

Office of the Public Sector
Integrity Commissioner
of Canada



Commissariat à l'intégrité
du secteur public
du Canada

OFFICE OF THE PUBLIC SECTOR INTEGRITY COMMISSIONER OF CANADA

AUDIT AND EVALUATION COMMITTEE TERMS OF REFERENCE

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INTRODUCTION

This document establishes the responsibilities and operating arrangements of the Audit and Evaluation Committee (AEC) for the Office of the Public Sector Integrity Commissioner of Canada (PSIC).

The *Financial Administration Act* requires that deputy heads establish an audit committee for their departments. The Treasury Board (TB) *Policy on Internal Audit* (2023) and *Directive on Internal Audit* (2023) expand on the legislation, requiring the establishment of departmental audit committees that include a majority of members from outside the federal public service (external members). In addition, the Office of the Comptroller General of Canada (OCG) has published a Guidebook for a Departmental Audit Committee. While not a policy instrument, the Guidebook provides a source of resource material for the responsibilities and operation of audit committees. These Terms of Reference for the AEC apply those three documents to the circumstances of PSIC.

The TB *Policy on Internal Audit* makes specific reference to agents of Parliament, including PSIC. Several requirements listed in this policy do not apply to these organizations in respect of their independence¹. As such, agents of Parliament are solely responsible for monitoring and ensuring compliance with the TB *Policy on Internal Audit* within their organizations as well as establishing and maintaining an audit committee; the members of these committees are appointed by the Public Sector Integrity Commissioner (the Commissioner), not through the Treasury Board appointment process led by the Comptroller General of Canada.

Although audit and evaluation are the subjects of separate policies in the federal government, the management of these functions is closely linked, particularly in small agencies. In the interest of efficiency, the PSIC audit committee also has responsibilities related to evaluations carried out under the TB *Policy on Results*. As for all agents of Parliament, the Commissioner is solely responsible for monitoring and ensuring compliance with the *Policy on Results* within the organization.

ACCOUNTABILITY OF THE AUDIT AND EVALUATION COMMITTEE

The AEC's primary role is to advise the Commissioner in monitoring the organization's core systems of control and accountability. The AEC reports directly to the Commissioner, providing objective advice and guidance in the areas of governance, risk management, and control, independent of management. Its advisory capacity is critical to achieving the objectives of the *Policy on Internal Audit* and the *Policy on Results*.

Therefore, the sole accountability of the AEC is to the Commissioner. In this regard, members are accountable for the objectivity, quality and timeliness of their advice and for the performance of their contractual responsibilities.

While the AEC plays an important role in providing the Commissioner with independent advice, it does not have approval authority, and its role does not include managing internal audit activities for the department nor directing departmental staff.

¹ 6.4. The requirements set out in subsections of the Policy on Internal Audit 4.1.3, 4.1.6, 4.1.7, 4.2.1, 4.2.2, 4.2.5, 4.2.7, 4.4.1, 4.4.5, 4.4.7 and 4.4.11 do not apply to Agents of Parliament such as PSIC.

ROLE AND RESPONSIBILITIES OF THE AUDIT AND EVALUATION COMMITTEE

The AEC is an advisory body that supports the Commissioner in her accounting officer role by providing the Commissioner with objective advice and guidance, independent of management, in the areas of governance, risk management and control. The AEC members' knowledge, experience, expertise and independence as external to the public service should provide a valuable, impartial and respectful supplementary perspective on the operations of the agency. The AEC has the authority to request the information and documentation needed to fulfill its responsibilities and mandate.

The AEC plays a critical role in challenging management, a key function of its external composition. In doing so, the committee helps strengthen management processes and practices in support of the Commissioner.

The AEC is responsible for the following:

- Providing objective advice and recommendations to the Commissioner regarding the sufficiency, quality and results of internal audit engagements related to the adequacy and functioning of the Office's frameworks and processes for risk management, control and governance.
- Using a risk-based approach, reviewing all areas of management designated by the Comptroller General of Canada for committee review. These areas are listed in the next section of this document.
- Providing advice and recommendations on matters for which the Commissioner, as accounting officer, is responsible, and on other related matters as needed or requested by the Commissioner.
- Providing advice and recommendations to the Commissioner on the selection of areas for evaluation and on the scope, conduct and results of those evaluations. Advice provided will complement the work of PSIC's Executive Committee on performance measurement and evaluation as outlined under the responsibilities section in the Terms of Reference for the PSIC Executive Committee.

AREAS OF MANAGEMENT FOR AUDIT AND EVALUATION COMMITTEE REVIEW

The key areas of management that fall within the scope of the AEC are:

➤ VALUES AND ETHICS

Review and provide advice on the systems and practices established by the Commissioner to monitor compliance with laws, regulations, policies and standards of ethical conduct and to identify and deal with any legal or ethical violations within PSIC. Work may also include a review of the procedures and feedback mechanisms established to monitor compliance with PSIC's code of conduct and ethics policies, as well as how its processes encourage and maintain high ethical standards.

➤ RISK MANAGEMENT

Review and provide advice on the risk management tools and processes established and maintained by PSIC.

➤ MANAGEMENT CONTROL FRAMEWORK

Review and provide advice on PSIC's internal control arrangements and be informed on all matters of significance arising from work performed by others who provide assurances to senior management and the Commissioner.

➤ INTERNAL AUDIT FUNCTION

- Review and recommend for approval a multi-year risk-based internal audit and evaluation plan.
- Review and recommend for approval internal audit reports and corresponding management action plans to address recommendations.
- Monitor and assess the performance of the internal audit function.
- Provide advice to the Commissioner on the recruitment and appointment, as well as the performance of the Chief Audit Executive.
- Be made aware of internal audit engagements or tasks that do not result in a report to the AEC, and be informed of all matters of significance arising from such work.
- Provide advice to the Commissioner on the sufficiency of resources of the internal audit function.

➤ FOLLOW-UP ON MANAGEMENT ACTION PLANS

Review regular reports on the progress of the implementation of approved management action plans resulting from prior internal audit recommendations as well as management action plans resulting from the work of external assurance providers.

➤ EXTERNAL ASSURANCE PROVIDERS

Be informed and advise the Commissioner on management's response to the work of external assurance providers and provide advice on audit-related issues and priorities raised by external assurance providers. External assurance providers may include the Office of the Auditor General of Canada, the Public Service Commission and Official Languages Commission.

➤ FINANCIAL STATEMENTS AND PUBLIC ACCOUNTS REPORTING

Review and provide advice to the Commissioner on the key financial management reports and disclosures of PSIC, including quarterly financial reports, annual financial statements and Public Accounts.

Review the annual Statement of Management Responsibility Including Internal Control over Financial Reporting and provide advice to the Commissioner on the risk-based assessment plans and associated results related to the effectiveness of the departmental system of Internal Control over Financial Reporting.

For the annual audit of PSIC financial statements that is carried out by the Auditor General (AG) of Canada, the AEC will review:

- The financial statements with the external auditor and senior management, including discussing any significant accounting estimates and adjustments therein, any adjustments required to the statements as a result of the audit, as well as any difficulties or disputes encountered with management during the course of the audit
- Management letters arising from the external audit
- The auditor's findings and recommendations relating to the internal controls in place for financial reporting and consider their impact on controls, risk management and governance processes.

➤ ACCOUNTABILITY REPORTING

The AEC will receive copies of the Departmental Plan, the Departmental Results Report and other significant accountability reports in advance of their submission to Treasury Board Secretariat and will provide advice when appropriate. These reports provide context for the deliberations of the AEC and advice to the Commissioner.

➤ EVALUATION

With respect to evaluations carried out under the *TB Policy on Results*, the AEC will:

- Provide advice to the Commissioner, through review of the PSIC Risk-Based Audit and Evaluation Plan, as to programs or operations of PSIC that should be the subject of an evaluation
- Review and advise on the terms of reference, scope and timing of any planned evaluation
- Review the findings of evaluations carried out and monitor subsequent management action plans.

MEMBERSHIP

The Commissioner appoints the members of the AEC.

The AEC consists of:

- The Public Service Integrity Commissioner
- A Chair, selected by the Commissioner from among the external members
- At least one external member selected by the Commissioner, in addition to the Chair

The Commissioner may appoint other members to the Committee if needed. However, there must always be a majority of external members.

The AEC should have the following attributes in its composition and operations:

Diversity – Over time, the membership of the AEC should reflect Canada’s diversity in terms of gender, official languages, Indigenous Canadians, minority groups and regional representation.

Collective Competence – When deciding on the membership of the AEC, the Commissioner will ensure that the collective skills, knowledge and experience of members allow the committee to carry out its responsibilities competently and efficiently.

Freedom from Conflict of Interest – Upon appointment, members must be free from any real or apparent conflict of interest. In addition, members must disclose all new activities, interests or appointments in order for the Office to assess whether they may impair or be seen to impair the member’s ability to perform their duties in an independent and objective manner. This should be done at least annually for the duration of the member’s term.

Security Clearance – Members must be willing and able to obtain an appropriate security clearance.

Financial Knowledge – Members must be familiar with financial reporting or are to become familiar with such reporting within the first year of their appointment. An external member of the AEC who possesses a professional accounting designation in good standing is considered an asset, but not a requirement.

Term of appointment – An external member of the AEC is to serve no more than two terms. A single term must not exceed four years. Therefore, an external member of the AEC can serve a maximum of eight years. The Commissioner may shorten the term of an external member at his/her discretion.

Proactive disclosure – PSIC will disclose proactively remuneration and expenses (including travel and hospitality) of individual external AEC members. This will be done on the PSIC web site.

COMMITTEE OPERATIONS

➤ ANNUAL PLAN

The Chair, in consultation with other members of the AEC, the CAE and the CFO, will prepare annually a plan to ensure that the responsibilities of the AEC are scheduled and addressed. This plan will be presented to the Commissioner for approval.

➤ MEETINGS

The Committee will meet at least three times each fiscal year. Additional meetings may be scheduled at the discretion of the Commissioner.

In order to have quorum, the number of external members in attendance must be a majority.

In the interest of efficiency, Committee business may be carried out by electronic means, including email, telephone, facsimile or delivery of documents through the mail, providing that the requirements of the Government Security Policy are observed.

The Deputy Commissioner, the CAE, the Chief Results and Delivery Officer (CRO), and the CFO will be invited to attend all meetings. The Commissioner may invite other staff of PSIC, representatives of service providers to PSIC, individuals who have prepared documents to be discussed, or any other appropriate individuals to attend a meeting.

Representatives of the Office of the Auditor General of Canada (OAG) will be invited to attend meetings in order to discuss planned OAG audits, OAG audits that are underway, or completed OAG audits. At the discretion of the Commissioner, OAG representatives may be invited to participate in other AEC business.

At each meeting, in-camera sessions should be scheduled between the external members and individually, the Commissioner, the CAE and the CFO. If a representative of the Office of the Auditor General of Canada is present, an in-camera session with external members will be offered. External members may request in-camera meetings with other PSIC staff.

Minutes of AEC meetings for each fiscal year will be summarized in the AEC's Annual Report, which will be made public on the PSIC web site.

➤ AEC CULTURE

Members of the AEC are expected to support a positive Committee culture through the following:

- AEC's acceptance of its responsibilities and mandate
- AEC's willingness and capacity to exert a healthy challenge function
- respect and trust among AEC members and management
- welcoming a diversity of opinions and perspectives
- a positive atmosphere favourable to collaboration and progress toward the achievement of departmental objectives
- a genuine commitment to good governance practices on the part of AEC members
- providing sound advice while respecting management's authority to make decisions
- a willingness to act as a team.

ACCESS BETWEEN THE AEC AND PSIC STAFF

The committee has full access to the Commissioner, the CAE, the CRO and the CFO. The Chair may have access to other PSIC staff and documentation (subject to applicable legislation) as may be required to fulfil the committee's responsibilities. However, unless there are compelling reasons not to do so, the chair will request permission from the CAE or the Commissioner before proceeding.

The Commissioner, the CAE, the CRO and the CFO have full access to external members of the committee.

SUPPORT TO THE COMMITTEE

The Chief Audit Executive will ensure that administrative and operational support is provided to the AEC. A list of suggested support activities is included in the OCG Guidebook for a Departmental Audit Committee.

ANNUAL REPORT

The Chair, in consultation with other external members, will prepare an Annual Report and submit it to the Commissioner by the end of June each year. The report will include:

- A summary of the minutes of meetings and other AEC activities held during the fiscal year
- Any concerns regarding risk management, the control and governance framework or processes
- An assessment of the capacity, independence and performance of the internal audit function
- Any recommendations concerning the foregoing items
- Priorities for the AEC in the coming year.

Separately, the Chair, in consultation with other external members, will provide the Commissioner with an assessment of the performance of the CAE as well as an assessment of the AEC's performance.

REVIEW OF THE AEC TERMS OF REFERENCE

The AEC Terms of Reference will be reviewed every two years, or sooner if there are significant changes to Treasury Board policy or to the legislation, mandate or governance structure of PSIC.

I have reviewed these Terms of Reference and I approve them.

Harriet Solloway, Public Sector Integrity Commissioner

Date