

Report of the Audit Committee to the Auditor General of Canada

For the 2010–11 Fiscal Year

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ISSN 1925-850X

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Introduction

The Audit Committee provides the Auditor General with independent advice on matters relating to management controls in the Office of the Auditor General (OAG) and to reports on its plans and performance.

Due to the mandate of the OAG, the quality of its audits and other examinations are of paramount importance. Accordingly, the internal audit function includes auditing the design and implementation of the quality management system for audits and is called Practice Review and Internal Audit (PRIA).

In keeping with provisions of its charter, the Committee has prepared this report for the fiscal year ended 31 March 2011.

Membership and Meetings

Two of the Committee's three voting members, Michel Dorais and Peter Boomgaardt (Chair), are independent of the Office. They are joined on the Committee by John Wiersema, Deputy Auditor General and *ex officio*; by non-voting members—Bruce Sloan, Senior Principal, and Lyn Sachs, Assistant Auditor General, Corporate Services and Chief Financial Officer; by Julie Charron, Chief Audit Executive, head of PRIA; and by selected audit staff, who attended as observers and to respond to questions from members. Mr. Dorais, as a new member of the Committee, participated in a full-day OAG orientation session on 16 December 2010.

The Committee met five times during the year (May, July, October, January, and March), with full attendance at all meetings. The Committee regularly had "in camera" sessions involving only the external members, and it met separately with the external auditor, Chief Audit Executive, and Chief Financial Officer.

The Committee's three voting members attended the Departmental and Agency Audit Committee Symposium, which was presented by the Office of the Comptroller General on 4 November 2010, to keep abreast of developments in the area.

Committee Terms of Reference

The Committee reviews and approves its Terms of Reference annually, and it continues to develop operating routines to effectively serve the Auditor General. The Treasury Board Policy on Internal Audit provides that the principles enunciated in its policy apply to agents of Parliament (including the OAG) but that departures are permitted to preserve the independence of the OAG. The

Committee refers to guidance offered to departmental audit committees and has adopted the eight key areas of oversight responsibility set out in the Treasury Board policy.

Eight areas of oversight responsibility

1. Values and ethics

During its March meeting, the Committee was given a presentation on the policies and procedures for disseminating the OAG's Values and Ethics to all staff as well as for encouraging and monitoring compliance. The Committee was satisfied with the information provided and with the process in place at the OAG. The Committee also reviewed the OAG's annual report on harassment and discrimination, which noted that no formal complaints were made during the 2010–11 fiscal year.

2. Risk management

The Committee receives an annual update on the OAG's risk management practices. The framework was revised in 2009, and the Committee is monitoring management's progress in identifying relevant management indicators. The Committee expects to review management's external indicators at a meeting in July 2011, as part of its annual review of the OAG's Departmental Performance Report.

When it reviews the risk-based internal audit plan, the Committee considers risks related to managing external audits as part the OAG core business activities, as well as internal and external audit plans.

3. Management control framework

The Committee was informed of the key management issues and how procedures have been adopted to mitigate concerns and produce desired results.

The Committee received the May 2010 report on the peer review that was carried out by a multinational team of auditors, under the leadership of the Australian National Audit Office. The Committee noted, with satisfaction, that the report concluded that the OAG's Quality Management System (QMS) for audits was designed to provide reasonable assurance that the work of the OAG complied with relevant legislative authorities and professional standards. The report also concluded that the QMS was operating effectively, although some areas need attention.

The Committee was satisfied with management's response to the peer review report, and it noted that the areas needing attention coincided with the findings of the OAG's internal audits. The Committee will continue to monitor management's

action plans for addressing areas that need attention, including the opportunities for improvement that were identified in the report.

As well, the Committee was presented with the OAG's plans to implement the Treasury Board Policy on Internal Control. The focus was initially on controls for financial transactions and reporting. This policy has been implemented, and tests are being carried out throughout the year to validate that financial controls are functioning effectively. Finally, so it stays apprised of ongoing activities, the Committee receives a copy of the most recent monthly executive management reports at each meeting.

4. Internal audit function

The hallmark of the OAG is the reliability and integrity of its reports on various audits and examinations. Accordingly, attention is paid to ensuring that the Quality Management System (QMS) is operating effectively for audit products. This is done through periodic assessments of the design of the quality management system and of the systematic and rigorous practice reviews that are conducted annually and that cover all senior practitioners.

The Committee noted that all of the scheduled practice reviews of annual and performance audits were completed by 31 March 2011.

Much of the Committee's attention was directed to the findings and recommendations in the external peer review and the practice reviews. The report for attest audits practice reviews that was completed in the 2010–11 fiscal year noted improvements from the previous year's findings, but it continued to identify instances where implementation of the QMS needed to be improved. The reviews confirmed that the OAG's opinions and conclusions were appropriately supported.

The Committee regularly monitors the activities and progress of the Practice Review and Internal Audit (PRIA) unit by

- receiving an update on audits, at each meeting, that include progress, staffing issues, and other matters affecting PRIA;
- reviewing the risk-based practice review and internal audit plan; and
- reviewing the practice review and internal audit reports.

During the 2010–11 fiscal year, the Committee recommended for approval the internal audit report that covers hospitality. It will be monitoring management plans to further strengthen procedures. The Committee also reviewed the proposed three-year, risk-based practice review and internal audit plan for the 2010–11 to 2012–13 fiscal years; it provided some suggestions and recommended the plan for approval.

The Committee considers that the internal audit function

- includes the practice review activities;
- is staffed by professionally qualified people;
- plans its work using a risk-based methodology;
- uses a professional approach to planning, executing, supervising, and reporting its work;
- systematically follows up on the progress made by management in response to findings and recommendations; and
- respects the spirit of the Treasury Board Policy on Internal Audit.

The Committee is satisfied that PRIA continues to operate according to relevant guidance, has a reasonable capacity to address its mandate, and is performing its role in a satisfactory manner.

5. Central agencies

The Auditor General reports directly to Parliament and must remain independent of the federal government. In recognition of this independence, the OAG was explicitly exempted from certain provisions of the policies that impose monitoring by central agencies or requirements for government approval. In the case of these exemptions, the Auditor General is solely responsible for controls. The Committee was briefed on the various controls that the OAG has established to substitute for the oversight that central agencies exercise in departmental settings.

The Committee is also regularly briefed on developments related to parliamentary oversight of funding and OAG operations. As well, the Committee was informed of the report filed in connection with the *Public Servants Disclosure Protection Act*, although no disclosures were reported in the OAG.

6. Follow-up on management action plans

The Committee attaches a high priority to assessing the responsiveness and timeliness of management action plans and monitoring the implementation of the plans. Accordingly, a systematic and thorough approach has been adopted to receive progress reports until each action point has been resolved. The Committee periodically receives an update.

The OAG is implementing a thorough update of methodology used to address the identified deficiencies and to implement changes brought about by new financial reporting (International Financial Reporting Standards and Public Sector Accounting Board) and new auditing standards (Canadian Auditing Standards). This project, known as Renewal of Audit Methodology (RAM), will take two more years to complete and implement. During the 2010–11 fiscal year, the Committee

focused on the monitoring of the project, and it received progress reports at each meeting.

The Committee periodically receives updates on progress made to address findings from internal audits, until all points are cleared. The Committee reviewed the PRIA follow-up report on actions taken by management to address recommendations from practice review and peer review reports. The follow-up report provided assurance that actions had been taken on completed recommendations and included the planned disposition of the remaining outstanding recommendations.

The Committee also receives periodic briefings on key activities and important initiatives undertaken by the OAG. During the 2010–11 fiscal year, the Committee was briefed on

- a training strategy for the OAG,
- a strategic plan for the Chief Information Officer,
- processes and activities related to Access to Information requests, and
- results of inspections by provincial accounting bodies.

7. Financial statements and public accounts reporting

The Committee was briefed by management on the preparation of the financial statements, including the preparation of estimates, and on choices of accounting policies. In July 2010, the Committee met with the external auditor (Welch LLP) to be briefed on the results of the audit of the OAG's 31 March 2010 financial statements and on the information submitted to the Receiver General for inclusion in the Public Accounts of Canada. The Committee recommended approval of the financial statements to the Auditor General. During the March meeting, the external auditor reported on the plan for the audit of the OAG's 31 March 2011 financial statements.

8. Accountability reporting

In July 2010, the Committee reviewed a draft of the 2009–10 Departmental Performance Report, including the related audited financial statements. As well, in January 2011, the Committee reviewed a draft of the 2011–12 Report on Planning and Priorities. In both cases, the Committee made some suggestions and expressed satisfaction with the contents of the reports.

Conclusion

The briefings and reports presented to the Committee during the 2010–11 fiscal year, together with the experience of prior years, have provided the Committee with a good understanding of the key issues facing the Office. Management and

staff were candid and clear on the challenges and receptive to comments by Committee members.

The Committee notes that the OAG sets very high standards for the quality of audit products. The findings of the internal practice reviews, throughout the year, were encouraging to both management and the Committee. In its 2009–10 report, the Committee fully endorsed the major initiative to update the audit methodologies and work instruments. This initiative was undertaken both to remedy deficiencies in current practices and to prepare for the changes implicit in the new financial reporting frameworks (International Financial Reporting Standards and Public Sector Accounting Board) and new auditing standards (Canadian Auditing Standards). The Committee continues to monitor progress on the action plans that are being implemented to strengthen procedures.

The Committee is satisfied that the OAG has a sound methodology for conducting reliable audits. As well, the Committee considers that the system of management controls is satisfactory.

Overall, the Committee concludes that the Office has a rational and systematic approach to addressing its mandate, monitoring results, and reporting to Parliament and the public.

April 2011