

Final Audit Report

Audit of Governance and Accountability

May 2009

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Executive Summary

The Government of Canada defines governance as a suite of management processes and controls intended to set the strategic direction, operational plans, objectives and priorities of an organization, and to provide clear direction on how resources should be allocated to achieve identified objectives.

The objective of the audit was to determine if governance arrangements are in place to support oversight, strategic direction, monitoring, and senior management accountability at Health Canada. The scope was limited to an audit of the new 2008 governance arrangements at Health Canada and its “internal” governance practices. The audit was conducted by the Audit and Accountability Bureau in accordance with the Government of Canada’s *Policy on Internal Audit*.

In 2006 and again in 2008, Health Canada management reviewed its governance arrangements to clarify roles and responsibilities and to identify opportunities to improve its efficiency and effectiveness. Clearly, the new 2008 governance arrangements are an improvement in terms of structure and processes. The next two phases of governance review, as initiated by the Departmental Secretariat, will continue to work on strengthening the governance structure and achieving process efficiency and effectiveness.

In particular, both the Senior Management Board (SMB) and the Departmental Audit Committee (DAC) have effective structures with well communicated mandates that include roles and responsibilities with respect to governance, risk management and control. As well, the Departmental Secretariat has several initiatives underway to streamline and prioritize items going to Senior Management Board to make effective use of their time.

Throughout the audit it was noted that members of both committees possess sufficient knowledge, experience and time to exercise a meaningful oversight function. In addition, the Departmental Secretariat will explore governance best practices and will update the Senior Management Board.

Senior management reported that they are aware of some of the shortcomings with both the Report on Plans and Priorities and the Departmental Performance Report in relation to the quality of information reported to Parliament. However, many feel that the Department’s program activity architecture should more accurately reflect the activities of Health Canada in order to fully demonstrate results achieved. The Senior Management Board is currently reviewing the program activity architecture.

Lastly, while there are a variety of different mechanisms contributing to strategic planning the recent approval by the Senior Management Board to add a series of meetings devoted to strategic planning (and that align with the departmental planning cycle) will further strengthen the overall planning process.

There are three recommendations in the report. Management has agreed with these and has provided a comprehensive action plan to address each of the recommendations. In addition, the Departmental Secretariat will continue to implement the next two governance phases as defined in October 2008.

Introduction

Good Governance

Organizations worldwide have made major strides in increasing accountability and governance within both the public and private sectors. In the private sector, The Board of Directors or Board of Trustees provides an important oversight function; however, no equivalent structure exists within a given department or agency. Accordingly, the departmental Senior Management Board is highlighted as an appropriate mechanism to achieve this aspect of governance. In that regard, the Canadian Government has introduced a number of policy instruments to improve the governance and accountability rigour of the federal public service such as, *the Modern Comptrollership Initiative*, *the Management Accountability Framework*, and *the Federal Accountability Act*.

Governance is the core for everything an organization does. Governing bodies set an organization's policy and strategic direction, while management translates the broad policies and strategic direction into operational activities that will enable an organization to achieve its objectives and fulfill its mandate.

According to current literature, an effective governance regime exhibits certain attributes (see text box).

The Government of Canada defines governance as a suite of processes and controls intended to set the strategic direction, operational plans, objectives and priorities of an organization, and to provide clear direction on how resources should be allocated to achieve identified objectives. The government's definition also refers to accountability as the duty to report on the fulfillment of one's responsibilities.

“Good Governors” should:

- set the “tone at the top”
- be strategic and challenge management for results
- have reliable information from management
- prepare results-based accountability documents
- be evaluated periodically

Governance at Health Canada

In 2006, and again in 2008, the Department revised its governance structure to clarify roles and responsibilities and to identify opportunities to improve its efficiency and effectiveness. While at the time of the audit, the Department had not yet completed the transition from its previous structure to the current one, the audit focused on the new structure (see Appendix B).

By the spring of 2008, the governance structure consisted of three key oversight bodies – the Senior Management Board (SMB), the Departmental Executive Council (DEC), and the Departmental Audit Committee (DAC).

The mandate of the **Senior Management Board (SMB)** is to provide coherent and strategic overall management of the department's substantive and corporate responsibilities (i.e. regulations, legislation, policies and programs). The SMB meets as three distinct committees of the whole – Policy, Business Planning and Human Resources Council (see below). Members include the Deputy Minister, the Associate Deputy Minister, Assistant Deputy Ministers, the Executive Director of the Departmental Secretariat, the Executive Director of the Pest Management Regulatory Agency, Associate ADMs, Senior General Counsel, and the Chief Financial Officer.

- The mandate of **SMB – Policy** is to provide oversight for strategic, program and corporate policy initiatives of a horizontal nature or that have a department-wide impact.
- The mandate of **SMB – Business Planning** is to review the status of upcoming departmental business (Cabinet, TB Submissions, communications, etc.) and decide on transactional issues relating to the short to medium term departmental agenda; to provide a forum for informal discussion of emerging departmental, portfolio and government-wide issues and priorities.
- The mandate of the **SMB – Human Resources Council** is to manage HR initiatives at the strategic level by ensuring programs, policies, systems and services align across the department.

In addition, there are four sub-committees of the Senior Management Board that deal with management of the department. These include SMB-Operations, SMB-Finance, Evaluation and Accountability, SMB-Science, and SMB-Risk Management. The mandate for each of the sub-committees is provided in Appendix C.

The mandate of the **Departmental Audit Committee** is to provide independent and objective advice, guidance and assurance to the Deputy Minister on the adequacy of the department's risk management, control and accountability processes. It meets four times per year plus special meetings by teleconference as required. Members include the Deputy Minister and four members external to the department. The four external members are selected jointly by the Deputy Minister and the Comptroller General of Canada and are appointed by the Treasury Board of Canada. In addition, the Chief Audit Executive, the Chief Financial Officer and the Senior Departmental Support Officer attend each meeting in an ex-officio capacity.

The mandate of the **Departmental Executive Council** is to provide a forum for senior management to engage and strengthen linkages with Regions and stakeholders across the country, in order to: promote a better understanding of regional issues and perspectives;

and to oversee the horizontal integration of best practices and “lessons learned”.

It convenes semi-annually through retreats, with one meeting in a Region. Its members include all members of the Senior Management Board, the Regional Directors General, the Chief Audit Executive and a senior official of the Public Health Agency of Canada.

Rounding out the governance structure of Health Canada are two portfolio committees: the Portfolio Deputy Heads Committee and the Portfolio Policy ADM Committee. The scope of this audit did not cover the entire Health portfolio of the Government of Canada, consequently the portfolio committees were excluded from the audit.

Objective

The objective of the audit was to determine if governance arrangements are in place to support oversight, strategic direction, monitoring, and senior management accountability at Health Canada

Scope and Approach

The audit was undertaken by the Audit and Accountability Bureau as per the Health Canada Risk-Based Audit Plan for 2008-2009, which was approved by the Departmental Audit Committee on April 3, 2008. The audit was conducted in accordance with the Government of Canada’s *Policy on Internal Audit*.

The scope was limited to the new 2008 governance arrangements at Health Canada. The audit examined the fundamental internal governance processes and included a review of the governance-related role of senior management committees, high-level organizational accountability, senior management accountability, legislated reporting requirements and monitoring. Health Canada is also subject to the “external” governance practices of the government’s executive and legislative controlling bodies and authorities. These practices were not examined as part of this audit. The audit field work was carried out between March and October, 2008.

Two significant components of governance are Values and Ethics, and Integrated Risk Management. Neither of these components was included in this engagement as they were recently examined in two separate audits completed by the Audit and Accountability Bureau in September 2008 and December 2008, respectively.

Audit criteria were taken from the Office of the Comptroller General’s *Core Management Controls: A Guide for Internal Auditors* and were accepted by the auditee (see Appendix A). These criteria have yet to be used extensively throughout the Federal Government and represent an early effort by Health Canada, in conjunction with Audit and Accountability Bureau to test their effectiveness.

Methodology included: reviewing literature on domestic and international governance practices; interviewing the Deputy Minister and Associate Deputy Minister, members of the Senior Management Board, external members of the Departmental Audit Committee, other senior officials in the Government of Canada and external subject matter experts on governance. The audit team reviewed and analyzed key accountability reports, board and committee terms of reference, agendas, records of decisions and other governance related documentation. As well, the audit team observed various board and committee meetings.

Findings, Recommendations and Management Responses

Oversight bodies

Audit Criteria

Effective oversight bodies are established including a Senior Management Committee and independent Departmental Audit Committee with a majority of external members.

2008 Governance Arrangements

A new governance arrangement replaces the Departmental Executive Committee (DEC) with the more streamlined Senior Management Board (SMB) whose membership is appropriate in relation to departmental representation and number for effective decision making. The new governance arrangement also replaces an in-house audit committee with the Departmental Audit Committee (DAC), whose membership is comprised of a majority of external members.

Senior Management Board

The Senior Management Board convenes through three regular meetings, SMB-Policy (weekly), SMB-Business Planning (weekly) and the Human Resources Council (monthly) – to fulfill its various responsibilities. The SMB is the highest level of decision-making at Health Canada. The SMB is supported by four sub-committees responsible for transactional management of the department; and also constitute pre-SMB vehicles for horizontal consideration of strategic issues (see Appendix C). Those issues of utmost importance or those that may impact the department as a whole are forwarded to SMB-Policy or SMB-HR Council for further discussion and debate, and decision (where applicable).

Since the summer of 2008, the Departmental Secretariat has taken a number of steps in conjunction with SMB members, their Offices and SMB Sub-Committee Secretariats, to ensure that SMB meeting time is used as effectively as possible for strategic discussions.

Departmental Audit Committee

In April 2006, the Treasury Board *Policy on Internal Audit* and related instruments came into effect. Among other measures, the policy calls for the deputy head of each department and agency to establish a departmental audit committee that includes a majority of external members, who are not currently members of the federal public service. The Treasury Board also approved a directive that provides direction to deputy heads on the responsibilities, membership, and operations of departmental audit committees.

According to the Treasury Board of Canada Secretariat, the fundamental role of these audit committees is to support the deputy head or equivalent in fulfilling his or her oversight responsibilities as the departmental accounting officer by providing advice on the adequacy and effectiveness of the department's controls and accountability processes.

Health Canada has been successful in establishing a Departmental Audit Committee which has been actively supporting the Deputy Minister over the past year. The Committee's strategic role has been to devote their time to the items which may represent a risk to the Department. As such, the Department is currently well positioned to satisfy the Treasury Board Secretariat's expectations for audit committees.

Knowledge and Experience

Audit Criteria

Oversight bodies should have sufficient knowledge, experience and time to exercise a meaningful oversight function including regular meetings.

SMB –Policy and Departmental Audit Committee

Senior management interviews and document reviews showed that members of both committees possess sufficient knowledge, experience and time to exercise a meaningful oversight function and are able to meet regularly.

As well, interviews with SMB management did reveal that they are aware of their dual role as a governor of the department and a branch head. This was best demonstrated during the 2008 Strategic Review process. SMB members felt most effective in their governing role in that they unanimously set aside their branch head needs in support of departmental-wide requirements.

The Office of the Comptroller General (OCG) has supported broad community development with the internal audit function, by developing an orientation program for audit committee members. For example, a portion of the orientation was devoted to the DAC Charter which provides directives on fulfilling their shared roles and responsibilities in relation to core governance tasks designed to lead Health Canada to

better performance.

Interviews with governance subject matter experts and literature reviews showed the importance of continuing education to ensure that members stay abreast of new governance practices. A search for governance courses at the ADM level revealed that there is not a government led course pertaining to this subject matter.

Recommendation No. 1

It is recommended that the Departmental Secretariat, review best practices related to governance and provide updates to the Senior Management Board.

Management Response

Agreed.

As announced at SMB-Policy on October 27, 2008 the Departmental Secretariat will continue to seek opportunities for strengthening the governance structures and processes through the examination of best practices from other organizations and networking with other experts to ensure that best practices are available.

Mandate

Audit Criteria

Governing bodies should have clearly defined mandates that include roles with respect to governance, risk management and control.

Terms of Reference

Currently both the SMB and DAC have terms of reference which are up to date with clearly communicated mandates that include roles with respect to governance, risk management and control. The terms of reference for both Committees include a purpose statement, composition, frequency of meetings and core agenda items.

The mandates for both these Committees have been formally communicated throughout the Department and are available on Health Canada's intranet.

Setting Strategic Direction

Audit Criteria

Strategic direction should be clearly defined, communicated, and aligned with the mandate, objectives and operational plans. Secondly, a clear and effective organizational structure should be established, documented, and accountabilities in support of collaborative initiatives should be formally defined.

Strategic Direction and Operational Objectives

The Office of the Comptroller General stipulates that “the essential conditions – internal coherence, corporate discipline and alignment to outcomes – must be in place to ensure effective strategic direction; to support the Minister and Parliament; and for the delivery of results”. At Health Canada, this activity is the responsibility of the SMB-Policy. Specifically, SMB-Policy has a governance responsibility to clearly define the Department’s strategic and operational objectives and to link them to its mandate.

An interview with the Deputy Minister demonstrated that Health Canada sets its strategic direction and objectives yearly following the delivery of the Speech from the Throne, the tabling of the Budget and from the key priorities established by the Clerk of the Privy Council. However in the past, the Treasury Board of Canada Secretariat has commented on Health Canada’s accountability information reported to Parliament in the *Report on Plans and Priorities and the Departmental Performance Report*. Specifically, the 2007-08 MAF Assessment noted that the Department had not clearly stated its strategic outcomes (i.e., what it was striving to achieve), or how it planned to measure the extent of success.

Organizational Structure

The program activity architecture (PAA) is a structured inventory of a department's programs. These programs are arranged in a hierarchical manner to depict the logical relationship between each program and the department's Strategic Outcomes to which they contribute. As well, it provides a structure with which financial and non-financial performance information will be associated. Lastly, the PAA should be supported by a governance structure to demonstrate the position(s) responsible, and accountable, for the programs, and how the results are to be achieved.

While senior management is aware of the shortcomings in the accountability reports, noted above, they indicated that until the Department acquires a PAA that more accurately reflects the activities of Health Canada it will be difficult to fully demonstrate results achieved.

The Departmental Secretariat noted that the SMB-Policy has begun to review the PAA and that early consultations are underway both internally and externally. It is anticipated

that a draft proposal for change will be ready for the end of the Fiscal Year.

Recommendation No. 2

It is recommended that the Senior Management Board review the Department's program activity architecture (PAA) with a view to improving accountability reporting.

Management Response

Agreed.

The Department is currently reviewing its PAA with the objective of having a revised PAA that will foster meaningful accountability reporting on the achievement of the Department's strategic outcomes.

Strategic Planning

Strategic planning is the identification of a desired long-range outcome and the development of a sequence of actions to achieve it, based on analysis of the organization's resources and its environment.

At the time of the audit it was noted that the Senior Management Board exercises its strategic planning mandate through a variety of existing mechanisms. Since the end of the field work, the Senior Management Board has approved a series of strategic planning meetings where management will devote their collective time to oversee departmental strategic planning and reporting. As well, these meetings are aligned with the Department's business planning cycle.

The Branch Operations and Coordination Division is responsible for integrated planning which includes operational, human resources and other corporate functions, in consultation with directorate planners. This division also monitors and coordinates mid-year reviews and coordinates the Directorate responses to departmental planning and reporting activities such as the Departmental Performance Report and the Report on Plans and Priorities.

While the strategic and operational planning processes have occurred annually, the additional focus on strategic planning will strengthen the overall planning exercise and will provide managers with a clear understanding of priorities and performance targets leading to better reporting.

Recommendation No. 3

It is recommended that the Senior Management Board formalize its periodic strategic planning exercises by incorporating them in its Terms of Reference and by communicating their dates, purpose and outcomes to employees.

Management Response

Agreed.

The SMB strategic planning exercises will be formally reflected in the Terms of Reference (ToRs) of the Senior Management Board (SMB). The Departmental Secretariat will circulate the revised ToRs broadly within the Department and incorporate information about the SMB strategic planning exercises into its communication plan aimed at increasing employee awareness and familiarity with the Department's corporate governance structure and processes.

Monitoring

Audit Criteria

SMB and DAC request and receive sufficient, complete, timely and accurate information.

Information for Decision-Making

Information can be termed “the currency of governance”. Accordingly, effective governance at the SMB–Policy level and Departmental Audit Committee is possible only if they receive the information necessary to provide for a “healthy” challenge to management and for monitoring the extent to which the Department has fulfilled its mandate.

Overall, the information provided to SMB–Policy and DAC is timely and of high calibre. In addition, information packages are, for the most part, subject to quality review. Interviews with members of both the SMB–Policy and DAC noted satisfaction with the Secretariat functions supporting the committees.

More recently, the Departmental Secretariat for the Deputy Minister’s Office has drafted instructions on how to prepare material for meetings and provides a challenge function before being sent to committee members.

Senior Management Accountability

Audit Criteria

Authority, responsibility and accountability should be clear and communicated to employees; and senior management should formally acknowledge their understanding and acceptance of their accountability.

Tone from the Top

The Deputy Minister, Associate Deputy Minister, Assistant Deputy Ministers and Associate ADMs of Health Canada possess good knowledge of the department and exercise good leadership. In particular, the “tone at the top”, set by the Deputy Minister and his Associate, encourage good governance practices throughout Health Canada.

As mentioned at the outset of the report, the Departmental Executive Council (DEC) provides a wider forum for senior management to engage and strengthen linkages with Regions and stakeholders across the country. The newly created DEC convenes semi-annually with at least one meeting in a Region.

The outreach to the Regions of Health Canada demonstrates support for regional engagement in setting the direction of the department and is clearly appreciated by both the host region and attendees.

Performance Management Program

Effective governance requires that governing bodies hold senior management accountable for achieving the results and broad outcomes necessary to fulfill an organization’s mandate. The Performance Management Program (PMP) provides a framework within which a consistent and equitable approach to performance management can be applied. Each year, Health Canada’s senior management cadre is required to account for its performance as part of the Performance Management Program.

According to the Treasury Board of Canada Secretariat’s *Directive on the Performance Management Program for Executives*, performance agreements should link individual executive accountability to strategies and business priorities when administering performance awards.

The Human Resources (HR) Directorate at Health Canada is responsible for administering the Performance Management Program. The HR Directorate manages the performance agreements to ensure that executives are able to demonstrate alignment with: the priorities of the government; the priorities of the Clerk of the Privy Council; the RPP and alignment with their immediate manager. Executive agreements which are prepared giving due diligence to the department’s directive should ensure that results are being recorded.

The audit did not sample these agreements to test for alignment with the HR directive but did note that the process is completed annually under the direction of the ADM Corporate Services.

Conclusion

Overall, Health Canada's new governance arrangement provides sufficient processes and controls to set strategic directions, operational plans, objectives and priorities.

The combined presence of the Senior Management Board and Departmental Audit Committee indicates that these oversight bodies lend themselves to monitoring the appropriateness of management's directions, plans and actions leading Health Canada to better performance.

In addition, the Departmental Secretariat will continue with Phase II and III of their October 2008 work plan towards improving the new governance structure and processes.

The Departmental Secretariat has provided an action plan to address the three recommendations in the report that will further strengthen the governance and accountability arrangements at Health Canada.

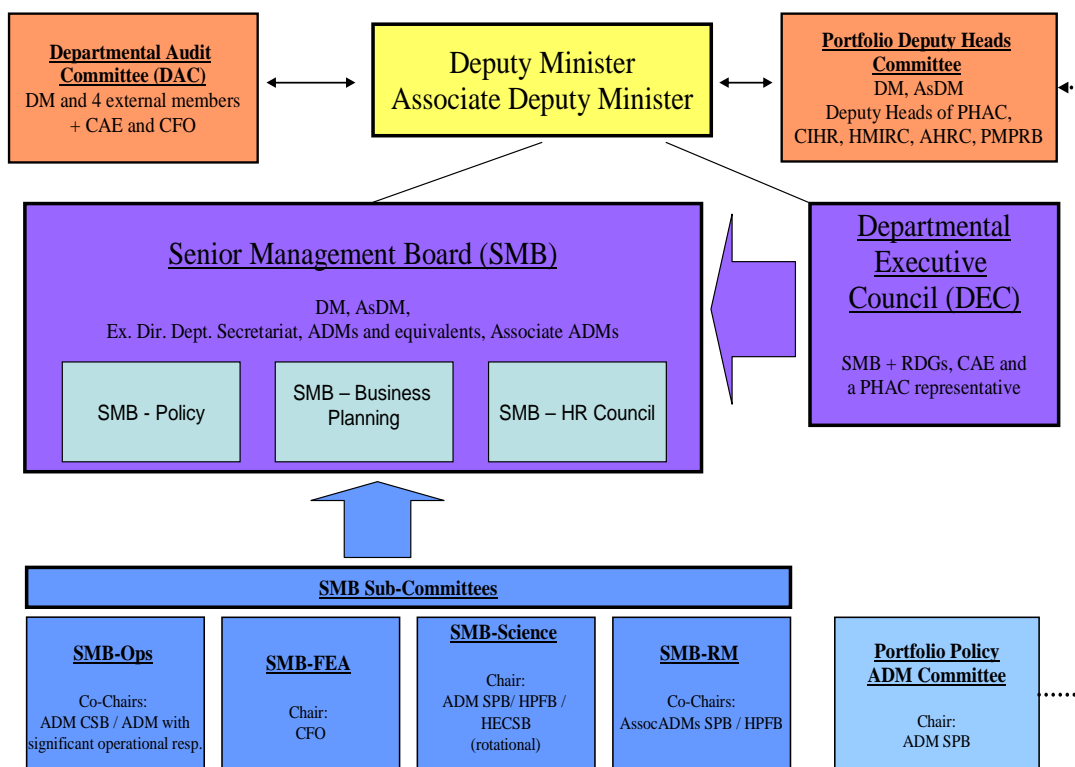
Appendices

Appendix A: Audit Criteria

Lines of Enquiry	Audit Criteria
Oversight bodies	<ul style="list-style-type: none"> Governing bodies should be effective (i.e. have sufficient knowledge, experience and time to exercise a meaningful oversight function) and should have clearly defined mandates that include roles with respect to governance, risk management and control.
Strategic and operational objectives & organizational accountability	<ul style="list-style-type: none"> Strategic directions should be clearly defined, communicated, and aligned with the mandate, strategic objectives, and operational plans of the Department. A clear and effective organizational structure (PAA) is established, documented, and accountabilities in support of collaborative initiatives should be formally defined.
Monitoring	<ul style="list-style-type: none"> Governance bodies request and receive sufficient, complete, timely and accurate information.
Senior management accountability	<ul style="list-style-type: none"> Authority, responsibility and accountability are clear and communicated to employees; and senior management formally acknowledges their understanding and acceptance of their accountability.

Appendix B: Governance Structure at Health Canada

Health Canada's Corporate Governance Structure



Appendix C: Mandate of SMB Sub-Committees

The SMB Sub-Committee on **Operations** supports the SMB by providing strategic leadership and direction for departmental operational implications of new or ongoing corporate administrative issues and related departmental policies on information technology, information management, real property, security, operational human resources, ATIP, communications and occupational health and safety.

The SMB Sub-Committee on **Finance, Evaluation and Accountability** supports the SMB by providing leadership and direction for: departmental financial management and control; program evaluation and performance measurement; management accountability; and procurement and assets management.

The SMB Sub-Committee on **Science** supports the SMB by providing leadership and direction for science policy and management issues that require collective action.

The SMB Sub-Committee on **Risk Management** supports the SMB by providing leadership, advice and direction for emerging and on-going horizontal risk management issues such as common risk management issues at the science policy interface (e.g., emerging health risk issues); legal risks, legislative and regulatory issues; and international issues, and risk communication issues.