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2014-2015 Departmental Audit Committee Annual Report

March 2015



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March 31, 2015

Graham Flack
Deputy Minister
Canadian Heritage

Dear Deputy Minister,

As Chair of the Departmental Audit Committee, it is my pleasure to present the DAC's Annual Report covering the 2014-2015 fiscal year. The Annual Report summarizes the activities of the Departmental Audit Committee and provides our assessment of the areas under the Committee's responsibility. This report was produced by the DAC with all three members playing an active role in shaping its content.

While the report is intended to be retrospective, I would like to draw your attention to the section "Looking Ahead" near the end of the report that sets out a number of themes and subjects of interest that the DAC intends to pursue in the 2015-2016 fiscal year.

The reporting period has been notable for a combination of changes in the organization of the audit function, in the leadership of Internal Audit, and among those senior officials who work closely with us during the year (including changeovers in the positions of both the Deputy Minister and Associate Deputy Minister, as well as the Chief Financial Officer) in support of our mandate.

Despite all these changes, the Committee believes it was able to meet its responsibilities this past fiscal year. We appreciate the professionalism, the commitment and the competence that Canadian Heritage staff members have displayed at all levels during this reporting period, and are especially grateful to those within the Internal Audit team.

As DAC Chair, I would like to single out the valuable contributions of my two colleagues on the Committee: Nola Buhr and Robert Martin. Their insights, expertise, and long experience on the DAC have been critical to our ability to serve the Department and to support you and your predecessor Colleen Swords during 2014-2015.

I would note that Nola Buhr's second term on the DAC comes to an end with the writing of this Annual Report. Robert Martin will also be departing the DAC mid-way through the coming fiscal year. I am pleased that a very able successor, Dr. Morina Rennie has been recruited this past fiscal year to replace Dr. Buhr. We are waiting for Treasury Board approval as regards Mr. Martin's replacement.

The Committee looks forward to working with you as Deputy Minister in the months ahead, providing the objective advice and recommendations you need in the areas set out in our Terms of Reference, and responding to any other specific requests you might have.

Sincerely,

Original signed by:

Leonard Edwards, DAC Chair

Cc: Associate Deputy Minister
Chief Financial Officer
Chief Audit Executive
Audit Committee Members

Original signed by:

I acknowledge receipt:

Graham Flack, Deputy Minister

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1.0 Introduction

The Committee provides objective advice and recommendations to the Deputy Minister regarding the sufficiency, quality and results of assurance on the adequacy of the Department's risk management, control and governance frameworks. To provide this advice, the Committee relies substantially on the work of the Office of the Chief Audit Executive (OCAE). As additional input, the Committee also relies on the Management Control Framework and other work done by the Office of the Chief Financial Officer.

The OCAE has observed an overall improvement in risk management, internal control and governance. Based on its deliberations through this past year, the Committee is generally in agreement with this judgment, particularly in the area of risk management.

Committee Activities

2.1 DAC Meetings

During the 2014-2015 fiscal year, the Committee held four regular meetings and two teleconferences:

- April 9-10, 2014;
- June 9 to 11, 2014 (including one day working session for the DAC annual report);
- August 20, 2014 teleconference (Annual Financial Statements and review of the Departmental Performance Report (DPR));
- November 6-7, 2014;
- January 19, 2015 teleconference (Review of Report on Plans and Priorities (RPP)); and
- March 12-13, 2015.

In addition, the Committee held a number of teleconference calls to cover contextual briefings ahead of each meeting.

In response to our request noted in last year's DAC report, the Department has provided us with valuable background briefings on Departmental programs and activities during the course of our meetings. The Committee has greatly appreciated this addition to our regular agenda.

2.2 Core Responsibilities

The *TB Directive on Internal Auditing in the Government of Canada* outlines eight core responsibilities for the DAC. These are: values and ethics; risk management; management control framework and reporting; the Internal Audit Function; liaison with External Assurance Providers; follow-up on management action plans; financial statements and public accounts reporting; and accountability reporting.

2.3 Values and Ethics

The DAC reviews management policies and practices to promote public service values and to ensure compliance with laws, regulations, policies, and standards of ethical conduct.

At the November 2014 meeting, the former PCH Ombudsman, Luc Bégin, tabled the 2013-2014 Annual Report of the Office of Values and Ethics for information and an in-camera meeting with the Committee was held.

We were sorry to see Luc Bégin leave the Department as the Committee has a high opinion of his work as Ombudsman. We particularly appreciate the impartiality,

knowledge and dedication he brought to the role. We look forward to meeting his successor.

Our review of values and ethics was limited to receiving and discussing the annual report of the Ombudsman which we thought was of high quality and useful for senior management. We understand from his report that the implementation of the Performance Management Policy is an immediate challenge. The Committee would like to be kept informed of the implementation of this policy.

Overall values and ethics seem well integrated in the Canadian Heritage workplace. The results from the most recent Public Service Employee Survey are very positive for PCH. This is particularly noteworthy given the pressures coming from successive budget and personnel reductions and speaks favourably as to how these pressures are being managed within the Department.

2.4 Risk Management

In this fiscal year, risk management has received a heightened level of attention with positive results as set out below. In addition, the Chief Audit Executive (CAE) annual report for 2014-2015 confirms, based on findings from audit reports, that risk management is well controlled.

In June, the Committee recommended for Deputy Minister approval the Corporate Risk Management Audit. This audit provided assurance that the governance and communication of risk management were well established while noting some improvements are required in the use of risk management tools and employee awareness of risk management.

In November, the Committee explored several aspects of risk management. There was an Integrated Risk Management presentation and discussion which included progress on the management action plan from the June audit such as the implementation of enhanced continuous learning opportunities. We also discussed the results of the 2012-2015 Corporate Risk Profile Survey – Update on Progress for 2013-2014. And, we reviewed the performance measurement strategy for the Integrated Risk Management Framework as well as Integrated Risk Management roles, responsibilities and accountabilities.

Finally, the DAC has been kept informed and consulted on the preparation of the new Corporate Risk Profile for 2015-2018 at both its November and March meetings. We appreciate the comprehensive approach in developing this Corporate Risk Profile (now called the Departmental Risk Profile) and believe that the actual key risks will be more evidence-based and specific to the Department. We look forward to receiving and discussing the completed 2015-2018 Departmental Risk Profile at our June 2015 meeting.

2.5 Management Control Framework and Reporting

In April 2014, the Committee reviewed the Audit of Policy on Internal Controls: Selected Business Processes. And, in March 2015, the Committee reviewed the Audit of Policy on Internal Controls - Information Technology General Controls (ITGCs). These audits

assessed the Department's compliance with the *TB Policy on Internal Control*. As for selected business processes, the audit indicated that the Department's "system of internal controls is properly designed and applied effectively in the areas audited". For ITGCs, the audit opinion concluded that "the controls over management of IT general controls have various risk areas that require management attention, with low risk exposures related to the overall impact on internal control over financial reporting and stewardship of IT assets".

In June 2014 the Committee discussed the 2014-2015 Internal Control Annual Plan and the Internal Control over Financial Reporting (ICOFR) Framework. We also reviewed the Monitoring Assessment of Internal Controls for Operating Expenditures and the Monitoring of Internal Controls for Grants and Contributions. The Committee is satisfied with the work being accomplished in the area of ICOFR.

As we noted last year, given our mandate, we would like more assurance that internal controls that go beyond financial reporting are well documented and effectively implemented.

The 2014-2015 CAE report states that "the Department's system of internal controls is properly designed and applied effectively in areas audited".

The DAC is pleased to have increased its oversight over the recipient audit function and believes that it can continue to provide valuable advice to the Department. It would be helpful for recipient audits to be scheduled throughout the year rather than in the last two quarters, as was the case this past year, so that some feedback can be provided to the DAC during the year. The number of cases subject to recovery suggests an increase in the number of recipient audits may be warranted. The Committee also notes that the total recoveries from recipients, offsets the cost of external resources for these audits.

2.6 Internal Audit Function

Internal Audit Charter

During the year the Committee reviewed the *Canadian Heritage Internal Audit Charter*, minor changes were accepted and the *Charter* was recommended for approval by the Deputy Minister.

2014-2017 Risk-Based Audit Plan (RBAP)

Work on the new 2014-2017 RBAP was to have been concluded in 2013-2014 but was extended into fiscal year 2014-2015 as a result of the Committee's wish for a more thorough review of the audit universe and coverage, risk ranking methodology and selected projects. Following further work, the new plan was discussed at the June 2014 meeting and recommended to the Deputy Minister for approval. The DAC has been pleased with the readiness of the Department to engage in a more rigorous and comprehensive exercise in developing the new plan.

Implementation of Annual RBAP

The Annual RBAP was approved in June and the CAE provided a mid-year update in November that indicated there would be no adjustments to the Plan.

Internal audit engagements constitute the main deliverables of the Audit and Assurance Services Directorate.

Two audit engagements completed during the 2013-2014 fiscal year were presented to the DAC in April 2014 and recommended for the Deputy Minister's approval:

- Phase II of Compliance to the Policy on Internal Control: Selected Business Processes; and
Aboriginal People's Program Audit.

Seven audit engagements were completed and presented to the Committee during 2014-2015 and recommended for Deputy Minister approval:

- Audit of PCH Promotional Items Inventory Process (June 2014);
- Corporate Risk Management Audit (June 2014);
- Hosting Program and Federal Secretariat Division (2015 Pan and Parapan American Games Federal Secretariat Audit) (November 2014);
- Toronto 2015 Pan and Parapan American Games Organizing Committee Contribution Agreement Recipient Compliance Audit (November 2014);
- Building Communities through Arts and Heritage Audit Report (March 2015);
- Audit of Policy on Internal Control – Information Technology General Controls (ITGCs) Audit (March 2015); and
- Audit of PCH Responsibilities related to the Roadmap for Canada's Official Languages 2013-2018: Education, Immigration, Communities (March 2015).

The Annual RBAP for 2015-2016 was approved in March 2015.

Capacity and Performance

At each DAC meeting, the CAE provides a brief overview of the status of the Directorate's work plans and speaks to any risks affecting completion of projects.

The CAE also presents an update on personnel resources and staffing at each DAC meeting. The DAC had asked for a more comprehensive reporting mechanism on Internal Audit resources and is pleased with the current format of the report and greater transparency on this important issue.

Recruitment and retention remain a challenge for OCAE, although the new CAE has made some progress in staffing permanent positions. As of March 2015, eight out of 14 audit staff had one year or less service with the Directorate.

Furthermore, even though OCAE encourages certification of its audit staff, the Committee considers that the current level of certification is not sufficient. A higher

level of certification and staff retention would likely result in a higher level of productivity. In addition, this would enable OCAE to increase the amount of audit work done by staff, thus improving audit efficiency while reducing reliance on more costly external resources.

In accordance with the *TB Internal Auditing Standards for the Government of Canada* and the Institute of Internal Auditor's *International Professional Practices Framework*, a practice inspection of Internal Audit must be performed every five years. This inspection was completed in early 2014 and the report was received in the April 2014 DAC meeting. The report concluded that the PCH Internal Audit Activity generally conforms to the requirements of the *TB Policy on Internal Audit* and associated directive, the Government of Canada IA Standards and the IIA Standards. There were, nonetheless, a number of important recommendations for improvement some of which have been implemented during the past fiscal year and others which are still in progress. The DAC feels that the inspection has been a useful process, has devoted time to the follow-up at every meeting and is pleased with the progress that has been made. For example, the OCAE proposed a structured approach to performance measurement of Internal Audit which was discussed and approved at the March 2015 DAC meeting. The Committee will continue to give strong attention to the completion of the action plan in the coming year.

At the start of the fiscal year, the Deputy Minister announced the separation of the Evaluation and Audit functions effective June 30, 2014. This coincided with a change in leadership of the internal audit function. There have been resulting impacts on human resources and reporting relationships within the Office of the Chief Audit Executive (OCAE). On the whole the DAC was pleased to see the continuance of an effective audit function in the Department. However, some adjustments are underway as regards support to the Committee.

2.7 External Assurance Providers

The OCAE continues to foster a positive working relationship with the Office of the Comptroller General (OCG), the Treasury Board Secretariat and the Office of the Auditor General (OAG). The Committee believes that the OCAE is well informed of the activities of both the OCG and the OAG. The Committee also welcomes regular briefings on these relationships.

DAC Engagement with OCG and OAG

At the April 2014 meeting, representatives from the OAG presented their Annual Plan of the audit procedures to be performed at Canadian Heritage as part of the audit of the consolidated financial statements for the Government of Canada. As part of these procedures, a discussion on the risk of material misstatement due to fraud was held and the Committee confirmed that no indicators of fraud by PCH employees had come to the attention of the DAC.

In November 2014, DAC members were presented with the results for work done at Canadian Heritage to support the audit of the consolidated financial statements for the

Government of Canada. We were pleased to note that there was no need for the OAG to issue a formal management letter. An in-camera meeting followed.

Due to changes in materiality levels for the audit of the 2015-2016 financial statements of the Government of Canada, the OAG informed the Department that it will not be conducting work at Canadian Heritage for the purposes of this audit.

The Committee believes that a regular annual meeting with the OAG would be desirable to maintain open communication and that other meetings be arranged as required.

In March 2015 the Committee met with the new Comptroller General, Bill Matthews, and his colleague and a number of issues were discussed. An in-camera meeting was also held. We believe annual meetings with the OCG are important.

Status Updates: OCG, OAG and other Assurance Providers

At all meetings, the CAE provides a status report to the Committee on the audit activities of the OCG and OAG and other assurance providers as they relate to the Department.

2.8 Follow-up on Management Action Plans from Internal Audits

The Committee was provided with an overview of the status of implementation of the audit management action plans at the April and November 2014 meetings and the March 2015 meeting. Progress on the implementation of older recommendations continues. As at March 31, 2015, 13 audit recommendations were outstanding compared to 22 for the previous year. The Committee is satisfied with the timely implementation of internal audit recommendations.

2.9 Financial Statements and Public Accounts Reporting

On August 20, 2014, a teleconference call was held in order to discuss the PCH annual Financial Statements for fiscal 2013-2014, the related variance analysis and the Summary of the assessment of effectiveness of the systems of ICOFR and the action plan of Canadian Heritage for fiscal year 2013-14. We recommended the financial statements for Deputy Minister approval.

During the course of the year the Committee also reviewed the Quarterly Financial Reports.

2.10 Accountability Reporting

At the June 2014 meeting, the Committee was briefed on the Management Accountability Framework (MAF) results for 2013-2014 and during the November 2014 meeting, the DAC learned about changes to the MAF assessment process.

On August 20, 2014, a teleconference was held to review the draft *Departmental Performance Report* (DPR). Members provided several suggestions for improvement. The Committee indicated that were satisfied overall with the content of the report and congratulated the team.

On January 19, 2015, a teleconference was held to review the draft *Report on Plans and Priorities* (RPP). Committee members provided feedback and comments.

2.11 Governance

During the course of reviewing internal audits, most of the reports contained observations on governance issues, largely of a positive nature. The Committee is pleased to note the strong performance of the Department in the area of governance and sees this as strength of management at multiple levels, beginning with the tone at the top.

This fiscal year saw several significant changes to the Departmental leadership and senior executive positions, led by changeovers in both Deputy and Associate Deputy Minister positions. The DAC observed that the transition moved smoothly in terms of Departmental governance. We note that the internal audit function has been receiving the attention and support it needed during the time of its transition while the DAC continues to enjoy a high level of attention and trust.

Another important development has been the changeover in CFOs.

2.0 DAC Self-Assessment

The Committee completed its annual self-assessment which for the first time did not include input from ex-officio members. In general, the results continue to be very positive. Members expressed interest in the following:

- Improved records of decision;
- Having an information session on HR management and planning; and
- Being of greater service to the Deputy Minister in the way of providing advice outside of the regular mandate.

3.0 Looking Ahead

During the year Graham Flack replaced Colleen Swords as Deputy Minister. Although her time with Department was short, the Committee had a good working relationship with Ms. Swords and looks forward to building a solid and fruitful relationship with Mr. Flack and with the new Associate Deputy Minister, Patrick Borbey. Mr. Borbey replaced Nada Semaan with whom the Committee enjoyed a close and productive relationship over several years.

We were sorry to see Bob Hertzog retire from his CFO position. He was of great support to DAC over the years and could always be counted on for his knowledge and expertise. We welcome Andrew Francis to the CFO role and look forward to working productively with him.

Beginning early in the year we were pleased to work with Maria Lapointe-Savoie as the new CAE for PCH and will value her continuing dedication to the internal audit function.

There are several issues that the DAC would like to address in the coming year.

- We would like to continue the practice, begun this year, of background briefings on Departmental programs and activities as a regular feature of our meeting agenda. This will enable Committee members, especially the two new members coming onboard in the 2015-2016 fiscal year, to acquire deeper knowledge of the Department. In this regard we particularly look forward to:

Continued monitoring of the implementation of the Grants & Contribution Modernization Initiative;

Further updates on Canada 150 and the Road to 2017 initiatives;

A demonstration on TeamMate audit software;

Understanding the role and impact of shared services within the Department and across government;

A presentation by the new Chief Transformation Officer on her role; and

Briefing on the new Innovation Fund.

As requested we expect a presentation by the CIO on IT priority projects and risk assessment to IT security.

Given the importance of the HR function, we would like to have a presentation and discussion regarding current HR challenges facing the Department including HR management and planning.

Following from the observations in this year's Ombudsman report, we would like to be kept informed of the implementation of the government's Performance Management Policy within Canadian Heritage.

In view of our responsibilities, the Committee would like to learn more about the universe of internal controls in the Department, particularly those outside of financial reporting.

We still believe that there is a need for an HR Strategic Plan for Internal Audit as noted in the Practice Inspection recommendations. This could include: organization structure; roles and responsibilities; succession planning; classification levels; training; and attraction and retention.

Given that the responsibility for internal control is shared by the CFO and senior departmental managers, we would like to learn more on financial management training for managers.

APPENDIX A: Membership and Operations of the Committee

Background

This is the seventh annual report of the Departmental Audit Committee (DAC) for the Department of Canadian Heritage (PCH).

The Committee is an essential part of the governance and audit requirements established by the Treasury Board of Canada's (TB) *Policy on Internal Audit*. The Committee's purpose is to provide objective advice and recommendations to the Deputy Minister regarding the sufficiency, quality and results of assurance on the adequacy and functioning of the Department's risk management, control and governance frameworks and processes. The Committee exercises some oversight of core areas of Departmental control and accountability.

Management is responsible for establishing and maintaining internal controls over financial and material assets of the Department and for ensuring, through good governance and strategic direction, the achievement of the Department's mandate and objectives. The DAC assists management in pursuing these tasks and responsibilities.

Committee Membership

The Committee consists of three external members who were selected according to their competence, knowledge and experience. The Chair of the Committee is Leonard Edwards, a former deputy minister with the federal government, and the members are Nola Buhr, Professor of Accounting at the Edwards School of Business, University of Saskatchewan and Robert Martin, from Montreal, a consultant in financial management and business development.

Nola Buhr is leaving the Committee in April 2015 and is being replaced by Morina Rennie, Professor of Accounting, Faculty of Business Administration, University of Regina.

At each meeting, DAC members are invited to declare if they have any real or perceived conflict of interest. No such conflict was ever declared.

The Deputy Minister, the Associate Deputy Minister, the Chief Financial Officer (CFO) and Chief Audit Executive (CAE) attend DAC meetings. The Chair may request the attendance of other Departmental officials as required. Senior representatives of the Office of the Auditor General (OAG) attend DAC meetings to discuss OAG plans, findings and other matters of mutual interest. The Comptroller General met with the DAC once during the year. The Committee regularly holds in-camera meetings with the Deputy Minister and Associate Deputy Minister, the CFO, the CAE, the Ombudsman, as well as OCG and OAG representatives.

DAC Terms of Reference

The Canadian Heritage Departmental Audit Committee Terms of Reference provides guidance on the Committee's membership, operations, responsibilities and reporting requirements. The DAC Terms of Reference were reviewed and updated during 2014-2015 with the final version approved at the November 2014 meeting.

Other Committee Business

The Committee reviews its work plan at every meeting. All Committee members participate in the writing of the DAC annual report and the Committee tabled its annual report for 2013-14 in November 2014.

The Committee Chair attended the annual DAC Symposium in November 2014 and provided a briefing at the following Committee meeting. The Committee Chair also attended the OCG's annual fall meeting of DAC chairs.

The Committee is thankful to Kimberly Hogan for her support and dedication since the beginning of the PCH DAC and wishes her well in the future.

OCAE Briefing Sessions:

- CAE Annual Report (June 2014).
- Evaluation Activities Status Reports (June, November, 2014 and March 2015). The Director of Evaluation provides an overview of the status of evaluation projects including potential impacts, developments and challenges.
- Update on ATIP requests for internal audit is a standing agenda item.
- The CAE briefs the Committee on the OCAE's resources and staffing at every meeting.

CFO Briefing Sessions:

DAC received an annual update on Recipient Compliance Audit Activities with all problematic files highlighted in June 2014.

DAC received an update on CFO Summary Issues at every meeting.

Other Information Sessions:

Furthermore, in addition to the CAE and CFO information sessions, ad hoc presentations are offered by Senior Management or are requested by the DAC members on an ongoing basis on a variety of topics. For example, in 2014-2015 briefings on the Grants and Contributions Modernization Action Plan (GCMAP) and the Capital Experience Branch were provided.

Financial Information:

In 2014-2015 DAC incurred expenses for Honoraria of \$122,070 and Operating Expenses of \$16,606. This compares to Honoraria of \$95,969 and Operating Expenses of \$20,501 in 2013-2014. The increase is a result of an additional in-person meeting and an additional teleconference in 2014-2015.

APPENDIX B: Acronyms Used in this Report

CAE	Chief Audit Executive
DAC	Departmental Audit Committee
DPR	Departmental Performance Report
IA	Internal Audit
ICOFR	Internal Control over Financial Reporting
MAF	Management Accountability Framework
OAG	Office of the Auditor General
OCAE	Office of the Chief Audit Executive
OCG	Office of the Comptroller General
PCH	Patrimoine Canada / Canadian Heritage
RBAP	Risk Based Audit Plan
RPP	Report on Plans and Priorities
TB	Treasury Board
TBS	Treasury Board Secretariat