

Office of the Public Sector
Integrity Commissioner
of Canada



Commissariat à l'intégrité
du secteur public
du Canada

OFFICE OF THE PUBLIC SECTOR INTEGRITY COMMISSIONER OF CANADA

ANNUAL REPORT OF THE AUDIT AND EVALUATION COMMITTEE

May 2012

Fourth Annual Report

Annual Report of the Audit and Evaluation Committee 2011-12

FOR THE FISCAL YEAR ENDING

MARCH 31, 2012

Annual Report of the PSIC Audit and Evaluation Committee 2011-12

AUDIT COMMITTEES

The creation of independent departmental audit committees that include a majority of members from outside the federal public service is an essential component of the Treasury Board (TB) *Policy on Internal Audit*. The fundamental role of these committees is to ensure that the deputy head has independent, objective advice, guidance and assurance on the adequacy of the department's control and accountability processes.

The importance of audit committees was further underlined in legislation when the *Federal Accountability Act* amended the *Financial Administration Act* to include the following requirements:

Audit capacity

16.1 The deputy head or chief executive officer of a department is responsible for ensuring an internal audit capacity appropriate to the needs of the department.

2006, c. 9, s. 259.

Audit committees

16.2 Subject to and except as otherwise provided in any directives issued by the Treasury Board under paragraph 7(1)(e.2), the deputy head or chief executive officer of a department shall establish an audit committee for the department.

2006, c. 9, s. 259.

Appointment

16.21(1) A person who does not occupy a position in the federal public administration but who meets the qualifications established by directive of the Treasury Board may be appointed to an audit committee by the Treasury Board on the recommendation of the President of the Treasury Board.

AUDIT COMMITTEES AND PARLIAMENTARY AGENCIES

The Treasury Board (TB) *Policy on Internal Audit* makes specific reference to agents of Parliament. In particular:

- The principles of the TB *Policy on Internal Audit*, as it applies to large departments and agencies, will apply to the offices of agents of Parliament. However, deputy heads of these organizations may authorize any departures from specific policy requirements as they may deem appropriate in light of the governance arrangements, statutory mandate and risk profile of the organization;
- Notwithstanding the above, agents of Parliament are responsible for establishing an audit committee with a majority of external members recruited from outside the federal public administration; and,
- Agents of Parliament are responsible for compliance with section 16.1 of the *Financial Administration Act* regarding the requirement to ensure an appropriate internal audit capacity.

AUDIT AND EVALUATION

Although audit and evaluation are the subjects of separate policies in the federal government, they are closely linked. This reality is reflected in the organization of most federal organizations, where audit and evaluation staff may be managed within the same group. In the interest of good management and efficiency, the Office of the Public Sector Integrity Commissioner of Canada (PSIC) audit committee is also responsible for evaluation as set out in the TB *Policy on Evaluation*.

ROLE OF THE AUDIT AND EVALUATION COMMITTEE

The Committee provides the Commissioner with independent and objective advice, guidance and assurance on the adequacy of the organization's internal audit and evaluation functions, as well as on risk management, control, governance, performance measurement and accountability processes. The Committee also provides strategic advice and recommendations as requested by the Commissioner on specific emerging priorities, issues and accountability reporting, including the Commissioner's Annual Report to Parliament.

MEMBERSHIP

The Chair and members are selected by the Commissioner. The 2011-12 Committee consisted of:

Chair: Michael Nelson, External

Members:

Mario Dion, Interim Commissioner and Commissioner (as of December 2011)

Joe Friday, Deputy Commissioner (as of October 2011)

The Honourable Peter Cory, External (until April 2011)

William Brock, External

Mary Gusella, External (until January 2012)

Non-member attendees:

France Duquette, Chief Audit Executive

Kurt Chin Quee, Manager, Financial Services and Chief Financial Officer (until September 2011)

Patricia Fraser, Manager, Financial Services and Chief Financial Officer (from October 2011)

MEETINGS

During 2011-12 the Committee met on:

June 15, 2011

October 05, 2011

December 07, 2011

March 30, 2012

A special meeting of the Committee was held in Toronto on April 5, 2011.

In-camera sessions with the Commissioner, with the Chief Audit Executive, with the Chief Financial Officer, and with the OAG representative when present, as well as between external members only, were held at each regular meeting.

SUPPORT TO THE COMMITTEE

The Committee received information and support from management to enable it to carry out its duties and responsibilities effectively.

SUMMARY OF 2011-12 AGENDA ITEMS

The Committee's agenda is drawn up in consultation with Committee members and PSIC management. Because the Financial Statements are audited by the Office of the Auditor General (OAG), the timing of audits and associated presentations by the OAG is taken into consideration in setting the Committee's agenda. Issues considered by the Committee during 2011-12 were as follows:

Office of the Auditor General (OAG) Audit of Financial Statements

- The Financial Statements are audited each year by the OAG.
- Marise Bédard of the OAG presented the results of the 2010-2011 audit to the Committee on June 15, 2011. She concluded that there were no issues with the financial statements or the transactions. She added that no opportunities for changes in procedures that would improve the systems of internal control, streamline operations or enhance financial reporting procedures were identified.
- A disagreement between the OAG and the Office of the Comptroller General (OCG) regarding an aspect of reporting was described by Ms. Bédard at the June meeting. This disagreement affected departments and agencies across the government. The disagreement was later settled and the OAG issued an unqualified audit opinion on July 5, 2011.

PSIC 2010-11 Departmental Performance Report (DPR) and 2012-13 Report on Plans and Priorities (RPP)

- The Committee reviewed PSIC's DPR and RPP prior to their submission to Parliament.

Report on Internal Controls

- The results of an assessment of internal financial controls were presented to the AEC at the June 15, 2011 meeting. Results were positive and Management's response, including future action plans as well as actions taken to date, was presented. The AEC agreed that in view of two years of positive results in this area, future assessments should focus on higher risk areas.

Operational Statistics

- The Committee received data at every meeting on operational statistics.
- Details were provided on file management, including number of active files, active investigations, and ageing statistics on files

Budget and Staffing

- The AEC reviewed all quarterly financial reports prepared by PSIC and at each meeting, were presented with a report on expenditures and forecasts for the fiscal year.
- The AEC was advised early in the fiscal year of planned expenditures on information technology and office space fit-up. These expenditures took place as planned, within budget and on schedule.
- Each AEC meeting included a report on staffing activity.
- The AEC was briefed on the Commissioner's approach to a contribution to the Government's Deficit Reduction Action Plan.

Audit and Evaluation Plan

- An updated risk profile and an updated risk-based audit and evaluation plan were presented to the committee at the March 30, 2012 meeting. The Committee was pleased with the content and presentation of the plan and provided comments to the Chief Audit Executive, including feedback and views on risk.

The Deloitte Review

- Early in his mandate, the (then) Interim Commissioner contracted with Deloitte to carry out an independent review of all cases that had been decided by the previous Commissioner. As the review proceeded, the AEC was kept informed of progress and interim findings. A special

meeting of the AEC was held on April 5, 2011. At this meeting, the Commissioner briefed the AEC on the outcomes of the Deloitte review and his plans to move forward on the findings. At the December 7, 2011 meeting, the AEC received a briefing on results and lessons learned from the review by Holly Holtman and Doug Ewart of files identified by Deloitte as having procedural errors.

OCG Symposium on Audit Committees

- On November 3, 2011 the AEC Chair and the PSIC CAE attended a symposium for members of external audit committees that was organized by the OCG. The symposium featured presentations by the Comptroller General, the Chief Human Resources Officer and the Secretary of the Treasury Board. Round-table discussions among members from audit committees across government were held. The AEC Chair made a panel presentation on the transformation at PSIC that had been brought about by the Interim Commissioner. Both the Chair and the CAE recommended that as many members of the AEC as possible attend future symposiums.

AEC Self-Assessment

- In accordance with its charter, the AEC carried out a self-assessment. All members agreed that the committee was functioning well, challenged each other, the chair, and the Commissioner appropriately, and that all relevant observations of members were brought to the attention of the Commissioner, either during meetings, in-camera sessions or bi-lateral meetings.

AEC Membership

- During the period of this report, members Peter Cory and Mary Gusella ended their membership on the Committee. The Commissioner and the Chair noted their valuable contributions to the AEC and thanked them for the time and effort that they had contributed.
- At the March 30, 2012 meeting, the Commissioner announced a change in his approach to selecting members for the AEC. Going forward, only those who had successfully gone through the OCG process for selecting external audit committee members would be considered by the Commissioner. The Commissioner felt that this would provide evidence of his policy to be as transparent as possible in selecting his advisors.

OAG Participation at AEC Meetings

- The Committee decided that OAG participation at AEC meetings will continue to be determined in accordance with the AEC charter and Treasury Board's *Directive on Departmental Audit Committees*.

OBSERVATIONS OF THE COMMITTEE AND FORWARD AGENDA

This has been a year of transformation for the Office. The AEC has been impressed with the work of the Interim (and now fully appointed) Commissioner in managing the transition period.

Members of the AEC understand that we are not a management committee. However our charter provides that we monitor and provide advice to the Commissioner on a range of issues, including management of risks. The comments in this section of our report are made from that perspective.

Staffing

All key vacant positions have now been staffed. Training and retaining staff will require a sustained effort. We have seen evidence that this is a priority of the Commissioner and his management team.

Financial Resources

The Office has lapsed funds every year since it was created. Now, however, with a more fully staffed organization and a return to the base budget, the Commissioner and his team will need to manage budgets more carefully. The AEC looks forward to supporting the role of the Chief Financial Officer in her efforts to ensure good forecasting and budgeting practices.

Performance Measurement

The AEC has consistently held the view that the most significant risk to the Office is that it will not be seen by stakeholders to be carrying out its mandate. We believe that the Commissioner must be able to provide factual evidence that complaints are received and acted upon by his Office in a timely way and that this is communicated to stakeholders. We have seen progress on this issue during the reporting period and we look forward to seeing further steps that the Commissioner can take to enhance the credibility of the Office.

Forward Agenda

The Committee will include the following in its forward agenda for 2012-13:

- Providing advice and recommendations to the Commissioner on issues related to delivery of services, including performance measurement and communication with stakeholders
- Reviewing audit and evaluation reports and the Commissioner's Annual Report to Parliament
- Follow up of Management Action Plans
- Cooperation with the OAG and the OCG where appropriate with the PSIC's status as an Agent of Parliament
- As a Committee, developing a better understanding of both the administration and the business of the PSIC
- Review of the Report on Plans and Priorities, the Departmental Performance Report and Quarterly Financial Statements
- Ongoing communication with the Commissioner on Strategic Planning
- Participating where appropriate in audit community learning events in order to exchange views with audit committee members in other departments and agencies
- Providing the Commissioner with advice, when appropriate, regarding the Five-Year Review of the Public Servants Disclosure Protection Act

ASSESSMENT OF PSIC'S SYSTEM OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE PROCESSES

At the June 15, 2011 AEC meeting, the Committee was presented with the results of an assessment carried out by an independent consultant, on PSIC's internal controls. The Committee noted that this review was carried out in cooperation with PSIC's financial services provider, the Canadian Human Rights Commission (CHRC) and that CHRC staff are providing leadership and high-quality professional services in the support of PSIC's financial systems and operations. The Committee was satisfied that management exercised appropriate due diligence and that action plans were in place for improvement where required.

The Committee was further assured by the results of the OAG audit of financial statements. While this audit did not examine internal controls, risk management and governance processes in a detailed way, it was seen by the AEC as a validation of the outcomes of those processes. The AEC will continue to monitor these processes.

ASSESSMENT OF THE CAPACITY AND PERFORMANCE OF THE INTERNAL AUDIT AND EVALUATION FUNCTIONS

The Committee acknowledges that as a small and relatively new organization, PSIC is still developing the optimal approach to organization and implementation of its audit and evaluation functions. The Committee noted that:

- The AEC meets regularly, including in-camera, has an external Chair, and membership is reviewed annually and renewed when required, as has taken place during the reporting period
- OAG audits have taken place
- A risk-based audit and evaluation plan has been prepared and reviewed by the Committee

The Committee will continue to review the capacity and performance of the internal audit and evaluation functions at PSIC.

Michael Nelson, Chair

On behalf of the PSIC Audit and Evaluation Committee