



Public Health
Agency of Canada

Agence de la santé
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AUDIT COMMITTEE ANNUAL REPORT 2009-2010

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on June 22, 2010

Canada 

Public Health Agency of Canada

2009-2010 Annual Report of the Audit Committee

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Public Health Agency of Canada
Annual Report of the Audit Committee
For the fiscal year ended March 31, 2010

Reflections of the Audit Committee

1. The Audit Committee (AC) is an essential part of the audit regime established by the Public Health Agency of Canada (PHAC, or Agency) under the Treasury Board of Canada Secretariat's (TBS) *Policy on Internal Audit*.
2. The primary objective of PHAC is to contribute to better public health outcomes in Canada and to play its part in contributing to improving public health on a global basis.
3. The AC plays an important role in this process. At one level, the AC works with the Audit Services Division (ASD) to advise PHAC on the operation of the basic processes and controls that are essential to the effective operation of any organization; these include respect for key values and ethics, strong and effective internal controls, and building a strong and committed team of individuals. At another level the AC provides advice on broad strategy and risk management, together with assessments of the effectiveness of related programs and processes.
4. For the second year in a row, two events occurred that tested PHAC's ability to respond to crises and extraordinary demands on its resources. In 2008-09, the events involved a listeriosis outbreak and the outbreak of the H1N1 virus. In 2009-10, the H1N1 outbreak grew into a major public health challenge and PHAC was called upon to provide a significant level of support to the Vancouver Olympic Games to prepare for potential public health events.
5. In January 2009, the Government of Canada appointed an independent investigator to explore how and why the listeriosis outbreak happened and to make recommendations about what can be done to prevent a similar outbreak in the future. The resulting report, entitled *Report of the Independent Investigator into the 2008 Listeriosis Outbreak*, was released in July 2009. It contains a number of recommendations pertaining to PHAC, including the following:
 - a. PHAC, with the support of the Canadian Food Inspection Agency (CFIA) and Health Canada, should assume the leading role in coordinating the federal government's response to a national foodborne emergency;
 - b. PHAC should assume the lead role (non-ministerial) in communicating to the public about a national foodborne emergency;

- c. PHAC should enhance its public profile to increase awareness of its mandate; and
 - d. As soon as possible, PHAC, supported by independent experts, should initiate a comprehensive review of its structure and operational procedures with the objective of ensuring a more responsive and flexible organization to support national readiness for public health threats.
- 6. The AC supports management's intention to implement these recommendations and others in the *Report of the Independent Investigator into the 2008 Listeriosis Outbreak* and will be following up on progress periodically. Our review will focus on those areas specifically within our mandate; these include providing advice with respect to strategic directions, risk management, internal control, and values and ethics.
- 7. Because the issues raised by the listeriosis outbreak significantly impact both PHAC and the CFIA, the AC of both agencies decided it would be beneficial to have a joint meeting. At this meeting, held in December, 2009, the AC's discussed management's response to the independent investigator's report on the listeriosis outbreak and to the Office of the Auditor General's (OAG) report on surveillance of infectious diseases. Both AC's found the meeting beneficial and plan to be alert to future opportunities to meet together to consider significant issues affecting both agencies.
- 8. The H1N1 outbreak consumed a significant amount of PHAC's resources, both human and financial, during the year. While the AC was not involved in the day-to-day management of the outbreak, we received frequent briefings and updates, which indicated that the communications and leadership of PHAC was of a high caliber. The AC noted the complexity of managing a national pandemic, given the roles of provincial/territorial governments and regional health authorities.
- 9. The AC also understands that there was a certain amount of controversy nationally about how PHAC and other Canadian health agencies responded to this outbreak. Considerable study, consultation and analysis will be required to assess PHAC's response to the outbreak. It will also be necessary to gain an understanding of divergent points of view. Ultimately, PHAC will need to assess lessons learned and to develop recommendations to enhance its performance in responding to future outbreaks.
- 10. The AC looks forward to an opportunity to review the results of PHAC's work in the area of outbreaks and to provide its advice with respect to issues within its mandate in due course.
- 11. With respect to the Olympic Games, the AC reviewed two assessments of PHAC's readiness for the Olympic Games carried out by the Chief Audit Executive (CAE) in the spring and fall of 2009. The AC reviewed management's

proposed response to these assessments and provided its advice to the Chief Public Health Officer (CPHO).

12. Having to deal with both the H1N1 outbreak and the Olympic Games at the same time placed significant stress on PHAC's resources. The AC discussed this issue with the CPHO and supported PHAC's ongoing assessment of its capacity to respond to public health emergencies.
13. The need for high quality performance reporting is an issue across governments. The AC wishes to draw attention to the fact that several internal audit reports identify the need to strengthen performance reporting in PHAC as well. One of the most intractable issues associated with performance reporting by governments is the need to ensure that results are actually used for decision making and the evaluation of programs. The AC looks forward to receiving briefings from PHAC management on its progress towards developing a comprehensive performance reporting regime across the Agency.

Role of the Audit Committee

14. The role of the AC is to ensure that the CPHO has independent and objective advice, guidance and assurance on PHAC's control and accountability processes. To accomplish this, the AC actively reviews core areas of Agency control and accountability in an integrated and systematic way.
15. The AC is chaired by the CPHO. Three independent members, external to the Government of Canada, have been appointed by the Treasury Board. This report provides commentary on behalf of the AC as a whole, together with commentary of the independent members. Commentary that reflects the views of independent members will be clearly identified as such in situations where their viewpoint differs from that of the CPHO.
16. The meetings of the AC took place as follows (See Appendix 1 for a description of the structure of these meetings):
 - June, 2009 in Guelph. This meeting included a briefing by staff of the Laboratory for Foodborne Zoonoses and a tour of the facilities.
 - September, 2009 in Ottawa
 - December, 2009 in Ottawa.
 - March, 2010 in Ottawa.

Assessment of Values and Ethics

17. The AC is charged with reviewing, at least annually, the arrangements established by management to exemplify and promote public service values and to ensure compliance with laws, regulations, policies and standards of ethical conduct.
18. The AC understands that work is ongoing in the federal government's central agencies to develop robust guidance to assist audit committees in making these values and ethics assessments.
19. During the current fiscal year, the AC met with the Health Canada Ombudsman (who provides internal ombudsman services to PHAC) to get a sense of how the activities of the Ombudsman's Office provide a lens into the values and ethics expectations of PHAC employees. These discussions provided support for the assessment that PHAC continues to support an ethical workplace.
20. In last year's annual report, we indicated that the CAE had recommended that PHAC should identify a values and ethics champion; should add a number of specific policies to its policy suite; and should prepare an annual report on its values and ethics activities. The Agency has since appointed a Values and Ethics Champion and in February 2010, a Values and Ethics Framework was approved by senior management. In 2010-11, the AC will follow up on the progress status in implementing this framework.

Assessment of Risk Management

21. The AC is charged with reviewing, at least annually, the Corporate Risk Profile (CRP) and PHAC's risk management arrangements.
22. The AC understands that work is ongoing in the federal government's central agencies to develop robust guidance to assist audit committees in making these risk management assessments.
23. This year's Management Accountability Framework (MAF) has indicated that although PHAC has made notable improvements with respect to integrated risk management (IRM), some areas require further attention. TBS has indicated that the Agency should renew and expand its CRP, including the addition of mitigation measures to ensure that key corporate risks are explicitly mitigated and monitored in a comprehensive and integrated way.
24. The AC expects to be briefed by the Office of the Chief Financial Officer (OCFO) on progress in implementing the IRM and the CRP improvements. The AC will also review the CRP to assess improvements that have been made in response to the MAF assessments.

Assessment of Management Control Framework

25. The AC is charged with reviewing, at least annually, PHAC's internal control arrangements, including the adequacy of its management-led audit.
26. The AC understands that work is ongoing in the federal government's central agencies to develop robust guidance that will assist audit committees in making these management control framework assessments.
27. The ASD has advised the AC that an assessment of relevant internal controls is included in all of its audits. It has also advised the AC that it will be a few years yet before PHAC will have a robust system on internal control.
28. Another source of information about the state of management controls is the MAF. The AC annually reviews the assessment of PHAC's implementation of MAF carried out by the TBS. This review includes a discussion with management about the implications of TBS' findings and management's proposed response. The AC believes management is actively working toward full compliance with the spirit of the MAF.

Activities Related to the Internal Audit Function

Internal Audit Charter

29. The AC reviewed the internal audit charter and believes that it continues to comply with TBS requirements. Changes to this charter were made to accommodate ASD's new responsibilities for managing, conducting and coordinating all recipient audits through the Financial Compliance Unit. A change was also made to appoint the new position of Associate Deputy Minister as an ex officio member of the AC.

Adequacy of Resources Available to the Internal Audit Function

30. The AC reviewed the resources available to the internal audit function. The AC believes that the budget and person years allocated to the internal audit function are appropriate.
31. The AC was encouraged by the progress made by ASD to increase the complement of auditors, thereby reducing its need to rely on external contractors.

Risk Assessment and Internal Audit Plan prepared by the Chief Audit Executive

32. The AC reviewed the risk-based internal audit plan prepared by the CAE for the five years commencing April 1, 2010.

33. The AC recommended that the CPHO approve this audit plan.

Review of the Performance of the Internal Audit Function

34. The AC conducted a review of the performance of the internal audit function during the March, 2010 meeting.
35. The AC was assisted in this review by an assessment of ASD conducted by an independent professional accounting firm. This firm assessed the quality assurance program. It concluded that ASD complies with the standards of the Institute of Internal Auditors (IIA) and the Treasury Board. It also made a number of recommendations for improvement which the CAE has committed to implement.
36. The AC met with members of the professional accounting firm's staff to gain a comprehensive understanding of their assessment about ASD's work. The AC was pleased to note that ASD was complying with the requisite audit standards and intended to implement improvements to its quality assurance processes as recommended by the reviewers.
37. The AC is impressed by the progress ASD made during 2009-10 toward becoming a fully functioning mature internal audit group. The independent members of the AC believe the CAE and his team are strongly committed to adding value to PHAC's operations and assisting PHAC to meet its strategic objectives. The AC is also pleased that the ASD has achieved the objective of directing at least 50 percent of its audit effort towards program auditing as recommended by the AC in 2008.

Appointment of the Chief Audit Executive

38. There was no need to provide advice on the appointment of the CAE as the existing CAE remained in place throughout the period.

Performance Appraisal of the Chief Audit Executive

39. The AC conducted a formal review of the CAE performance at the March, 2010 meeting. The independent members of the AC met in-camera to discuss the CAE's performance. They subsequently briefed the CPHO on their conclusions in an in-camera portion of the formal audit committee meeting.

Internal Audit Reports and Management Action Plans

40. The AC reviewed the following five internal audit reports during the year (see Appendix 2 for a description of the AC's approach to these reports):
- Information Technology Management
 - Security of Laboratories

- Health Promotion Programs
 - Information and Records Management
 - Quarantine, Migration and Travel Health and International Health Regulations
41. The AC endorsed each report, including management's action plan, in some cases after requesting that certain modifications be made. The AC advised the CPHO to accept each report.

Non-Audit Activities of the Internal Audit Team

42. The ASD is responsible for a number of ancillary functions in addition to the conduct of internal audits. Examples include:
- Assisting the Office of the Auditor General (OAG) and the Office of the Comptroller General (OCG), together with other federal government central agencies and agents of Parliament, with any work they carry out at PHAC;
 - Assisting management with the inclusion of appropriate audit clauses in contracts for Grants and Contributions and with the resolution of contentious audit findings that management has identified in audits of Grants and Contributions recipients;
 - Acting as the senior officer responsible for PHAC's implementation of the *Public Servants Disclosure Protection Act*; and
 - Coordinating PHAC's response to petitions (environmental queries) received under section 22 of the *Auditor General Act*, and the ministerial responses to those petitions.
43. The AC accepts the appropriateness of the ASD carrying out these roles. However, we have asked the CAE to keep us apprised of the proportion of time spent on these activities in relation to the conduct of internal audits. If the AC becomes concerned that these non-audit activities are impairing the ability of ASD to deliver on its primary vision and mission, the AC will advise the CPHO accordingly and assist in identifying an appropriate resolution.

Office of the Auditor General (OAG)

44. The AC met with representatives of the OAG in March, 2010 to review their One Pass Plan for 2011 – 2016 for Health Canada, PHAC and Canada Health Infoway.
45. During this meeting the AC ascertained that PHAC was continuing to cooperate appropriately with the OAG.

Central Agencies and Agents of Parliament (other than OAG)

Participation in Professional Development Opportunities offered by the Office of the Comptroller General (OCG)

46. Members of the AC participated in a number of educational sessions organized by the OCG on risk management, internal controls, government operations, financial literacy, values and ethics, together with the annual Department and Agency Audit Committee (DAAC) symposium.

Assessment of Management's Arrangements to Support the Audit-Related Work of Central Agencies and Other Agents of Parliament

47. The AC met with the new Comptroller General of Canada shortly after his appointment. The AC wishes to maintain an ongoing dialogue with the OCG with respect to the conduct of its audits. The AC agrees with the need for PHAC to support the audit related work of OCG. However, the AC wishes to keep an eye on the extent to which this work may impinge on ASD's ability to deliver on its core strategic objectives. This way, the AC can engage representatives of the OCG in a timely manner should concerns arise and be able to seek mutually acceptable solutions. The AC will also be in a position to provide meaningful advice to the CPHO on any matters that arise.

Description of Audit-related Work Undertaken by Central Agencies and Other Agents of Parliament

48. No work of this nature was undertaken by the AC during this fiscal year.

Meetings with Representatives of Central Agencies

49. No meetings were held with representatives of central agencies apart from the symposium described above.

Follow up on Management Action Plans

Audit Services Division Reports

50. The AC now receives semi-annual progress reports on the implementation of management action plans with respect to internal audits, OAG audits and other audits as requested by the AC.
51. The AC has noted an improvement in management's response to ASD recommendations during the current year.

52. In 2009-10, the AC began receiving reports from ASD that assess the adequacy of management's response to recommendations made in previous audits. This has enabled the AC to engage management in a discussion about that response, as well as encourage renewed efforts where necessary, and also advise with respect to which recommendations have been satisfactorily resolved.

Financial Statements

Annual Financial Statements

53. PHAC does not presently have the ability to issue annual financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP). Furthermore, its systems of internal control are not yet sufficiently robust for an external audit of the annual financial statements to be conducted efficiently and effectively.
54. The AC views this situation as unsatisfactory as it precludes PHAC from being fully accountable to the House of Commons and the citizens of Canada. The AC understands, however, that PHAC is a new agency and it has inherited systems of accounting and internal control that were not designed to provide for appropriate financial reporting.
55. In 2008-09, the AC advised the CPHO (and the CPHO agreed) that the Chief Financial Officer (CFO) should develop an action plan, complete with milestones, to move PHAC forward on its financial reporting obligations in a timely way. The AC requested that they be provided with regular progress reports with respect to efforts to produce audited financial statements for the Agency.
56. The CFO engaged a professional accounting firm to assess the state of PHAC's readiness for financial reporting in accordance with GAAP and to provide recommendations on the way to move forward.
57. In 2009-10, it became clear that it would take longer than originally hoped for PHAC to be in a position to produce audited financial statements. The AC is disappointed but understands the challenges involved in achieving this goal with the resources available and the myriad of challenges facing the Agency. It encourages management to develop a revised timeframe in 2010-11 that it can reasonably commit to, and to provide senior management and the AC with regular updates on progress.

Risk and Accountability Reporting

58. The AC has identified the need to regularize its review of the Corporate Risk profile (CRP), as well as the Report on Plans and Priorities, and the Departmental Performance Report. It intends to engage management in a discussion regarding

the most practical means by which to give members of the AC an opportunity to provide meaningful and timely advice to management about these reports.

59. The AC has received regular briefings by the OCFO with respect to the CRP, Risk Profile, Report on Plans and Priorities, and the Departmental Performance Report. It has also provided advice and comments to the CFO.

Chief Public Health Officer's (CPHO) Annual Report

60. The AC reviewed the CPHO annual report on the status of public health in Canada, and provided its advice to the CPHO.

Audit Committee Self-Assessment

61. The AC arranged for an external consulting firm to facilitate an assessment of its performance. This assessment involved the completion of a questionnaire by members of the AC and relevant members of management; it also involved the external consultant conducting structured interviews.
62. The results of this review were generally positive. However, one issue raised was whether there might be opportunities to involve external members in additional activities outside of the formal audit committee meetings. One idea was to consider some form of participation in certain leadership meetings held by PHAC. The AC intends to engage management in further discussion of these ideas during 2010-11.

The Members of the Audit Committee are:

Dr. David Butler-Jones
Chair of the Audit Committee

Kenneth Fyke, C.M., B.S.P., M.H.S.A., LL.D (Hon.)
Vice-Chair of the Audit Committee

Dr. Andy Macdonald, MBA, BE

John (Jon) W. Singleton, FCA CISA B.Sc. (Hons.)

Appendix 1: Structure and Timing of Meetings

1. Meetings of the Audit Committee (AC) are generally two days in length with approximately half a day allocated to a formal meeting chaired by the CPHO. The rest of this meeting is informal and is attended by independent members of the AC. This provides time to consider agenda items such as the following:
 - Receiving briefings on strategic and operational issues within particular functions;
 - Reviewing draft internal audit reports and management action plans in detail; and
 - Reviewing PHAC reports such as the Report on Plans and Priorities, Corporate Risk Profile (CRP), Departmental Performance Report and the CPHO's Annual Report on the State of Public Health in Canada.
2. Senior executives and managers from the functional units provide briefings and then participate in a discussion with independent members of the AC. These briefings are essential for independent members. In order to be in a position to provide effective advice to the CPHO, the independent members need to become familiar with PHAC's operations and also to understand the challenges PHAC faces in achieving its mandate and strategic objectives.
3. This in-depth review enables the independent members to more fully understand issues that have been raised; to suggest revisions, and to gain an appreciation of the plans that management has put in place to address these issues. This also facilitates the provision of useful advice to the Chair of the AC (CPHO) during the formal AC meeting.

Appendix 2: Audit Committee Approach to Internal Audit Reports

1. Internal audit reports are the most important deliverable of the ASD. The Audit Committee (AC) expects these reports to be objective, relevant and useful to PHAC management, both in terms of improving the operations of the area subject to audit, and towards achieving PHAC's strategic objectives.
2. Where management agrees with recommendations for improvement made by the ASD, the AC is committed to both assessing the appropriateness of, and following up on, management's remedial action plans. The AC will advise the CPHO regarding its view of the appropriateness and adequacy of management's response to ASD recommendations. The AC believes that its role in following up on ASD recommendations will have a salutary effect on the timely implementation of key recommendations.
3. Where management does not agree with a recommendation of the ASD, the AC will provide the CPHO with its views regarding the most appropriate way to resolve that dispute.