



OFFICE OF AUDIT AND EVALUATION

Audit of Governance



Agriculture and
Agri-Food Canada

Agriculture et
Agroalimentaire Canada

Canada

The AAFC Audit Committee recommended this audit report for approval by the Deputy Minister on October 24, 2019.

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EXECUTIVE SUMMARY

Governance was identified as a medium-level risk area in the “2019-20 Integrated Audit and Evaluation Plan” due to the risk of inconsistent and unclear governance practices that may hamper the Department’s ability to effectively and efficiently achieve its priorities. The objective of this audit was to assess the effectiveness of Agriculture and Agri-Food Canada's (AAFC) governance structure in support of the achievement of departmental priorities. The audit focussed on the Department’s core governance structure which has been designed to set the decision-making framework and to support the Deputy Minister in the achievement of the Department’s strategic outcomes.

The audit examined whether effective processes and tools were in place for core governance committees to support the Deputy Minister in carrying out oversight responsibilities. The audit also examined the departmental governance committees and the overall governance structure to assess whether they were established with appropriate authorities and responsibilities. Finally, the audit focused on whether the core governance committee structure was reviewed and updated on a regular basis to respond to changing priorities, risks, and compliance requirements.

The Office of the Comptroller General of Canada and the Institute of Internal Auditors define Governance as: the combination of processes and structures implemented by organizations to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives. Within the Canadian federal government, deputy heads are accountable for making decisions to achieve their departmental objectives and establish structures and mechanisms to support their decision-making.

Overall, the audit found that AAFC has established a governance structure that included committees attended by senior officials from all branches. Consistent with good governance practices, these core committees had formal Terms of References that were updated annually and documented Records of Decision, which were made available on a timely basis.

The audit concluded that the departmental governance structure could be enhanced to better support the achievement of departmental priorities.

The effectiveness of the governance structure could be enhanced by:

- Ensuring the departmental governance structure reflects the intended direction-setting and decision-making roles, responsibilities, and authorities and increase consideration of departmental priorities in the Forward Agenda for the senior governance committees; and
- Establishing clearer expectations for documenting and monitoring governance decisions and for monitoring the effectiveness of the overall governance structure.

1.0 INTRODUCTION

1.1 RISK CONTEXT AND OBJECTIVE

1.1.1 Governance is a broad term that encompasses many core management responsibilities, including strategic priority-setting, risk management, compliance management, performance monitoring, values and ethics, investment planning, strategic human resources management, and information technology management.

1.1.2 A key role of internal audit in the federal government is to provide deputy heads with assurance as to the design and operation of the governance, risk management, and control processes in their organizations. Thus, governance was identified as a medium-level risk area in the “2019-20 Integrated Audit and Evaluation Plan” due to the risk of inconsistent and unclear governance practices that may limit the Department’s ability to effectively and efficiently achieve its priorities.

1.1.3 The objective of this audit was to assess the effectiveness of Agriculture and Agri-Food Canada's (AAFC) governance structure in support of the achievement of departmental priorities. The audit focussed on the Department’s core governance structure which has been designed to set the decision-making framework and to support the Deputy Minister in the achievement of the Department’s strategic outcomes.

1.1.4 The audit examined whether effective processes and tools were in place for core governance committees to support the Department in carrying out its oversight responsibilities. The audit also examined the Department’s governance committees and the overall governance structure to assess whether they were established with appropriate authorities and responsibilities. Finally, the audit focused on whether the core governance committee structure was reviewed and updated on a regular basis to respond to changing priorities, risks, and compliance requirements.

1.1.5 The audit focused primarily on the AAFC’s core governance structure consisting of four corporate executive committees chaired by the Deputy Minister, and two directors general committees. The audit examined the relationship between the core governance structure and other senior committees. It focused on governance practices in place up to June 30, 2019.

1.1.6 Audit evidence was gathered through various methods. The audit team consulted extensively with departmental senior management and interviewed all of the branch heads and 19 Directors General, as well as officials in the Corporate Secretariat and the branches. The audit included direct observation of committee meetings and analysis of committee documents.

1.1.7 More details about the audit objective, scope, criteria, and approach are in the [“About the Audit”](#) in Annex A.

1.2 OVERVIEW OF DEPARTMENTAL PRIORITIES AND GOVERNANCE

1.2.1 The mission of AAFC is to provide “leadership in the growth and development of a competitive, innovative and sustainable Canadian agriculture and agri-food sector.” Departmental priorities help guide the Department towards achieving effective results in support of Canada’s agriculture and agri-food sector. See Exhibit 1 for the 2019-20 Departmental Priorities.

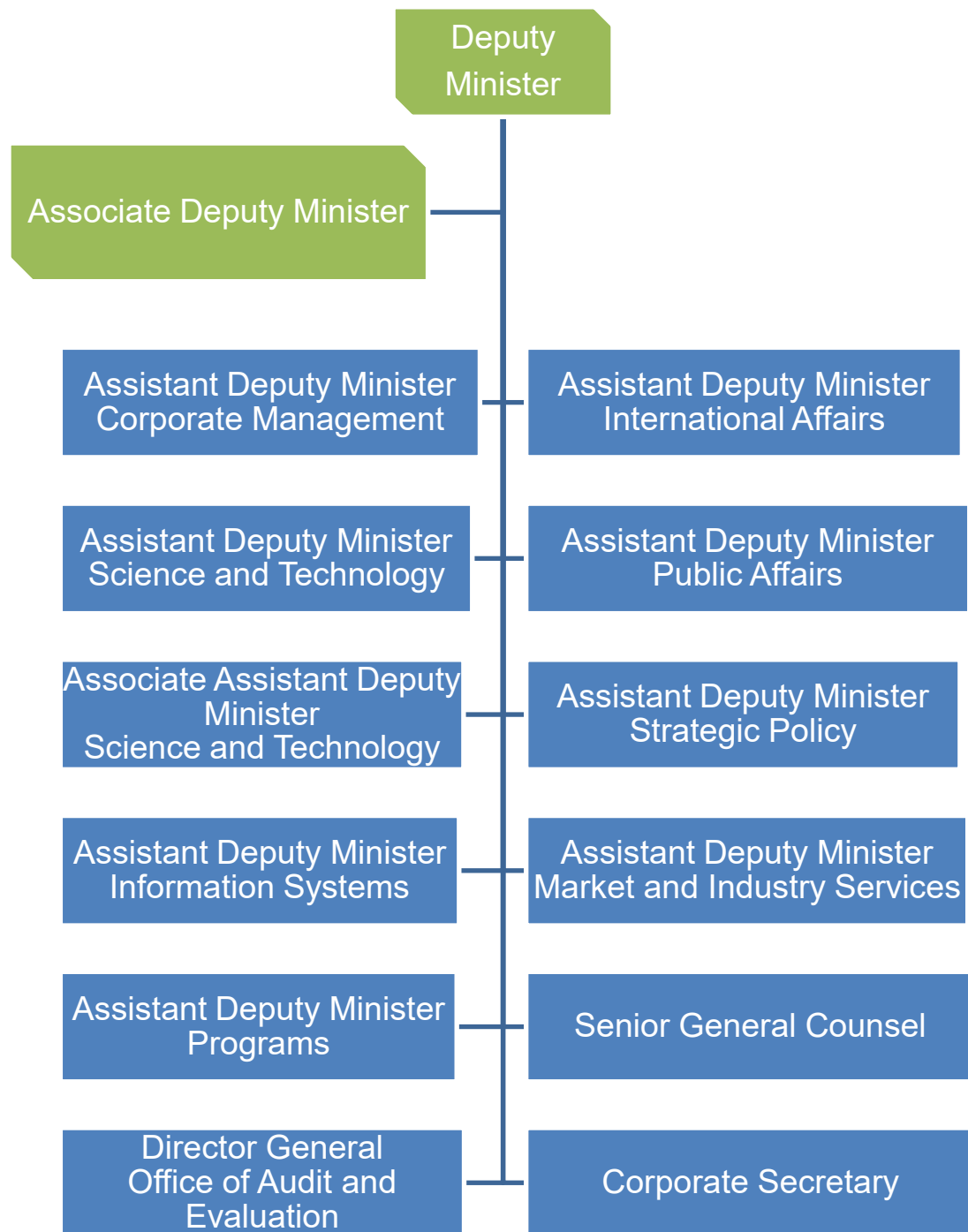
EXHIBIT 1. 2019-20 AAFC DEPARTMENTAL PRIORITIES

2019-20 Departmental Priorities	Enhance the sector’s competitive position with a focus on value-added production and processing
	Support the sector to increase exports through trade diversification and market access efforts
	Enhance agricultural science to modernize sector research, generate knowledge, and cultivate innovation to address emerging challenges
	Advance the work to strengthen tools, approaches, and understanding of risk management in the sector
	Enhance program and service delivery, including through the Canadian Agricultural Partnership
	Launch a Food Policy for Canada
	Encourage greater participation of underrepresented groups in Canadian agriculture
	Foster a workplace that is inclusive, diverse, respectful, healthy, and harassment-free
	Actively contribute to pay stabilization to ensure employees are supported, paid accurately

SOURCE: AAFC 2019-20 DEPARTMENTAL PRIORITIES (AAFC INTRANET)

1.2.2 Branch priorities provide a more detailed account of activities that contribute to departmental priorities, and that support results-based decision-making for senior management. They may also include activities that are essential for a branch to meet the Department’s strategic priorities or to support the Government of Canada’s broad initiatives in corporate and stewardship areas.

1.2.3 The Deputy Minister oversees the Department’s activities through two key mechanisms—the organizational structure and the governance structure. The areas of responsibility for senior managers are set out in the organizational structure for the Department, with Assistant Deputy Ministers leading each of the main branches, and reporting to the Deputy Minister. Directors General report to these branch heads. The AAFC organizational structure is shown in Exhibit 2.

EXHIBIT 2. AAFC ORGANIZATIONAL STRUCTURE

SOURCE: AAFC SENIOR HIERARCHY 2019-20 (AAFC INTRANET)

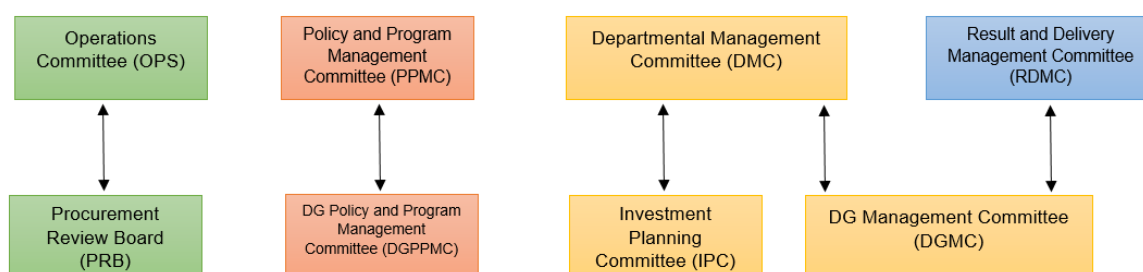
1.2.4 The Office of the Comptroller General of Canada and the Institute of Internal Auditors define governance as: the combination of processes and structures implemented by organizations to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives. It is important to note that there is no single governance structure model that will meet the needs of every organization; governance activities should be aligned to support the achievement of the organization's mandate and priorities.

1.2.5 Within the Canadian federal government, deputy heads are accountable for making decisions to enable them to achieve their respective departmental objectives. As leaders, they establish structures and mechanisms to support their decision-making. There is no prescribed model to follow and each deputy head is encouraged to establish a structure that supports their needs and leadership style. The deputy could decide to forego implementing a governance structure and make his or her decisions without going through a governance structure. However, the norm is to put in place a governance structure through which issues and topics are brought forward.

1.2.6 The Deputy Minister at AAFC maintains a departmental governance structure to set the decision-making framework and to support the achievement of the Department's strategic outcomes. It is also intended to support the integration of policies and programs.

1.2.7 The audit focused on the core governance structure outlined in Exhibit 3. The Corporate Secretariat provides support to the Deputy Minister-level and Director General-level committees, including coordinating meeting material and ensuring that the Terms of Reference for the core governance committees are updated annually.

EXHIBIT 3. AAFC 2018-19 CORE GOVERNANCE STRUCTURE



SOURCE: AAFC 2018-19 GOVERNANCE STRUCTURE (AAFC INTRANET)

2.0 DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

The following sections present the key audit observations. Recommendations for improvement are provided after the detailed observations. Management responded to each recommendation and provided:

- An action plan to address each recommendation;
- A lead responsible for implementation of the action plan; and
- A target date for completion of the implementation of the action plan.

2.1 GOVERNANCE STRUCTURE

2.1.1 Audit Criteria: The audit expected to find that the Department's governance committees and governance structure were established, with appropriate authorities and responsibilities. Specifically, they should be documented, accessible, align with the Department's strategic and compliance objectives, and be exercised as defined. To be effective, the reporting relationships and accountabilities within the governance committee structure should be clearly defined.

2.1.2 What the Audit Found: Consistent with good governance practices, the audit found that the Deputy Minister established a governance structure with authorities and responsibilities defined in formal Terms of Reference for each committee. The Terms of Reference and Records of Decision for the core governance committees were accessible online to AAFC staff on a timely basis. Exhibit 4 provides a summary of the core committees, their mandates, membership, and meeting frequency.

EXHIBIT 4. AAFC 2018-19 GOVERNANCE STRUCTURE

	Committee and Mandate	Membership	Meeting Frequency
Deputy Minister-Level Committees	Operations Committee: Forum to discuss key short-term departmental activities.	Chaired by Deputy Minister and attended by Branch Heads	Weekly
	Results and Delivery Management Committee (RDMC): Forum to discuss and/or take decision on performance measurement issues; evaluation plans, reports and action plans.	Chaired by Deputy Minister and attended by Branch Heads	4 to 6 times per year
	Policy and Programs Management Committee (PPMC): Focal point for discussion and decision on specific policy or program issues.	Chaired by Deputy Minister and attended by Branch Heads	Biweekly
	Departmental Management Committee (DMC): Forum to discuss and/or take decision on departmental management and operational issues, such as human resources, finance, assets, and information technology.	Chaired by Deputy Minister and attended by Branch Heads	Biweekly
Director General-Level Committees	Director General Policy and Program Management Committee (DGPPMC): To discuss and develop ideas, options and advice on the design and implementation of policy and programs delivered by the Department.	Co-chaired by two Directors General and attended by Directors General from each branch	Biweekly
	Director General Management Committee (DGMCM): To discuss and develop ideas, options and advice on departmental-management and operational issues.	Co-chaired by two Directors General with Director General representation from all branches	Biweekly
Other Core Governance Committees	Procurement Review Board (PRB): Forum of senior departmental officials for the management of high value and/or high risk procurement.	Chaired by Director General Assets Management and Capital Planning, Corporate Management Branch with representation from all branches	Biweekly
	Investment Planning Committee (IPC): Ensure AAFC investments represent good value for money and align with strategic priorities.	Co-chaired by Assistant Deputy Ministers from Corporate Management Branch and Information Systems Branch, with Director General representation from all branches	Monthly

2.1.3 Through a review of the respective Terms of Reference, the audit identified that all of the Deputy Minister-level committees had approval authority. However, none of the Terms of Reference described how decisions should be made (e.g. whether by majority vote, consensus, or by the Chair).

2.1.4 One of the core responsibilities of the Director General-level committees was to provide advice on material that was going forward to the next level. Presenters were expected to consider this advice prior to submitting items to the more senior committees. The audit found that there was a lack of clarity over whether this step was mandatory and observed that it did not always occur. In 2018, approximately one-third of agenda items presented at the Departmental Management Committee and Policy and Program Management Committee were not presented first at a Director General-level. When agenda items went to the Director General-level committees for guidance first, the Deputy Minister-level committees were not always provided with an overview of the advice received and how it had been addressed. Since the Director General-level committees are not consistently provided with an opportunity to comment before an item is presented to senior management, the Department may not be taking full advantage of their insights and advice.

2.1.5 The audit reviewed the composition of the formal, core governance structure and found that it was unclear why some Director General-level committees were not part of, or clearly linked to, the core structure. Unlike the core governance committees that have representation from all AAFC branches, there were single issue committees that included only a subset of Directors General. Two areas of concern were noted:

2.1.6 First, the audit found that the composition of the formal, core governance structure did not reflect all of the senior committees in place in the Department. There were a number of other senior-level committees, some with strategic roles. The link between these committees and the core governance structure was not clear. These included:

- Director General Innovation Committee (DGIC);
- Director General Medium-Term Planning (DG MTP);
- Director General Canadian Agricultural Partnership (DG CAP).

2.1.7 Some of these committees focused on departmental priorities and made decisions that could impact all branches. It was not clear why the core governance structure was not leveraged to address some of these issues instead of creating new committees. While there may be valid reasons for convening committees outside of the formal structure, the role and authorities of these committees should be documented and their links to the Department's core governance structure should be clear.

2.1.8 While senior committees outside of the core governance structure dealt with issues affecting multiple branches, limited information was available to departmental officials. For example, unlike the core committees, there was no central listing of them and no means to easily locate information on their mandates, membership, or relationship to the Department's core governance. Some of the committees did not have documented Terms of Reference or Records of Decision, making it challenging to understand each committee's roles and responsibilities. Incomplete information on these Director General-

level committees was identified as a challenge for new senior managers who receive orientation on AAFC's core governance structure only, and lack of awareness could limit the participation of all key stakeholders who should be involved.

2.1.9 The second area related to the composition of the governance structure was the inclusion of two committees that had primarily process oversight roles, specifically the Procurement Review Board and Investment Planning Committee. Although the other core governance committees in Exhibit 3 had either a decision-making role or served as a broad discussion forum, these two process oversight committees did not require broad senior management consultation or guidance to carry out their ongoing work, which was largely at the transactional or project monitoring level. As the Department assesses its governance structure, there is an opportunity to consider the mandate of these two committees, to determine if the Deputy Minister would be more strongly supported if these committees took on more strategic roles.

2.2 ALIGNMENT TO DEPARTMENTAL PRIORITIES

2.2.1 Audit Criteria: The audit expected that processes and tools for governance committees would be established, and operate as intended, to support the Department in achieving its mandate and priorities. Mechanisms should be in place to monitor departmental compliance requirements within the scope of its mandate.

2.2.2 What the Audit Found: The Department had a Forward Agenda administrated by the Corporate Secretariat to identify the tentative timing of agenda items for each of the core governance committees. At the time of the audit, the Forward Agenda was largely populated by agenda items pushed forward by the branches. However, there were no mechanisms in place to ensure that items going to governance committees were clearly linked to departmental priorities or risks, or to the Department's compliance and stewardship responsibilities. This alignment could better support the Deputy Minister in managing the achievement of departmental priorities.

2.2.3 The audit determined that in the first six months of 2019, both the Departmental Management Committee and the Policy and Program Management Committee met fewer times than specified in their Terms of Reference. Some meetings were cancelled due to a lack of agenda items received from call-outs to the branches.

2.2.4 Communicating clear expectations through departmental policies is a fundamental management responsibility. At the time of the audit, neither the Forward Agenda nor the Records of Decision demonstrated that the committees were ensuring that senior management review AAFC internal policies on a regular basis. The audit reviewed the Departmental policies and guidelines on the AAFC intranet site, and identified that approximately two-thirds of the Department's internal policies did not show indication of review or update in the past five years¹. Without regular reviews, there is a risk that departmental policies may not provide employees with accurate, up to date, compliance expectations. The audit observed that corporate policies that impact multiple or all branches did not always go through core governance committees for broad consultation

¹ As many Treasury Board policies and core documents like Treasury Board Submissions use a five year time period, the audit used this as a reasonable period where reviews or updates could be expected.

when they were being developed. This could limit the participation and input of management who may be responsible for aspects of the policy implementation.

2.2.5 The audit determined that a significant proportion of items presented at the core governance committees were “for information”. The audit found that the stated purpose of presentations was not always clear, nor what type of input or action was expected from committee members. This included an inconsistent use of for “information”, “discussion”, “decision”, and “recommendation” on committee agendas or a contradiction in the meeting material from the stated purpose in the agenda.

2.2.6 The eliminations of core committees, the creation of new committees, and the high number of informational agenda items are indicators that the Deputy Minister could benefit from an enhanced Forward Agenda that more clearly aligns to departmental priorities. This would ensure that the committees are proactively driving the population of agenda items and prioritizing strategic items that require guidance and direction at the governance committees.

2.3 MECHANISMS AND MONITORING TO SUPPORT DECISION-MAKING

2.3.1 Audit Criteria: Tools should be in place to ensure that governance committee decisions and follow-up items are tracked and actioned. The audit expected to find that the overall governance structure and committees are reviewed and updated on a regular basis to respond to changing priorities, risks, or compliance requirements.

2.3.2 What the Audit Found: That audit noted that Records of Decision for the core governance committees were made accessible on a timely basis on the Department’s Knowledge Workspace site. The audit found that tools to support decision-making and action-tracking could be strengthened.

2.3.3 Senior management perceived there to be procedural barriers in bringing urgent items through the core governance structure, such as the need for presentation decks and the amount of time required to provide material in advance of committee meetings. Based on consultations with senior management, urgent departmental priority files were managed using a flexible approach, outside of the core governance structure. Senior management noted that this approach enabled them to efficiently address urgent issues. Notwithstanding the benefits of this agile approach, there may be options to reduce process requirements to enable broader senior management consultation of important, time-sensitive issues at the core governance committees when deemed appropriate by senior management, and valuable to inform and support the Deputy Minister in decision-making.

2.3.4 The audit found that, while the Deputy Minister-level committees had decision making authority, the Records of Decision did not always clearly state the decisions made, (i.e. “Approved”, “Not approved”, or “Approved with Conditions”). As committee discussions can have a variety of perspectives shared, without clearly stating the approval decision, there can be uncertainty as to whether a particular initiative had approval to proceed.

2.3.5 The audit observed that “next steps” were captured in the Records of Decision but there was no centralized “action tracker” to compile all committee requests and follow-up items to ensure that they were addressed.

2.3.6 The audit noted that the Terms of Reference for the core governance committees were managed by the Corporate Secretariat and were updated annually. The Terms of Reference specified that there should be an update based on the results of an annual Governance Review. Expectations as to who should perform this review, what its scope should be, and how it should be approved were not documented.

2.3.7 The most recent major assessment of the overall governance structure was performed by the Corporate Management Branch in 2016. The audit team reviewed the 2016 Governance Review recommendations and found that all but one of them were implemented. The recommendation to improve the quarterly planning sessions for the Director General-committees had not been fully implemented. The audit found that, while some sessions had taken place, they had not been occurring on a regular basis. It was not clear who was responsible for ensuring that the recommendations from these reviews were implemented.

2.3.8 To ensure that the Governance Reviews identify improvements needed to respond to a changing environment, the Deputy Minister would benefit from the establishment of clearer expectations for these reviews, including revisiting the frequency required.

3.0 CONCLUSION

Overall, the audit found that the Department had established a governance structure that included committees attended by senior officials from all AAFC branches. Consistent with good governance practices, these committees had formal Terms of Reference that were updated annually and documented Records of Decision, which were made available on a timely basis.

The audit concluded that the departmental governance structure could be enhanced to better support the Deputy Minister in managing the achievement of departmental priorities by:

- Ensuring the departmental governance structure reflects the intended direction-setting and decision-making roles, responsibilities, and authorities and increase consideration of departmental priorities in the Forward Agenda for the senior governance committees;

- Establishing clearer expectations for documenting and monitoring governance decisions and for monitoring the effectiveness of the overall governance structure.

The audit recommendations and management responses and action plans are below:

Recommendation 1. Governance Structure

Ensure the departmental governance structure reflects the intended direction-setting and decision-making roles, responsibilities, and authorities and increase consideration of departmental priorities in the Forward Agenda for the senior governance committees.

Management Response and Action Plan

Management Response and Action Plan:

Agree.

The structure and nature of AAFC's core governance will be reviewed to ensure clarity of purpose of each of its constituting elements.

Lead(s) Responsible:

Corporate Secretary

Target Date for Completion:

January 2020

Recommendation 2. Governance Mechanisms and Monitoring

Establish clearer expectations for documenting and monitoring governance decisions and for monitoring the effectiveness of the overall governance structure.

Management Response and Action Plan

Management Response and Action Plan:

Agree.

Current practices will be reviewed to ensure that governance documentation supports AAFC's decision-making and that action items are effectively followed through.

Governance review requirements will be clarified with regards to the nature, frequency and purpose of these reviews.

Lead(s) Responsible:

Corporate Secretary

Target Date for Completion:

January 2020

ANNEX A: ABOUT THE AUDIT

STATEMENT OF CONFORMANCE

The audit conforms to the Institute of Internal Auditors' International Professional Practices Framework, as supported by the results of AAFC's internal audit quality assurance and improvement program. Sufficient and appropriate evidence was gathered in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing to provide a reasonable level of assurance over the findings and conclusions in this report. The findings and conclusions expressed in this report are based on conditions as they existed at the time of the audit, and apply only to the areas included in the audit scope.

AUDIT OBJECTIVE

To assess the effectiveness of AAFC's governance structure in support of the achievement of departmental priorities.

AUDIT SCOPE

During the planning phase, the audit team interviewed key stakeholders, attended governance committee meetings, and analyzed senior management committee documents such as the Terms of References, Records of Decision, meeting agendas, and other relevant documentation. Based on the information obtained in the planning phase, the audit team developed a risk assessment and identified scoping considerations. The areas identified as being of greatest risk were used to confirm the audit objective, scope, and criteria.

The audit examined management practices in place to June 30, 2019. The documentation review focused on the period from January 1, 2018 to December 31, 2018.

The audit focused on the following core senior management committees that have a mandate to govern AAFC:

- Operations Committee;
- Departmental Management Committee;
- Policy and Program Management Committee;
- Results and Delivery Management Committee;
- DG Policy and Program Management Committee;
- DG Management Committee.

The audit examined the relationship between the core governance structure and other senior committees. It assessed the Procurement Review Board and Investment Planning Committee at a high level to understand how they fit into the overall departmental governance structure. Based on a review of committee documentation, observations of meetings and interviews with senior management, it was determined that these committees have process oversight roles but are not core senior governance committees like the Deputy Minister-level and Director General-level committees listed above.

Furthermore, the Internal Audit Division has identified investment planning on its “2019-20 to 2023-24 Integrated Audit and Evaluation Plan” for audits in 2021-22.

The audit team did not assess the following:

- **Departmental Audit Committee:** The effectiveness of the Departmental Audit Committee will be assessed in 2019-20 as part of a mandatory external performance assessment of internal audit.
- **Information Technology Governance:** The Information Technology Governance was assessed in the 2011-12 Audit of Information Technology Governance. Given the complexity of the area, it is better assessed as a stand-alone audit.

AUDIT CRITERIA

The audit examined three criteria of effective governance during the audit’s conduct phase in the areas of authorities and responsibilities, oversight and monitoring.

1. Authorities and Responsibilities

- Senior committees and the overall governance structure is established with appropriate authorities and responsibilities.

2. Oversight

- Effective processes and tools are in place for senior committees to support the department in carrying out its oversight responsibilities.

3. Monitoring

- Senior committee governance structure and committees are reviewed and updated on a regular basis to respond to changing priorities, risks, or compliance requirements.

AUDIT APPROACH

The audit approach and methodology were risk-based and consistent with the International Standards for the Professional Practice of Internal Audit and the Treasury Board Policy on Internal Audit. These standards require that the audit be planned and performed so as to conclude against the objective. The audit was conducted in accordance with an audit program that defined audit tasks to be performed in the assessment of each line of enquiry.

Audit evidence was gathered through various methods. The audit team consulted extensively with departmental senior management and interviewed all of the branch heads and 19 Directors General, as well as officials in the Corporate Secretary’s Office and the branches. Audit work included direct observation of committee meetings and analysis of documentation, including committee Terms of Reference and Records of Decision.