

**Report of the Audit Committee to the Auditor General of Canada**

For the 2012–13 Fiscal Year

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## **Introduction**

The Audit Committee provides the Auditor General (AG) with independent advice on matters relating to management controls in the Office of the Auditor General (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 of paramount importance. 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 March 31, 2013.

## **Membership and Meetings**

The Committee's charter contemplates that there will be three voting members of the Committee, two of whom are independent of the Office. Continuing members from last year were Michael Ferguson (Auditor General) and Peter Boomgaardt (Chair); at the beginning of the year Bruce Joyce, a recently retired senior partner of Deloitte was welcomed as a new independent member of the Committee. In addition Bruce Sloan, OAG Principal and Lyn Sachs, Assistant Auditor General—Corporate Services and Chief Financial Officer, continued their service as ex officio, non-voting members.

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

The Committee held three meetings during the year (April 13, July 10 and October 30). As well as an email exchange was used to comment on a reporting document in January, 2013. The Committee regularly had 'in camera' sessions involving only the voting members meeting separately with the external auditor, Chief Audit Executive and Chief Financial Officer.

## **Committee Charter**

The Committee annually considers its terms of reference, as it continues to develop operating routines that effectively serve the AG. 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 the independence of the OAG. The Committee considers that its charter and workplan are suitably aligned with Treasury Board guidance 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 October meeting the Committee received a presentation on the updated policies and procedures in effect to disseminate the OAG's Values and Ethics to all staff, as well as to encourage and monitor compliance. The Committee was given a summary of changes that have been made to the OAG Code of Values, Ethics and Professional Conduct in line with changes that Treasury Board Secretariat has made to the code for the broader public service. The Committee also was briefed on how the OAG deals with both conflicts of interest and harassment and discrimination issues in the workplace.

The Committee was briefed on the outcome of the most recent Employee Satisfaction Survey and congratulated management on the very positive results.

### **2. Risk Management**

Members were advised in October on the continuing comprehensive update of the Office's strategic plan, in which risk management is a major consideration. The exercise is well underway, starting with a one-day meeting of the Executive Committee in June guided by an external consultant and follow-up meetings in July and October to map strategic objectives; further meetings are ongoing to determine actions and timelines. The Committee will be briefed on plans and supporting performance measures in 2013–14.

As part of its assessment of the risk-based Practice Review and Internal Audit Plan, the Committee also considers and reviews how the OAG addresses risk management issues from an audit perspective.

### **3. Management Control Framework**

In context of activities of prior years, the Committee is updated annually on key management issues and how procedures have been adopted to mitigate concerns and produce desired results. The OAG addresses issues separately for the delivery of professional services/products and for administration/finance.

With respect to the OAG conducting its work for Parliament and other users, the Committee received reports on the completion of the Renewal of Audit Methodology (RAM) project. This major undertaking over the past few years addressed virtually all issues raised in peer and practice reviews. The RAM project was completed within original budget and on target with the revised timetable. The new methodology with suitable training and support has been rolled out to staff and is being effectively implemented.

In addition the Committee was updated on the continuing actions being taken to further strengthen audit approaches surrounding information technology. This initiative will permit OAG staff to place greater audit reliance on the internal controls in entities audited.

By means of briefings on the results of practice reviews conducted annually, the Committee continues to be informed of progress and challenges in this area.

With respect to administrative and finance activities, the Chief Financial Officer presented an assessment of the effectiveness of systems of internal control over financial reporting. In the previous year 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 Treasury Board Secretariat policy on internal control. A limited update of the control procedures was done during 2012–13.

To keep apprised of ongoing activities, the Committee receives a copy of the most recent monthly summary management reports and selected other reports at each meeting. In particular, the Committee is provided with quarterly reports that summarize spending on travel and hospitality by each member of the Executive Committee, as well as a report outlining major contracts and contracting exceptions.

#### **4. Internal Audit Function**

The hallmark of the OAG is the reliability and integrity of the reports produced by its various audits and other examinations. Accordingly, emphasis and attention are directed to ensuring that the System of Quality Control for all products lines is operative. This is done by periodically assessing the design of the quality management systems and by annually conducting systematic and rigorous practice reviews on a basis that covers all senior practitioners over a multi-year cycle.

In July the Committee recommended approval for the multi-year PRIA plans for 2012–13 to 2014–15. The plans are risk-based and focus on professional judgment. In the current year internal audit will follow-up on actions arising from prior IA recommendations. The selection process for practice reviews will be enhanced using a random sample over a four year period that reduces predictability of individual practitioners chosen for review. The new sampling basis will increase the number of files examined and will enable extrapolation of findings to individual product lines once a valid base is accumulated over the next two to three years.

In April the Committee recommended for approval by the AG the Report on a Review of the Annual Audit Practice; the Committee was pleased with the improved results and management plans to address recommendations. As well, the Committee was informed of the results an office-wide review on the

application of a specified audit standard Canadian Audit Standard 600—Special Considerations—Audits of Group Financial Statements (including the work of component auditors). Recommendations flowing from this evaluation dealt with improving documentation and more clearly distinguishing between important and insignificant components. The Committee also received the summary report on the Performance Audit practice, expressed its satisfaction with results and recommended the report for approval by the AG.

The Committee received the report on findings and recommendations arising from the internal audit of Financial Budgeting and Reporting; it was pleased with the report and management response to recommendations and recommended approval by the AG.

At each meeting the Committee is updated on audits in progress, staffing issues and other matters affecting PRIA.

The Committee considers that internal audit function: a) sensibly includes the practice review activities; b) is staffed by professionally qualified people; c) plans its work using a risk-based methodology; d) applies a professional approach to planning, executing, supervising and reporting on its work; e) follows up systematically on the progress on the actions by management in response to findings and recommendations; and f) respects the principles of the Treasury Board Policy on Internal Audit. The Committee is 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 periodically briefed on developments related to parliamentary oversight over the funding and operations of the OAG. A member of the Committee attended the November 8, 2012 Departmental Audit Committee Symposium presented by the Office of the Comptroller General, to keep abreast of developments in the internal audit area.

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

## **6. Follow-up on Management Action Plans**

The Committee attaches a high priority to: a) assessing the responsiveness and timeliness of management action plans and b) monitoring the implementation of the plans. Accordingly, a systematic and thorough approach has been adopted to receive progress reports until final resolution for each action point.

Over the past several years the OAG undertook a thorough update of audit methodology both to address the identified deficiencies and to implement changes brought about by new financial reporting (IFRS) and audit (CAS)



standards. This multi-year project, known as Renewal of Audit Methodology (RAM), was completed and substantially implemented during the current year. The Committee monitored the RAM project, receiving progress reports at each meeting as well as a wrap-up report on lessons learned.

At its October meeting the Committee recommended for approval by the AG, the Practice Review Report on Actions Taken by Management on Previous Review and Peer Review Recommendations. As a matter of practice, the Committee receives periodic updates on progress 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 choices of accounting policies.

The Committee met in April and July with the external auditor (Welch LLP) to be briefed on the respective plans for, and results of, the audit of the March 31, 2012 financial statements of the OAG and the information submitted to the Receiver General for inclusion in the Accounts of Canada. Following the clearance of outstanding issues, the Committee (via email) recommended approval of the financial statements to the AG.

## **8. Accountability reporting**

The Committee was briefed on the process for compiling the Departmental Performance Report for 2011–12 including the related audited financial statements. The Committee reviewed the draft document, provided some comments and recommended the amended report for approval by the AG.

At each meeting the Committee was provided with the most recent version of the Quarterly Financial Reports that were issued. As noted last year these reports are required to be prepared on an ‘expenditure basis’ rather than the ‘accrual basis’ of accounting that is used for year-end reporting.

As well, in January 2013, Committee members reviewed a draft of the Report on Planning and Priorities for 2013–14. The Committee made suggestions via email and telephone and recommended its approval by the AG.

## **Conclusion**

The briefings and reports presented to the Committee during the 2012-13 fiscal year, together with the experience of prior years, have provided the Committee with a good understanding of the key issues facing the Office. 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 audit products. The findings of the internal practice reviews during the year were very encouraging to both management and the Committee. The Committee is pleased with the successful completion of the major initiative undertaken to update the audit methodologies and work instruments.

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, to monitoring results and reporting to Parliament and the public.

April 2013