

Report of the Audit Committee to the Auditor General of Canada

For the 2011–12 Fiscal Year

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Introduction

The Audit Committee provides the Auditor General with independent advice on matters relating to management controls in the Office of the Auditor General of Canada (OAG) and to reporting on its plans and performance.

Due to the mandate of the OAG, the quality of its audits and other examinations are paramount. Accordingly, the internal audit function is broadened to include monitoring the effectiveness of the quality management system for audits and is called Practice Review and Internal Audit (PRIA).

In keeping with provisions in its charter, the Committee has prepared this report for the fiscal year ended 31 March 2012.

Membership and Meetings

During the 2011–12 fiscal year, Auditor General Sheila Fraser completed her 10-year term. John Wiersema was appointed Interim Auditor General before Michael Ferguson was appointed Auditor General for a 10-year term. These events led to a number of changes to the membership of the Audit Committee.

The Committee's charter states that the Committee will consist of three voting members, two of whom are independent of the Office. At the start of the year, these members were Michel Dorais and Peter Boomgaardt (Chair); also on the Committee was John Wiersema, initially as Deputy Auditor General and later as Interim Auditor General. Mr. Dorais left the Committee on 4 November and Mr. Wiersema retired from the OAG on 27 November.

Mr. Ferguson has joined the Committee and has recruited a new external member, Bruce Joyce, whose membership became effective from the April 2012 meeting. In addition, Bruce Sloan, Principal, and Lyn Sachs, Assistant Auditor General of Corporate Services and Chief Financial Officer, served throughout the year as ex officio, non-voting members.

The Chief Audit Executive, along with selected PRIA audit staff, attended Committee meetings as observers and to respond to questions from members.

The Committee held four meetings during the year (26 May, 13 July, 10 November, and 24 February) as well as two conference calls (31 August and 18 October). The Committee regularly had "in camera" sessions involving only the external members, who met separately with the external auditor, Chief Audit Executive, and Chief Financial Officer.

Committee Terms of Reference

The Committee considers its Terms of Reference annually, as it continues to develop operating routines that serve the Auditor General effectively; no changes were made during the year. The Treasury Board Policy on Internal Audit provides that the principles enunciated in its policy apply to agents of Parliament (including the OAG) but that departures are permitted to guard their independence. The Committee refers to guidance offered to departmental audit committees and has adopted the eight key areas of oversight responsibility set out in the Treasury Board policy.

Eight areas of oversight responsibility

1. Values and ethics

During its November meeting, the Committee received an update on the policies and procedures in effect to disseminate the OAG's values and ethics to all staff, as well as to encourage and monitor compliance. Refinements are being made to the Code of Values, Ethics and Professional Conduct in line with changes that the Treasury Board of Canada Secretariat has made to the code for the broader public service. The Committee will review the final product in its update next year.

2. Risk management

Members were updated in July on the outcome of a full-day workshop on risk management held by the Executive Committee. The Office reviewed its risk management framework, identified the most critical risks it currently faces, and began to implement mitigation strategies for these risks. The completed report will be presented to the Audit Committee at the July 2012 meeting.

As part of its review of the risk-based internal audit plan, the Audit Committee also considers risk management issues from an audit perspective.

3. Management control framework

To build on its knowledge from prior years, the Committee was informed of the key management issues and how procedures have been adopted to mitigate concerns and produce desired results.

At each meeting, the Committee received progress reports on the Renewal of Audit Methodology (RAM) project. This major undertaking addresses virtually all issues raised in peer and practice reviews in recent years. It is scheduled to be completed in December 2012 and has progressed very well, within its original budget and on target with its revised timetable.

In addition, the Committee was informed of the actions being taken to further strengthen audit approaches surrounding information technology. These actions will permit OAG staff to place greater audit reliance on the internal controls in entities audited.

The Chief Financial Officer presented an assessment of the effectiveness of systems of internal control over financial reporting. The OAG completed a thorough review of the design and operating effectiveness of financial reporting controls and concluded that controls are strong. The work was done in the manner set out in the Treasury Board Policy on Internal Control. The Committee congratulated the OAG on performing this work in such a timely fashion and on the excellent results reported.

To be apprised of ongoing activities, the Committee receives a copy of the most recent monthly summary management reports and selected other reports at each meeting.

4. Internal audit function

The hallmark of the OAG is the reliability and integrity of the reports it produces on its various audits and other examinations. Accordingly, emphasis and attention are directed to ensuring that the System of Quality Control for all audit product lines is working well. This is done by periodically assessing the design of the quality management system and by conducting systematic and rigorous practice reviews annually. These annual reviews cover all senior practitioners over a three-year cycle for financial audits and a five-year cycle for performance audits.

In May, the Committee recommended approval of the multi-year PRIA plans for the 2011–12 to 2013–14 fiscal years. The plans call for practice reviews in 2011–12 of eight financial audits and five performance audits, as well as an office-wide review of a new audit standard.

At its July meeting, the Committee recommended approval of the summary report on the 2010–11 practice reviews of eight performance audits. Similarly, in November, the Committee recommended approval of the summary report of 2010–11 practice reviews on two special examinations. The Committee was pleased with the results of the practice reviews, which improved on the previous findings.

In February, the Committee received the summary results of the 2011–12 practice reviews of financial audits; again the results were gratifying.

The Committee reviewed and accepted proposed criteria and objectives set for the internal audit of financial budgeting and reporting.

At each meeting, the Committee was updated on audits in progress, staffing issues and other matters affecting PRIA. In November, the Chief Audit Executive

(CAE), Julie Charron, left to assume new duties at the Treasury Board of Canada Secretariat; the Committee expressed deep gratitude for her excellent contribution to PRIA and wished her well in future endeavours. Ron Bergin was appointed as the new CAE.

The Committee considers that the internal audit function

- includes the practice review activities in a sensible manner;
- is staffed by professionally qualified people;
- plans its work using a risk-based methodology;
- applies a professional approach to planning, executing, supervising, and reporting on its work;
- follows up systematically on the progress made by management in response to findings and recommendations; and
- respects the general principles of the Treasury Board Policy on Internal Audit.

The Committee was satisfied that PRIA continues to operate in line with relevant guidance, has a reasonable capacity to address its mandate, and is performing its role in a satisfactory manner.

5. Central agencies

The Committee was regularly briefed on developments related to parliamentary oversight over the funding and operations of the OAG. In addition, the Committee reviewed results of the strategic review conducted by the OAG and consequent proposals to reduce certain audit work in future. The Committee was pleased with the results; it endorsed the proposals, which were summarized in a letter to the Parliamentary Panel on Funding and Oversight of Officers of Parliament and the Standing Committee on Public Accounts.

The Committee was briefed on Access to Information as it applies to the OAG and on how requests are handled. As well, the Committee was informed of the report filed in connection with the *Public Servants Disclosure Protection Act*.

To keep abreast of developments in the internal audit area, the Chair of the Committee attended the 3 November 2011 Departmental and Agency Audit Committee Symposium presented by the Office of the Comptroller General.

6. Follow-up on management action plans

The Committee attaches a high priority to

- assessing the responsiveness and timeliness of management action plans, and
- monitoring the implementation of the plans.

Accordingly, a systematic and thorough approach has been adopted to receive progress reports until each action point has been resolved.

The OAG is continuing to implement the Renewal of Audit Methodology (RAM) project both to address the identified deficiencies and to implement changes brought about by new standards for financial reporting (International Financial Reporting Standards, or IFRS) and for auditing (Canadian Auditing Standards, or CAS). During the current year, the Committee focused on monitoring the project.

As well, the Committee periodically receives progress updates on plans to address findings from internal audits, until all points are cleared.

7. Financial statements and public accounts reporting

The Committee was briefed by management on the preparation of the financial statements, including the preparation of estimates and on choices of accounting policies. As well, the Committee received a comparative summary of Treasury Board Accounting Standards and Public Sector Accounting Standards, together with an explanation about how the differences were being bridged for the 2011–12 financial reporting.

The Committee met in July with the external auditor (Welch LLP) to be briefed on the results of the audit of the OAG's 31 March 2011 financial statements and on the information submitted to the Receiver General for inclusion in the Public Accounts of Canada. The Committee recommended approval of the financial statements to the Auditor General.

8. Accountability reporting

During its May and July meetings, the Committee was briefed on the process for compiling the 2010–11 Departmental Performance Report and the related audited financial statements. During its August teleconference, the Committee recommended approval.

The Committee was advised that, in accordance with legislation, quarterly financial reports are now required. These reports are prepared on “expenditure basis” rather than the “accrual basis” of accounting that is used for year-end reporting. Copies of the latest report are presented for information at each Committee meeting.

As well, in February 2012 the Committee reviewed a draft of the Report on Planning and Priorities for the 2012–13 fiscal year. The Committee made some suggestions and expressed satisfaction with the messages conveyed.

Conclusion

The briefings and reports presented to the Committee during the 2011–12 fiscal year, together with the experience of prior years, have provided the Committee with a good understanding of the key issues the Office is facing. The management and staff were candid and clear on the challenges and receptive to comments by Committee members.

The Committee notes that the OAG sets very high standards for the quality of its audit products. The findings of the internal practice reviews during the year were very encouraging to both management and the Committee. Two years ago, in its 2009–10 report, the Committee fully endorsed the major initiative undertaken to update the audit methodologies and work instruments both to remedy deficiencies in current practices and to prepare for the changes implicit in the new financial reporting (IFRS) and new audit standards (CAS). The Committee continues to monitor progress on the action plans that are being implemented to strengthen procedures and is pleased with the considerable progress achieved.

The Committee considers that the OAG has a satisfactory methodology to conduct reliable audits and studies. As well, the Committee believes that the system of management controls is satisfactory to the needs of the OAG.

Overall, the Committee concludes that the Office has a rational and systematic approach to addressing its mandate, monitoring results, and reporting to Parliament and the public.

April 2012