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# **Audit of the Treasury Board of Canada Secretariat's Management Control Framework of the Public Service Pension Plan**

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# Audit of the Treasury Board of Canada Secretariat's Management Control Framework of the Public Service Pension Plan

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Internal Audit and Evaluation Bureau

Final Report

Approved: December 8, 2011

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## Assurance Statement

The Internal Audit and Evaluation Bureau has completed an audit of the Public Service Pension Plan. The objective of the audit was to assess the adequacy and effectiveness of the plan's management control framework within the Treasury Board of Canada Secretariat (the Secretariat).

We conclude with a reasonable level of assurance that the management control framework currently in place is adequate and effective in most respects and serves to ensure that legislative and policy requirements for the Public Service Pension Plan are being met. Specifically:

- The Secretariat's roles and responsibilities in this area are generally well understood and communicated, despite the limited extent to which they are formally defined;
- Oversight, monitoring and reporting mechanisms are in place and working effectively;
- A formal and systematic approach for identifying and assessing risks and mitigation strategies is in place in the Secretariat's Pensions and Benefits Sector and is working effectively; and
- Knowledge is adequately managed in the Pensions and Benefits Sector in support of the pension plan.

Notwithstanding the above conclusions, attention is required to continue to formally define the Secretariat's roles and responsibilities, in particular, its oversight role and financial advisory role. Opportunities also exist to improve the Pensions and Benefits Sector's otherwise sound risk, planning and knowledge management practices.

The audit approach and methodology followed the *Internal Auditing Standards for the Government of Canada* and the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

The examination was conducted during the period of October, 2010, and June, 2011, and covered the framework in place up to March 31, 2011. The audit consisted of interviews, a facilitated focus group session and documentation review and analysis. The audit evidence that has been gathered is sufficient to provide senior management with reasonable assurance of the results derived from this audit.

In the professional judgment of the Chief Audit Executive, sufficient and appropriate audit procedures have been conducted, and evidence has been gathered to support the accuracy of the opinion provided in this report. The opinion is based on a comparison of the conditions, as they existed at the time of the audit, against pre-established audit criteria. The opinion is only applicable for the entities examined and for the time period specified.

## **Executive Summary**

### **What we examined**

The Public Service Pension Plan is a defined benefit pension arrangement that pays out a source of lifetime retirement income for retired and disabled Public Service Pension Plan members. Membership is compulsory for all eligible employees of the federal public service.

The Secretariat, as the administrative arm of the Treasury Board, supports the President of the Treasury Board, who has responsibility for the overall management of the Public Service Pension Plan. While responsibility for supporting this pension plan is shared among several organizations, the Secretariat's responsibilities include strategic direction, program and policy advice, financial analysis, development of legislation and communication with pension plan members.

We examined the adequacy and effectiveness of the Secretariat's management control framework of the Public Service Pension Plan. The management control framework, for the purpose of this audit, is defined as the set of controls (i.e., processes and procedures) over the following:

- Roles and responsibilities;
- Oversight, monitoring and reporting;
- Risk management and strategic and operational planning; and
- Knowledge management.

We assessed whether appropriate controls were in place and how well they were working.

### **Why it is important**

The Public Service Pension Plan is a significant part of the overall compensation for public service employees. In terms of size, it is the largest pension plan in Canada. In recent years and in an environment of increasingly limited resources and expanding requirements, there is pressure to ensure that there are appropriate management standards and practices in place for effective public administration.

### **What we found**

We found that the management control framework currently in place is adequate and effective in most respects and serves to ensure that legislative and policy requirements for the Public Service Pension Plan are being met.

#### **Roles and Responsibilities**

The Secretariat's roles and responsibilities in this area are generally well understood and communicated, despite the limited extent to which they are formally defined.

We found that the Secretariat's roles and responsibilities are defined at a high level in the *Financial Administration Act*, whereas they are not specifically addressed in the pension enabling legislation. At the operational level, key sectors that support the plan have generally articulated their roles and responsibilities at a high level, and we found this to be sufficient in most cases. Within the Secretariat, employees generally had a clear understanding of their roles and responsibilities, with some areas needing further clarification. External

organizations that collaborate with the Secretariat in meeting key legislative and policy requirements also had a common understanding of shared roles and responsibilities.

Further clarification is required for certain roles, specifically, the Secretariat's oversight and financial advisory roles. The nature and extent of the Secretary's oversight role is not formally documented, and we found that it is not clear. We also found that the nature of the Chief Financial Officer's role over the pension plan is unclear given the requirements of the Treasury Board's *Policy on Financial Management Governance*.

### **Oversight, monitoring and reporting**

Notwithstanding the need to further clarify the Secretariat's oversight role, adequate and effective oversight, monitoring and reporting mechanisms are in place. We found evidence of external and internal environmental scans, as well as mechanisms for ongoing reporting and communication with the President of the Treasury Board; the Public Service Pension Advisory Committee (which is mandated to provide advice to the President on matters relating to the plan's administration, benefit design and funding); and the Public Sector Pension Investment Board (which is the exclusive provider of investment management services to the Public Service Pension Plan for the assets set aside to fund the post-2000 pension obligations).

### **Risk management and strategic and operational planning**

The Secretariat's Pensions and Benefits Sector follows a formal and systematic approach for identifying and assessing risks and mitigation strategies. Opportunities exist to enhance risk identification and mitigation strategies.

### **Knowledge Management**

The Pensions and Benefits Sector adequately manages knowledge in support of plan-related roles and responsibilities. Opportunities exist to enhance its knowledge transfer and succession plan.

### **Recommendations**

We recommend that the Secretariat continue to formally define its roles and responsibilities, with particular emphasis on the Secretariat's oversight and financial advisory roles. We also recommend that management address the opportunities for improvement identified in this report with respect to the Pensions and Benefits Sector's otherwise sound risk, planning and knowledge management practices.

## **1. Introduction**

The Public Service Pension Plan is one of three main public sector pension plans in the federal government (i.e., the public service, the Canadian Forces, and the Royal Canadian Mounted Police). Its objective is to pay out a source of lifetime retirement income for retired and disabled Public Service Pension Plan members.

The Public Service Pension Plan was established in January 1954 under the *Public Service Superannuation Act*. Membership is compulsory for all eligible employees of the federal public service and includes substantially all full- and part-time employees of the Government of Canada, certain Crown corporations and the territorial governments.

The Public Service Pension Plan is the largest pension plan in Canada. As at March 31, 2010, the plan had 561,395 members and accrued pension benefits of \$126.7 billion. It received \$4.3 billion in employee and employer contributions, and it paid \$5.0 billion in benefits.<sup>[1]</sup>

The Public Service Pension Plan is a contributory defined benefit pension plan, that is, a plan to which both the employer and the employee make contributions. A defined benefit plan specifies its benefits in the plan document, in this case, the *Public Service Superannuation Act* and its regulations. These benefits, which are payable on death, disability, termination of service or retirement, are directly related to the employee's salary based on the number of years of pensionable service to a maximum of 35 years. The benefits are determined by a formula set out in the *Public Service Superannuation Act*; they are not based on the financial status of the plan. The basic benefit formula is 2 per cent per year of pensionable service times the average of five consecutive years of the highest paid service. Using a legislated formula, benefits are coordinated with the Canada Pension Plan and the Québec Pension Plan, and are fully indexed to the increase in the consumer price index.

The plan's benefits are financed through contributions from both the employer (i.e., the Government of Canada) and plan members. As of 2010, members contribute 5.5 per cent of earnings up to the yearly maximum of pensionable earnings (\$47,200) and 8.4 per cent of earnings above the yearly maximum.

## Operating Environment

The Public Service Pension Plan is complex. While it is commonly referred to as a plan, it differs from many private and public sector plans in the following ways:

- It is not subject to the standard legislation of federal and provincial pension benefits;
- It is not externally regulated and supervised;
- There is no distinct legal entity or plan, separate from the Government of Canada, in which pension assets are held and invested, and from which pension benefits are paid;
- There is a statutorily independent asset manager, the Public Sector Pension Investment Board, established in April 2000 that invests funds transferred from the Consolidated Revenue Fund and manages them on behalf of the government. This role did not exist prior to April 2000;
- The government's liability for pension benefits is owed directly to beneficiaries, not to a plan, and benefits are paid out of the Consolidated Revenue Fund; and
- Primary responsibility for the plan is shared by five organizations—the Secretariat, Public Works and Government Services Canada, the Public Sector Pension Investment Board, the Office of the Chief Actuary and the Public Service Pension Advisory Committee;<sup>[2]</sup> the roles and responsibilities of these five organizations are outlined in Appendix 1.

Three areas within the Secretariat are involved in supporting the plan:

- The Pensions and Benefits Sector provides strategic direction and leadership through public service pension policies, and employee and pensioner programs;
- The Office of the Comptroller General provides advice on accounting and financial issues, and advises Public Works and Government Services Canada regarding the preparation of pension plan financial statements. The Comptroller General of Canada also provides a certification of pension assets as per legislation; and
- The Corporate Services Sector provides a service for the recovery and remittance of employer contributions from government departments to Public Works and Government Services Canada.

The Pensions and Benefits Sector is a primary participant in a number of key, plan-related activities. These include annual reporting, communicating with plan members and beneficiaries, providing support to the Public Service Pension Advisory Committee, setting policy and creating and interpreting legislation and regulations, and advising on the day-to-day administration of the plan.

## 2. Audit Details

### 2.1. Authority

The *Audit of the Treasury Board of Canada Secretariat's Management Control Framework of the Public Service Pension Plan*<sup>[3]</sup> is part of the Secretariat's approved Three-Year Risk-Based Audit Plan 2010–13.

### 2.2. Objectives and Scope

The objective of the audit was to assess the adequacy and effectiveness of the Secretariat's management control framework of the Public Service Pension Plan.

The management control framework, for the purpose of this audit, is defined as the set of controls over roles and responsibilities, oversight, risk management and knowledge management. Adequacy refers to whether appropriate controls (i.e., processes and procedures) are in place; effectiveness refers to how well the controls work.

Specifically, from a Secretariat-wide perspective, the audit assessed whether:

- The Secretariat's roles and responsibilities related to the plan are clearly defined and communicated;<sup>[4]</sup> and
- The Secretariat is providing adequate oversight and monitoring of the plan activities for which it has responsibility.

In addition, from a Pensions and Benefits Sector perspective, the audit assessed whether:

- The Sector is using a risk management approach in the delivery of key activities, and whether its strategic and operational plans are adequate to support its mandate with respect to the plan; and
- The Sector is managing its knowledge in a manner that adequately supports its plan-related roles and activities.

Most of the audit's scope consisted of activities in the Pensions and Benefits Sector, but other areas in the Secretariat were also included.

Activities in the Corporate Services Sector were included to the extent that they relate to the roles, responsibilities and authorities for recording contribution costs and subsequent recoveries. Plan-related oversight activities that may fall under the responsibility of the Assistant Secretary, Corporate Services Sector, in her role as the Chief Financial Officer of the Secretariat were also part of the audit.

The activities of the Office of the Comptroller General were included to the extent that they relate to the roles, responsibilities and authorities shared between the Office of the Comptroller General and other sectors that support the plan. For example, the audit examined the clarity of shared roles and responsibilities over the preparation of pension plan financial statements.

The roles and responsibilities, as they relate to the plan, of other organizations in the Secretariat (e.g., the Expenditure Management Sector, the Government Operations Sector and the Office of the Chief Human Resources Officer) were also considered.

The audit also assessed the interrelationships between the Secretariat and external organizations, including stakeholder committees.

The audit did not include the following:

- Supplementary benefits provided to employees under the *Special Retirement Arrangement Act*, Retirement Compensation Arrangements No. 1 and No. 2;<sup>[5]</sup>
- The Supplementary Death Benefit Plan;
- Other pension plans or retirement arrangements under the purview of the Treasury Board—the *Canadian Forces Superannuation Act* and the *Royal Canadian Mounted Police Superannuation Act*;
- Activities of the Office of the Comptroller General related to accounting and recording of the plan in the *Public Accounts of Canada*;
- Plan risk management activities conducted by parties external to the Pensions and Benefits Sector (e.g., the Public Sector Pension Investment Board manages the investment risks of the plan); and
- Plan knowledge management beyond the Pensions and Benefits Sector.

This was not an audit of the financial statements of the Public Service Pension Plan, which are audited by the Auditor General of Canada. However, the clarity of the shared roles and responsibilities and oversight over the financial statements, including the annual reporting process, were examined.

## 2.3. Lines of Enquiry

There were four lines of enquiry for the audit:

- Roles and responsibilities—Are the Secretariat's roles and responsibilities related to the Public Service Pension Plan clearly defined and communicated?
- Oversight, monitoring and reporting—Are there mechanisms in place to facilitate Secretariat oversight, monitoring and reporting of pension plan activities?
- Risk management and strategic and operational planning—Is there a formal and systematic approach used by the Pensions and Benefits Sector for identifying and assessing risks and mitigation strategies? Are risks taken into consideration in the development of strategic and operational plans?
- Knowledge management—Is knowledge managed adequately by the Pensions and Benefits Sector to support its plan-related roles and responsibilities?

The audit criteria are outlined in Appendix 2 of this report.

## 2.4. Approach and Methodology

The audit approach and methodology was risk-based and consistent with the *Internal Auditing Standards for the Government of Canada* and the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. These standards require that the audit be planned and performed in such a way as to obtain reasonable assurance that audit objectives are achieved.

The audit involved interviews with key personnel, research and the review of key documents with Secretariat officials in the Pensions and Benefits Sector and with the following stakeholders:

- Corporate Services Sector
- Department of Finance Canada
- Expenditure Management Sector
- Government Operations Sector
- Office of the Chief Actuary
- Office of the Chief Human Resources Officer
- Office of the Comptroller General
- Public Sector Pension Investment Board
- Public Service Pension Advisory Committee
- Public Works and Government Services Canada

### 3. Audit Results

#### 3.1. Roles and Responsibilities

The Secretariat's roles and responsibilities in this area are generally well understood and communicated, despite the limited extent to which they are formally defined. Further clarification is required for certain roles, specifically, the Secretariat's oversight role and financial advisory role.

We examined pension enabling legislation,<sup>[6]</sup> Treasury Board policy,<sup>[7]</sup> the pension plan's annual report and communication materials (used within the Secretariat, as well as shared with external stakeholders). We also consulted with officials from within the Secretariat and from external stakeholder organizations. These consultations focused on roles and responsibilities associated with key pension plan activities identified through our discussions with management and our review of enabling legislation. The activities included the following:

- Advising on the day-to-day administration of the plan;
- Charging administrative expenses;
- Communicating with plan members and beneficiaries;
- Creating and interpreting statutes and regulations;
- Developing funding policy;
- Establishing policy for the Public Service Pension Plan;
- Recovering and remitting employer contributions;
- Setting employee contribution rates;
- Setting employer contribution rates;
- Supporting the annual actuarial valuation for accounting purposes;
- Supporting triennial actuarial valuation for funding purposes; and
- Producing and tabling an annual report.

Our review of the enabling legislation for the Public Service Pension Plan found that it is silent on the Secretariat's role. Nevertheless, the Secretariat has assumed certain roles and responsibilities in support of the Treasury Board and the President of the Treasury Board; both have specific roles and responsibilities defined in this legislation. The Secretariat undertakes these roles and responsibilities under the broad authority of sections 5 to 13 of the *Financial Administration Act*, which provides the Treasury Board and/or its President with the authority to delegate its responsibilities to the Secretary of the Treasury Board.

Because of the broad authority granted by the *Financial Administration Act*, we expected that further documentation would be needed to delineate operational roles and responsibilities in support of the pension plan. The audit found that the key sectors had in fact developed their operational roles and responsibilities in greater detail, as the following examples demonstrate:

- The Pensions and Benefits Sector describes its responsibilities at a high level in the pension plan's annual report, as well as internally in its business plans and in presentations used for communication purposes with other sectors. At the detailed level, written procedures exist for some processes such as annual reporting and regulatory submissions;
- The Office of the Comptroller General articulates its responsibilities at a high level in the pension plan's annual report, as well as in material distributed to the participants of the Interdepartmental Committee on Pension Accounting; and
- The Corporate Services Sector has detailed written procedures for its activities in support of the recovery and remittance of employer contributions from government departments to Public Works and Government Services Canada.



While these descriptions are generally at a high level, they are in most cases sufficient. In correlation with this opinion, the audit also found that the Secretariat's employees generally understand their roles and responsibilities. This understanding results from the use of documents and techniques other than process or procedure manuals. For example, employees in the Pensions and Benefits Sector indicated they refer to their work plans and performance agreements. Techniques used across the Secretariat include job shadowing, mentoring and the review of past years' files.

Similarly, we found that employees at the Secretariat and its external stakeholders have a clear and common understanding of shared roles and responsibilities for the key pension plan activities identified above, despite limited formal agreements or procedures. Employees in Public Works and Government Services Canada and the Office of the Chief Actuary—the two organizations that collaborate frequently with the Secretariat—clearly described their roles and responsibilities for relevant activities, as did employees in organizations where collaboration is less frequent. Moreover, their understanding is consistent with descriptions of the roles and responsibilities provided by the Secretariat's employees for relevant activities.

In addition to this clear understanding, there is evidence that these roles and responsibilities are carried out and that there is compliance with legislative and policy requirements.

As mentioned earlier, roles and responsibilities are generally well understood; however, some areas require further clarity. Specifically, these areas relate to the Secretariat's oversight role and the Secretariat's financial advisory role.

- **The Secretariat's oversight role.** The *Policy on the Administration of the Public Service Pension Plan and Group Insurance and Other Benefit Programs* and the March 31, 2010, report on the Public Service Pension Plan state that the Secretariat exercises an oversight function for the plan. However, the extent and nature of this oversight is not formally documented. The audit found that the Secretariat's oversight role is not clear. Questions were raised within the Secretariat about the extent to which it provides oversight over the pension plan and over other parties involved in the management of the pension plan. This raises questions about the extent to which an oversight function exists or should exist, particularly in relation to the Public Sector Pension Investment Board. In the absence of such clarification, there is a risk that stakeholders will hold differing beliefs about the extent of the oversight currently being carried out, which may limit the Secretariat's ability to exercise oversight or to intervene when required.
- **Financial advisory role over financial statements.** Public Works and Government Services Canada is responsible for maintaining the plan's books of account and the financial statements that appear in the annual report on the Public Service Pension Plan. The Secretary of the Treasury Board co-signs<sup>[8]</sup> the financial statements following internal review and approval.<sup>[9]</sup> At present, the Chief Financial Officer is not formally involved in reviewing and approving the financial statements. However, according to the Treasury Board's *Policy on Financial Management Governance*, the Chief Financial Officer's responsibilities include signing off on all financial and related reports requiring approval of the deputy head. At the same time, the extent to which the Secretariat can verify the accuracy of the financial statements is limited because the information rests with Public Works and Government Services Canada. To date, the Pensions and Benefits Sector has been the primary advisor to the Secretary of plan-related financial matters.

The audit did not identify any major operational issues or risks in the short term. However, it found that limited definition of roles and responsibilities could pose longer-term risks to the Secretariat.

For example, rapid staff turnover in an environment that relies heavily on collaboration and working relationships could cause inefficiencies and delays. Furthermore, in an environment of increasing resource constraints, organizations may attempt to scale back on their responsibilities or transfer their risks to other organizations. Where roles and responsibilities are open to interpretation, conflicts could arise between sectors, as well as with external stakeholder organizations.

The audit acknowledges that the Pensions and Benefits Sector has established a Public Service Pension Plan governance working group, whose mandate is to document and review the governance structure and processes of this pension plan and make proposals for their improvement as needed. The working group had developed a draft governance document in 2010, which was still in the process of being reviewed during the period of the audit. While aspects of the Secretariat's oversight and financial advisory roles are discussed in this draft governance document, further work would be required to clarify these roles.

It is recommended that the Secretariat continue to formally define its roles and responsibilities, with particular emphasis on the Secretariat's oversight and financial advisory roles. Specifically:

- The Secretariat should develop a formal definition of its oversight role over the Public Service Pension Plan and/or over the organizations that support this plan. Once approved, the definition should be communicated to the appropriate stakeholders; and
- The Secretariat should clarify the appropriate financial advisory roles within the Secretariat to ensure that appropriate financial advice is provided to support the Secretary's approval of the pension plan's financial

statements.

### 3.2. Oversight, Monitoring and Reporting

Notwithstanding the need to further clarify the Secretariat's oversight role, adequate and effective oversight, monitoring and reporting mechanisms are in place.

We expected to find mechanisms to oversee and ensure compliance with legislative and policy requirements. These include processes for monitoring external and internal environments to obtain information that management requires for decision making and mechanisms for ongoing communication and reporting with the President and committees.

As noted earlier, responsibility for the plan is shared by five organizations (the Secretariat, Public Works and Government Services Canada, the Public Sector Pension Investment Board, the Office of the Chief Actuary and the Public Service Pension Advisory Committee). The audit found that, given this environment of shared responsibility, a collaborative approach is being taken to ensure compliance with legislative and policy requirements.

There is consistent evidence that the plan's legislative and policy requirements are well understood by the five organizations that share responsibility for them, and that all parties work to ensure compliance with them.

Processes to ensure compliance with legislative and policy requirements are carried out by two teams in the Secretariat's Pensions and Benefits Sector: the Pension Program Management and Regulatory Policy team; and the Legislation, Authorities and Litigation Management team. The Pension Program Management and Regulatory Policy team provides advice on the interpretation of legislative and policy requirements to the plan administrator—Public Works and Government Services Canada. The audit found consistent evidence of a good working relationship and ongoing communication between this team and the plan administrator. The administrator readily contacts the team to clarify legislative and policy issues and interpretations. The Sector's Legislation, Authorities and Litigation Management team supports this process as required.

The audit found that changes in the plan's external and internal environments are regularly monitored. For example, the Secretariat's Pensions and Benefits Sector:

- Monitors legislative changes that could impact pension legislation and regulations;
- Conducted a survey in 2009 of active and retired pension plan members to assess plan members' level of knowledge and awareness of pension plan benefits, as well as to solicit their feedback on information and communication needs;
- Participates in semi-annual meetings between federal and provincial pension authorities and in annual meetings with federal pension authorities, where information on pension issues and challenges is shared;
- Participates in the Secretariat's annual compensation plan exercise where demographic factors such as population and wage growth are discussed; and
- Has documented a three-year business plan that presents an overview of the external environment in which it operates.

In addition, Public Works and Government Services Canada led benchmarking studies that compared the Public Service Pension Plan against 68 international pension administration organizations and against 7 major Canadian public sector pension plans. The results of these studies were presented to the Public Service Pension Advisory Committee in 2010, which has a legislative mandate to advise and assist the President of the Treasury Board on matters related to the plan's administration, benefits design and funding.

The audit found that there are mechanisms for ongoing reporting and communication with the President and the committees to inform them of significant issues. Formal processes exist to inform the President of the Treasury Board of key activities in support of the pension plan. These processes, which involve consultations, briefing notes and formal sign-off from various sector and deputy heads, apply to the Secretariat's recommendation to the President for approval on the following:

- The Annual Report on the Public Service Pension Plan;
- The triennial Actuarial Valuation Report; and
- Employer contribution rates.

The Public Service Pension Advisory Committee is also informed of these activities. This key stakeholder committee meets four times a year, which includes two regular meetings, one annual retreat and one special purpose meeting to review the Public Sector Pension Investment Board's annual report. Additional meetings may be scheduled as deemed necessary by the chair. There is ongoing and transparent communication within the committee, as evidenced by its use of agendas, records of discussion and presentations as tools of communication, all of which are enabled by the Pensions and Benefits Sector's committee secretariat. The chair

of the Public Service Pension Advisory Committee sends letters to the President to inform him of key recommendations made by the committee (e.g., contribution rates). In tandem with this process, the Pensions and Benefits Sector prepares briefing memos outlining the Secretariat's viewpoint to the President.

There is also ongoing, timely communication between the President of the Treasury Board, senior officials in the Secretariat (the Secretary, the Chief Human Resources Officer and the Assistant Deputy Minister, Pensions and Benefits Sector) and the Public Sector Pension Investment Board. In addition to what is required by legislation (e.g., quarterly and annual financial reporting), there are quarterly and semi-annual meetings and briefing sessions for sharing information.

In summary, other than the need to further clarify the Secretariat's oversight role, as previously discussed, no additional recommendations are required.

### **3.3. Risk Management and Strategic and Operational Planning**

The Secretariat's Pensions and Benefits Sector follows a formal and systematic approach for identifying and assessing its risks and formulating mitigation strategies. Opportunities exist to enhance risk identification and mitigation strategies.

The Pensions and Benefits Sector, as well as the rest of the Secretariat, operates in an environment of increasingly limited resources and expanding requirements. The need to embed risk information into decision making and integrate risk-based approaches into business planning is fundamental to effective public administration. We therefore expected to find that the Sector has in place operational plans and objectives aimed at achieving its strategic objectives, and that its strategic and operational planning processes identify and assess risks, and develop mitigation strategies to address them.

The audit found that the Sector has established its strategic direction, objectives and priorities, and documented them in its Five-Year Strategic Plan 2011–16. The plan's themes align with the Office of the Chief Human Resources Officer's business plan priorities and the Secretariat's "enabler" role, and there are plans to perform ongoing monitoring and to measure progress toward achieving the Sector's strategic objectives.

All key functions in the Sector were involved in establishing its strategic objectives, and the strategic plan was communicated to Sector staff through a variety of mechanisms (e.g., focus groups and all-staff consultations).

The strategic plan provided context for the preparation of the Sector Business Plan for 2011–14. The business plan incorporates:

- A scan of the external and internal environment;
- Explicit identification and assessment of risks at the corporate and sector levels, and risk mitigation strategies; and
- A human resources plan.

The business plan's operational priorities are clearly linked to the strategic objectives presented in the Sector's Five-Year Strategic Plan 2011–16.

Within the Sector, the Pension Policy and Programs team also maintains its own operational business plan. This plan includes supporting work plans for each director, with specific projects, resources and timelines identified. Progress against the key business and management commitments of the team's business plan is reviewed and documented at mid-year.

The audit found that the risk mitigation strategies identified in the Sector business plan are high level statements without owners or timelines. It is the audit team's opinion that, without owners who are responsible for enacting the mitigation strategies according to a defined schedule, there is a risk that required actions will not be carried out, or not be carried out in a timely manner, thereby compromising the mitigation strategies.

It is recommended that the Assistant Deputy Minister, Pensions and Benefits Sector, ensure that a responsible manager and a schedule are assigned to each of the mitigation strategies identified in the Sector Business Plan for 2011–14.

### **3.4. Knowledge Management**

The Pensions and Benefits Sector adequately manages knowledge in support of plan-related roles and responsibilities. Opportunities exist to enhance its knowledge transfer and succession plan.

The Public Service Pension Plan is complex, and its management and administration requires highly specialized knowledge and expertise. We therefore expected to find processes in the Pensions and Benefits Sector for managing this knowledge and expertise, including provisions for ensuring its employees have the necessary training, tools, resources and information. Since the Sector is the secretariat to the Public Service Pension Advisory Committee, we also expected to find mechanisms that would ensure that committee members have sufficient knowledge to participate fully and perform their roles effectively.

The audit found that the Sector provides a wide array of training and professional development that is well received by staff. It combines classroom training through formal courses with other orientation and professional development processes to support knowledge transfer, information management and sharing among its employees.

Two types of formal courses are available to employees who are new to the Sector and who do not have a background in public sector pension plan management and administration:

- Humber College's Certificate in Pension Plan Administration; and
- In-house developed training.

The formal courses are complemented by other orientation and professional development processes that include regularly scheduled meetings at various employee and management levels, job shadowing and on-the-job learning by employees who are assigned to files based on skill set and expressed interest. The staff assigned to files use the filed and indexed results of the Sector's policy analysis and guidance as a basic research resource and also consult superiors, colleagues and business partners. There was reliable evidence that these processes are effective: several Sector employees consulted by the audit team compared the mechanisms in place in the Sector to those they had experienced in other organizations and stated that the Sector's mechanisms were superior.

There are also formal communication processes and mechanisms to share timely, relevant and reliable information with external stakeholders. These consist of regularly scheduled meetings, participation in working groups, attendance at committee meetings, and email exchanges and telephone follow-ups as required. These processes were found to be sufficient by the audit team.

The Sector has developed a specialized, four-module training program for members of the Public Service Pension Advisory Committee, based on consultations with its members concerning their training needs. The audit team observed that the first module of the program was delivered at the February 7, 2011, committee meeting and that there is a plan to deliver the other three modules at subsequent meetings. Consultation with the committee chair made it clear that members were satisfied with the training received to date, as well as with the training plan that is being implemented.

The Sector's processes for managing its knowledge and expertise are underpinned by its business and human resources plans. The audit found that training and professional development figure prominently in these plans and that the human resources plan, in particular, addresses most of the key elements expected in such a plan, including succession and talent management. Succession plans have been developed for the senior management team, but not for other levels in the Sector.

The Sector's individual learning plans are part of an integrated process linking the performance management agreements and work assignments that align with and form part of the Sector's business plan.

A draft Knowledge Transfer and Succession Planning presentation, which includes draft tools, has also been developed to help preserve the corporate knowledge of the Sector's soon-to-be-retiring experts. The audit team regards this as a particularly valuable component of the Sector's commitment to knowledge management, but notes that it needs to be approved, resourced and implemented to realize its potential.

As well, given the need for Sector employees to have highly specialized knowledge, a training and development road map would help ensure that limited resources are allocated as prudently as possible. This road map would consist of competency profiles for key positions and a curriculum that maps which skills, courses and other learning experiences are required for each position. Without such a road map, there is a risk that employees will be provided with formal or informal training and development opportunities, without the appropriate foundation.

We recognize senior management's challenges regarding its limited capacity to allocate resources for job shadowing and mentoring, while balancing management work plans and priorities. We also acknowledge that investing the time and resources to actualize knowledge transfer and succession plans is ongoing.

It is recommended that the Assistant Deputy Minister, Pensions and Benefits Sector, ensure the following:

- Succession plans are developed for key positions at levels below the senior management team;
- A training and development road map is developed; and

- The methods and tools identified in the Knowledge Transfer and Succession Planning presentation are approved and resourced, and responsibility for implementing them is assigned.

### 3.5. Overall Conclusion

We conclude with a reasonable level of assurance that the management control framework currently in place is adequate and effective in most respects and serves to ensure that legislative and policy requirements for the Public Service Pension Plan are being met. Specifically:

- The Secretariat's roles and responsibilities in this area are generally well understood and communicated, despite the limited extent to which they are formally defined;
- Oversight, monitoring and reporting mechanisms are in place and working effectively;
- A formal and systematic approach for identifying and assessing risks and mitigation strategies is in place in the Pensions and Benefits Sector and is working effectively; and
- Knowledge is adequately managed in the Pensions and Benefits Sector in support of the pension plan.

Notwithstanding the above conclusions, attention is required to continue to formally define the Secretariat's roles and responsibilities, in particular its oversight role and financial advisory role. Opportunities also exist to improve the Pensions and Benefits Sector's otherwise sound risk, planning and knowledge management practices.

### 3.6. Recommendations

The following is a summary of the recommendations already discussed in the audit results section:

1. It is recommended that the Secretariat continue to formally define its roles and responsibilities, with particular emphasis on its oversight and financial advisory roles. Specifically:
  - a. The Secretariat should develop a formal definition of its oversight role over the Public Service Pension Plan and/or over the organizations that support this plan. Once approved, it should be communicated to the appropriate stakeholders. **Priority ranking: High**
  - b. The Secretariat should clarify the appropriate financial advisory roles within the Secretariat to ensure that appropriate financial advice is provided to support the Secretary's approval of the pension plan's financial statements. **Priority ranking: High**
2. It is recommended that the Assistant Deputy Minister, Pensions and Benefits Sector, address the following operational issues:
  - a. Ensure that a responsible manager and a schedule are assigned to each of the mitigation strategies identified in the Pensions and Benefits Sector Business Plan for 2011–14. **Priority ranking: High**
  - b. Develop succession plans for key positions at levels below the senior management team. **Priority ranking: Medium**
  - c. Develop a training and development road map. **Priority ranking: Medium**
  - d. Approve, resource and assign responsibility for implementing the methods and tools identified in the Knowledge Transfer and Succession Planning presentation. **Priority ranking: Medium**

The management action plan is outlined in Appendix 3 of this report.

## Appendix 1—Roles and Responsibilities

The following descriptions are extracted from the *Report on the Public Service Pension Plan for the Fiscal Year Ended March 31, 2010*:

**Treasury Board of Canada Secretariat.** The President of the Treasury Board is responsible for the overall management of the Public Service Pension Plan. The Treasury Board of Canada Secretariat (the Secretariat) is responsible for the strategic direction, program and policy advice, financial analysis, and the development of legislation related to the Public Service Pension Plan, as well as communications to pension plan members, including the preparation of the annual Report on the Public Service Pension Plan. The Secretariat, through the Office of the Comptroller General, also provides Public Works and Government Services Canada with general accounting guidance in the preparation of the public service pension plan's financial statements. In addition, the Office of the Comptroller General promotes sound government spending, provides leadership across the public service to the financial management and internal audit sectors, and ensures standards are set and observed. The Office of the Comptroller General chairs the Interdepartmental Committee on Pension Accounting, which meets once a year to evaluate and decide on actuarial assumptions to be utilized for the purposes of the Public Accounts.

**Public Works and Government Services Canada.** Public Works and Government Services Canada is responsible for the day-to-day administration of the Public Service Pension Plan. This includes the development and maintenance of the public service pension systems and the books of accounts, records, and internal controls, as well as the preparation of Account Transaction Statements for reporting in the Public Accounts.

In addition, Public Works and Government Services Canada processes payment and carries out all accounting and financial administrative functions. Public Works and Government Services Canada, along with the Secretariat, is also responsible for the preparation of the Public Service Pension Plan's financial statements and the annual Report on the Public Service Pension Plan.

**Public Sector Pension Investment Board.** The Public Sector Pension Investment Board is a Crown corporation established by the *Public Sector Pension Investment Board Act* of 1999. It commenced operation on April 1, 2000. The Public Sector Pension Investment Board is governed by an 11-member board of directors accountable to Parliament through the President of the Treasury Board, who is responsible for the Act and for the tabling in Parliament of the Public Sector Pension Investment Board's annual report. The relevant financial results of the Public Sector Pension Investment Board are included in the pension plan's financial statements. Amounts equal to contributions in excess of benefit payments and administrative expenses are regularly transferred from the Consolidated Revenue Fund to the Public Sector Pension Investment Board and invested in capital markets. The legislative mandate of the Public Sector Pension Investment Board is to maximize returns without undue risk of loss. The Public Sector Pension Investment Board also manages the invested assets of the Royal Canadian Mounted Police, the Canadian Forces and the Reserve Force pension plan accounts.

**Office of the Chief Actuary.** The Office of the Chief Actuary is a separate unit within the Office of the Superintendent of Financial Institutions Canada that provides a range of actuarial services and advice to the Government of Canada. The Office of the Chief Actuary is responsible for conducting an annual actuarial valuation for accounting purposes that serves as the basis for the determination of the government pension liability and expense with respect to the Public Service Pension Plan included in the Public Accounts. Economic assumptions used in this actuarial valuation represent government's best estimate.

As required by the *Public Pensions Reporting Act*, the President of the Treasury Board causes the Chief Actuary to conduct an actuarial valuation of the Public Service Pension Plan for funding purposes. The actuarial valuation for funding purposes is performed by the Office of the Chief Actuary at least every three years and is tabled in Parliament by the President of the Treasury Board.

**Public Service Pension Advisory Committee.** The Public Service Pension Advisory Committee, established under the *Public Service Superannuation Act*, is composed of 13 representatives, namely, 1 pensioner, 6 members representing employees and 6 members chosen from the executive ranks of the public service. This committee provides advice to the President of the Treasury Board on matters relating to the Public Service Pension Plan's administration, benefit design, and funding.

## Appendix 2—Audit Criteria

The audit criteria were derived from the Office of the Comptroller General's *Audit Criteria Related to the Management Accountability Framework: A Tool for Internal Auditors*.

### Line of Enquiry 1: Roles and Responsibilities

- 1.1 Roles, responsibilities and accountabilities within the Secretariat are clearly defined and communicated.
- 1.2 The Secretariat's accountabilities with external organizations that collaborate with it to support the Public Service Pension Plan are clearly defined and communicated.

### Line of Enquiry 2: Oversight, Monitoring and Reporting

- 2.1 Appropriate mechanisms are established to oversee and ensure compliance with legislative and policy requirements.
- 2.2 External and internal environments are monitored to obtain information that management considers for changes to objectives, policies or controls.
- 2.3 Processes exist for ongoing communication with the President and committees, and for informing them of significant issues.

### Line of Enquiry 3: Risk Management and Strategic and Operational Planning

- 3.1 The Pensions and Benefits Sector has in place operational plans and objectives aimed at achieving its strategic objectives.
- 3.2 The Pensions and Benefits Sector identifies and assesses its risks, and develops mitigation strategies that address both sector and pension plan risks.
- 3.3 Strategic and operational planning processes consider risk information.

#### Line of Enquiry 4: Knowledge Management

4.1 The Pensions and Benefits Sector has a knowledge management process in place for information management, retention and sharing among employees.

4.2 The Pensions and Benefits Sector provides employees with the necessary training, tools, resources and information to support the discharge of their responsibilities.

4.3 The Pensions and Benefits Sector provides Public Service Pension Advisory Committee members with the necessary training, tools, resources and information to support the discharge of their responsibilities.

## Appendix 3—Management Action Plan

### Recommendation 1:

It is recommended that the Secretariat continue to formally define its roles and responsibilities, with particular emphasis on the Secretariat's oversight and financial advisory roles. Specifically:

- a. The Secretariat should develop a formal definition of its oversight role over the Public Service Pension Plan and/or over the organizations that support this plan. Once approved, the definition should be communicated to the appropriate stakeholders. **Priority ranking: High**
- b. The Secretariat should clarify the appropriate financial advisory roles within the Secretariat to ensure that appropriate financial advice is provided to support the Secretary's approval of the pension plan's financial statements. **Priority ranking: High**

Management Action	Completion Date	Office of Primary Interest (OPI)
<p>The Secretariat agrees with the recommendation and will proceed to develop a formal definition of its oversight role with respect to the Public Service Pension Plan.</p> <p>The action plan to address this recommendation is as follows:</p> <ul style="list-style-type: none"><li>▪ The Corporate Services Sector, with the support of the Office of the Comptroller General and the Pensions and Benefits Sector, will undertake a formal review of the governance structure of the Public Service Pension Plan with particular focus on the oversight and financial advisory roles.</li><li>▪ This review will clarify and document the Secretariat's oversight role related to the Public Service Pension Plan. (Recommendation 1 a.)</li><li>▪ The review will also clarify the financial advisory roles within the Secretariat related to the Secretary's approval of the pension plan's financial statements. (Recommendation 1 b.)</li><li>▪ The Corporate Services Sector will submit a formal report to the Secretary by December 31, 2012, on the Secretariat's roles and responsibilities related to the governance of the Public Service Pension Plan. An interim report will be submitted to the Secretary by June 30, 2012.</li></ul>	December 2012	Corporate Services Sector

### Recommendation 2:

It is recommended that the Assistant Deputy Minister, Pensions and Benefits Sector, address the following operational issues:

- a. Ensure that a responsible manager and a schedule are assigned to each of the mitigation strategies identified in the Pensions and Benefits Sector Business Plan for 2011–14. **Priority ranking: High**
- b. Develop succession plans for key positions at levels below the senior management team. **Priority ranking: Medium**
- c. Develop a training and development road map. **Priority ranking: Medium**
- d. Approve, resource and assign responsibility for implementing the methods and tools identified in the Knowledge Transfer and Succession Planning presentation. **Priority ranking: Medium**

Management Action	Completion Date	Office of Primary Interest

		<b>Interest (OPI)</b>
<b>To address the first of the four recommendations:</b> <ul style="list-style-type: none"> <li>▪ Develop and monitor an action plan for the mitigation strategies identified in the Pensions and Benefits Sector Business Plan on a yearly basis.</li> <li>▪ Establish responsible managers, deliverables and timelines for all mitigation strategies.</li> <li>▪ Conduct a review of the progress of the mitigation strategies with the Sector's management team at the middle and end of the fiscal year.</li> </ul>	March 2012	Pensions and Benefits Sector
<b>To jointly address the last three recommendations:</b>  Draw on available resources and assign responsibility within the Pensions and Benefits Sector to: <ul style="list-style-type: none"> <li>▪ Implement the draft "Knowledge Transfer and Succession Planning" proposal.</li> <li>▪ Develop a list of proposed training by type and level of position within the pensions area of the Pensions and Benefits Sector, and use it when developing employees' performance management agreements.</li> <li>▪ Develop a succession plan for senior analysts in the Sector.</li> <li>▪ Consider staffing approaches that would respond to the Sector's unique skill requirements.</li> </ul>	March 2012	Pensions and Benefits Sector

## Footnotes

[1]. Source: *Report on the Public Service Pension Plan for the Fiscal Year Ended March 31, 2010*.

[2]. Other organizations, such as the Department of Finance Canada and the Public Sector Pension Investment Board Nominating Committee, also support the plan, but their involvement is on an intermittent or as-required basis.

[3]. The original name of the audit in the Risk-Based Audit Plan was "Audit of Governance of the Public Service Pension Plan." The name was changed following work done during the preliminary survey phase to better reflect the focus of the audit. The new name also recognizes the Secretariat's shared rather than overall responsibility for governance of the plan.

[4]. Stakeholders' understanding of these roles and responsibilities is included in this assertion and is reflected in the audit program procedures.

[5]. Retirement Compensation Arrangements Regulations (RCA) No. 1 and No. 2 were established under the *Special Retirement Arrangements Act* to provide supplementary pension benefits to employees. RCA 1 provides for benefits in excess of those permitted under the *Income Tax Act*, and RCA 2 provides pension benefits to employees declared surplus under a specific program that ended in 1998.

[6]. The pension enabling legislation examined was the *Public Service Superannuation Act*, the *Public Pensions Reporting Act* and the *Public Sector Pension Investment Board Act*.

[7]. The Treasury Board policy that was examined was the *Policy on the Administration of the Public Service Pension Plan and Group Insurance and Other Benefit Programs*.

[8]. They are also signed by the Deputy Minister of Public Works and Government Services Canada.

[9]. The Chief Human Resources Officer, the Comptroller General of Canada and the Assistant Deputy Minister, Pensions and Benefits Sector, approve the financial statements prior to the Secretary's sign-off. Independently from this approval, the Office of the Auditor General of Canada audits the financial statements each year for the purpose of providing an audit opinion.