The Senate of Canada

Annual Report on Internal Audits 2011-2012

Report of the Standing Committee on
Internal Economy, Budgets and Administration

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Annual Report on Internal Audit, 2011-2012

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Introduction

Oversight and Audit in the Senate

The day-to-day oversight of the Senate's resources and administrative practices rests with the Standing Senate Committee on Internal Economy, Budgets, and Administration and with the Clerk of the Senate, whose responsibilities are described in chapters 2:02 and 2:03 of the *Senate Administrative Rules* as follows:

Chapter 2:02

2. (1) Subject to the rules, direction and control of the Senate, the Committee is responsible for the good internal administration of the Senate.

(2) For the purposes of subsection (1), good internal administration means a competent administration that is flexible, fair and transparent, with appropriate policies and programs, suitable service levels, adequate resources including high-quality staff, appropriate reporting mechanisms and regular audits and assessments.

Chapter 2:03

3. (4) the principal functions of the Clerk of the Senate as head of the Senate Administration are:

(a) to provide advice on corporate governance, including on strategic, administrative and financial planning and administration;

(b) to organize the internal administrative and financial structures;

(c) to direct the Senate Administration;

(d) to control and monitor the functions of the Senate Administration; and

(e) to report to the Senate through the Internal Economy Committee.

The internal audit function supports the Committee and the Clerk in meeting their responsibilities by providing independent, objective assurance services designed to add value and improve the stewardship of Senate operations and resources. This assists the Senate in accomplishing its internal management objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance practices.

The internal audit function reports functionally to the Audit Subcommittee and administratively to the Clerk of the Senate and is led by the Director, Internal Audit and Strategic Planning. The function's processes and practices are designed to meet the Institute of Internal Auditors' Professional Practices Framework.

An Audit Subcommittee, made up of three members of the Internal Economy Committee, is the governance body charged with overseeing and directing the internal audit function. The Audit Subcommittee's primary responsibilities are to:

- Recommend for approval by the Internal Economy Committee a multiyear internal audit plan, reports and recommendations regarding the internal audit function, including audit reports that have been submitted, and other matters, as appropriate;
- Review management action plans and ensure (1) that they adequately address the recommendations and findings arising from internal audits, and (2) that the action plans have been effectively implemented;
- Submit an annual report with its observations and recommendations to the Internal Economy Committee; and
- Review the *Internal Audit Charter* and *Internal Audit Policy* and recommend changes as required to the Internal Economy Committee.

The Senate maintains a *Multiyear Audit Plan* that covers a three to five-year period and is updated annually using a risk-based audit planning methodology. The plan is reviewed by the Audit Subcommittee before being presented to the Internal Economy Committee for approval. Once approved, the Director, Internal Audit and Strategic Planning, is responsible for ensuring that the audits are carried out as planned. Audit work is typically carried out by outside audit firms engaged through a competitive process.

2011-2012 Audits

In 2011-2012, the Senate's internal audit activity received the permission of the Audit Subcommittee of Internal Economy to delay audits in the Multiyear Audit Plan by six to eight months, in order to allow Senate management and the audit activity to devote its resources more fully to the Office of the Auditor General's (OAG) performance audit of the Administration. The examination phase of the OAG audit was completed in late 2011, and by January 2012, Internal Audit recommenced with an assurance audit of Partnership Agreements, reported in April 2012. An advisory engagement on project management also began at the end of fiscal year 2011-2012, and was reported to the Steering Committee in October 2012.

What Happens After the Audits?

Once an audit has been completed, the results are submitted to the Clerk of the Senate who, along with his management team, considers and validates the observations, prepares management responses and develops a follow-up action plan for addressing the recommendations. The final audit report, along with management's responses and action plans, are presented to the Audit Subcommittee and subsequently to the Senate Committee on Internal Economy, Budgets, and Administration.

The follow-up process on audit recommendations begins as soon as a weakness has been identified and it is not unusual to have corrective measures implemented during the course of the audit, even before the final report is issued. Other recommendations require more extensive changes to policies, procedures, practices and systems and can take anywhere from a few months to two years to fully implement. These actions often form the basis of key initiatives in the Administration's annual work plans.

The Clerk, with the assistance of the Director, Internal Audit and Strategic Planning, monitors progress made on the implementation of audit recommendations. The Audit Subcommittee is kept apprised of any delays or situations that might require closer attention and receives progress reports on a quarterly basis until all audit recommendations have been addressed.

I. Audit of Partnership Agreements

The following report was prepared by the firm Ernst and Young:

Executive Summary

The risks associated with partnership agreements were first identified in 2006-2007. The risk assessment performed as part of the development of the audit plan in 2009 continued to identify partnership agreements as a risk area citing that there is a high inherent risk that “ongoing service may be hindered or not delivered, and internal capacity is not developed.” As a result, the Senate requested an audit of partnership agreements to ensure that an effective management control framework is in place to manage and monitor partnership agreements.

The Senate is party to approximately 30 written agreements for services, its principal partners being the House of Commons, Public Works Government Services Canada (PWGSC) and the Royal Canadian Mounted Police (RCMP). These agreements include a wide range of services such as security, building maintenance and translation. The management of these common services is accomplished using partnership agreements, which currently total less than $1 million per year in costs for services received by the Senate, and a total potential reimbursement of over $1.8 million for costs of services delivered by the Senate.

This audit report provides details regarding audit objectives, scope, approach, and key findings and observations made during our audit conducted between November 2011 and January 2012.

Our audit found that the Senate has established effective controls to manage risks associated with partnership agreements. While conducting our audit we noted the following opportunities for improvement:

1. The Senate should implement a process that ensures a business case is prepared when considering obtaining goods and/or services through the use of partnership agreements that result in a significant financial risk. The business case should identify the Senate’s business needs, options for meeting the business needs and costs (if applicable), benefits and risks of those options.
2. The Senate should ensure that all risks identified corporately and at the Directorate level are assessed against common criteria (i.e., probability and impact), and have been assessed by appropriate level of management.
3. Where risks related to services obtained through informal agreements are identified, the Senate should ensure that the services obtained through such informal agreements are identified separately to fully and accurately reflect the impact and operational effects of the risk to the organization. A more accurate risk assessment will also facilitate the prioritization of risk mitigation plans.
4. The Senate should implement a systematic process by which identified risk areas are addressed at the appropriate level of management. In particular, high-risk areas should be elevated for discussion

and mitigation at the appropriate senior management subcommittee or Senior Management Committee and decisions to accept the current mitigation strategies in place or supplement with additional mitigation actions should be noted in the meeting minutes for follow up if required.

5. The Senate should develop a project management approach that incorporates the following activities: planning, cost/quality management, monitoring and performance measurement, risk management, and reporting. The extent to which a rigorous project management approach needs to be applied should be proportional to the costs, impact, and complexity of the project to the Senate. Partnership agreements that are led by the Senate and where the Senate is providing services for payment from a partner organization should utilize a more structured project management approach.
6. Where partnership agreements involve multiple internal stakeholders, the Senate should put in place project management processes that identify the requirements of those stakeholders and secure their commitment (e.g. identification of requirements in the directorate's work plan) to ensure that it can fulfill the requirements outlined in the partnership agreement.
7. For partnership agreements in which the Senate is receiving funding using a cost recovery approach, the Senate should ensure monitoring and reporting activities (e.g. timesheets) are in place, appropriately utilized and up-to-date to support the accurate recovery of costs incurred.
8. Partnership agreements that include the use of cost-recovered resources should be supported by established mechanisms to ensure the Senate has access to the resources it is entitled to on a timely basis.
9. The Senate should ensure where a business case has been prepared prior to engagement in a partnership agreement, an assessment against the original cost and performance criteria presented in the business case occurs periodically to assess the value and appropriateness of the partnership agreement given the changing business needs of the Senate.

1.0 Introduction

1.1 Background

In consultation with the Senate Audit Subcommittee, the Clerk, the Senior Management team, and with the assistance of independent auditors, the Clerk's Office developed a 2009-2012 Internal Audit Plan that was approved by the Senate Audit Subcommittee and the Standing Committee on Internal Economy, Budgets and Administration. Partnership agreements were first identified as a risk in 2006-2007. The risk assessment performed as part of the development of the audit plan in 2009 continued to identify partnership agreements as a risk area citing that there is a high inherent risk of "ongoing service may be hindered or not delivered, and internal capacity is not developed." As a result, the Senate requested an audit of partnership agreements to ensure that an effective management control framework is in place to manage and monitor partnership agreements.

The Senate is party to approximately 30 written agreements for services, its principal partners being the House of Commons, Public Works Government Services Canada (PWGSC) and the Royal Canadian

Mounted Police (RCMP). These agreements include a wide range of services such as security, building maintenance and translation. The management of these common services is accomplished using partnership agreements, which currently total less than $1 million per year in costs for services received by the Senate, and a total potential reimbursement of over $1.8 million for costs of services delivered by the Senate.

1.2 Audit Objective, Scope and Criteria

1.2.1 Audit Objective

The objective of the audit was to provide assurance that an effective management control framework is in place:

- To assess the adequacy of the decision-making processes from partnership initiation to contracting;
- To manage and monitor the execution of partnership agreements.

1.2.2 Audit Scope

The audit scope included the examination of decision-making processes, including consultation, negotiations, preparation of business cases, approvals and contracting authorities. It also assessed the controls in place to monitor and mitigate risks associated with the management of agreements, including service delivery failure and obtaining value for money.

All active partnership agreements in 2010-2011 between the Senate and the House of Commons and Public Works Government Services Canada were in scope. As part of the execution and testing phase of this audit, four partnership agreements were selected utilizing a risk based non-statistical sampling approach. The four partnership agreements selected were:

- FreeBalance: Agreement in support of the FreeBalance Cluster Group;
- AMMIS: (Automated Materiel Management Information System) Agreement in support of the AMMIS Cluster Group;
- LTVP Accommodation Program Funding - Knowledgeable Client Funding Agreement;
- Service Agreement Extension for Senate Broadcasting Services (extension by 1 year).

The execution and testing phase of this audit was conducted between November 2011 and January 2012.

1.2.3 Audit Criteria

The criteria applied in this audit were:

- Procurement policy – The Senate's Procurement Policy is well communicated, understood and accessible to the parties that need to apply it.
- Consultation and service delivery options assessed – the necessary parties are consulted and service delivery options are explored as part of the decision-making and drafting process for

partnership agreements to ensure the partnership agreement is the best vehicle to meet the business needs of the Senate

- Clauses and authorities – The partnership agreements contain the necessary clauses and are signed by the appropriate authority
- Informal agreements – The Senate is aware of, and has conducted risk assessments with associated mitigation strategies for, services received through informal agreements
- Roles and responsibilities – Roles and responsibilities for managing and monitoring the financial and operation results of the partnership agreements are defined, communicated and understood
- Planning and project management – Planning and project management activities are in place to manage risks related to the partnership agreements on a regular basis to address current risks or identify new risks that could impede the delivery of services
- Monitoring and performance measurement – Monitoring and performance-measurement activities are in place to ensure services delivered meet established standards, provide value for money and the partnership agreement continues to be the best vehicle to receive or deliver services

2.0 Approach & methodology

Our approach in conducting the audit was comprised of the following three phases:

- Planning
- Execution and testing
- Reporting

Planning phase

During the planning, an initial risk assessment was performed based on a review of key documentation and interviews with key members of Senate Administration to develop an understanding of the major risks and issues associated with partnership agreements. Based on the results of the documentation review and interviews a preliminary list of risks were identified and categorized. Customized audit criteria and an audit program were developed to address the significant risks identified.

Risk assessment

The purpose of the risk assessment was to identify potential areas of risk to the management control framework in place for the management and monitoring of partnership agreements. The assessment identified key risk areas, which formed the basis for which the audit work was undertaken.

The risk assessment also formed the basis of our audit criteria stated above. Some of the areas of risk included:

- Procurement Policies and Procedures. The Senate's Procurement Policy (formerly the General Materiel Management Policy) was recently adopted by the Internal Economy, Budgets and

Administration Committee (IEC) on 20 October 2011 and includes guidance on procedures that should be followed in formalizing a partnership agreement. If the Procurement Policy is not well communicated, understood and accessible to the relevant parties, there is a risk that it will not be consistently or appropriately applied.

- Identification of Partnership Solutions. The Senate's end users identify the need or desirability of pursuing a partnership agreement. If service delivery options are not well explored and business cases not developed, there is a risk that the partnership agreement will not be the most cost-beneficial or most effective solution.
- Consultation and Decision-Making Process. The Senate's end users initiate the process for putting in place a partnership agreement. If the necessary parties are not consulted as part of the decision-making and drafting process for partnership agreements, there is a risk that the partnership agreement in place does not contain the necessary clauses, does not appropriately address the Senate's business needs, and is not signed by the appropriate authorities.
- Informal Agreements. The Senate has in place informal agreements with partners in which it receives services. If a risk assessment and mitigation strategy is not considered for these informal agreements, there is a risk that the Senate may not be prepared to act in the event the partner organization wishes to end the partnership and discontinue providing the Senate with services which it previously received. Further, there is a risk that formalization of these arrangements could lead to higher costs and/or lower service levels for the Senate.
- Managing and Executing Partnership Agreements. The roles and responsibilities of the Senate and partners are outlined in the partnership agreements. If appropriate planning and project management is not in place, there is a risk that the Senate will not receive the expected services or will not have the necessary resources to deliver the expected services to partners as defined in the partnership agreements.
- Monitoring and Performance Measurement. Partnership agreements have in place defined terms and conditions related to roles, responsibilities, and financial and/or operational performance standards. If the monitoring and performance-measurement activities are not well-defined and implemented, there are risks that the Senate may not be receiving the services outlined in the agreement, may not be getting value for money, or may not be developing an adequate understanding of its own business needs and processes should the other party cease to provide services.

Execution and Testing Phase

Based upon the planning results and the detailed work plan, we executed the testing through a combination of interviews, observation and review of documentation related to the selected partnership agreements. Specifically, our testing plan included the following work steps:

1. Conducted interviews with managers to determine if the Procurement Policy has been communicated and understood, and reviewed communication documents.
2. Reviewed documents to determine if risk assessments for informal agreements are in place and appropriate mitigation strategies have been developed.
3. For the four partnership agreements selected:

- Interviewed the responsible managers for the partnership agreements selected for testing to determine if the necessary consultation occurred during the drafting process.
- Identified key clauses which should be part of all partnership agreements and reviewed the selected agreements to ensure that they contained the key clauses and were signed by the appropriate authority.
- Interviewed staff with responsibilities in the management and monitoring of the partnership agreement to determine that roles and responsibilities are assigned, understood and executed.
- Reviewed documents to determine if risks identified are managed throughout the duration of the partnership agreement.
- Reviewed financial and operational documents to determine if performance reporting is in place and reported to assess service delivery and value for money.

Reporting Phase

A preliminary debrief was held with Audit and Planning to discuss findings and seek clarification where necessary.

A draft report was released for management's comments and was subsequently presented to the Audit Subcommittee.

3.0 Observations & recommendations

3.1 Audit Criteria #1 – Procurement policy

> The Senate's Procurement Policy is well communicated, understood and accessible to the parties that need to apply it.

Background Information

The Senate's Procurement Policy was approved and adopted on October 20, 2011 by the Standing Committee on Internal Economy, Budgets and Administration. The policy provides the framework to acquire goods and services in an efficient and effective manner that result in best value while mitigating risks, enhancing access, competition and fairness to suppliers. The Procurement Policy applies to all contracts, including partnership agreements which are defined as "all agreements between the Senate and other organizations (excluding the private sector) with or without any financial commitments. These include Memorandum of Understanding, Memorandum of Agreements, Service Level Agreements and Letters of Understanding."

The communication of the newly adopted Procurement Policy is essential in ensuring that the necessary individuals understand and apply the appropriate process for formalizing partnership agreements so that risks are properly mitigated. The Procurement Policy should also be accessible to all individuals who may need to apply it so that it can be easily retrieved in a timely manner in instances where it requires referencing.

Findings and Observations

- Overall, the Senate's Procurement Policy is well communicated, understood and accessible by the parties that need to apply it. In November 2011, at the time the Procurement Policy came into effect, a memorandum was issued to all Senators and staff to communicate and highlight the requirements of the Policy. There was also evidence of communications to all managers that reiterated the requirements related to the consultation and approval process for partnership agreements.
- Interviews with key internal stakeholders confirmed that the Procurement Policy has been communicated to them and indicated a good understanding of the procurement process as it pertains to partnership agreements. In particular, interviewees demonstrated understanding of the requirements to exercise proper signing authorities and consult with the Procurement division and the Office of the Law Clerk and Parliamentary Counsel during the drafting process. Interviewees also indicated that the Procurement Policy was easily accessible via Intrasen for referencing.

Recommendation

None

3.2 Audit Criteria #2 – Consultation and service delivery options assessed

> The necessary parties are consulted and service delivery options are explored as part of the decision-making and drafting process for partnership agreements to ensure the partnership agreement is the best vehicle to meet the business needs of the Senate.

Background Information

Partnership agreements were first identified as a risk in the corporate risk inventory in 2006-2007. At the time, partnership agreements were being initiated by the responsible Managers and were not being systematically reviewed by other key parties. The Procurement Policy includes, but is not limited to, the review of draft partnership agreements by the Procurement division and the Office of the Law Clerk and Parliamentary Counsel prior to issuance. This control ensures that the Senate is adequately mitigating risks and limiting liabilities by using appropriate clauses in the terms and conditions of the agreement.

As part of the consideration for forming partnership agreements, the Senate should have in place a process to assess alternate delivery methods of services. A formal process that includes the documentation of identified business needs and evaluation of service delivery options allows Senate Administration to ensure it is obtaining the best value for money in pursing partnership agreements. Documentation of these considerations for alternate delivery methods for services also allows Senate Administration to reassess partnership agreements more systematically at the time of renewal to ensure the partnership agreement continues to meet changing business needs and is a cost-effective solution.

Findings and Observations

- The audit found that for all four partnership agreements examined, the responsible Manager appropriately consulted the Procurement division and the Office of the Law Clerk and Parliamentary Counsel with the draft partnership agreement prior to being finalized.
- Two of the four partnership agreements undertook a thorough assessment of business needs and options analysis including identification of benefits and risks associated with each option. The assessment concluded with a recommended option; however, upon further review of costs obtained through Requests for Information (RFIs), the Senate deemed the recommended option too expensive to pursue. Based on available information, the Senate selected a service provider that would best meet its business needs in a cost-effective manner. Although a detailed and documented assessment took place to assess the Senate's business needs, a formal business case was not prepared to support the option that was ultimately selected. The service providers that the Senate Administration selected use partnership agreements as the standard vehicle to contract with its users and, as a result, a partnership agreement was formed with the service provider. It was noted in interviews that the Senate Administration's responsible manager(s) felt that the appropriate option was selected because several other organizations of similar size and capacity selected this service option as well.
- One of the partnership agreements was put in place several years prior to the current Director's tenure and documentation of a business case that includes an assessment of needs, options, benefits and risks for when the partnership agreement was first signed was not available. Assessments to identify new or changing business requirements occur on an ongoing basis and are reflected in the terms and conditions when the partnership agreement is renewed.
- In one instance, the need to prepare a business case was not applicable. As part of an approved Treasury Board submission from another department, a Memorandum of Understanding (MOU) was put in place with each House of Parliament, thereby identifying the responsibilities of the Senate. The resulting partnership agreement articulates in greater detail the accountability, roles and responsibilities, recoverable resources, funding approach and reporting requirements among other things.

Recommendation

The Senate should implement a process that ensures a business case is prepared when considering obtaining goods and/or services through the use of partnership agreements that result in a significant financial risk. The business case should identify the Senate's business needs, options for meeting the business needs and costs (if applicable), benefits and risks of those options.

3.3 Audit Criteria #3 – Clauses and Authorities

> The partnership agreements contain the necessary clauses and are signed by the appropriate authority.

Background Information

The Procurement Policy and the Delegated Financial Authorities Policy were adopted and updated respectively in October 2011. The Procurement Policy requires consultation with the Procurement division and the Office of the Law Clerk and Parliamentary Counsel to ensure that the agreement contains the necessary clauses. Although partnership agreements vary greatly in nature and scope, it is expected that core clauses exist in all agreements, in particular for partnership agreements that contain a financial commitment. Consistent with the template that Procurement has in place, it is expected that partnership agreements with a financial commitment contain clauses to address the following areas:

- The duration of the agreement
- References to additional documents forming the agreement such as appendices, if applicable
- Definitions for terms used within the agreement
- The conditions for termination of the agreement
- How amendments to the agreement are to be made
- A description of the entire agreement that constitutes the understanding between the parties with respect to the subject matter or service referenced in the agreement
- A description of supplementary conditions, if applicable
- Contacts/coordinates of the parties to the agreement
- Signatures of both parties
- The total amount of the agreement
- The basis of payment

For partnership agreements, the authority to enter into agreements rests with the Manager of Procurement. However, the authority to enter into contracts, by way of a partnership agreement, may be delegated, where appropriate, to the responsible Manager by way of written authorization from the Manager of Procurement. In such cases, the agreement cannot be modified or changed without the approval of the person delegating the contracting authority.

Findings and Observations

- In drafting and approving all four partnership agreements, the Senate Administration appropriately consulted representatives from the Procurement division and the Office of the Law Clerk to obtain feedback and included the appropriate clauses in the partnership agreement.
- All four partnership agreements were compliant with the Procurement Policy. Three of the four partnership agreements were signed by the Manger of Procurement and one of the partnership agreements was signed by the appropriate delegated authority.

Recommendation

None

3.4 Audit Criteria #4 – Informal Agreements[1]

[1] Section 3.4 contains three paragraphs that are summarized from the original report, in order to protect internal and third party business information.

The Senate is aware of, and has conducted risk assessments with associated mitigation strategies for, services received through informal agreements.

Background Information

As part of the corporate risk inventory, the Senate Administration identified informal agreements between the Senate and partner organizations as a risk area. In most instances where no written agreement is in place the Senate is benefiting from a joint service by relying on the "good will" of the partner organization. The Senate Administration recognized that a higher risk existed where no formal agreement for the services is in place. As a result, it is the responsibility of Directors to assess their existing relationships with external partners to determine if written agreements should be put in place for services obtained through informal agreements.

Where informal agreements are in place and it is determined to be more advantageous to maintain the status quo than to put a formal agreement in place, it is expected that a mitigation strategy is in place. The mitigation strategy should include considerations that allow the Senate to be adequately prepared to continue with the service with minimal disruption should the Senate be charged back in the future.

Findings and Observations

- Interviews with senior management indicated their awareness of the Senate's commitment to formalizing existing informal agreements. Managers interviewed were aware of at least one informal agreement in place.
- A risk assessment, conducted in 2009 by the former Manager of Procurement in consultation with the Deputy Law Clerk, identified risks associated with services provided by common services organizations.
- One risk assessment completed by a Directorate did not include an assessment of impact. Risk assessment for informal agreements without a corporate level assessment of impact does not fully and accurately reflect the risk to the organization and as a result the Senate may not adequately prepare to mitigate the risk should it arise. It was noted that risk training was provided in March 2010. The Senate's Policy on Risk Management and the Step-by-Step Guide to Risk Management define a risk management approach for the organization that includes a high-level delegation, decision-making matrix. The Guide specifies "the higher the risk score, the more extensive the management involvement will be, and the higher up in the program/organization delegation will be transferred." However, it does not clearly define the reporting requirements and accountabilities of risks at each level, in particular, high-risk areas.

Recommendations

The Senate should ensure that all risks identified corporately and at the Directorate level are assessed against common criteria (i.e., probability and impact), and have been assessed by the appropriate level of management.

Where risks related to services obtained through informal agreements are identified, the Senate should ensure that the services obtained through such informal agreements are identified separately

to fully and accurately reflect the impact and operational effects of the risk to the organization. A more accurate risk assessment will also facilitate the prioritization of risk mitigation plans.

The Senate should implement a systematic process by which identified risk areas are addressed at the appropriate level of management. In particular, high-risk areas should be elevated for discussion and mitigation at the appropriate senior management subcommittee or Senior Management Committee and decisions to accept the current mitigation strategies in place or supplement with additional mitigation actions should be noted in the meeting minutes for follow up if required.

3.5 Audit Criteria #5 – Roles and responsibilities

Roles and responsibilities for managing and monitoring the financial and operation results of the partnership agreements are defined, communicated and understood.

Background Information

The roles and responsibilities of the Senate as well as the partner organization are defined in the partnership agreement or accompanying governance frameworks. They describe broadly the responsibilities of both parties as they relate to the management and delivery of the partnership agreement and may include the financial commitment of the party paying for services, the basis and timing or payment, participation of parties in committee meetings, the service standard of the service delivery agent, and the process for problem resolution.

To ensure that the Senate is delivering on the requirements of the partnership agreement, the responsibilities should be communicated and understood by the individuals that are responsible for carrying them out.

Findings and Observations

- Roles and responsibilities for managing and monitoring the financial and operational results are defined for all four partnership agreements in the agreement and/or supporting governance frameworks.
- Ultimate accountability for services delivered under the partnership agreements are accurately reflected in job descriptions of those individuals who are accountable.
- Individuals interviewed had a good understanding of what their responsibilities were as they relate to the delivery of the partnership agreements.

Recommendation:

None

3.6 Audit Criteria #6 – Planning and project management

Planning and project management activities are in place to manage risks related to the partnership agreements on a regular basis to address current risks or identify new risks that could impede the delivery of services.

Background Information

Partnership agreements at the Senate currently represent a total of less than $1 million per year in costs for services received by the Senate, and a total potential reimbursement of over $1.8 million for costs of services delivered by the Senate. Planning and project management activities are critical to managing risks to ensure the Senate will receive the expected services or will have the necessary resources to deliver the expected services. Project management activities include planning, cost/quality management, monitoring and performance measurement, risk management, and reporting.

Findings and Observations

- Planning and project management activities varied greatly among the four partnership agreements examined. Planning and project management activities were not well defined, inconsistently applied, and largely dependent on scope of the services and the cost of the agreement in place.
- Three of the four partnership agreements involve the Senate paying for services received. As a result, the planning and project management activities are led by the partner organization and the Senate Administration liaises with the partner organization, either indirectly through their participation at committee meetings or directly with the organization, to ensure they are accurately identifying and managing risks of the agreement to the satisfaction of the Senate. Although the same level of planning and project management activities for these partnership agreements would not be expected as for those where the Senate is the lead, we would still expect basic performance measurement activities. This would allow the Senate to perform on-going assessments of the service it is receiving under the partnership agreement and regularly evaluate if it is receiving value for the cost of the service.
- One partnership agreement has in place tools and processes to plan and track activities performed against a plan to ensure the Senate meets the requirements of the partnership agreement to ensure appropriate resources are cost recovered. However, these tools were not kept up-to-date and did not reflect the amount invoiced to the partner organization for costs incurred. Due to the nature of this partnership agreement, which includes recoverable resources, it was noted that the Directorate responsible for delivering the requirements of this partnership agreement were experiencing capacity challenges that resulted in a risk of insufficient delivery of services and monitoring. This risk is reflected in the Directorate's risk inventory and work plan. However, mitigation of this risk is made more challenging due to the current restrictions in place within the Senate to limit staffing and spending. Given that the costs incurred by the Senate in these instances can be cost recovered in full from the partner organization, the Senate's staffing and spending limitations should be considered separately from the partnership agreement.

Recommendations

The Senate should develop a project management approach that incorporates the following activities: planning, cost/quality management, monitoring and performance measurement, risk management, and reporting. The extent to which a rigorous project management approach needs to be applied should be proportional to the costs, impact, and complexity of the project to the Senate. Partnership agreements that are led by the Senate and where the Senate is providing services for payment from a partner organization should utilize a more structured project management approach.

Where partnership agreements involve multiple internal stakeholders, the Senate should put in place project management processes that identify the requirements of those stakeholders and secure their commitment (e.g. identification of requirements in the directorate's work plan) to ensure that it can fulfill the requirements outlined in the partnership agreement.

For partnership agreements in which the Senate is receiving funding using a cost recovery approach, the Senate should ensure monitoring and reporting activities (e.g. timesheets) are in place, appropriately utilized and up-to-date to ensure the accurate recovery of costs incurred.

Partnership agreements that include the use of cost-recovered resources should be supported by established mechanisms to ensure the Senate has access to the resources it is entitled to on a timely basis.

3.7 Audit Criteria #7 – Monitoring and performance-measurement

Monitoring and performance-measurement activities are in place to ensure services delivered meet established standards, provide value for money and the partnership agreement continues to be the best vehicle to receive or deliver services.

Background Information

Many of the partnership agreements in place have been in place for a number of years and are regularly renewed with the partner organization. As the Senate's operating environment changes and business needs evolve over time through the life of the agreement, the Senate should have in place a process to ensure that the organization continues to be getting the best value for money for services received or delivered through the partnership agreements they have in place. Monitoring and performance measurement activities should be in place for existing partnership agreements to ensure that the services received continue to meet the needs of the organization in the most cost effective manner available to the Senate.

Findings and Observations

- Two of the four partnership agreements have in place limited monitoring and performance measurement activities. These activities consist of participation in committee meetings but no formal process exists to track and assess the performance of the service provider against the amount paid by the Senate to determine value for money. The selection of the service providers did not include an assessment of other options based on cost, benefits, and risks and as a result a formal review against the original assessment did not occur at the time of renewal to ensure it continues to be the best option to obtain services. This assessment is conducted informally and takes into consideration the overall satisfaction with the service provider and the costs incurred by the Senate. It was noted during the execution phase of the audit that the Senate Administration recognized the risks associated with the partnership agreements and are in the process of reviewing their service delivery model. The review will document the current service delivery model, identify options that best meet the needs in a cost effective manner and identify a preferred longer term vision including an assessment of costs, benefits, risks and other issues that impact implementation.

- One partnership agreement has in place processes to monitor the services received from the service provider. Monitoring activities identified value for money as a potential risk for this partnership agreement. In the subsequent renewal of the partnership agreement, clauses to incorporate quarterly reports from the service provider were added to mitigate this risk. Performance assessment activities include the number of hours worked to deliver requirements, a comparison of services requested and received, and additional hours worked on special projects. This was assessed against the cost breakdown from the service provider. It was noted that the availability of performance measurement information was strengthened by a clause in the partnership agreement whereby quarterly reports are provided by the partner organization.
- In one instance, the need to prepare a business case was identified as not applicable and as such, an assessment to ensure the partnership agreement continues to be the best vehicle to receive or deliver services is not applicable.

Recommendation

The Senate should ensure where a business case has been prepared prior to engagement in a partnership agreement, an assessment against the original cost and performance criteria presented in the business case occurs periodically to assess the value and appropriateness of the partnership agreement given the changing business needs of the Senate.

4.0 Conclusion

Our audit found that, overall, the Senate has established effective controls to manage risks associated with partnership agreements. The partnership agreements examined are compliant with the Policy, with opportunities identified to improve overall management and monitoring of partnership agreements.

The auditors would like to express their appreciation for the full cooperation received from employees of the Senate during the conduct of the audit.

Senate Response to the Audit Report and Follow-up Action

The risks relating to informal agreements are now identified and managed individually. Risk management sessions, including review, rating and assessment of individual shared services and some corporate risks, were conducted in April 2012. New tools to measure risk impact were introduced at that time. A further review and prioritization of significant corporate risks took place in October 2012. The

Step-by-Step Risk Management Guide now prescribes conditions for escalating risks within the governance framework. As well, risk information is systematically shared with IEC through internal audit reports and quarterly financial reports.

An advisory engagement was commenced in Q4 of 2011-2012 to design a Project Management Framework for the Senate Administration that is standardized, scalable and repeatable. The draft Framework was completed in English only at the end of June 2012 and was approved by Management in August 2012. It is currently being introduced on a pilot project basis. Administration-wide integration of the framework is scheduled to begin in the 2013-2014 fiscal year.

To assist the Senate Administration in accessing cost-recovery resources to which it is entitled on a timely basis, consideration will be given to moving from a person-year to an FTE model for the Senate's human resources. Standardization of monitoring and reporting of costs for recovery is underway. To this end and in an effort to ensure accurate cost recovery, the Senate has completed funding forecasts for knowledge client roles, to which the PWGSC has given its support. The roles have been incorporated into directorate workplans or based on established job descriptions. Standardized time sheets are also being used.

Business cases with options and risk analyses as well as the identification of specific deliverables for the provision of services are now a requirement for new or renewed partnership arrangements.

II. Performance Audit of the Senate Administration by the Office of the Auditor General (OAG)

The performance audit of the Senate Administration by the Office of the Auditor General was conducted during the 2011-2012 fiscal year. The Audit report was tabled in the Senate by the Chair of the Senate Standing Committee on Internal Economy, Budgets and Administration (IEC) on June 13, 2012. Eleven recommendations emerged from the audit in the areas of strategic and operational planning, financial management, human resources, information technology services and security. The Senate Administration has developed an action plan and has already initiated follow-up action on several fronts. The complete report can be accessed on the OAG website at: http://www.oag-bvg.gc.ca/internet/English/parl_otp_201206_e_36891.html.

Below is a summary of action that has been taken thus far in response to the OAG recommendations.

II. 1. Strategic and Operational Planning

- Risk management sessions, including review, rating and assessment of individual shared services and some corporate risks, were conducted in April 2012. New tools to measure risk impact were introduced at that time. A further review and prioritization of significant corporate risks took place in October 2012.

  HR-FIN has established a schedule for the review of certain corporate risks. As well, risk information is systematically shared with IEC through internal audit reports and quarterly financial reports.

- Enhanced reporting requirements for workplans and budget submissions were developed for 2013-2014. The Administration has begun to employ costing worksheets to forecast multiyear resource requirements for individual initiatives and projects. The data contained in the 2013-2014 workplans should enable generation of reliable information for the Business Plan.

- Reporting requirements and timelines for submission of performance data were discussed with directorates. Data was collected for 2011-2012 and the resulting Performance Report was similar to prior years. Work is continuing in order to refine and supplement indicators for the next reporting period.

II. 2. Financial Management

- The new travel policy, together with new processes put in place for parliamentary boutique expenses, parliamentary restaurant expenses, as well as confirmation of orders for invoices without a contract or PO, address most of the requirements for documentation sufficient to establish appropriateness of expenses. Furthermore, a quality assurance framework has been presented to the Clerk and actual testing and reporting will be undertaken in early 2013.

- Under the new *Senate Procurement Policy*, all contracts over 10K are reported to the IEC. The current AMMIS system is unable to extract the data required to report on lower-value contracts. A review of the AMMIS system capabilities is currently underway, and alternate options will be considered, including manual extraction if necessary, to produce the required reports.

- On direction of the Internal Economy Committee, regular reviews of past financial transactions and audits of Senators' expense claims have been provided for in the Multiyear Audit Plan on an ongoing basis.

II. 3. Human Resources

- The Senate Administration has set an implementation plan for the continuous review of the HR management policies based on the objectives and performance criteria contained therein, as well as related process controls and risks.

- The Succession Management Program has been updated to include the Clerk's position. A final list of professional competencies has been prepared and will be submitted to the Management Committee for consideration and approval prior to updating individual competency profiles.

II. 4. Information Technology Services

- The Project Management Framework has been approved by Management and is being introduced on a pilot project basis. Administration-wide integration of the framework is scheduled to begin in the 2013-2014 fiscal year.

II. 5. Security

- A draft policy has been developed and is currently going through the review and approval process.

- Subcommittees of the Senate Internal Economy Committee (IEC) and the House of Commons' Board of Internal Economy (BOIE), were established to explore the matter of a unified security force. A joint meeting took place in June to review the current model and to consider basic principles and the potential organizational structure of a single security service for the Parliamentary Precinct. A second joint meeting was held in the fall, at which time it was agreed that the Senate and House of Commons administrations work jointly to prepare operational options on working towards a unified security force. Results of these discussions will be submitted to the respective subcommittees for consideration.

III. Status of Management Actions on Prior Years' Audits, 2009-2010

III. A. Senators' Office Expenditures Audit

As previously reported, one final initiative was required in order to complete the follow-up action in addressing the recommendations of the audit, the approval of the *Senators' Travel Policy*. The policy was approved by the Committee on Internal Economy, Budgets and Administration on May 10, 2012, and came into effect on June 5, 2012. With the approval of this policy, the audit recommendations have now been effectively addressed, and the audit can be closed.

III. B. Services Contracts Audit

One recommendation has yet to be fully implemented before this audit can be closed. It relates to Senators' occasional non-compliance with the *Policy on Hiring and Compensation of Senators' Staff* requiring an employment contract to be in place prior to the start of work by the hired individual. Arrangements have been made to have the issue discussed with the caucuses, and HR is investigating a formal process in the event of future breaches in policy.