

Fall 2014



Report of the Auditor General of Canada

CHAPTER 6

Nutrition North Canada—Aboriginal Affairs and Northern
Development Canada



Office of the Auditor General of Canada

OAG

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CHAPTER 6

**Nutrition North Canada—Aboriginal Affairs and Northern
Development Canada**

Performance audit reports

This report presents the results of a performance audit conducted by the Office of the Auditor General of Canada under the authority of the *Auditor General Act*.

A performance audit is an independent, objective, and systematic assessment of how well government is managing its activities, responsibilities, and resources. Audit topics are selected based on their significance. While the Office may comment on policy implementation in a performance audit, it does not comment on the merits of a policy.

Performance audits are planned, performed, and reported in accordance with professional auditing standards and Office policies. They are conducted by qualified auditors who

- establish audit objectives and criteria for the assessment of performance,
- gather the evidence necessary to assess performance against the criteria,
- report both positive and negative findings,
- conclude against the established audit objectives, and
- make recommendations for improvement when there are significant differences between criteria and assessed performance.

Performance audits contribute to a public service that is ethical and effective and a government that is accountable to Parliament and Canadians.

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Introduction

6.1 Many communities across Canada's three territories, as well as in the northern parts of several provinces, are accessible only by air for part or all of the year. The cost of living and of doing business in these isolated communities is higher than in more southern regions. Necessities such as perishable foods must be flown in to these communities. Electricity, maintenance, and food storage costs are higher for stores and affect the prices of food on store shelves. For example, in April 2014, the price of two litres of milk was \$7.99 in Old Crow, Yukon, compared with \$3.35 in Edmonton, Alberta.

6.2 The amount spent on food is considerably higher in Canada's North: Statistics Canada reports that in 2009, the latest year for which comparable data are available, the average household expenditure on food in Canada was \$7,262—whereas it was \$7,496 in Yukon, \$9,509 in the Northwest Territories, and \$14,815 in Nunavut. The higher prices make it more difficult for Northerners to afford a nutritious diet essential to good health.

6.3 To help with the high cost of food in the North, the federal government created the Food Mail Program in the late 1960s. Since 1991, this Program was managed by Aboriginal Affairs and Northern Development Canada. Under the Program, Canada Post received a transportation subsidy from the Department to deliver items to isolated northern communities. Over the years, because of population growth and increasing fuel prices, expenditures increased, and the Program often exceeded its budget. In response, in 2006 the government directed the Department to review the Food Mail Program and develop options to improve its efficiency, while maintaining financial sustainability and predictability.

6.4 While the Department was finalizing the transition to a new program, concerns were raised regarding the transparency of the Program by the House of Commons Standing Committee on Aboriginal Affairs and Northern Development. The Committee held meetings on the subject, and its report, issued in March 2011, made several recommendations, including that the Department develop and implement transparent monitoring mechanisms for retailers to ensure that consumers receive the full benefits of the Program.

6.5 In April 2011, Aboriginal Affairs and Northern Development Canada introduced the Nutrition North Canada (NNC) program. The objective of the Program is to make healthy foods more accessible and affordable to residents of isolated northern communities.

The Program seeks to increase the consumption of healthy foods and contribute to better overall health of the population. Supporting Northerners' well-being is part of Canada's Northern Strategy.

Contribution agreement—A transfer payment subject to performance conditions specified in a funding agreement. A contribution is to be accounted for and is subject to audit.

6.6 NNC is a transfer payment program based on a market-driven model. It has an annual fixed budget of \$60 million. Of this, \$53.9 million is allocated annually to the subsidy component. The subsidy is provided directly to northern retailers, food suppliers and distributors, and northern food processors through **contribution agreements** to help lower the price of nutritious foods. Retailers make their own supply-chain arrangements, a practice that the Department expects to keep transportation costs low.

6.7 The Program specifies that retailers are responsible for passing on the full subsidy to consumers by reducing their prices on eligible foods. Retailers submit information on what was shipped and information on food prices to the Department. Payments to retailers are based on the weight of eligible foods shipped to eligible communities. About 40 retailers, suppliers, and food processors participate in the Program. Three northern retailers have accounted for about 80 percent of the subsidy each year.

6.8 The Department determines eligible foods and eligible communities. Subsidy rates vary by community; some communities are eligible for a partial subsidy and others are eligible for a full subsidy. Subsidies range from \$0.05/kilogram for Stony Rapids, Saskatchewan to \$16.00/kilogram for Grise Fiord, Nunavut. As of June 2014, 103 communities across Nunavut, the Northwest Territories, Yukon, as well as northern Labrador, Quebec, Ontario, Manitoba, and Saskatchewan were eligible for the subsidy.

6.9 The Department reported that, in the 2012–13 fiscal year, for communities eligible for the full subsidy, the subsidized amount averaged \$808 per person. However, the Department recognizes that several factors affect accessibility and affordability of nutritious foods—including poverty, unemployment, limited infrastructure, and the high cost of living. While the Program is intended to make nutritious foods more accessible and affordable, it is not designed to address these factors or make the price of food in the North equal to the prices elsewhere.

Focus of the audit

6.10 Our audit objective was to determine whether Aboriginal Affairs and Northern Development Canada has managed the Nutrition North Canada program

- to meet its objective of making healthy foods more accessible and affordable to residents of isolated northern communities, and
- to obtain the information required to allow it to demonstrate that the full subsidy is being passed on to consumers.

6.11 We examined Aboriginal Affairs and Northern Development Canada's management of the Program between 1 April 2011 and 30 June 2014. We did not audit retailers who received contributions under the Program. Nor did we audit other contractors engaged to undertake work on the Department's behalf. More details about the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Observations and Recommendations

Identifying eligibility

6.12 Overall, we found that although Aboriginal Affairs and Northern Development Canada has consulted with Health Canada to base food eligibility under the Nutrition North Canada (NNC) program on nutritional value, Aboriginal Affairs and Northern Development Canada has not identified eligible communities on the basis of need. This finding is important because it is essential that subsidized foods be healthy and that communities in need benefit from the subsidy.

Aboriginal Affairs and Northern Development Canada consulted with Health Canada to base food eligibility on nutritional value

6.13 The NNC program seeks to increase the consumption of healthy foods and contribute to improving the health of the population. We examined whether the Department has identified a list of nutritious foods that are eligible. We did not assess the adequacy of this list.

6.14 We found that the NNC program's food eligibility list was developed with advice from Health Canada. The list is meant to support access to fresh, nutritious foods consistent with recommendations in Canada's Food Guide. The list focuses on what Aboriginal Affairs and Northern Development Canada has identified as healthy, perishable foods and does not include many of the products

that were subsidized under the Food Mail Program, such as canned goods, rice, and a number of essential non-food items.

6.15 Under the NNC program, the subsidy to retailers is based not only on the rate accorded to a given community, but also on two subsidy levels for eligible foods, based on perishability and nutritional value. The higher subsidy level is applied to the most nutritious perishable foods, including fresh and frozen fruits and vegetables, bread, milk, meat, and eggs. The lower subsidy level is applied to other perishable foods, such as salad dressing, flour, and crackers.

6.16 We also noted that in response to public pressure, Aboriginal Affairs and Northern Development Canada decided in 2011 to continue to subsidize certain foods that may be less healthy, such as ice cream, bacon, and processed cheese spread. The lower subsidy level is applied to those foods. The Department committed to reviewing the food eligibility list annually, taking feedback from Northerners into account. Although the Department has not completed formal annual reviews, it has responded to queries on the eligibility of individual products after consulting Health Canada.

The Department has not based community eligibility on need

6.17 In the Treasury Board Policy on Transfer Payments, the government commits to having transfer payment programs designed, delivered, and managed in a manner that is fair and accessible for recipients. We examined whether the Department has established criteria to identify eligible communities on the basis of need.

6.18 We found that the Department has not established community eligibility criteria that are fair and accessible. The Department considered communities eligible if they lacked year-round surface transportation and if they had used the Food Mail Program extensively. Communities that had made very little use of the Food Mail Program were determined to be eligible for only a partial subsidy (\$0.05/kilogram), while communities that had not used the previous program were determined to be ineligible. Consequently, community eligibility is based on past usage instead of current need. As a result, there may be other isolated northern communities, not benefiting from the subsidy, where access to affordable, nutritious food may be an issue.

6.19 The Department has noted inconsistencies in the eligibility statuses of some communities, mainly in Ontario, Manitoba, and the Northwest Territories. For example, two communities in northern Ontario are about 20 kilometres apart; they both lack year-round road

access and are about the same distance to the nearest town. However, one community is eligible for a full subsidy (\$1.60/kilogram) while the other is eligible only for the partial subsidy (\$0.05/kilogram).

6.20 When the Program was approved, the Department committed to reviewing the community eligibility status for full or partial subsidies annually, but it has not completed annual reviews. Department officials told us that they had started the work of identifying community eligibility to determine whether currently ineligible communities should be included in the Program. They estimated that it would cost \$7 million per year to add about 50 fly-in, isolated northern communities that are not currently eligible for the full subsidy.

6.21 Recommendation. Aboriginal Affairs and Northern Development Canada should review its community eligibility criteria for the Nutrition North Canada program to base the criteria on need, and it should assess the eligibility of communities accordingly.

The Department's response. Agreed. At the launch of the Nutrition North Canada program in 2011, a community was eligible for the Program if it lacked year-round surface transportation (that is, no permanent road, rail, or marine access), and used the Food Mail Program, Aboriginal Affairs and Northern Development Canada's previous northern transportation subsidy program. Usage levels were determined from an examination of the Canada Post shipping data from the 2009–10 fiscal year. Our internal audit and internal evaluation in 2013 recommended that community eligibility requirements be examined. The Department has been examining this matter for a year, conducting a detailed review of all isolated northern communities to better understand the challenges they face due to isolation in accessing healthy, nutritious foods at affordable prices. This review will assist the Department in reassessing community eligibility for maximum program effectiveness.

Passing on the subsidy to consumers

6.22 Overall, we found that Aboriginal Affairs and Northern Development Canada has not verified whether the northern retailers pass on the full subsidy to consumers. The Department has not required the information it needs to verify this in the contribution agreements it has signed with northern retailers. It also has not required that compliance reviews of northern retailers include analysis of profit margins in order to verify that the full subsidy is being passed on. This finding is important because passing on the full subsidy to consumers is a program requirement, and is necessary to make nutritious food more accessible and affordable to Northerners.

The Department has not verified whether northern retailers passed on the full subsidy to consumers

6.23 The Nutrition North Canada (NNC) program requires that retailers pass on the full subsidy to consumers through a price discount at the store. The Department produced a manual for program recipients that specifies that fully passing on the subsidy to consumers means that the entire amount of the subsidy is deducted from the selling price of a food item. The Program also requires the Department to conduct compliance reviews of retailers, in order to determine whether the retailers are complying with the requirement of passing on the full subsidy to consumers, as specified in the contribution agreements.

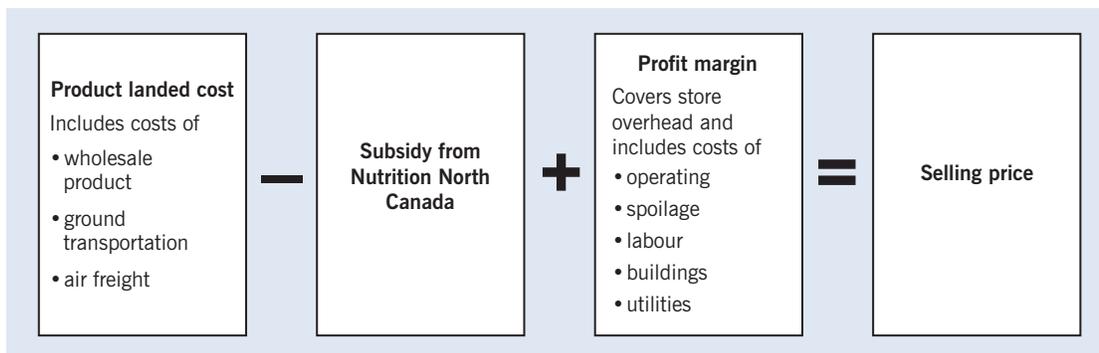
6.24 Therefore, in order to know whether the full subsidy for an item is being passed on, the Department would need to know the landed cost (which includes the freight cost), the profit margin, and the selling price (Exhibit 6.1). In our opinion, it is also important to analyze the profit margin currently as well as over time: it is possible for the subsidy to reduce the landed cost of an item, but that reduction could be negated if the profit margin is subsequently increased. Monitoring variations in profit margins over time would allow the Department to know that the full subsidy is being passed on.

6.25 Department officials told us that it verifies compliance with the requirement of passing on the full subsidy to consumers in two ways:

- by including the requirement in contribution agreements with retailers, and
- by performing compliance reviews of retailers.

We examined contribution agreements as well as completed compliance reviews of northern retailers to determine whether they allow the Department to verify that the full subsidy is passed on to consumers.

Exhibit 6.1 Information needed to determine whether the full subsidy is passed on to consumers



6.26 Contribution agreements. Contribution agreements constitute the entire agreement between retailers and the Department. We found that the contribution agreements specified that the full subsidy be passed on to consumers. However, the Department did not specify in the agreements that data on profit margins must be provided. This data is necessary to determine whether the full subsidy is passed on. As well, neither the agreements nor the manual specify that retailers need to make this information available for compliance reviews.

6.27 The agreements require the retailers to send to the Department monthly reports on food prices, which are used to calculate the cost of the Revised Northern Food Basket—a tool the Department uses to monitor trends in the cost of healthy eating in isolated northern communities. Officials told us that this information allows them to verify that the full subsidy is passed on.

6.28 We have a different view. Our examination of the monthly reports on food prices and the Revised Northern Food Basket found that they both contain information on food prices only. They did not include information required to determine whether the full subsidy is passed on.

6.29 Recommendation. Aboriginal Affairs and Northern Development Canada should review the obligations and requirements in contribution agreements under the Nutrition North Canada program to clarify that retailers must provide all the information on eligible items, including current profit margins and profit margins over time, to determine whether the retailers are passing on the full subsidy to consumers.

The Department's response. Agreed. Aboriginal Affairs and Northern Development Canada is conducting a review of Nutrition North Canada program requirements for retailers, as set out in the funding agreements. The contribution agreements will be amended to specify that they will make available information on current profit margins and profit margins over time to the Department and to compliance reviewers so that the Department may verify that the full subsidy is passed on to consumers.

6.30 Compliance reviews. The Department engaged a contractor to complete compliance reviews of retailers on its behalf. The contract statement of work specifies that the compliance reviews must “verify that the recipients are passing on the value of the subsidy to consumers, i.e. that selling prices are reduced by the amount of

the subsidy.” The reviews must also examine retailers’ “pricing/invoicing practices in relation to the subsidy, e.g. profit margins on subsidized products versus unsubsidized products.”

6.31 We examined compliance reviews completed of northern retailers during the 2011–12, 2012–13, and 2013–14 fiscal years. We found that compliance reviews did not verify whether northern retailers were passing on the full subsidy to consumers. The Department did not require that the compliance reviews include an examination of profit margins.

6.32 Department officials told us that compliance reviews look only at whether the subsidy has been deducted from the landed cost for eligible items. The Department did not require an examination of profit margins in the contract statement of work. Department officials told us that profit margins were mentioned in the statement of work as an example and that they are not mandatory work, because commercial confidentiality may make profit margins unavailable. Department officials informed us that they at no point asked retailers whether they would be willing to allow compliance reviewers to examine information on profit margins (reviewers could report that profit margins had not been manipulated without citing any confidential information in compliance review reports). However, we noted that retailers made information on landed costs available to compliance reviewers—this information is also commercially sensitive.

6.33 In our opinion, determining whether the entire amount of the subsidy is being deducted from the selling price of a food item requires an examination of profit margins (both current and over time): the impact of the subsidy may be negated if the profit margin is increased after the full subsidy is applied to the landed cost. Exhibit 6.2 shows the information required, and what information the Department currently collects and does not collect.

6.34 This represents a missed opportunity for the Department to ensure that the Program is transparent, a key recommendation made by the Standing Committee on Aboriginal Affairs and Northern Development in 2011 while the new NNC program was being introduced. As well, verifying whether northern retailers pass on the full subsidy to consumers may also lessen some of the public skepticism surrounding the Program.

6.37 Recommendation. Aboriginal Affairs and Northern Development Canada should

- clarify the requirements for conducting compliance reviews by specifying that the work to determine whether the full subsidy is being fully passed on to consumers must include an examination of current profit margins and profit margins over time;
- assess the compliance reviews to determine that appropriate review work was completed and that the conclusions in the reports are clear and well supported; and
- in cases where compliance reviews make recommendations to retailers, formally monitor the implementation of the recommendations.

The Department's response. Agreed. Aboriginal Affairs and Northern Development Canada will amend the Statement of Work for compliance reviews so that these reviews incorporate an analysis of retailers' profit margins. Compliance reviews will report on whether, based on analysis of the application of the subsidy and the resulting calculations of profit margins of eligible items, the full subsidy is passed on to consumers.

The Department will monitor the work of the compliance reviewer to ensure that requirements in the Statement of Work are met. This may include reviewing the compliance reviewer's working papers.

In cases where compliance reviews make recommendations to retailers, the Department will monitor their implementation.

Managing the Program

6.38 Overall, we found that Aboriginal Affairs and Northern Development Canada has not fully implemented a performance measurement strategy or followed its cost containment strategy to help manage the Nutrition North Canada (NNC) program. This finding is important because a performance measurement strategy provides the Department with the information it needs to manage the Program and monitor whether the Program's objectives are being met. A cost containment strategy allows the Department to manage within its budget. Both strategies were specified in the Program design and were required for program approval.

The Department has not collected information needed to manage the Nutrition North Canada program or measure its success

6.39 The Treasury Board Policy on Transfer Payments requires that a performance measurement strategy be implemented to obtain the

information necessary to support the management of a program, and to measure progress toward the achievement of the program's objectives. We examined the Department's implementation of the NNC performance measurement strategy to determine whether it used performance information to manage the program, and to measure and report on the achievement of the Program's objective.

6.40 The Department finalized its performance measurement strategy in 2010. We found that the strategy does not include some of the main elements outlined in Treasury Board of Canada Secretariat guidance for performance measurement strategies. For example, the strategy does not specify the means and methods of collecting data, nor does it establish responsibilities for data analysis, synthesis, and reporting.

6.41 The strategy establishes the following performance indicators:

- weight of eligible food shipped;
- Food Basket prices;
- estimated weight of food purchased per person (including spoilage rates); and
- level of awareness about the NNC program and subsidy levels, as reported by surveys of participants.

6.42 There is no indicator to measure whether the full subsidy was being passed on to consumers. Neither are there indicators to measure other impacts, such as the effect of the Program on the prices of ineligible items. An assumption contained in the strategy is that if food is shipped and is affordable, then food is available. However, the Department has not defined what it means by affordability.

6.43 We found that the Department collected data and reported against the first two indicators. It reported that 26.4 million kilograms of food were subsidized in the 2011–12 fiscal year and 25.6 million kilograms were subsidized in the 2012–13 fiscal year. (As of 30 June 2014, the total for the 2013–14 fiscal year was not available.) This data represents a 3-percent decrease overall; the decrease may be explained by the removal of transitional items from the eligibility list. However, the Department reported a 9.2-percent increase in milk subsidized and a 7.2-percent increase in fruits and vegetables subsidized in the 2012–13 fiscal year compared with the 2011–12 fiscal year. Department data shows that the weight of items subsidized under the Nutrition North Canada program in the 2012–13 fiscal year had increased by about 25 percent compared with the weight subsidized in the final year of the Food Mail Program. We have not audited these numbers nor have we compared the performance of the two programs.

6.44 As well, the Department reported information on the Revised Northern Food Basket. The Food Basket includes 67 foods (some eligible and some ineligible for the subsidy), whose combined cost is a measure of the overall cost of feeding a family of four over one week. The Department reported that, for communities eligible for a full subsidy, the cost of the Food Basket in March 2013 was, on average, 2.4 percent higher than in March 2012. For communities eligible for a partial subsidy, the cost was 3.6 percent higher. The Department has reported that the cost of the Revised Northern Food Basket decreased by 5.6 percent under the Nutrition North Canada program compared with the Food Mail Program for the period March 2011 to March 2013. We have not audited these numbers.

6.45 While the Department reported on the cost of the Food Basket, it had limited assurance that the prices provided by northern retailers—used to calculate the cost of the Food Basket—were accurate, because the Department did not systematically verify the accuracy of prices reported. As well, at least 30 stores were excluded from the calculation of the Food Basket, because their price data was unavailable or could not be used to accurately calculate the cost of the Food Basket. Finally, this information did not allow the Department to know whether the full subsidy was being passed on to consumers because prices included eligible and ineligible items. Also, the cost could fluctuate for reasons unrelated to the subsidy.

6.46 We found that the Department did not collect data to report against the remaining two indicators. The strategy states that data on the amount of food purchased, including spoilage rates, is required to be collected, but the Department did not require retailers to provide this information. By not collecting information on food purchased and spoilage rates, the Department did not have assurance that the food shipped was purchased. As well, the performance measurement strategy committed the Department to completing annual surveys to measure the level of awareness of the Program. No surveys have been completed to date.

6.47 We found that the Department's public reporting on the Program was not up to date. The Department's website, as of 30 June 2014, included only retailer compliance reviews conducted in the 2011–12 fiscal year. Compliance reviews for the 2012–13 and 2013–14 fiscal years have been completed but not yet posted. As well, information on the Revised Northern Food Basket, by community on a quarterly basis, was available only for the period up to March 2013.

6.48 We noted quality control issues affected the information that was publicly reported. For example, in its 2011–12 and 2012–13 departmental performance reports, the Department categorized food shipped as food purchased. The Department also publicly reported an 8-percent decrease in the cost of the Revised Northern Food Basket in the 2011–12 fiscal year, without explaining the caveats related to the baseline data that contributed to the decrease. It also reported the same 8-percent decrease in its 2012–13 departmental performance report, when the cost of the Food Basket was 2.4 percent higher than the cost from the previous year.

6.49 Recommendation. Aboriginal Affairs and Northern Development Canada should review and update its performance measurement strategy. The strategy should ensure that performance indicators allow the Department to manage the Nutrition North Canada program to meet its objective, collect data to report against the indicators, and clearly specify responsibilities for data analysis and reporting.

The Department's response. Agreed. A performance measurement strategy for the new program was developed and approved as part of obtaining the Nutrition North Canada program authorities in 2011. Following an internal evaluation of Nutrition North Canada in 2013, Aboriginal Affairs and Northern Development Canada reviewed and updated the Nutrition North Canada performance measurement strategy and associated indicators in 2014. It was approved and issued in September 2014.

The Department has not implemented the Program's cost containment strategy

6.50 The government replaced the Food Mail Program with the NNC program, in part to better control costs. As such, the government made the implementation of a cost containment strategy a condition for approving the Program. We examined the actions taken by the Department to implement its cost containment strategy.

6.51 The strategy's two main options to contain costs are subsidy rate adjustments and streamlining of the food eligibility list. If additional cost containment initiatives are required because of financial pressures that could not be addressed through those two options, the Program has recourse to three additional options in descending order of priority: setting community limits, establishing a dedicated revolving fund, and transferring funds from other programs or activities within the Department.

6.52 In 2010, the Department established an Oversight Committee. Among its responsibilities was monitoring the effectiveness of cost containment measures and approving subsidy rates. At the time of the NNC program design, it was envisioned that the Oversight Committee and Program management would be delegated the authority to implement cost containment strategy options, but the authority has not been delegated. We found that the Oversight Committee rarely met and that its role was being re-examined at the time of our audit.

6.53 In the first year of the Program, due to an overestimation of the weight of food that would be shipped, the Department decided to increase the subsidy rates so that it could use the Program's budget for the 2011–12 fiscal year. The Department did not subsequently adjust the subsidy rates back down because it did not want to increase the price of food. This led to subsidy expenditures of \$6.2 million more than the Program's fixed budget of \$53.9 million in the 2012–13 fiscal year. In the 2013–14 fiscal year, the Department forecast a shortfall of \$8.2 million and expects the shortfall to continue to increase. To cover the additional costs, Aboriginal Affairs and Northern Development Canada transferred funds from elsewhere within the Department—the least preferred option in the cost containment strategy.

6.54 When the Program was introduced in 2011, subsidy rates for each eligible community were based on freight rates at that time. Under the contribution agreements, retailers are expected to use the most effective and cost-efficient supply chain arrangements and routes, in order to reduce the price of eligible items as much as possible and to provide the best quality for consumers. Some northern retailers publicly reported that they were able to lower their freight rates. The Department also told us that the subsidy rate is now higher than the freight rate in some communities.

6.55 Recommendation. Aboriginal Affairs and Northern Development Canada should consider all options in implementing its cost containment strategy.

The Department's response. Agreed. Aboriginal Affairs and Northern Development Canada will continue to apply cost containment in a manner that supports the program objectives. In the evaluation of cost containment, the Department will examine all options, including annual changes to the subsidy rates, with a view to avoiding unintended price shocks or product shortages. Competitive freight rate information will be considered in any adjustment to subsidy rates.

Conclusion

6.56 Aboriginal Affairs and Northern Development Canada's Nutrition North Canada program replaced the Food Mail Program in April 2011. Departmental data shows that the weight of items subsidized under the Nutrition North Canada program in the 2012–13 fiscal year had increased by about 25 percent compared with the weight subsidized in the final year of the Food Mail Program.

6.57 However, although the weight of items subsidized increased by about 25 percent, Aboriginal Affairs and Northern Development Canada has not managed the Program to meet its objective of making healthy foods more accessible to residents of isolated northern communities as it has not identified eligible communities on the basis of need. Neither has it managed the Program to meet its objective of making healthy foods more affordable as it has not defined affordability nor has it verified that northern retailers are passing on the full subsidy to consumers. As well, the Department has not captured the information needed to manage the Program or measure its success. It has also not implemented the Program's cost containment strategy.

6.58 We concluded that the Department has not done the work necessary to verify that the northern retailers are passing on the full subsidy to consumers. The Department did not require information on profit margins, either in its contribution agreements with retailers or through its compliance reviews of retailers, which is necessary to verify that the subsidy is fully passed on to consumers.

6.59 The northern retailers have attested to the Department that they do pass on the full subsidy to consumers. If the Department was able to verify that this was the case, some of the public skepticism surrounding the Program could be lessened. This would benefit both the Department and northern retailers.

About the Audit

The Office of the Auditor General’s responsibility was to conduct an independent examination of Aboriginal Affairs and Northern Development Canada’s Nutrition North Canada (NNC) program to provide objective information, advice, and assurance to assist Parliament in its scrutiny of the government’s management of resources and programs.

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set out by the Chartered Professional Accountants of Canada (CPA) in the CPA Canada Handbook—Assurance. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

As part of our regular audit process, we obtained management’s confirmation that the findings reported in this chapter are factually based.

Objective

The objective of the audit was to determine whether Aboriginal Affairs and Northern Development Canada has managed the Nutrition North Canada program

- to meet its objective of making healthy foods more accessible and affordable to residents of isolated northern communities, and
- to obtain the information required to allow the Department to demonstrate that the full subsidy is being passed on to consumers.

Scope and approach

The audit scope included the Nutrition North Canada (NNC) program at Aboriginal Affairs and Northern Development Canada. We examined the management and governance of the Program, the systems and practices in place to ensure that the full subsidy is being passed on to consumers, and the measurement and reporting of the results. Our audit scope did not include Health Canada and its nutrition-related educational activities under the Program. We did not audit the processing of retailers’ claims for payment. We also did not audit retailers who received contributions under the Program or audit other contractors engaged to undertake work on the Department’s behalf.

We conducted our work at the Department’s headquarters. We interviewed current and past officials responsible for the design and delivery of the NNC program, and analyzed relevant policies, procedures, and expenditures. Our work focused on activities related to northern retailers since that is where most of the budget is allocated. We reviewed examples of reports provided by retailers to understand the types of information that Aboriginal Affairs and Northern Development Canada has access to. As part of our examination work, we reviewed the working papers of Aboriginal Affairs and Northern Development Canada’s Audit and Evaluation Sector. We reviewed compliance reviews of retailers and the working papers supporting them. We met with selected retailers who received contributions, to obtain their views and opinions. We also travelled to a number of isolated communities in the North, to see stores and meet with residents.

Criteria

Criteria	Sources
<p>To determine whether Aboriginal Affairs and Northern Development Canada has managed the Nutrition North Canada program to meet its objective of making healthy foods more accessible and affordable to residents of isolated northern communities and to obtain the information required to allow it to demonstrate that the full subsidy is being passed on to consumers, we used the following criteria:</p>	
<p>The Department has established management and governance mechanisms to allow it to adequately manage the Nutrition North Canada program.</p>	<ul style="list-style-type: none"> • Policy on Transfer Payments, Treasury Board, 2008 • Directive on Transfer Payments, Treasury Board, 2008 • Communications Policy of the Government of Canada, Treasury Board, 2006 • Management Control Framework for Grants and Contributions, Aboriginal Affairs and Northern Development Canada • Framework for the Management of Risk, Treasury Board, 2010 • Terms and conditions of the Nutrition North Canada program, Aboriginal Affairs and Northern Development Canada • Cost Containment Strategy of the Nutrition North Canada Program, Aboriginal Affairs and Northern Development Canada
<p>The Department has established the systems and practices to monitor recipients to ensure that the full subsidy is being passed on to consumers.</p>	<ul style="list-style-type: none"> • Policy on Transfer Payments, Treasury Board, 2008 • Directive on Transfer Payments, Treasury Board, 2008 • Guideline on Recipient Audits under the Policy on Transfer Payments and the Directive on Transfer Payments, Treasury Board of Canada Secretariat • Management Control Framework for Grants and Contributions, Aboriginal Affairs and Northern Development Canada • Framework for the Management of Risk, Treasury Board, 2010 • Terms and Conditions of the Nutrition North Canada program, Aboriginal Affairs and Northern Development Canada
<p>The Department has measured and reported whether the Nutrition North Canada program is meeting its objective.</p>	<ul style="list-style-type: none"> • Policy on Transfer Payments, Treasury Board, 2008 • Directive on Transfer Payments, Treasury Board, 2008 • Guideline on Performance Measurement Strategy under the Policy on Transfer Payments, Treasury Board of Canada Secretariat • Terms and Conditions of the Nutrition North Canada Program, Aboriginal Affairs and Northern Development Canada

Management reviewed and accepted the suitability of the criteria used in the audit.

Period covered by the audit

The audit covered the period between 1 April 2011 and 30 June 2014. Audit work for this chapter was completed on 19 August 2014.

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Appendix List of recommendations

The following is a list of recommendations found in Chapter 6. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Identifying eligibility	
<p>6.21 Aboriginal Affairs and Northern Development Canada should review its community eligibility criteria for the Nutrition North Canada program to base the criteria on need, and it should assess the eligibility of communities accordingly. (6.17–6.21)</p>	<p>Agreed. At the launch of the Nutrition North Canada program in 2011, a community was eligible for the Program if it lacked year-round surface transportation (that is, no permanent road, rail, or marine access), and used the Food Mail Program, Aboriginal Affairs and Northern Development Canada’s previous northern transportation subsidy program. Usage levels were determined from an examination of the Canada Post shipping data from the 2009–10 fiscal year. Our internal audit and internal evaluation in 2013 recommended that community eligibility requirements be examined. The Department has been examining this matter for a year, conducting a detailed review of all isolated northern communities to better understand the challenges they face due to isolation in accessing healthy, nutritious foods at affordable prices. This review will assist the Department in reassessing community eligibility for maximum program effectiveness.</p>
Passing on the subsidy to consumers	
<p>6.29 Aboriginal Affairs and Northern Development Canada should review the obligations and requirements in contribution agreements under the Nutrition North Canada program to clarify that retailers must provide all the information on eligible items, including current profit margins and profit margins over time, to determine whether the retailers are passing on the full subsidy to consumers. (6.23–6.28)</p>	<p>Agreed. Aboriginal Affairs and Northern Development Canada is conducting a review of Nutrition North Canada program requirements for retailers, as set out in the funding agreements. The contribution agreements will be amended to specify that they will make available information on current profit margins and profit margins over time to the Department and to compliance reviewers so that the Department may verify that the full subsidy is passed on to consumers.</p>

Recommendation	Response
<p>6.37 Aboriginal Affairs and Northern Development Canada should</p> <ul style="list-style-type: none"> clarify the requirements for conducting compliance reviews by specifying that the work to determine whether the full subsidy is being fully passed on to consumers must include an examination of current profit margins and profit margins over time; assess the compliance reviews to determine that appropriate review work was completed and that the conclusions in the reports are clear and well supported; and in cases where compliance reviews make recommendations to retailers, formally monitor the implementation of the recommendations. (6.30–6.36) 	<p>Agreed. Aboriginal Affairs and Northern Development Canada will amend the Statement of Work for compliance reviews so that these reviews incorporate an analysis of retailers’ profit margins. Compliance reviews will report on whether, based on analysis of the application of the subsidy and the resulting calculations of profit margins of eligible items, the full subsidy is passed on to consumers.</p> <p>The Department will monitor the work of the compliance reviewer to ensure that requirements in the Statement of Work are met. This may include reviewing the compliance reviewer’s working papers.</p> <p>In cases where compliance reviews make recommendations to retailers, the Department will monitor their implementation.</p>
<p>Managing the Program</p>	
<p>6.49 Aboriginal Affairs and Northern Development Canada should review and update its performance measurement strategy. The strategy should ensure that performance indicators allow the Department to manage the Nutrition North Canada program to meet its objective, collect data to report against the indicators, and clearly specify responsibilities for data analysis and reporting. (6.39–6.48)</p>	<p>Agreed. A performance measurement strategy for the new program was developed and approved as part of obtaining the Nutrition North Canada program authorities in 2011. Following an internal evaluation of Nutrition North Canada in 2013, Aboriginal Affairs and Northern Development Canada reviewed and updated the Nutrition North Canada performance measurement strategy and associated indicators in 2014. It was approved and issued in September 2014.</p>
<p>6.55 Aboriginal Affairs and Northern Development Canada should consider all options in implementing its cost containment strategy. (6.50–6.54)</p>	<p>Agreed. Aboriginal Affairs and Northern Development Canada will continue to apply cost containment in a manner that supports the program objectives. In the evaluation of cost containment, the Department will examine all options, including annual changes to the subsidy rates, with a view to avoiding unintended price shocks or product shortages. Competitive freight rate information will be considered in any adjustment to subsidy rates.</p>

