

***CHARTER  
FOR THE  
PRIVY COUNCIL OFFICE  
AUDIT COMMITTEE***

# **CHARTER FOR THE PRIVY COUNCIL OFFICE AUDIT COMMITTEE**

## **1. INTRODUCTION**

This Charter for the Privy Council Office (PCO) Audit Committee (the Committee) sets out the Committee's purpose, membership, operations and responsibilities. It has been updated to reflect requirements and expectations for departmental audit committees as described in the 2012 Treasury Board Policy on Internal Audit and its supporting Directive on Internal Auditing in the Government of Canada (the Directive). It replaces the previous PCO Audit Committee Charter.

Under the new Internal Audit Policy Suite, PCO is classified as a small department. The Clerk has exercised his discretionary authority to maintain a PCO internal audit function and an independent audit committee. This Charter is built upon provisions in the Policy Suite that apply to small departments and agencies that have chosen to maintain their internal audit function and independent audit committee.

One provision of the Directive is that the role, responsibilities and operations of the Committee shall be documented in an approved terms of reference or charter, reviewed periodically by the Committee and reaffirmed by the Clerk.

## **2. COMMITTEE ROLE**

The Committee provides objective advice and recommendations to the Clerk regarding the sufficiency, quality and results of assurance on the adequacy and functioning of PCO's risk management, control and governance frameworks and processes. To do this, the Committee uses a risk-based approach to review and provide advice on the core areas outlined in Section 6 below.

As a strategic resource to the Clerk and a key committee within PCO's overall governance structure, the Committee also provides advice and recommendations as may be requested by the Clerk. To facilitate this, the Committee has open lines of communication to the Clerk which can be used at the Committee's or Clerk's discretion. The Clerk and AC Chair will ensure that the Committee is not assigned any responsibilities which could compromise the Committee's independence and objectivity, or its ability to fulfil its responsibilities.

## **3. COMMITTEE MEMBERSHIP**

### **3.1 COMPOSITION**

The Committee shall be composed of three external members who are not currently in the federal public service, and two internal members from Privy Council Office senior management. The Clerk and the Comptroller General jointly select external Committee members for approval by the Treasury Board.

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All external members of the Committee are to be reasonably familiar with private or public sector financial reporting, or undertake to become familiar within the first year after appointment. At least one external member will be a financial expert who possesses a professional accounting designation.

The Clerk shall appoint internal members drawn from the ranks of PCO senior management with direct reporting relationships to the Clerk, excluding PCO's Chief Financial Officer (Assistant Deputy Minister, Corporate Services Branch) and Chief Audit Executive (Director, Audit and Evaluation Division).

Members are to be selected so that their collective skills, knowledge, and experience allow the Committee to competently and efficiently undertake its duties. All members shall be free of any real or perceived conflict of interest.

## **3.2 CHAIR**

An external member shall chair the Committee.

## **3.3 TENURE AND TERMS OF OFFICE**

An external member shall serve no more than two terms. A full term of office is four years. However, to ensure continuity within the Committee, engagement of members can be staggered, and a member's term of office may be less than four years. The Clerk will determine the tenures of internal members.

# **4. COMMITTEE MEETINGS**

## **4.1 FREQUENCY**

The Committee will meet in person at least twice each year. The Committee understands it has the authority to convene more meetings as circumstances require. The Committee's meeting schedule will normally be set at least six months in advance so that departmental management and internal auditors can prepare the information and reports required to support the Committee's work.

## **4.2 QUORUM**

The quorum for a meeting shall be the majority of the members; including at least one internal and two external members. No alternates shall be permitted.

## **4.3 ATTENDANCE BY NON-MEMBERS**

PCO's Chief Financial Officer and Chief Audit Executive shall attend all Committee meetings. The Chair may request the attendance of other departmental officials. The Chair may invite representatives from outside the PCO, such as external assurance providers or Treasury Board Secretariat officials, to discuss matters of interest to the Committee.

The Committee has direct access to the Clerk and will meet with the Clerk to discuss the Committee's annual report and any significant concerns that may be raised therein or that may otherwise arise.

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## **4.4 RECORD OF DECISIONS**

A written record of decisions of each meeting shall be kept to provide a high-level summary of the discussion, the decisions taken, and any action items resulting from Committee discussions and decisions.

## **4.5 IN-CAMERA MEETINGS**

The Committee will schedule time to meet in-camera at each of its in-person meetings including individual meetings with PCO's Chief Financial Officer and Chief Audit Executive. In-camera meetings with other departmental officials or with representatives of external assurance providers will be held as the Committee determines appropriate.

# **5. COMMITTEE OPERATIONS**

## **5.1 ACCESS BY THE COMMITTEE**

The Committee will have unfettered access to the Chief Audit Executive and Chief Financial Officer, and through them, to other departmental employees and to all the information and documentation (subject to applicable legislation) as may be required to fulfil its responsibilities.

## **5.2 PLAN FOR COMMITTEE ACTIVITY**

The Chair, in consultation with the other Committee members, will prepare a plan for recommendation to the Clerk to ensure that the Committee's annual and ongoing responsibilities are scheduled and fully addressed. This plan will be updated annually, presented to the Committee for its endorsement, and provided to the Clerk for acceptance.

## **5.3 SUPPORT TO THE COMMITTEE**

The Committee will be provided with secretariat support, as described below, and financial resources, as described in the Terms and Conditions of Appointment for Audit Committee Members, necessary to carry out its role, responsibilities and duties. If necessary, the Committee has the authority to retain independent advice and assistance.

PCO's Audit and Evaluation Division will provide secretariat support to the operation of the Committee, including:

- (i) preparing all notices and agendas of meetings;
- (ii) coordinating presentations and distributing reports and/or related documents prepared for the Committee's information or consideration;
- (iii) preparing and distributing meeting records of decisions; and
- (iv) performing other duties as may be requested or assigned.

# **6. COMMITTEE RESPONSIBILITIES**

The key areas of responsibility that shall be addressed by the Committee using a risk-guided focus and cycle are described below. However, the particular

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emphasis and priorities for the Committee will be set by the Clerk in consultation with the Committee and in consideration of the departmental mandate, objectives and priorities, as well as the corresponding risks affecting PCO and the government. It should be noted that “review” responsibilities of the Committee may be accomplished in several ways, including: the review of documents; presentations by subject matter experts; and discussions with PCO officials.

**6.1 Values and Ethics:** The Committee will review and provide advice on PCO’s systems and practices established to monitor compliance with laws, regulations, policies and standards of ethical conduct and identify and deal with any legal or ethical violations. This may include the procedures and feedback mechanisms established to monitor conformance with its code of conduct and ethics policies, as well as how its processes encourage and maintain high ethical standards.

**6.2 Risk Management:** The Committee will review and provide advice on PCO’s risk management arrangements including its Corporate Risk Profile.

**6.3 Management Control Framework:** The Committee will review and provide advice on PCO’s internal control arrangements, and be informed of significant issues relevant to the Committee’s mandate and relating to the effectiveness of those arrangements that may arise from work performed by others who provide assurances to senior management and the Clerk.

**6.4 Internal Audit Function:** The Committee shall:

- (i) recommend, and periodically review, PCO’s Internal Audit Charter for the approval of the Clerk;
- (ii) provide advice to the Clerk on the sufficiency of resources of the internal audit function;
- (iii) review and recommend for approval the multi-year risk-based internal audit plan;
- (iv) monitor and assess the performance of the internal audit function;
- (v) provide advice to the Clerk on the recruitment and appointment, as well as on the performance of, the Chief Audit Executive;
- (vi) review and recommend for approval internal audit reports and corresponding management action plans to address recommendations;
- (vii) review regular reports on progress against the risk-based internal audit plan; and
- (viii) be made aware of audit engagements or tasks that do not result in a report to the Committee, and be informed of all matters of significance arising from such work.

**6.5 External Assurance Providers:** The Committee shall be informed and, as appropriate, advise the Clerk on:

- (i) all audit work relating to the department to be undertaken by external assurance providers, including management’s responses; and

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- (ii) audit related issues and priorities raised by external assurance providers.

**6.6 Follow-up on Management Action Plans:** the Committee shall review regular reports on progress implementing approved management action plans resulting from prior internal audit recommendations as well as management action plans resulting from the work of external assurance providers.

**6.7 Financial Statements and Public Accounts Reporting:** the Committee shall review and provide advice to the Clerk on the key financial management reports and disclosures of the department, including quarterly financial reports, annual financial statements and public accounts.

The Committee will review the annual Statement of Management Responsibility Including Internal Control over Financial Reporting and provide advice to the Clerk on the risk-based assessment plans and associated results related to the effectiveness of the departmental system of Internal Control over Financial Reporting.

For PCO financial statements that are audited, the Committee will review:

- (a) the financial statements with the external auditor and senior management, discuss any significant accounting estimates and adjustments therein, any adjustments required to the statements as a result of the audit, as well as any difficulties or disputes encountered with management during the course of the audit;
- (b) management letters arising from the external audit;
- (c) the auditor's findings and recommendations relating to the internal controls in place for financial statement reporting; and consider their impact on controls, risk management and governance processes.

**6.8 Accountability Reporting:** the Committee will receive, review and provide advice and comments on PCO's Departmental Performance Report, the Report on Plans and Priorities, and any other significant accountability reports. These reports provide context for the Committees' deliberations and its advice to the Clerk. The Committee may also receive information copies of plans and reports prepared by the departmental evaluation function.

## **7. EXTERNAL PRACTICE INSPECTION**

At least every five years, PCO's internal audit function must be subjected to a practice inspection by a qualified independent reviewer competent in the professional practice of internal auditing and the external assessment process. The Committee and its individual members will be available for consultations before and during these practice inspections. The Committee

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will receive and review the practice inspection results along with any action plan that is established to address required or desired improvements.

**8. ACCOUNTABILITY REPORTING BY COMMITTEE**

The independent external members of the Committee will prepare and submit an annual report to the Clerk that will:

- (i) summarize the results of the Committee’s review of areas of responsibility;
- (ii) provide the independent members’ assessment, and make recommendations as needed on the capacity, independence and performance of the internal audit function;
- (iii) provide the Committee’s self-assessment of its performance during the fiscal year - a sample list of questions for this self-assessment is presented at Appendix A,
- (iv) express views that are to be entirely and exclusively those of the independent members, notwithstanding any assistance given by departmental officials in the preparation of this annual report.

The Audit Committee annual report shall provide such other information or documentation that the Committee deems relevant to convey the context for and a fair and complete picture of its activities and results.

The Clerk will be fully briefed in advance of the finalization of the annual report of the Committee.

**9. Approval**

|  |            |
|--|------------|
| Original signed by Jim Hamer               | April 2015 |
| _____                                      | _____      |
| Recommended by PCO’s Chief Audit Executive | Date       |
| Original signed by Larry Murray            | April 2015 |
| _____                                      | _____      |
| Recommended by PCO’s Audit Committee Chair | Date       |
| Original signed by Janice Charette         | April 2015 |
| _____                                      | _____      |
| Approved by the Clerk of the Privy Council | Date       |

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## Appendix A

### Sample List of Questions for Committee Self-Assessment

The Committee should conduct a self-assessment on an annual basis. This can be accomplished in a number of different evaluation formats and scenarios (through the use of outside evaluators, a 360-degree evaluation format, and other methods). The sample questions listed below are suggestions and are intended to provide a starting point to assessing the performance and effectiveness of the Committee. Follow-up questions are encouraged, and the Committee should plan for further discussions and action as appropriate.

Before completion, the Committee should determine how it can best ensure that responses reflect a forthright exchange of ideas and opinions among Committee members. The Committee should determine how the process should be completed.

1. Does the Committee have the appropriate number of members (i.e., three to five)?
2. Does the Committee have the necessary skills and expertise represented on the Committee, consistent with the departmental audit Committee competency profile? If not, what skills and/or expertise are required?
3. Do all members continue to be independent, as defined by policies applicable to the department? In addition to meeting the technical definitions of independence, Committee members demonstrate their objectivity during meetings, through behaviors such as driving agendas, rigorous probing of issues, consulting with other parties, and hiring experts, as necessary.
4. Are differences of opinion on issues resolved to the satisfaction of the Committee?
5. Do the members challenge the Chair as appropriate?
6. Is the Committee charter used as a document to guide the Committee in its efforts and help guide the Committee's agenda?
7. Does the Committee commit sufficient time to review, discuss and consider matters brought before it?
8. Does the Committee meet with management to discuss the financial statements and key accountability documents (e.g., the RPP, DPR) before they are finalized?
9. Does the Committee engage outside experts as appropriate?
10. Are the organization's management controls, including controls over financial reporting, stronger as a result of management's interactions with the Committee?
11. Is the Committee cognizant of the line between its role and that of management, and does it endeavor to respect that line?
12. Does the Committee conduct in-camera sessions in a manner that offers a "safe haven" to the individuals, while at the same time asking tough and necessary questions, evaluating the answers, and pursuing issues that might arise to a satisfactory resolution?
13. Do Committee members participate in continuing education to stay abreast of changes in those areas it is responsible for overseeing?
14. Does the Committee do its part to ensure the objectivity of the internal audit team?
15. Does the Committee provide constructive feedback to the Chief Audit Executive at least annually?