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2011-2012 Departmental Audit Committee Annual Report

March 2012



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March 31, 2012

Daniel Jean
Deputy Minister
Canadian Heritage

As Chair of the Departmental Audit Committee, it is my pleasure to present the annual report of the Committee covering the fiscal year 2011-2012. The annual report summarizes the activities of the Departmental Audit Committee and provides our assessment of the areas under the Committee's responsibility. This report was produced by the Audit Committee with all three members playing an active role in shaping its content.

The Committee deeply appreciates the professionalism, the commitment and the competence of Canadian Heritage staff at all levels. As Chair, my work has also been made easy by the continued contribution of the other two members of the Committee: Nola Buhr and Robert Martin. Their insight, expertise and dedication are notable and I acknowledge their ongoing hard work and valued contribution.

The Committee looks forward to continuing its work in the next fiscal year and to build further on the excellent working relationship already established between the Department and the Departmental Audit Committee.

Sincerely,

Original signed by
Donald J. Savoie, DAC Chair

Cc: ADM, Planning and Corporate Affairs
Chief Audit and Evaluation Executive
Audit Committee Members

Original signed by
Daniel Jean, Deputy Minister

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1.0 Introduction

1.1 Background

This is the fourth annual report of the Departmental Audit Committee (DAC) for the Department of Canadian Heritage (PCH).

The Committee is an essential part of the governance and audit requirements established by the Treasury Board of Canada's (TB) *Policy on Internal Audit*. The Committee's purpose is to provide objective advice and recommendations to the Deputy Minister regarding the sufficiency, quality and results of assurance on the adequacy and functioning of the Department's risk management, control and governance frameworks and processes. The Committee exercises oversight of core areas of Departmental control and accountability, in an integrated and systematic way.

Management is responsible for establishing and maintaining internal controls over financial and material assets of the Department and for ensuring, through good governance and strategic direction, the achievement of the Department's mandate and objectives. The DAC assists management in pursuing these tasks and responsibilities.

1.2 Committee Membership

The Committee consists of three external members who were selected according to their competence, knowledge and experience. The Chair of the Committee is Donald J. Savoie, Canada Research Chair in Public Administration and Governance at the Université de Moncton and the members are Nola Buhr, Professor at the Edwards School of Business, University of Saskatchewan and Robert Martin, from Montreal, a consultant in financial management and business development

The Deputy Minister, the Associate Deputy Minister, the Chief Financial Officer (CFO) and Chief Audit and Evaluation Executive (CAEE) attend DAC meetings. The Chair may request the attendance of other departmental officials as required. Senior representatives of the Office of the Auditor General (OAG) attend DAC meetings twice a year to discuss OAG plans, findings and other matters of mutual interest. The Chair also invites from time to time Treasury Board Secretariat (TBS)/Office of the Comptroller General (OCG) officials to attend DAC meetings.

2.0 Summary of Activities

2.1 DAC Meetings and Work Planning

The Committee held four regular meetings as well as a specific teleconference dedicated to the financial statements during the 2011-2012 fiscal year.

- June 02, 2011;
- August 24, 2011 (Financial statement meeting via teleconference);
- October 20-21, 2011
- January 05, 2012 (via teleconference); and
- March 22-23, 2012.

The Committee reviews its workplan at every meeting. The DAC tabled its annual report for 2010-11 in October 2011.

2.2 DAC Terms of Reference and Self-Assessment

The *Canadian Heritage Departmental Audit Committee Terms of Reference* provides guidance on the Committee's membership, operations, responsibilities and reporting requirements. The DAC Terms of Reference were reviewed and updated during 2011-2012 with the final version tabled and approved at the January 2012 meeting.

The Committee completed its annual self-assessment using a questionnaire completed by external and ex-officio members. In general, the results are very positive. Ex-officio members appreciate the work of DAC and suggest that DAC members could play an expanded role in providing advice on key strategic risks.

2.3 Other Committee Business

The Committee received updates and briefings on the following topics:

OCAEE Information Sessions:

- Tabling of the CAEE Annual Report (June 2011)
- Evaluation Activities Status Reports (June and October 2011, March 2012). The CAEE supported by the Director of Evaluation provides an overview of the status of evaluation projects including potential impacts, developments and challenges. The DAC indicates continued interest in receiving relevant evaluation reports for information.
- Update on ATIP requests for internal audit is a standing agenda item.
- The CAEE and Director, AASD briefed the Committee on the Branch's workforce. The DAC requested additional information be provided quarterly on audit resources, auditor qualifications and staff turnover.
- A critical path for the Vulnerabilities Assessment project was discussed. This item is scheduled to be brought back to DAC in June 2012.

CFO Information Sessions:

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- DAC requested annual updates on Recipient Compliance Audit Activities with all problematic files highlighted.
 - The revised Protocol for Problematic Files was presented.
 - DAC received an update on the Grants and Contributions Modernization Initiative.
 - An overview of PCH's Business Continuity Plan was presented to the committee.

3.0 Core Responsibilities

This section of the report describes the eight core responsibilities assigned to the DAC by the TB *Directive on Departmental Audit Committees*. These include values and ethics, risk management, management control framework, the Internal Audit Function, liaison with the Office of the Auditor General (OAG) and Central Agencies, follow-up on management action plans, financial statements and public accounts reporting, and accountability reporting.

3.1 Values and Ethics

The DAC reviews management policies and practices to promote public service values and to ensure compliance with laws, regulations, policies, and standards of ethical conduct.

At the June 2011 meeting, the outgoing Ombudsman presented her 9th Annual Report for information and an in-camera meeting with the Committee was held. As part of its work, the Committee intends to continue to meet annually with the Ombudsman to receive his annual report.

In addition to the summary issues overview provided by the CFO at every meeting, in June 2011, the CAEE provided an update to members on the development of a framework to address potential Departmental vulnerabilities.

The Committee received the *Internal Audit on Values and Ethics* at the June 2011 meeting. The audit concluded that management of values and ethics has control weaknesses with moderate risk exposure. Four recommendations were made and accepted by management. The report was recommended for Deputy Minister approval with minor changes.

At the March 2012 meeting, the Committee met with the new Ombudsman who provided the annual review of values and ethics at PCH. In particular, he dealt with the establishment of the Office of Values and Ethics, the implementation of the new code, the PCH Values and Ethics program and a summary of the health of the organization.

3.2 Risk Management

DAC reviews the Corporate Risk Profile and Departmental risk management arrangements annually.

The purpose of the Project Risk Assessment and Management (PRAM) tool is to make risk-based decisions in funding projects, while reducing administrative burden on recipients with low-risk projects. This initiative is intended to address expectations under the Treasury Board *Policy on Transfer Payments* and also provide management a wider picture of risks across the organization. At the June 2011 meeting, The Centre of Expertise, Grants and Contributions reported on the status of PRAM tool since implementation in January 2010. The Branch also provided DAC members with an overview of the Grants and Contributions Modernization Initiative and introduced a new risk framework for the delivery of Grants and Contributions.

In June 2011, the Strategic Policy, Planning and Research Branch provided an overview of PCH integrated risk management including how and what information is gathered to update the Corporate Risk Profile (CRP). The Branch also provided details of the revised

2010-11 CRP and the approach for 2011-12. In October 2011, the PCH 2011-12 Corporate Risk Profile was presented to DAC for information. The Committee requested an update on further progress on the CRP including details of the risk framework and second level risk details.

At the March 2012 meeting, the Strategic Policy, Planning and Research Branch shared the approach and planning for the development of the Integrated Risk Management Framework. A presentation of the new 2012-13 Corporate Risk Profile and a simplified format/summary version of the compilation of risk will be presented in June 2012. After further Departmental consultation, an updated Integrated Risk Management Framework will be presented to the Committee in October 2012.

3.3 Management Control Framework

The DAC reviews Departmental internal controls. At the June 2011 meeting, the Financial Management Branch briefed the Committee on its 5-year plan on internal control designed to ensure that PCH has an effective risk-based system of internal control. The Committee asked that updates on internal control be provided on a regular basis, including the Branch's self-assessment.

3.4 Internal Audit Function

3.4.1 Internal Audit Charter

During the year the Committee reviewed the *Canadian Heritage Internal Audit Charter*, suggested changes and recommended approval by the Deputy Minister. The Committee believes that this document complies with the Treasury Board *Policy on Internal Audit* and will continue to review the *Charter* periodically to ensure that it remains current.

3.4.2 Annual Risk-Based Audit Plan

The Committee requires a mid-year update on the implementation of the Multi-Year Risk-Based Audit Plan. This mid-year summary of progress against the Plan as well as potential adjustments to the Plan (and rationale) allows the Committee to assess on-going progress.

In October 2011, the Director of Audit and Assurance Services provided the mid-year update to the Committee on the progress and adjustments made in implementing PCH's Risk Based Audit Plan (RBAP) for 2011-12.

At the March 2012 meeting, the 2012-13 to 2014-15 RBAP was presented to the Audit Committee. AASD plans to complete seven audits and audit-related projects which is believed to be comparable with Departments of similar scope and size.

3.4.3 Audit Reports

Internal audit reports constitute the main deliverable of the Audit and Assurance Services Directorate. The following seven (7) reports were presented to the Committee:

- Internal Audit on Information Technology Infrastructure (June 2011)
- Internal Audit of the Procurement Practices (June 2011)

- Internal Audit of Values and Ethics (June 2011)
- Information and Records Management Audit (October 2011)
- Performance Measurement Audit (January 2012)
- Audit of Compliance to the Treasury Board Policy on Internal Control - Phase 1 (January 2012)
- Audit of the Cultural Industries Branch (March 2012)

3.4.4 Capacity

At each meeting, the Director, AASD provides a brief overview of the status of the Directorate's work plans and speaks to any risks affecting completion of projects.

In October 2011, the CAEE presented the AASD report on the Internal Audit Workforce to the Committee. AASD continues to implement their Human Resource Plan and maintains an approach that encourages certification of their audit staff.

The Committee is aware and concerned about the challenges of recruiting and retaining experienced auditors.

3.5 The OAG, OCG and Central Agencies

The OCAEE continues to foster a positive working relationship with the Office of the Comptroller General (OCG), the Treasury Board Secretariat and the Office of the Auditor General (OAG). The Committee believes that the OCAEE is well informed of the activities of both the OCG and the OAG. The Committee welcomes regular briefings on these relationships.

3.5.1 Working Together

At the October 2011 meeting, the Committee had its bi-annual exchange with the Assistant Auditor General, the OAG Principal Director, and the OAG Director. The Assistant Auditor General, who was due to retire shortly, introduced his replacement. OAG representatives reported on their audit work and the tabling of the annual public accounts as it pertains to PCH and they indicated no issues of concern were found at PCH. The Committee also discussed opportunities to improve communications in fraud cases.

The Committee had its first exchange with the new Assistant Auditor General, accompanied by the OAG Principal Director, at the March 2012 meeting. The OAG reported on their audit work and presented a summary description of their plan for the annual audit of the financial information of Canadian Heritage.

3.5.2 Status Updates: OCG, OAG and other Assurance Providers

At all meetings, the CAEE and Director of Audit and Assurance Services provide a status report to the Committee on the audit activities of the OCG and OAG and other assurance providers as they relate to the department.

While PCH was not included in the scope of the OCG audit: *Horizontal Internal Audit of Information Technology Asset Management in Large Departments and Agencies*, the audit was presented to the Committee for information at the June 2011 meeting.

At the October 2011 meeting, The CAEE and Director, Audit and Assurance Services presented the following reports for information and discussion:

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- TBS report on the Five Year Evaluation of the 2006 Policy on Internal Audit;
 - Office of the Comptroller General's report on the Horizontal Internal Audit of Compliance with the Common Services Policy; and
 - Horizontal Internal Audit of the Grants and Contributions Management Control Framework in Large Departments and Agencies.

At the March 2012 meeting, the Strategic Policy, Planning and Research Branch presented a status report for the OCG *Horizontal Internal Audit of the G's and C's Management Control Framework in Large Departments and Agencies*. The Branch discussed the management action plan and how PCH measures up against the recommendations issued in the OCG report. The OCG recommendations will be addressed as part of Performance Measurement at PCH. This includes the integration of the G's and C's Modernization Initiative and the follow-up on the Performance Measurement Audit.

3.6 Follow-up on Management Action Plans from Internal Audits

At the June 2011 meeting, the OCAEE briefed members on the results and status of audit follow-ups (follow-up report exercise; follow-up of OAG recommendations; and follow-up on practice inspection).

During the October 2011 meeting, the CAEE presented, for information, a mid-year status review of the internal audit follow-up report. The CAEE's overall opinion is that the level of implementation of active recommendations verified is acceptable.

At the March 2012 DAC meeting the OCAEE provided information to DAC members on the results of the Fall 2011 follow-up report and provided the status of the implementation of management action plans.

3.7 Financial Statements and Public Accounts Reporting

During the August 2011 conference call, the Financial Management Branch (FMB) presented the Departmental financial statements dated March 31, 2011 to the Committee. The Branch also presented an Annex to the Statement of Management Responsibility for the fiscal year 2010-11. These were recommended for Deputy Minister approval with changes.

In October 2011, at the request of the Committee, the Financial Management Branch presented the results of the operating effectiveness tests conducted on controls in the last fiscal year as well as an updated version of the five-year plan on internal controls. At DAC's request, Canadian Heritage's Quarterly Financial Report for the quarter ended June 30, 2011 was presented for information. The DAC will continue to receive quarterly financial reports.

At the March 2012 meeting, the CFO addressed the approach and timelines as well as the requirements for the inclusion of elements in the significant changes section in regards to the preparation of the Quarterly Financial Reports. It was agreed that the Quarterly Financial Reports will be sent to members with an identified deadline date.

3.8 Accountability Reporting

At the June 2011 meeting, the Strategic Policy, Planning and Research Branch briefed members on the approach, contents and timelines for the development of the 2011-12 *Departmental Integrated Business Plan*.

In October 2011, Committee members were briefed on the status of the *Departmental Performance Report* for 2010-11.

At the March 2012 meeting The Strategic Policy, Planning and Research Branch briefed the Committee on the approach and timelines related to the Report on Plans and Priorities. A walkthrough of the RPP contents was also done. Members provided feedback and suggested adjustments to the RPP.

4.0 Capacity and Performance of Internal Audit

We would like to highlight the following positive developments as well as opportunities for improvement.

Positive developments include the following.

- We are pleased to report that the CAEE and the Director, AASD have been in place for the full year which facilitates a desirable level of stability to the function.
- Despite substantial budget reductions, the AASD office has been able to meet audit objectives and properly serve DAC.
- Given the Office's success in managing expenditure reduction in the past 12 months, we are hopeful that it will be able to accommodate successfully further planned spending reductions in the coming year.

There are, however, opportunities for improvement.

- We note that only two of the AASD staff have professional accounting or auditing designations. That said, it is encouraging that there are 4 staff members pursuing a designation.
- AASD continues to experience high staff turnover with four departures during the year. Fortunately, the Office has been able to staff the positions.

5.0 Perspectives on Risk Management, Control and Governance

One of the roles of the Committee is to provide objective advice and recommendations to the Deputy Minister regarding the sufficiency, quality and results of assurance on the adequacy and functioning of the Department's risk management, control and governance frameworks. To provide this advice, the Committee relies substantially on the work of the AASD, and in particular on the Annual Overview Assurance Report (AOAR) of the CAEE which forms an integral part of the CAEE's Annual Report. The purpose of the AOAR is to provide the Deputy Minister with an overview of the CAEE's aggregate findings resulting from the execution of the RBAP.

As additional input, the Committee also reviewed the Letter of Representation prepared by the office of the Chief Financial Officer, in particular as it relates to internal controls and financial reporting. To further inform our perspective, the Committee has reviewed the internal audit findings and the resulting audit opinions and is comfortable with using the CAEE's assurance on risk management, internal controls and governance. As a result, the Committee has reproduced parts of the CAEE's AOAR herein. These parts are shown in italics.

5.1 Risk Management

Based primarily on the internal audit reports in this area and considering the most recent TBS MAF assessment input, the perspective of the Committee on risk management is that:

At this point in time, the Department's corporate risk management function and risk management activities and processes have not been fully audited by AASD.

The perspective of AASD is that while programs identify their key risks and establish mitigation strategies, formal mechanisms to assess, monitor, report and/or update program risks and mitigation strategies are not consistently being applied in all areas that have been audited. This is an improvement from the CAE's previous annual report that observed that such strategies had not been implemented for all programs audited.

Going forward, the AASD risk-based audit plan includes an audit of corporate risk management (scheduled for 2012-13), while continuing to incorporate risk management-related core management controls within the scope of other internal audits.

5.2 Control

Based primarily on the internal audit reports in this area, the perspective of the Committee on internal controls is that:

- *Overall, AASD found that, the Department has demonstrated formal control processes and those controls are functioning well.*
- *Findings regarding the controls for transaction processing within Stewardship indicate that these practices and processes are generally effective.*
- *With respect to Policies and Programs, AASD found that there is an opportunity for the Department, in the areas audited, to increase the formality of its processes to monitor compliance with policies.*

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- *Within the People category, a theme that has started to emerge relates to an opportunity to enhance the Department's provision of guidance and training for staff with respect to roles, responsibilities, and procedures.*
 - *With respect to Grants and Contributions, AASD continues to regularly test the efficiency and effectiveness of Gs&Cs controls in program and branch audits. Findings have been positive.*

AASD has scheduled internal audits of the Department's work to ensure compliance with the TB *Policy on Internal Control* in both 2012-13 and 2013-14.

5.3 Governance

Governance is defined as including the following MAF categories: Governance and Strategic Direction; Results and Performance; Accountability; and Public Service Values.

In terms of AASD's findings related to the Governance and Strategic Direction category, during the past three year cycle, AASD has conducted a number of grants and contributions, branch and operational audits that include coverage of governance and strategic direction controls.

Based primarily on the internal audit reports in this area and considering the most recent TBS MAF assessment input, the perspective of the Committee on governance is that:

- *During the past three years, AASD has conducted G&C, branch and operational audits that examined Governance and Strategic Direction controls. Overall, at an operational level, AASD found that governance arrangements were effective (similar to the MAF assessment). Opportunities to enhance governance practices and processes were identified with respect to Branch level documenting of results and decisions, as well as tracking and monitoring.*
- *With respect to the Results and Performance category, AASD audits found that there are opportunities in the Department to improve on the collection, analysis and reporting of performance information.*
- *AASD's findings related to Accountability indicated that in some of the entities we examined there is an opportunity to formalize the roles and responsibilities involved.*
- *Findings within the Public Service Values category indicated opportunities to enhance the Values and Ethics framework. The OCAEE notes the added effort in the Department's capacity to address Public Service Values through the governance structure and enhanced capacity of the Ombudsmen's office.*

In 2011-2012 the Department overhauled its governance structure and presented the new approach to DAC. It also shared the Governance Committees' composition and terms of reference with the committee.

6.0 Other Observations on the Year

PCH has a new management team. We are pleased to report that we have been able to establish a solid working relationship with Daniel Jean, the Deputy Minister, and Nada Semaan, the newly appointed Associate Deputy Minister and Bob Hertzog, the new Chief Financial Officer. We look forward to establishing a strong working relationship with the recently appointed Assistant Deputy Ministers - Hubert Lussier, Citizenship and Heritage; Guylaine F. Roy, Cultural Affairs; and Jean-Stéphen Piché, Strategic Policy, Planning and Corporate Affairs - and with Luc Bégin, newly appointed Ombudsman.

We note that the role of the Office of the Ombudsman has expanded to include new responsibilities in the area of Values and Ethics. This includes the establishment of a new Office of Values and Ethics.

We are happy to report that Nada Semaan has taken a strong interest in the work of DAC and the Internal Audit function and that Bob Hertzog has made a successful and seamless transition to CFO.

The Treasury Board has renewed the appointments of the Chair and the two members of the DAC.

We fully support the development of a framework to assess the Department's vulnerabilities. This enables the Department to take a risk-based approach to assessing the effectiveness of internal controls in mitigating the possibilities of fraud.

We appreciate the Department's willingness to share fully with DAC members its work on internal controls in particular its 5-year plan.

We were asked to hold our January meeting by conference call. We found the experience less than satisfactory.

7.0 Looking Ahead

Given the changes to the Policy on Internal Audit and the Directive on Internal Auditing in the Government of Canada, both effective April 1, 2012, DAC members wonder if Departmental Audit Committees will retain the priority status that they enjoyed in the first years of their existence. We perceive this to be less of an issue with PCH than a government-wide issue.

We would welcome opportunities to be more involved in advising the Deputy and Associate Deputy Ministers on strategic issues as a way of strengthening our contribution to the Department. The past year has proven challenging given expenditure reduction requirements and although we have served as a sounding board to senior management in the past we see increased opportunities in the years ahead.

We appreciate the support we have had in preparing for our DAC meetings and we are ready to work with AASD to streamline the planning process and material preparation for our meetings.

IT is critical to good management. Our sense is that PCH IT infrastructure is aging and perhaps inadequate. We look forward to reviewing the Department's IT strategy and providing advice.

PCH, like other departments, has had to learn to do more with less. It has had to deal with staff uncertainty and no doubt, in some cases, staff anxieties. These are challenging times for senior departmental managers. We appreciate the challenges and we wish to be supportive in the coming year. We are fortunate in that we have been able to grow a productive working relationship with senior managers and we fully intend to continue in this vein.

Appendix A: Acronyms Used in this Report

AASD	Audit and Assurance Services Directorate
AOAR	Annual Overview Assurance Report
CAEE	Chief Audit and Evaluation Executive
DAC	Departmental Audit Committee
DPR	Departmental Performance Report
FMB	Financial Management Branch
FTE	Full-Time Equivalent
MAF	Management Accountability Framework
OAG	Office of the Auditor General
OCAEE	Office of the Chief Audit and Evaluation Executive
OCG	Office of the Comptroller General
PASS	Professional Audit Support Service
PCH	Patrimoine Canada / Canadian Heritage
PRAM	Project Risk Assessment and Management
RBAP	Risk Based Audit Plan
RPP	Report on Plans and Priorities
TB	Treasury Board
TBS	Treasury Board Secretariat