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2013-2014 Departmental Audit Committee Annual Report

July 2014



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July 31, 2014

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 2013-2014 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 2014-15 fiscal year.

The Committee deeply appreciates the professionalism, the commitment and the competence that Canadian Heritage staff have displayed at all levels during the reporting period. We are particularly grateful for the support we have enjoyed from the Internal Audit team.

My first year as DAC Chair has been made easier by the valuable contributions of my colleagues on the Committee: Nola Buhr and Robert Martin. Their insights, expertise, and length of experience on the DAC have been critical to our ability to serve the Department and to support your predecessors Daniel Jean and Colleen Swords during 2013-2014.

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 Patrick Borbey

I acknowledge receipt: _____

Graham Flack

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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 Audit and Assurance Services Directorate (AASD). 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 AASD 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.

2.0 Committee Activities

2.1 DAC Meetings

The Committee held three regular meetings and a teleconference dedicated to the financial statements during the 2013-2014 fiscal year.

- June 10-12, 2013 (including one day working session for DAC annual report);
- August 23, 2013 (financial statements and DPR meeting via teleconference);
- October 3-4, 2013; and
- January 30, 2014.

In addition, the Committee held a number of teleconference calls to cover contextual briefings ahead of each meeting, to review the RPP and conduct an in-camera session with the CFO.

This meeting schedule compares with four in-person meetings in the previous year. The DAC had expressed concern over the reduction of number of meetings and the impact on our ability to complete our annual work plan. In fact, some of the year-end activities had to be handled in a meeting occurring early in the 2014-2015 fiscal year. Nevertheless, we are hopeful that with the proper planning and scheduling of audit activities in the coming year that all of our responsibilities will be fulfilled during three in-person meetings.

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 October 2013 meeting, the Ombudsman tabled the Office of Values and Ethics Annual Report for information and an in-camera meeting was held.

The Committee is satisfied with the important work performed by the Office, especially given the context of the various initiatives to reduce the workforce. We are interested in receiving a progress report on the implementation of the 2012-2014 multi-year action plan.

The strength of Values and Ethics in the Department has helped the Department to weather successfully the recent work force reduction and financial pressures.

2.4 Risk Management

In June 2013, the Strategic Policy, Planning and Research Branch provided an update on the overall approach and key findings of the development of the 2012-15 Corporate Risk Profile (CRP). The Committee maintains that the three Departmental risks identified in the CRP are too general and should be made more specific to the Department's operations.

In October 2013, the Committee received a progress report on the implementation of the Integrated Risk Management Framework (IRMF) comprised of a communication plan, a training plan and a performance measurement plan. We would like to be informed of ongoing progress on the implementation of the IRMF and the actual results.

The Committee appreciates that the Department is working diligently on risk management. We understand that it is a long-term project, particularly to imbed risk management in Departmental culture at all levels. We conclude that good progress is being made towards that goal.

In this regard, the Committee is aware that risk management training is provided on a voluntary basis and we recommend that it be made mandatory to improve the practice of risk management throughout the Department.

Finally, the 2013-2014 Chief Audit and Evaluate Executive (CAEE) Report indicates that effective risk management tools and mechanisms are in place throughout the Department but that moderate issues still remain.

2.5 Management Control Framework and Reporting

At the June 2013 meeting, the Financial Management Branch briefed the Committee on the Internal Control over Financial Reporting (ICOFR) results with a presentation of supporting documents: Salaries, Tangible Capital Assets and Financial Reporting. The Committee was also briefed on the internal control annual plan for work to be done to provide assurance to the Deputy Minister as Accounting Officer on the functioning of the internal controls over financial reporting.

The 2013-2014 CAEE report states that, for the areas audited, the internal control system is properly designed and applied effectively but there are some improvements to be made in the follow-up process and documentation.

The DAC is pleased with the progress implementing the Internal Control over Financial Reporting Framework and that Canadian Heritage has reached the required Level 4 of the maturity framework.

During the year we were, at our request, provided with our first recipient audit report which outlined planning, processes and overall results. We found this information useful and relevant to our mandate.

2.6 Internal Audit Function

2.6.1 Internal Audit Charter

During the year the Committee reviewed the *Canadian Heritage Internal Audit Charter*, accepted minor changes and recommended it for approval by the Deputy Minister. The Committee believes that this document complies with the Treasury Board *Policy on Internal Audit* and will continue to review the *Charter* periodically to ensure that it remains current.

2.6.2 2013-2014 Annual Risk-Based Audit Plan

The 2013-14 Risk-Based Audit Plan was approved in March 2013.

In October 2013, the Director of Audit and Assurance Services provided the mid-year update to the Committee on the progress and adjustments made in implementing PCH's Risk Based Audit Plan (RBAP) for 2013-14. This mid-year summary of progress against the Plan as well as potential adjustments to the Plan (and rationale) allows the Committee to assess on-going progress. The Mid-Year review was recommended for Deputy Minister approval.

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

Six audit engagements were completed and presented to the DAC during the fiscal year:

- Management Control Framework of Third Party Delivery Programs Audit (June 2013);
- Review of Internal Controls of the Movable Cultural Property Program (June 2013);
- Audit of Departmental Security (October 2013);
- Phase II of Compliance to the Policy on Internal Control: Audit of Entity-Level Controls (ELC's) (October 2013);
- Phase II of Compliance to the Policy on Internal Control: Pre-Assessment Report on Information Technology General Controls (October 2013); and
- Information Technology Security Audit (January 2014).

Two additional audit engagements were completed during the fiscal year but were presented to the DAC at the beginning of our next fiscal year 2014-2015:

- Phase II of Compliance to the Policy on Internal Control: Selected Business Processes (April 2014); and
- Aboriginal People's Program Audit (April 2014).

2.6.3 2014-2017 Risk-Based Audit Plan

The Committee was briefed on the preparation of the new multi-year Risk-Based Audit Plan for approval in the 2014-2015 fiscal year. We sought to be more involved and consulted in its preparation and we asked for a more thorough review of the audit universe, risk ranking methodology and selected projects. As the year came to a close, progress was being made and we look forward to receiving this plan which is critical to the performance of AASD and the Department as a whole.

2.6.4 Capacity and Performance

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

The CAEE presented the AASD report on Resources and Projects to the Committee in June and October 2013, and in January 2014. The Committee would welcome a more comprehensive reporting mechanism on Internal Audit resources.

Recruitment and retention remains a challenge for AASD. Furthermore, even though AASD 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 AASD to increase the amount of audit work done by staff, thus improving audit efficiency while reducing reliance on more costly external resources.

During the year, the Committee added review and discussion of Terms of Reference for audit projects to the DAC work plan. This gives the Committee with the opportunity to provide guidance during the early stages of audit projects and enables the Committee to be better informed and prepared for consideration of the audit reports.

As the fiscal year came to a close there were a number of important developments impacting the capacity and performance of AASD.

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 must be performed every five years. This inspection was completed during the year and concluded that the PCH Internal Audit Activity generally conforms to these requirements. There were, nonetheless, a number of important recommendations for improvement which AASD has committed to implement in a timely manner. The Committee will follow-up on the implementation.

In addition, the Deputy Minister announced the separation of the Evaluation and Audit functions. As of June 30, 2014, the Evaluation Services Directorate will be under the leadership of the Assistant Deputy Minister of the Strategic Policy, Planning and

Corporate Affairs Sector. The resulting impacts on human resources and reporting relationships within the Office of the Chief Audit and Evaluation Executive (OCAEE) are still to be determined, however, the existing CAEE position has been terminated. The DAC will follow developments and provide helpful advice to the Deputy to ensure the continuance of an effective and robust audit function in the Department.

2.7 External Assurance Providers

The OCAEE 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 OCAEE is well informed of the activities of both the OCG and the OAG. The Committee also welcomes regular briefings on these relationships.

2.7.1 DAC Engagement with OCG and OAG

At the June 2013 meeting, the Committee discussed the CFO's expanded mandate including the CFO attestation, the government-wide standardized single platform for SAP clients and whole-of-government issues related to Internal Audit and DAC with the Comptroller General of Canada and the Assistant Comptroller General. An in-camera meeting was also held. We would like to be kept informed of this important transition to SAP.

At the October 2013 meeting, the Committee had an exchange with the Assistant Auditor General and OAG Principals. OAG representatives reported on the Strategic Audit Plan for PCH and informed DAC that work will be conducted on Official Languages and Library and Archives Canada. The Committee was also briefed on the OAG Audit of consolidated financial statements of the Government of Canada for the year ending March 31, 2013. An in-camera meeting was also held.

2.7.2 Status Updates: OCG, OAG and other Assurance Providers

At all meetings, the CAEE and Director of Audit and Assurance provide 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

At the October 2013 meeting, the OCAEE briefed members on the results and status of the follow-up report exercise and provided a status update on the implementation of management action plans. At the January 2014 meeting, a verbal update was provided on the status of the follow-up results and on the implementation of management action plans.

To maintain progress and improvements, the OCAEE continues to work with management to pursue the timely implementation of recommendations. The Committee is pleased to note the progress on the implementation of older recommendations of which

only 2 remain outstanding from 2011-12 or earlier and which are targeted for completion by the end of 2014-2015. There are no outstanding recommendations from 2012-2013.

2.9 Financial Statements and Public Accounts Reporting

On August 23, 2013, a teleconference call was held in order to discuss PCH Financial Statements including:

- the Quarterly Financial Report for the quarter ending June 20, 2013;
- the Financial Statements for the period ending March 31, 2013;
- the 2012-13 Financial Statements variance explanations;
- the Internal Control over Financial Reporting (ICOFR) Framework; and
- a Summary of the Assessment of Effectiveness of the Systems of Internal Control over Financial Reporting and the Canadian Heritage Action Plan for fiscal year 2012-13.

It was noted that the content of the Annex to the Statement of Management Responsibility had changed as a result of the updated TBS Policy on Internal Controls. The Financial Statements were recommended for approval by the Deputy Minister with minor changes.

2.10 Accountability Reporting

At the June 2013 meeting, the Strategic Policy, Planning and Research Branch briefed Committee members on the final results of the Management Accountability Framework (MAF) for 2012-2013 and provided an overview of the Treasury Board Secretariat (TBS) approach for the 2013-2014 MAF assessment.

On August 23, 2013, a teleconference on the *Departmental Performance Report* (DPR) was held with the OCAEE and the Strategic Policy, Planning and Research Branch. Committee members provided feedback and congratulated the team on a job well done.

At the October 2013 meeting, the Strategic Policy, Planning and Research Branch briefed members on the state of the *Departmental Performance Report* (DPR) as a follow up to the August 23, 2013 teleconference. At the Committee's request, presenters offered insight into TBS's transition to E-reporting including the transition to E-reporting for the 2014-15 RPP.

On January 31, 2014, a teleconference on the *Report on Plans and Priorities* (RPP) was held with the Strategic Policy, Planning and Research Branch. 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 a strength of management at multiple levels, beginning with the tone at the top.

3.0 DAC Self-Assessment

The Committee completed its annual self-assessment which included input from ex-officio members. In general, the results continue to be very positive. Members expressed interest in the following:

- having more oversight on internal control;
- seeing improvement in the development of the risk-based audit plan; and
- achieving further clarity in audits reports and management action plans.

Ex-officio members are satisfied with the DAC performance and value-added but noted some concern with the amount of time devoted to DAC meeting preparation. We are receptive to greater efficiencies provided we are able to fulfill our responsibilities.

4.0 Looking Ahead

During the year Colleen Swords replaced Daniel Jean as Deputy Minister. The Committee had a very fruitful working relationship with Mr. Jean and looks forward to building a similarly solid relationship with Ms. Swords. After year-end the Associate Deputy Minister, Nada Semaan, left the Department. We appreciated her support and collaboration and enjoyed working with her.

There are several changes occurring within the OCAEE as a result of the separation of the Audit and Evaluation functions, the external practice inspection and the termination of the CAEE position. The Committee will follow developments closely and contribute where possible to the best outcomes for the audit function and the Department and will look for opportunities that these changes may provide for improving practices and processes.

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

- We look forward to receiving a comprehensive, relevant, multi-year RBAP for 2014-2017. We wish to ensure sufficient risk-based Internal Audit coverage of the Departmental Audit Universe.
- At our request, the Department will be providing background briefings on Departmental programs and activities as a regular feature of our meeting agenda. This will enable Committee members to acquire deeper knowledge of the Department. In this regard we particularly look forward to:
 - o Monitoring of the implementation of the Grants & Contribution Modernization Initiative;
 - o A briefing on the National Capital Experience integration and activities within the Department; and
 - o Understanding the role and impact of shared services within the Department and across government.

- 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.
- The Committee would welcome discussion and regular briefings on the implementation of Internal Audit Quality Assurance Improvement Program including observations and conclusions regarding surveys and audit file reviews.
- The DAC would like to be apprised of details of the Department's systems transfer to SAP.
- We appreciate the current information provided on recipient audits and believe there are implications around risk and internal controls justifying increased DAC attention to this area.

APPENDIX A: MEMBERSHIP AND OPERATIONS OF THE COMMITTEE

Background

This is the sixth 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 oversight of core areas of Departmental control and accountability, in an integrated and systematic way.

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 and Attendance

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.

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 and Evaluation Executive (CAEE) 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 to discuss OAG plans, findings and other matters of mutual interest. The Comptroller General as well as the Assistant Comptroller General attend some DAC meetings. The Committee regularly holds in-camera meetings with the Deputy Minister and Associate Deputy Minister, the CFO, the CAEE, the Ombudsman, as well as OCG and OAG representatives. The DAC Chair also meets privately on occasion with the Deputy Minister.

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 2013-2014 with the final version tabled and approved at the October 2013 meeting.

Other Committee Business

The Committee reviews its workplan at every meeting. All Committee members participate in the writing of the DAC annual report and the Committee tabled its annual report for 2012-13 in October 2013.

The Committee Chair attended the annual DAC Symposium in November 2013 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 received updates and briefings on the following topics:

OCAEE Information Sessions:

- CAEE Annual Report (June 2013).
- Evaluation Activities Status Reports (June and October, 2013 and January 2014). The CAEE supported by the Director of Evaluation provides an overview of the status of evaluation projects including potential impacts, developments and challenges. The DAC indicates continued interest in receiving relevant evaluation reports for information.
- Update on ATIP requests for internal audit is a standing agenda item.
- The CAEE and Director, AASD briefed the Committee on the Branch's workforce at every meeting.

CFO Information Sessions:

- DAC received an annual update on Recipient Compliance Audit Activities with all problematic files highlighted in October 2013.
- DAC received an update on CFO Summary Issues at every meeting.

Other Information Sessions:

Furthermore, in addition to the CAEE and CFO information sessions, ad hoc presentations were offered by Senior Management on an ongoing basis on a variety of topics. For example, in 2013-14 briefings on the Cultural Satellite Account and the Road to 2017 were provided.

Financial Information:

In 2013-2014 DAC incurred the following expenses: Honoraria of \$95,969 and Operating Expenses of \$20,501. This compares to Honoraria of \$92,050 and Operating Expenses of \$20,925 for the year 2012-2013.

APPENDIX B: Acronyms Used in this Report

AASD	Audit and Assurance Services Directorate
CAEE	Chief Audit and Evaluation Executive
CRP	Corporate Risk Profile
DAC	Departmental Audit Committee
DPR	Departmental Performance Report
IRMF	Integrated Risk Management Framework
MAF	Management Accountability Framework
OAG	Office of the Auditor General
OCAEE	Office of the Chief Audit and Evaluation 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