



Public Health
Agency of Canada

Agence de la santé
publique du Canada

AUDIT COMMITTEE ANNUAL REPORT 2010-2011

June 2011

Approved by the Chair of the Audit Committee
on June 27, 2011

Canada 

Public Health Agency of Canada

2010-2011 Annual Report of the Audit Committee

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Public Health Agency of Canada
Annual Report of the Audit Committee
For the fiscal year ended March 31, 2011

Reflections of the Audit Committee

1. The Audit Committee (AC) is an essential part of the audit regime established by the Public Health Agency of Canada (PHAC, or Agency) under the Treasury Board of Canada Secretariat's (TBS) *Policy on Internal Audit*.
2. The primary objective of PHAC is to contribute to better public health outcomes in Canada and to play its part in contributing to improving public health on a global basis.
3. The AC plays an important role in this process. At one level, the AC works with the Audit Services Division (ASD) to advise PHAC on the operation of the basic processes and controls that are essential to the effective operation of any organization; these include respect for key values and ethics, strong and effective internal controls, and building a strong and committed team of individuals. At another level the AC provides advice on broad strategy and risk management, together with assessments of the effectiveness of related programs and processes.
4. During the year, a number of reports were produced analyzing Canada's and the world's response to the H1N1 outbreak. It seems clear that Canada's response, led by PHAC, led to a significantly more positive outcome than might otherwise have been the case. The advance preparations and the aggressive actions taken by PHAC and provincial public health agencies made an important difference. That being said, there were also many opportunities to enhance preparedness and response for the next pandemic. PHAC is continuously working on these preparations and periodically briefs the AC on its progress.
5. The AC looks forward to an opportunity to review the results of PHAC's work in the area of outbreaks and to provide its advice with respect to issues within its mandate in due course.
6. In the latter part of the year, the CAE, Christian Asselin, left the Agency to pursue other opportunities. The independent members of the AC would like to express their appreciation to Mr. Asselin for a job well done. Mr. Asselin started up the internal audit function in PHAC and in a few short years made it into a first rate professional audit team. The AC believes that the ASD has made a significant contribution to the operations of PHAC and wishes Mr. Asselin well in his future endeavours.

7. In the next few months, the independent members of the AC will complete their 4 year terms. Looking back, the independent members have come to believe that the current model of departmental and agency audit committees is a robust one that is an important part of the overall accountability and management processes for the federal government. We would like to thank the executive management, senior management and the ASD team of PHAC for their unfailing enthusiasm and for providing their insights and wisdom to the AC. Their active and candid participation in our deliberations has made the journey rewarding and worthwhile for us. It has also enabled us to make what we believe is an important contribution to PHAC and its mandate.

Role of the Audit Committee

8. The role of the AC is to ensure that the CPHO has independent and objective advice, guidance and assurance on PHAC's control and accountability processes. To accomplish this, the AC actively reviews core areas of Agency control and accountability in an integrated and systematic way.
9. The AC is chaired by the CPHO. Three independent members, external to the Government of Canada, have been appointed by the Treasury Board. During the year, the CPHO appointed the Associate Deputy Minister to the Audit Committee. The AC's charter has been amended to reflect this appointment.
10. This report provides commentary on behalf of the AC as a whole, together with commentary of the independent members. Commentary that reflects the views of independent members will be clearly identified as such in situations where their viewpoint differs from that of the CPHO.
11. The meetings of the AC took place as follows (See Appendix 1 for a description of the structure of these meetings):
 - June, 2010 in Montreal. This meeting included a briefing by staff of the Québec Regional Office.
 - October, 2010 in Ottawa
 - January, 2011 in Ottawa.
 - March, 2011 in Ottawa.

Assessment of Values and Ethics

12. The AC is charged with reviewing, at least annually, the arrangements established by management to exemplify and promote public service values and to ensure compliance with laws, regulations, policies and standards of ethical conduct.
13. The AC understands that work is ongoing in the federal government's central agencies to develop robust guidance to assist audit committees in making these values and ethics assessments.
14. During the current fiscal year, the AC was provided with a briefing on ombudsman services to get a sense of how the activities of the Ombudsman's Office provide a lens into the values and ethics expectations of PHAC employees. These discussions provided support for the assessment that PHAC continues to support an ethical workplace.
15. During the year, the AC followed up on the progress in implementing the values & ethics framework. The AC noted that the DG – Office of Public Health Practice has been appointed PHAC's champion for values and ethics following the departure of the previous champion. At its March, 2011 meeting, the AC was briefed on the recent activities to support a robust values and ethics ethos at PHAC. The AC was advised that the Government of Canada is working on revising the Values and Ethics Code for the Public Service. PHAC will modify its Values and Ethics Code. AC members asked for, and will be provided, with these amended values and ethics materials when available.

Assessment of Risk Management

16. The AC is charged with reviewing, at least annually, the Corporate Risk Profile (CRP) and PHAC's risk management arrangements.
17. The AC understands that work is ongoing in the federal government's central agencies to develop robust guidance to assist audit committees in making these risk management assessments.
18. At its October, 2010 meeting, the AC was provided with a draft of the CRP and participated in a joint meeting with PHAC's risk management committee.
19. This year's Management Accountability Framework (MAF) has indicated that PHAC has made progress in that it has approved a policy with respect to integrated risk management and that it has completed its CRP. TBS has indicated that the Agency should monitor risk responses for key risks as well as finalize and actively communicate common risk criteria and risk tools to all staff.

20. As of April 1, 2011, responsibility for risk management was transferred from the Office of the Chief Financial Officer (OCFO) to the newly created Planning, Reporting and Risk Management Directorate in the Emergency Management and Corporate Affairs Branch. The AC expects to be briefed on this branch's approach to making improvements in the IRM and the CRP during the 2011/12 fiscal year.

Assessment of Management Control Framework

21. The AC is charged with reviewing, at least annually, PHAC's internal control arrangements, including the adequacy of its management-led audit.
22. The AC understands that work is ongoing in the federal government's central agencies to develop robust guidance that will assist audit committees in making these management control framework assessments.
23. The ASD has advised the AC that an assessment of relevant internal controls is included in all of its audits. The ASD is committed to providing regular updates to the Audit Committee on the progress made by the Agency in strengthening its internal controls and will continue to provide an assessment of the state of internal controls at the Agency in the audit reports.
24. Another source of information about the state of management controls is the MAF. The AC annually reviews the assessment by TBS of PHAC against the Management Accountability Framework (MAF). This review includes a discussion with management about the implications of TBS' findings and management's proposed response. The AC believes management is actively working toward full compliance with the spirit of the MAF.

Activities Related to the Internal Audit Function

Internal Audit Charter

25. The AC reviewed the internal audit charter and believes that it continues to comply with TBS requirements.
26. During the year, the AC considered amending the charter to reflect a change in the reporting relationships of the CAE. However, with the departure of the CAE for other opportunities, the change in reporting relationships was put on hold pending a planned restructuring of executive management responsibilities. After this restructuring has taken place, the AC will evaluate the need to modify the charter in 2011/12.

Adequacy of Resources Available to the Internal Audit Function

27. The AC reviewed the resources available to the internal audit function. The AC believes that the budget and person years allocated to the internal audit function are appropriate.
28. After reviewing the RBAP for 2011/12 – 2013/14 at its March meeting, the AC asked for greater clarity on certain aspects, including the use of resources provided to the OCAE. The AC expects to review this additional information at its June 2011 meeting.

Risk Assessment and Internal Audit Plan prepared by the Chief Audit Executive

29. As noted in the preceding paragraph, the AC reviewed the risk-based internal audit plan prepared by the Acting CAE for the three years commencing April 1, 2011.
30. As also noted above, the AC deferred making a recommendation that the CPHO approve the RBAP pending receipt of additional information at its June 2011 meeting.

Review of the Performance of the Internal Audit Function

31. The AC conducted a review of the performance of the internal audit function during the March, 2011 meeting.
32. The AC was assisted in this review by an assessment of ASD conducted by an independent professional accounting firm. This firm conducted a review of the ASD's self- assessment of its conformity with the IIA's International Standards for the Professional Practice of Internal Auditing and Code of Ethics. The firm agreed with ASD's overall conclusion that it generally conforms with the IIA Standards. It also made a number of recommendations for improvement. The Acting CAE has committed to implement these recommendations.
33. The AC met with members of the professional accounting firm's staff to gain a comprehensive understanding of their assessment of ASD's work. The AC was pleased to note that ASD was complying with the requisite audit standards and intended to implement improvements to its processes as recommended by the reviewers.
34. The AC would like to draw attention to one particular opportunity for improvement contained in the review. It was noted that the recipient audit function should not be co-located within the ASD in order to comply with Treasury Board guidance. At the meeting, the AC was advised that this anomalous situation would be rectified early in the new fiscal year.
35. The AC is, naturally, pleased that it has independent, objective evidence that ASD generally conforms with IIA standards, and thereby with TB standards. It intends

to review ASD progress on implementing the recommendations of the independent accounting firm periodically during 2011/12.

Appointment of the Chief Audit Executive

36. In the latter part of the fiscal year, the CAE announced his resignation to enable him to pursue other opportunities outside of PHAC.
37. At its March meeting, the AC reviewed the planned approach to replacing the CAE with senior management and provided its advice. Senior management hopes to replace the CAE early in the new fiscal year and the AC stands ready to provide any assistance requested.

Performance Appraisal of the Chief Audit Executive

38. In the absence of a permanent CAE, the AC deferred this activity to the next fiscal year.

Internal Audit Reports and Management Action Plans

39. The AC reviewed the following four internal audit reports and one review report during the year (see Appendix 2 for a description of the AC's approach to these reports):
 - Audit of Laboratory Management
 - Audit of Emergency Preparedness and Response
 - Audit of Crisis Communications
 - Audit of Chronic Disease Prevention and Control Program
 - Review of Information Technology Security
40. The AC endorsed each report, including management's action plan, in some cases after requesting that certain modifications be made. The AC advised the CPHO to accept each report.

Non-Audit Activities of the Internal Audit Team

41. The ASD is responsible for a number of ancillary functions in addition to the conduct of internal audits. Examples include:
 - Assisting the Office of the Auditor General (OAG) and the Office of the Comptroller General (OCG), together with other federal government central agencies and agents of Parliament, with any work they carry out at PHAC;
 - Assisting PHAC programs, that issue contribution agreements, by coordinating or undertaking recipient audits proposed by the Centre for Grants and Contributions and assisting with the resolution of contentious audit findings identified in audits

- of Grants and Contributions recipients (as noted in paragraph 34, this responsibility will be transferred from Internal Audit during the next fiscal year);
- Acting as the senior officer responsible for PHAC's implementation of the *Public Servants Disclosure Protection Act*; and
 - Coordinating PHAC's response to petitions (environmental queries) received under section 22 of the *Auditor General Act*, and the ministerial responses to those petitions.
42. The AC accepts the appropriateness of the ASD having carried out these roles. However, we have asked the CAE to keep us apprised of the proportion of time spent on these activities in relation to the conduct of internal audits. If the AC becomes concerned that these non-audit activities are impairing the ability of ASD to deliver on its primary vision and mission, the AC will advise the CPHO accordingly and assist in identifying an appropriate resolution.

Office of the Auditor General (OAG)

43. The AC met with the Auditor General of Canada in October, 2010. A wide ranging discussion ensued around the issues of accountability, performance auditing and general impressions of the challenges facing PHAC as it works to deliver on its mandate.
44. One future oriented idea put forward by the AC was to encourage the Auditor General to seek out opportunities for her Office to work collaboratively with her provincial counterparts on performance audits of the healthcare system. The AG briefed the AC on a number of projects along these lines that had already happened or were in process and expressed interest in the views of the AC.
45. During this meeting the AC ascertained that PHAC was continuing to cooperate appropriately with the OAG.
46. The AC also reviewed management's progress in implementing the OAG's recommendations in its audit of PHAC's surveillance activities. In this fiscal year, the review was accomplished by reviewing management's response to the Public Accounts Committee and discussing it with senior management.
47. The AC advised the CPHO that it believes satisfactory progress is being made in implementing the OAG recommendations, while acknowledging the ongoing difficulties being encountered in achieving formal written agreements with the provinces around information sharing to help make surveillance more robust.

Central Agencies and Agents of Parliament (other than OAG)

Participation in Professional Development Opportunities offered by the Office of the Comptroller General (OCG)

48. Members of the AC participated in a number of educational sessions organized by the OCG on risk management, internal controls, government operations, financial literacy, values and ethics, together with the annual Department and Agency Audit Committee (DAAC) symposium.

Assessment of Management's Arrangements to Support the Audit-Related Work of Central Agencies and Other Agents of Parliament

49. In June 2010, the AC reviewed the OCG's Three Year Risk-Based Horizontal Audit Plan for Large Departments and Agencies.
50. The AC wishes to maintain an ongoing dialogue with the OCG with respect to the conduct of OCG audits. The AC agrees with the need for PHAC to support the audit related work of OCG. However, the AC wishes to keep an eye on the extent to which this work may impinge on ASD's ability to deliver on its core strategic objectives. This way, the AC can engage representatives of the OCG in a timely manner should concerns arise and be able to seek mutually acceptable solutions. The AC will also be in a position to provide meaningful advice to the CPHO on any matters that arise.

Description of Audit-related Work Undertaken by Central Agencies and Other Agents of Parliament

51. No work of this nature was undertaken by the AC during this fiscal year.

Meetings with Representatives of Central Agencies

52. The AC met with a representative of the Office of the Comptroller General of Canada to discuss the use continuous auditing practices.

Follow up on Management Action Plans

Audit Services Division Reports

53. The AC now receives semi-annual progress reports on the implementation of management action plans with respect to internal audits, OAG audits and other audits as requested by the AC.
54. The AC has noted an improvement in management's response to ASD recommendations during the current year.

Financial Statements

Annual Financial Statements

55. PHAC issues annual financial statements prepared in accordance with Treasury Board accounting policies, which are based on Canadian generally accepted accounting principles for the public sector. Its systems of internal control are not yet sufficiently robust for an external audit of the annual financial statements to be conducted efficiently and effectively.
56. The AC understands that it is not presently a government priority for agencies such as PHAC to pursue the objective of producing audited financial statements. However, the AC also understands that the OCG continues to support the objective of strengthening financial reporting controls so that an audit of the financial statements could be conducted, if desired, in an efficient and effective manner.
57. The AC is also supportive of the need to strengthen financial reporting controls. It also understands that, because of numerous other priorities, progress on this front has not been as great as had been hoped. The AC continues to encourage progress on this front and will conduct periodic reviews of the status of financial reporting controls on a go forward basis.

Risk and Accountability Reporting

58. The AC has identified the need to regularize its review of the Corporate Risk profile (CRP), as well as the Report on Plans and Priorities, and the Departmental Performance Report. It intends to engage management in a discussion regarding the most practical means by which to give members of the AC an opportunity to provide meaningful and timely advice to management about these reports.
59. The AC has received regular briefings by the OCFO with respect to the CRP, Risk Profile, Report on Plans and Priorities, and the Departmental Performance Report. It has also provided advice and comments to the CFO.

Chief Public Health Officer's (CPHO) Annual Report

60. The AC reviewed the CPHO annual report on the status of public health in Canada, and provided its advice to the CPHO.

Audit Committee Self-Assessment

61. In 2009/10, the AC arranged for an external consulting firm to facilitate an assessment of its performance. This assessment involved the completion of a

questionnaire by members of the AC and relevant members of management; it also involved the external consultant conducting structured interviews.

62. The results of this review were generally positive.
63. For this year, the AC decided to conduct its self-assessment through informal discussions with the CPHO and executive management.

The Members of the Audit Committee are:

Dr. David Butler-Jones
Chair of the Audit Committee

Kenneth Fyke, C.M., B.S.P., M.H.S.A., LL.D (Hon.)
Vice-Chair of the Audit Committee

Dr. Andy Macdonald, MBA, BE

Krista Outhwaite, M.Sc., B.Sc.

John (Jon) W. Singleton, FCA, CISA, B.Sc. (Hons.)

Appendix 1: Structure and Timing of Meetings

1. Meetings of the Audit Committee (AC) are generally two days in length with approximately half a day allocated to a formal meeting chaired by the CPHO. The remainder of the meeting is dedicated to the briefing session and is attended by independent and ex-officio members of the AC. This provides time to consider agenda items such as the following:
 - Receiving briefings on strategic and operational issues within particular functions;
 - Reviewing draft internal audit reports and management action plans in detail; and
 - Reviewing PHAC reports such as the Report on Plans and Priorities, Corporate Risk Profile (CRP), Departmental Performance Report and the CPHO's Annual Report on the State of Public Health in Canada.
2. Senior executives and managers from the functional units provide briefings and then participate in a discussion with independent members of the AC. These briefings are essential for independent members. In order to be in a position to provide effective advice to the CPHO, the independent members need to become familiar with PHAC's operations and also to understand the challenges PHAC faces in achieving its mandate and strategic objectives.
3. This in-depth review enables the independent members to more fully understand issues that have been raised; to suggest revisions, and to gain an appreciation of the plans that management has put in place to address these issues. This also facilitates the provision of useful advice to the Chair of the AC (CPHO) during the formal AC meeting.

Appendix 2: Audit Committee Approach to Internal Audit Reports

1. Internal audit reports are the most important deliverable of the ASD. The Audit Committee (AC) expects these reports to be objective, relevant and useful to PHAC management, both in terms of improving the operations of the area subject to audit, and towards achieving PHAC's strategic objectives.
2. Where management agrees with recommendations for improvement made by the ASD, the AC is committed to both assessing the appropriateness of, and following up on, management's remedial action plans. The AC will advise the CPHO regarding its view of the appropriateness and adequacy of management's response to ASD recommendations. The AC believes that its role in following up on ASD recommendations will have a salutary effect on the timely implementation of key recommendations.
3. Where management does not agree with a recommendation of the ASD, the AC will provide the CPHO with its views regarding the most appropriate way to resolve that dispute.