formally delivered on February 7<sup>th</sup> as referred to in the Findings. No concerns were expressed at the time by Industry Canada with respect to this lateness period.</p>	<p>Since Genome Canada concurs with the recommendation, we have no further comments.</p>
<p><b><u>Recommendation #4</u></b> The recipient should ensure all Board of Director members state potential conflict of interest or abstain from voting.</p>	<p>Genome Canada concurs with the recommendation. Genome Canada has a Confidentiality and Conflict of Interest policy (By-law 25) which is implemented rigorously through annual submissions of Declarations of Conflicts of Interest by all board directors, as well as through real-time board of directors' meeting conflict-of-interest declarations. With respect to this particular Finding, the meeting was a teleconference and we cannot verify whether the member was or was not on the phone for this particular discussion and therefore acknowledge that it was an oversight.</p>	<p>Since Genome Canada concurs with the recommendation, we have no further comments.</p>