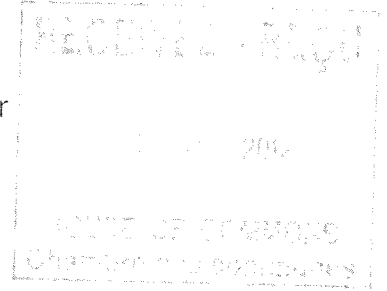


President
of the Treasury Board



Président
du Conseil du Trésor

Ottawa, Canada K1A 0R5



29/5/12

JUN 05 2012

Mr. David Christopherson, M.P.
Chair, Standing Committee on Public Accounts
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Mr. Christopherson:

Pursuant to House of Commons Standing Order 109, on behalf of the Government of Canada, I am pleased to provide the Government's Response to the recommendations of the Third Report of the Standing Committee on Public Accounts: *Chapter 3, Internal Audit, of the 2011 Status Report of the Auditor General of Canada*.

As requested by Recommendation 1 of the Report, attached are the completed quality assessments of the internal audit activities of the Treasury Board of Canada Secretariat, Canada Border Services Agency, Correctional Service Canada, the Department of Finance, and the Department of Human Resources and Skills Development Canada. Once available, the assessments for the Departments of Canadian Heritage, Industry Canada and Justice Canada will be provided to the Committee by the respective responsible Ministers.

In response to Recommendation 2 of the Report, the Minister of Public Safety will inform the Committee when the Royal Canadian Mounted Police achieves a rating of "generally conforms" to the Policy on Internal Audit and the International Standards for the Professional Practice of Internal Auditing.

Through the Treasury Board Policy on Internal Audit, the Government of Canada is committed to strong, accountable and transparent public sector management by ensuring effective internal auditing within departments and across government. The Policy enables Deputy Heads, as Accounting Officers for their organizations, to exercise oversight of control, governance processes and risk management in an informed manner and give attention to areas that need improvement. The Policy also requires the Comptroller General to periodically report to the Treasury Board with an assessment of the effectiveness of the internal audit function across government informed by independent external quality assessments among other sources.

.../2

The attached assessments demonstrate that each of the departments is generally meeting or exceeding the standards set out in the Policy on Internal Audit and the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing. Each responsible Deputy Head accepts the recommendations made in the assessments for further improvement based on best practices and is taking action to address them. The results of the assessments also provide valuable information to the Comptroller General in carrying out his responsibilities related to internal audit across government.

I would like to take this opportunity to thank you and the members of the Standing Committee for your work.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Tony Clement', written in a cursive style.

The Honourable Tony Clement, P.C., M.P.

Enclosures

Treasury Board of Canada Secretariat Recommendations for Improvement for Consideration



Practice Inspection Report
Date: January 16, 2012

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INDEPENDENT VALIDATOR STATEMENT

The Validator was engaged to conduct an independent validation of the Treasury Board of Canada Secretariat's Internal Audit and Evaluation Bureau's self-assessment. The primary objectives of the validation were to verify the assertions made in the self-assessment report concerning:

- Treasury Board of Canada Secretariat and the internal audit activity's conformity to the requirements of the *Treasury Board Internal Audit Policy Suite*, as well as the Internal Auditing Standards for the Government of Canada, as stated in the Treasury Board of Canada Secretariat's Internal Audit Practice Inspection Guidebook (June 2010); and
- The internal audit activity's conformance with the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* (Standards) and the Code of Ethics.

In acting as Validator, we are fully independent of the organization and have the necessary knowledge and skills to undertake this engagement. The validation, conducted during September-November 2011, consisted primarily of a review and testing of the procedures and results of the self-assessment.

In addition, interviews were conducted with the Secretary, the Chair and external members of the departmental audit committee, selected senior management, Chief Financial Officer, and the Chief Audit Executive (CAE). A focus group was also conducted with audit managers and audit staff.

We concur with the Internal Audit and Evaluation Bureau's conclusions in the self-assessment report that:

- The Treasury Board of Canada Secretariat and the internal audit activity is in general conformance with the requirements of the Treasury Board *Policy on Internal Audit Suite*, as well as the Internal Auditing Standards for the Government of Canada; and
- The internal audit activity is in general conformance with the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* (Standards) and the Code of Ethics.

Suggestions for improvement against best practices, intended to build upon the strong foundation already in place, were provided to the CAE for consideration.



David Rattray, FCGA, CIA, CGAP
Independent Validator
Associate Partner, BMCI



Robin Sellar, CA, CPA, CIA
Independent Validator
Associate Partner, BMCI

Date: January 16, 2012

Part I – Matters for Consideration by the Secretary and / or the Departmental Audit Committee

1. Observation-Practice Inspection

There is a requirement under the Treasury Board *Policy on Internal Audit*, as well as a requirement by the Institute of Internal Auditors, to conduct a Practice Inspection or Quality Assurance Review every five years. This Practice Inspection is in response to both of those requirements and when completed and tabled with the departmental audit committee and accepted by the Secretary will result in General Conformance with this requirement.

Recommendation

There should be acceptance of the Practice Inspection Report and accompanying Management Action Plan by the Secretary and a copy provided to the Office of the Comptroller General.

Management Response

Agreed

The Secretary and TBS's Departmental Audit Committee (Government of Canada Audit Committee) were involved and kept abreast throughout the conduct of the inspection. In addition, Internal Audit and Evaluation Bureau (IAEB) has committed to presenting the Practice Inspection report as well as the Action Plan to the Government of Canada Audit Committee at its January 31, 2012 meeting.

The Office of the Comptroller General was informed of the Practice Inspection early in the conduct phase. IA has committed to sharing the results with the Office of the Comptroller General and will do so after the Secretary has reviewed and accepted the report and after the audit committee has had an opportunity to discuss the findings.

Part II – Matters for the Consideration of the Chief Audit Executive

The following observations and recommendations have been developed against best practices in the audit profession, for consideration by the Chief Audit Executive to build upon the strong foundation currently in place.

1. Observation—Communicating the Purpose, Authority and Responsibility of Internal Audit:

Based on interviews with selected senior managers, the role of internal audit versus evaluation is not always clear. There is also an opportunity for Internal Audit to further communicate how it coordinates its work with that of other assurance providers, including evaluation.

In addition, given that the Internal Audit Sector of the Office of the Comptroller General (OCG) is part of the broader TBS organization, additional clarity with respect to communications on the roles of each of the organizations may be required. As TBS internal audit reports are posted on the TBS website in the same place as the OCG horizontal audits, this may lead to potential confusion in roles of the two distinct groups.

Recommendation

The Chief Audit Executive should:

- i. Further communicate to management the roles of, and relationship between, internal audit and evaluation with TBS.
- ii. Further communicate how Internal Audit, through its various activities, ensures appropriate coordination between its work and that of other assurance providers, including the Office of the Comptroller General's Internal Audit Sector.
- iii. Separate the reporting of TBS internal audits from the OCG horizontal audits on the TBS website.

Chief Audit Executive Response

Internal Audit and Evaluation Bureau (IAEB) agrees with these recommendations.

The communication needs identified above will be addressed using several mechanisms, including but not limited to: risk-based audit planning consultations and periodic presentations to senior management governance committees.

IAEB will also work with Strategic Communications and Ministerial Affairs to determine the feasibility and timing of separating TBS internal audit reports from other studies posted on the internet.

2. Observation—Engagement Planning:

While risk assessments conducted at the engagement level were found to be sound and were linked to planned audit procedures, there is an opportunity to further enhance the audit program template. Specifically, the current audit program template does not link specific procedures performed back to the risk assessment conducted. Such an enhancement would further demonstrate that the risks are being adequately considered in the audit procedures performed.

Recommendation

The Chief Audit Executive should:

Incorporate identified engagement risks into the audit program template.

Chief Audit Executive Response

IAEB agrees with this recommendation. A column will be added to the audit program template such that each procedure performed is linked back to the risk assessment conducted during the planning phase of the audit.

3. Observation—Managing the Internal Audit Activity:

Risk-Based Audit Plan: Internal Audit consults extensively with senior management when developing the Risk-Based Audit Plan (Plan). As part of this process, the CAE shares the full set of proposed audits to be included in the Plan with the Senior Executive Committee. There is an opportunity to increase management engagement and awareness by sharing the draft audit plan with the TBS Executive Committee prior to tabling at the audit committee.

Recommendation

The Chief Audit Executive should:

- i. Review the set of proposed audits with the TBS Executive Committee and solicit their feedback prior to reviewing the Risk-Based Audit Plan (RBAP) with the departmental audit committee.

Chief Audit Executive Response

IAEB agrees with this recommendation. The TBS risk-based audit planning process has been adjusted to include feedback from the TBS Executive Committee prior to tabling before the audit committee.

4. Observation—Communicating Results:

The CAE provides the TBS Executive Committee with timely debriefs concerning audits tabled at the audit committee. Given the time required to post an audit on the internet, there is an

opportunity to enhance management awareness of audit activities by circulating final audit reports shortly after the Secretary's approval.

Recommendation

The Chief Audit Executive should:

Distribute final audit reports to the full senior management team shortly after audit committee review and Secretary approval.

Chief Audit Executive Response

IAEB agrees with this recommendation. Procedures will be adjusted so that final reports are communicated to the TBS Executive Committee on a timely basis following the Secretary's approval.

Canada Border Services Agency

Agence des services frontaliers du Canada

Practice Inspection



Practice Inspection Report

Date: March 28, 2012

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Executive Summary

Background

The Treasury Board (TB) of Canada *Policy on Internal Audit* came into effect in July, 2009 and replaced the TB Policy of April, 2006. Its objective is to support strong and accountable public sector management by ensuring effective internal auditing within departments and across government. A requirement of the *Policy on Internal Audit* is that all internal audit activities are subject to a Practice Inspection (PI) every five years. BMCI Consulting Inc. (BMCI) was engaged to conduct the Practice Inspection.

Objectives of the Practice Inspection

As required by the Treasury Board *Policy on Internal Audit*, a Practice Inspection of the internal audit activity at Canada Border Services Agency (CBSA) was conducted. The principal objectives of the Practice Inspection were to:

- (1) Assess Canada Border Services Agency and the IA activity's conformity to the requirements of the Treasury Board *Policy on Internal Audit* Suite, as well as the Internal Auditing Standards for the Government of Canada, as stated in the Treasury Board of Canada's Internal Audit Practice Inspection Guidebook (June 2010);
- (2) Assess the IA activity's conformance with the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* (Standards) and the Code of Ethics; and
- (3) Provide recommendations for improvements to strengthen the internal audit activity at the CBSA, based upon best practices.

Opinion as to Conformity to the Standards

The overall opinion is that:

- Canada Border Services Agency Internal Audit (IA) is in general conformance with the requirements of the Treasury Board *Policy on Internal Audit* Suite, as well as the Internal Auditing Standards for the Government of Canada; and
- IA is in general conformance with the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* (Standards) and the Code of Ethics.

Building upon the solid Internal audit foundation at CBSA, the Practice Inspection team identified opportunities for further improvements based upon best practices in other federal government internal audit organizations, details of which are provided in this Report.

Conformance to the IA policy requirements are evaluated using the following scale:

“Generally Conforms: means there is no material deficiency, although there may be some minor deficiencies.

“Partially Conforms” means there is one material deficiency, and there may be minor deficiencies.

“Does Not Conform” means that there is more than one major deficiency in practice are judged to be so significant as to seriously impair or preclude the internal audit function from performing adequately in all or in significant areas of its responsibilities.

Scope and Methodology

As part of the preparation for the Practice Inspection (PI), Professional Practices Division completed an internal audit self-diagnostic tool for assessing and reporting on conformance with the requirements of the Treasury Board of Canada’s *Internal Audit Policy Suite*. A draft report dated October 20, 2010 and other detailed documentation was provided to the PI Team in December 2011. BMC I held initial meetings with the CBSA Professional Practices Division in December 2011 to discuss timing and approach and provide generic tools and templates which would be used for interviews and the review of audit working paper files. During January and February 2012, the Practice Inspection team gathered additional background information, selected executives for interviews during the onsite field work, and finalized planning and administrative arrangements for the PI. During the field work phase, interviews were conducted with the Audit Committee external members, the President, the Executive Vice President, the Chief Audit Executive, the Chief Financial Officer, other key members of senior management, the Assistant Auditor General assigned to CBSA and the majority of internal audit staff. We also reviewed IA’s risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a sample of two of IA’s working papers and reports.

Internal Audit Strengths and Best Practices

The IA activity is well-structured and progressive, where internal audit policy requirements and the IIA *Standards* are well understood by those in the Directorate and by senior management in the Agency.

The CAE has a strong working relationship with the Audit Committee (AC) and the President who chairs the AC.

The CAE is well connected with senior management and is working diligently to ensure the IA activity work is contributing in a value added manner to the Agency’s strategic priorities and corporate risk mitigation strategies.

The internal audit function is currently staffed with a complement of qualified, experienced professionals and newer auditors are strongly encouraged and are actively pursuing relevant designations.

Observations and Recommendations

While the overall conclusion of the Practice Inspection is that Canada Border Services Agency Internal Audit is in general conformance with the requirements of the Treasury Board *Policy on Internal Audit* Suite and IA is in general conformance with the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* (Standards) and the Code of Ethics, the Practice Inspection team has made a number of best practices observations and recommendations that are intended to build on this solid foundation.

The details of the recommendations that follow in the main body of the Report are divided into:

- Those that concern the governance of CBSA and suggest actions by the President and/or the Audit Committee; and
- Those that concern Internal Audit and suggest actions by the Chief Audit Executive.

Management Response and Action Plans

CBSA accepts the observations and recommendations resulting from the Practice Inspection. One of the main objectives of Internal Audit is continuous improvement. Many of the findings of the Practice Inspection team address areas where we are already making change and others will allow us to develop targeted initiatives to concentrate on key areas where improvement is necessary. Internal Audit has developed a comprehensive management action plan to address these recommendations. An overall response is provided in the report for each recommendation with supporting actions included after each recommendation.

In line with the objective of continuous improvement, Internal Audit will be conducting a self-assessment to ensure the actions of the inspection are implemented and that other potential areas requiring attention are addressed in a timely manner.

Concluding Remarks

The Practice Inspection Team wishes to express its appreciation for the cooperation and assistance afforded by the President, Audit Committee members, CBSA senior management, and the Chief Audit Executive and Internal Audit staff.



David Rattray, FCGA, CIA, CGAP, CCSA
Practice Inspection Co-Leader



Robin Sellar, CA, CPA, CIA,
Practice Inspection Co-Leader

Practice Inspection Report Details

Background

The Treasury Board of Canada *Policy on Internal Audit* came into effect in July, 2009 and replaced the TB Policy of April, 2006. Its objective is to support strong and accountable public sector management by ensuring effective internal auditing within departments and across government. A requirement of the *Policy on Internal Audit* is that all internal audit activities are subject to a Practice Inspection (PI) every five years. BMCI Consulting Inc. (BMCI) was engaged to conduct the Practice Inspection.

Objectives of the Practice Inspection

As required by the Treasury Board *Policy on Internal Audit*, a Practice Inspection of Internal Audit (IA) at Canada Border Services Agency (CBSA) was conducted. The principal objectives of the Practice Inspection were to:

- (1) Assess Canada Border Services Agency and the IA activity's conformity to the requirements of the Treasury Board *Policy on Internal Audit* Suite, as well as the Internal Auditing Standards for the Government of Canada, as stated in the Treasury Board of Canada Secretariat's Internal Audit Practice Inspection Guidebook (June 2010);
- (2) Assess the IA activity's conformance with the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* (Standards) and the Code of Ethics; and
- (3) Provide recommendations for improvements to strengthen the internal audit activity at the CBSA, based upon best practices.

Opinion as to Conformity to the Standards

The overall opinion is that:

- Canada Border Services Agency Internal Audit (IA) is in general conformance with the requirements of the Treasury Board *Policy on Internal Audit* Suite, as well as the Internal Auditing Standards for the Government of Canada; and
- IA is in general conformance with the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* (Standards) and the Code of Ethics.

Building upon the solid Internal audit foundation at CBSA, the Practice Inspection team identified opportunities for further improvements based upon best practices in other federal government internal audit organizations, details of which are provided in this Report.

Conformance to the IA policy requirements are evaluated using the following scale:

“Generally Conforms: means there is no material deficiency, although there may be some minor deficiencies.

“Partially Conforms” means there is one material deficiency, and there may be minor deficiencies.

“Does Not Conform” means that there is more than one major deficiency in practice are judged to be so significant as to seriously impair or preclude the internal audit function from performing adequately in all or in significant areas of its responsibilities.

Scope and Methodology

As part of the preparation for the Practice Inspection (PI), Professional Practices Division completed an internal audit self-diagnostic tool for assessing and reporting on conformance with the requirements of the Treasury Board of Canada’s Internal Audit Policy Suite. A draft report dated October 20, 2010 and other detailed documentation was provided to the PI Team in December 2011. BMC I held initial meetings with the CBSA Professional Practices Division in December 2011, to discuss timing and approach and provide generic tools and templates which would be used for interviews and the review of audit working paper files. During January and February 2012, the Practice Inspection team gathered additional background information, selected executives for interviews during the onsite field work, and finalized planning and administrative arrangements for the PI. During the field work phase, interviews were conducted with the Audit Committee external members, the President, the Executive Vice President, the Chief Audit Executive, the Chief Financial Officer, other key members of senior management, the Office of the Auditor General’s (OAG) Assistant Auditor General assigned to CBSA and the majority of internal audit staff. We also reviewed IA’s risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a sample of two of IA’s working papers and reports.

Summary Ratings

The PI team rated the internal audit activity as in general conformance with the Internal Audit Standards for the Government of Canada and the Institute of Internal Auditors (IIA) Standards contained in the *International Professional Practices Framework (IPPF)*.

Tables 1, 2 and 3 illustrate the level of progress by CBSA IA towards the requirements of the Treasury Board *Policy on Internal Audit* as well as those of the Policy’s related directives covering the roles and responsibilities for Deputy Heads, Departmental Audit Committees, Chief Audit Executives, and support to the Comptroller General.

Table 4 illustrates the conformance ratings of internal audit against the IIA *International Professional Practices Framework (IPPF)*.

Table 1: Summary of Progress Ratings against the Policy requirements and related directives covering Deputy Heads

Policy Requirements covering Deputy Heads	Policy Reference	General Conformance	Partial Conformance
Appropriate internal audit capacity to the needs of the department	5.4.1	x	
Establish an independent AC with majority external members	5.4.2	x	
Appointing qualified CAE with direct reporting to the President	5.4.3	x	
Ensuring the CAE has direct report to the President and AC, full access to people and information and provide annual overview assurance reporting	4.1.2		x President and Audit Committee Recommendation #2
Approving an Agency RBAP	5.4.4/4.2.1	x	
Ensuring appropriate internal audit coverage	5.4.5	x	
Putting in place effective procedures to ensure systematic monitoring and assurance covering risk management, control and accountability processes	5.6.1	x	
Taking into account the results of OCG Horizontal audits	5.6.2	x	
Ensuring AC receives all the information and documentation to fulfill its responsibilities	5.6.3	x	
Ensuring Management Action Plans are prepared that address the recommendations and are implemented	5.6.4	x	
Ensuring timely reporting to the Comptroller General on all required IA reports and plans	5	x	
Ensuring completed internal audits are issued in a timely manner and made accessible to the public	5.6.5	x	

Table 2: Summary of progress ratings against the Policy Directive covering Departmental Audit Committees (DAC)

Directives covering Departmental Audit Committees (DAC)	Directive Reference	General Conformance	Partial Conformance
Provides objective advice and recommendations to the President regarding assurance on the adequacy and functioning of CBSA's enterprise risk management, control and governance frameworks and processes	4.1.1	x	
Provides advice and recommendations as may be requested by the President	4.1.2	x	
Review and recommend for approval the AC Charter, RBAP, monitor adequacy of IA resources, monitor and assess performance of IA, provide advice to President on recruitment and appointment of a CAE, receive and recommend for approval individual audit engagement reports and MAPs, receive reports on status of MAPs, and receive and recommend for approval an annual assurance report from the CAE.	4.2.2	x	
Advise the President on the effectiveness of arrangements to monitor and follow up on MAPs responding to recommendations from IA, the OAG and other assurance providers	4.2.4.1	x	
Appointment of external AC members	4.3.1	x	
AC with majority of external appointees	4.3.2	x	
President or external member as AC chair	4.3.8	x	
AC roles and responsibilities in a Charter approved by the President and reviewed periodically	4.4.1	x	
AC meeting at least 4 times per year	4.4.3	x	
AC annual report to the President	4.4.5	x	

Table 3: Summary of progress ratings against the Policy Guidelines covering Chief Audit Executives

Guidelines covering Chief Audit Executives (CAE)	Guideline Reference	General Conformance	Partial Conformance
CAE establish appropriate policies and procedures to guide the IA function	3.1.1	x	
Establish RBAP at least annually	3.1.2 and 3.1.3	x	
Co-ordinate IA activities and plans with other assurance providers	3.1.4	x	
Communicate IA plans to the President and AC	3.1.5	x	
Ensure IA resources are appropriate, sufficient and effectively employed	3.1.6	x	
Ensure timely completion of IA audit engagements	3.1.7	x	
Ensure reports to AC on timely basis	3.1.8	x	
Ensure internal auditors have appropriate professional qualifications and skills and opportunities to sufficient training and development	3.1.9	x	
Develop and maintain a quality assurance and improvement program	3.1.10	x	
Ensure a Practice Inspection is conducted at least every 5 years	3.1.11	x	
Ensure professional auditing standards are followed and report is made at least annually that the standards are being followed	3.1.12 and 3.1.13	x	
Report to the Comptroller General without delay after discussion with the President any issue of risk, control or management practice that may be of significance to the government	3.1.14	No occurrences	

Table 4: CBSA IA activity's conformance ratings against the IIA Standards

IIA Standards	General Conformance	Partial Conformance	Does not Conform or Not Applicable
Purpose, Authority and Responsibility (Standard 1000)	x		
Independence and Objectivity (Standard 1100)		x	
Proficiency and Due Professional Care (Standard 1200)	x		
Quality Assurance and Improvement Program (Standard 1300)	x		
Managing the Internal Audit Activity (Standard 2000)	x		
Nature of Work (Standard 2100)	x		
Engagement Planning (Standard 2200)	x		
Performing the Engagement (Standard 2300)	x		
Communicating Results (Standard 2400)	x		
Monitoring Progress (Standard 2500)	x		
Management Acceptance of Risk (Standard 2600)			Not applicable
Compliance with Code of Ethics	x		

Part I – Matters for Consideration by the President and / or the Audit Committee

1. Observation-Practice Inspection

There is a requirement under the TB *Policy on Internal Audit*, as well as a requirement by the Institute of Internal Auditors, to conduct a Practice Inspection or Quality Assurance Review every five years. This Practice Inspection is in response to both of those requirements and when completed and tabled with the AC and accepted by the President will result in General Conformance with this requirement.

Recommendation

There should be acceptance of the Practice Inspection Report and accompanying Management Action Plan by the President and a copy provided to the Office of the Comptroller General.

Action Plan

The Practice Inspection report and the Management Action Plan will be presented to the Audit Committee at its March 28, 2012 meeting. The Internal Audit and Program Evaluation Directorate (IAPED) will share the results of the Practice Inspection with the Office of the Comptroller General after the President has reviewed and accepted the report and after the Audit Committee has had an opportunity to discuss the findings.	April 2012
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2. Observation- Independence of the Chief Audit Executive

The Policy on Internal Audit specifies that the CAE must report directly to the deputy head. IIA Standard 1100, addressing independence and objectivity, states that the CAE must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. Until recently, the CAE reported directly to the President. This reporting relationship to the President continues to exist as it relates to internal audit matters but the CAE now reports administratively to the VP Corporate Affairs with respect to budgets, resources and other operating matters. This could create a potential conflict of interest for the CAE when he is required to audit any of the VP Corporate Affairs areas of responsibility. As a result of this administrative reporting change, the CAE no longer attends executive committee meetings although he is strongly represented on all other senior management committee meetings. The President clearly communicated the intent of this change and the fact that he still remains responsible for all aspects relating to internal audit.

Recommendation

The President, VP Corporate Affairs and AC members should review this reporting relationship on an ongoing basis and develop a mitigation strategy to ensure that the CAE will be able to maintain independence, in particular when required to audit those responsibilities coming under the VP Corporate Affairs.

Action Plan

Agreed. The Chief Audit Executive will meet with the Office of the Comptroller General (OCG) to discuss options for a mitigation strategy to ensure that the CAE will remain independent with respect to the Internal Audit budget and when required to audit those responsibilities coming under the VP of Corporate Affairs. The options will be discussed with the President and the VP of Corporate Affairs in order to finalize a mitigation strategy to be taken to the Audit Committee for approval.	September 2012
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3. Observation-Audit Committee Self- Assessment

Best practice of audit committees is to conduct periodic self-assessments to ensure all aspects of their mandate are being fulfilled effectively. CBSA DAC has not conducted a self-assessment for two years. As two of its long standing members are rotating off the committee, it would be an appropriate time to conduct a self-assessment in order to capture the feedback of these members.

Recommendation

The DAC should conduct a self-assessment as soon as possible in order to capture the experience of all members, particularly those who are now rotating off the committee.

Action Plan

Agreed. This recommendation will be discussed with the Audit Committee at the March 28, 2012 meeting. In preparing for this meeting, a self-assessment questionnaire will be shared with the committee. Internal Audit would recommend it be completed for tabling at the June Audit Committee meeting.	June 2012
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Part II – Matters for the Consideration of the Chief Audit Executive

1. Observation—Structure of IA

There are currently two Audit Directors, with only one Director focused on managing internal audits. CBSA IA has an ambitious work plan and so it would be beneficial to reduce the audit management risk in IA by considering having the Professional Practices Director also leading

some audits or consider a restructuring of resources and add a second Director to audit operations.

Recommendation

The CAE should review the existing organizational structure, to determine whether to add an additional Director for audit operations or whether the existing Director Professional Practices could also take on some internal audit leadership responsibility.

Action Plan

Agreed. A review of the organizational structure will be conducted with the goal to reduce the audit management and operational risk. This will include a review of accountabilities of both Directors in order to achieve a better workload balance. The results of this review will be discussed with the President and the Audit Committee.	September 2012
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2. Observation Review and update of AC and IA Charters

The IA and DAC Charter have not been reviewed and approved since 2010 and do not currently reflect the new reporting structure for the CAE, implemented during the last year. These have not been updated since IA is waiting for the approval of the new *Policy on Internal Audit* which is expected to occur in April 2012.

Recommendation

The IA and DAC Charter should be reviewed and approved as soon as the new *Policy* is approved.

Action Plan

Agreed. A review of the Internal Audit and Audit Committee Charters was undertaken in 2011, and was put on hold due to the upcoming change in the <i>Policy on Internal Audit</i> . This review will be updated and finalized to reflect the new <i>Policy on Internal Audit</i> by the Treasury Board once it is approved. The Charters will be taken to Audit Committee for approval.	December 2012
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3. Observation- Conflict of Interest Declaration

As part of the IIA Code of Ethics one of the four principles upon which the Code is based is Objectivity. This requires an internal auditor to disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review. All audit staff upon their hiring are required to disclose any potential conflict. They are reminded annually in an email from the CAE to declare any potential conflicts. Best practice is that audit staff should be required to sign a declaration annually to state they have read the Code and are aware of its contents. Some organizations also ask audit team members at the outset of each audit engagement to prepare an audit engagement specific declaration with a statement added to the Audit Engagement Plan, indicating not only that the team has all the required competencies to conduct the assignment but that no member has a conflict of interest.

Recommendation

The CAE should ensure that as a minimum an annual conflict of interest declaration be signed by all professional audit staff. An individual audit engagement declaration could also be considered.

Action Plan

Agreed. An annual conflict of interest declaration form will be developed, signed and added to the annual Performance Management Agreements for all professional audit staff. A declaration form will also be developed for team members to sign prior to starting individual audit engagements.	July 2012
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4. Observation—Objective of Audits, Governance, Risk Management and Controls

The objectives of the audit engagements generally make reference only to controls assessment and do not address the broader internal audit responsibilities for also assessing governance and risk management.

Recommendation

The CAE should consider broadening the audit engagement objectives to also address governance and risk management.

Action Plan

Agreed. In a select number of past audits, governance and risk management issue were examined by Internal Audit. The Internal Audit will develop and implement standard audit criteria to incorporate governance and risk management elements to support the Agency’s implementation of the Functional Management Model. The standard audit criteria will be discussed at the Comptrollership Standing Committee and communicated to all Vice-Presidents and functional leads.	July 2012
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5. Observation-Implementation of Management Action Plans

The current practice of following up on Management Action Plans is through a mandatory self-assessment reporting process by senior management. Interviews indicated there is some concern that in some instances the progress reported regarding management action is not entirely accurate. If true, this reduces the effectiveness of the internal audit function’s efforts in contributing to the accomplishment of CBSA’s objectives. CBSA IA, along with the President and the AC need to develop a risk based approach to having IA conduct additional work in this area to revise the current methodology for CBSA management reporting on MAP progress and for IA to also provide the President and the AC with a report on the degree of accuracy of the mandatory self-assessment reporting process.

Recommendation

The CAE should initiate a risk based approach to reviewing the accuracy of the actions being reported by senior management and report the results to the President and Audit Committee and make recommendations on how to revamp the reporting process if necessary.

Action Plan

Agreed. In past audits, Internal Audit has assessed progress on previous recommendations. A recent example was the Audit of the Process Monitoring Framework. This practice will continue. In addition, Internal Audit has initiated a Quality Assurance Review of the self-reporting process for Management Action Plans. Audit recommendations were selected based on risk. Vice-Presidents have been notified which recommendations will be reviewed by IA for fiscal year 2012-2013. The reviews will take place over the year, with an annual report rolling up the results to be presented to the year-end Audit Committee.	March 2013
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6. Observation—Performance Management Targets

IA conforms with the TB *Internal Audit Policy* Directive to report periodically to the Audit Committee and the President on the internal audit activity’s purpose, authority, responsibility and performance. This is accomplished through reports to the Audit Committee as well as the CAE Annual Report. An area of performance reporting best practice is for CAE Reports to contain goals or performance targets for the upcoming year.

Recommendation

The CAE should develop performance targets through consultation with the President and the Audit Committee and report on these targets either at audit committee meetings and/or in the CAE Annual Report.

Action Plan

Agreed. The CAE will establish two to three key performance targets in the context of continuous improvement for the internal audit program. These targets will be part of the Risk Based Audit Plan. Progress will be reported as part of the CAE Annual Report.	June 2012
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7. Observation— Evaluate the Potential for the Occurrence of Fraud as part of the RBAP

IIA Standard 2120.A2 states that "the internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk". IA is currently working on including an assessment of fraud risk as part of the development of 2012/13-2014/15 RBAP.

Recommendation

IA should:

- Ensure that the department’s senior management and internal audit staff have a clear understanding of the roles and responsibilities of internal audit in the prevention and detection of wrongdoing and fraud;
- Review the department’s fraud awareness and prevention processes, conduct an overall fraud risk assessment, and understand the department’s specific fraud risk exposure; and
- Evaluate the potential for the occurrence of fraud on an overall basis, as part of the RBAP and as a part of each individual audit.

Action Plan

<p>Agreed. Internal Audit organized a presentation by the OCG to internal auditors in February 2012 to raise awareness on possible fraud issues and to review Treasury Board standards on reporting. Courses on fraud and risk have been identified for internal auditors and will be included in personal learning plans.</p>	
<p>The OCG has established guidance to support federal government organizations to clarify the various roles and responsibilities for fraud in a government entity. IA will utilize this guidance and review the roles and responsibilities at the CBSA and potential gaps. The results of this review will be discussed with key stakeholders and the Executive and Audit Committees.</p>	<p>March 2013</p>
<p>IA is considering a Fraud Risk Assessment as an engagement for the 2012 to 2015 Risk Baked Audit Plan. The CAE will discuss with the Chief Risk Officer, the Departmental Security Officer and the DG of the Values and Ethics Program the possibility of conducting a joint engagement.</p>	<p>June 2012</p>
<p>Recently fraud has been evaluated as part of the Audits on Overtime and Trusted Travellers. Internal Audit procedures will be reviewed to ensure they include adequate methodology to consider fraud in audits.</p>	<p>September 2012</p>

Correctional Service Canada

Service Correctional Canada

Practice Inspection



Practice Inspection Report

Date: November 29, 2011

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Executive Summary

Background

The Treasury Board (TB) of Canada *Policy on Internal Audit* came into effect in July, 2009 and replaced the TB Policy of April, 2006. Its objective is to support strong and accountable public sector management by ensuring effective internal auditing within departments and across government. A requirement of the *Policy on Internal Audit* is that all internal audit activities are subject to a Practice Inspection (PI) every five years. BMCI Consulting Inc. (BMCI) was engaged to conduct the Practice Inspection.

Objectives of the Practice Inspection

As required by the Treasury Board Secretariat *Policy on Internal Audit*, a Practice Inspection of the internal audit activity at Correctional Service Canada (CSC) was conducted. The principal objectives of the Practice Inspection were to:

- (1) Assess Correctional Service Canada and the IA activity's conformity to the requirements of the Treasury Board *Policy on Internal Audit Suite*, as well as the Internal Auditing Standards for the Government of Canada, as stated in the Treasury Board of Canada Secretariat's Internal Audit Practice Inspection Guidebook (June 2010);
- (2) Assess the IA activity's conformance with the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* (Standards) and the Code of Ethics; and
- (3) Provide recommendations for improvements to strengthen the internal audit activity at the CSC, based upon best practices.

Opinion as to Conformity to the Standards

The overall opinion is that:

- Correctional Service Canada and the IA activity are in general conformance with the requirements of the Treasury Board *Policy on Internal Audit Suite*, as well as the Internal Auditing Standards for the Government of Canada; and
- The IA activity is in general conformance with the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* (Standards) and the Code of Ethics.

The Practice Inspection team identified opportunities for further improvements, details of which are provided in this Report.

Conformance to the IA policy requirements are evaluated using the following scale:

“Generally Conforms: means there is no material deficiency, although there may be some minor deficiencies.

“Partially Conforms” means there is one material deficiency, and there may be minor deficiencies.

“Does Not Conform” means that there is more than one major deficiency in practice are judged to be so significant as to seriously impair or preclude the internal audit function from performing adequately in all or in significant areas of its responsibilities.

Scope and Methodology

As part of the preparation for the Practice Inspection (PI), the internal audit activity completed an advanced preparation document with detailed information regarding CSC and the internal audit activity. BMCI held initial meetings with the CSC Acting Chief Audit Executive (ACAE) and internal audit managers during July 2011, to discuss timing and approach and provide generic tools and templates which would be used for interviews and the review of audit working paper files. During August and early September, the Practice Inspection team gathered additional background information, selected executives for interviews during the onsite field work, and finalized planning and administrative arrangements for the PI. During the field work phase, interviews were conducted with the Audit Committee external members, the Commissioner, the Acting Chief Audit Executive, the Chief Financial Officer, other key members of senior management, the Office of the Auditor General’s (OAG) Assistant Auditor General and Principal assigned to CSC and a representative number of internal audit staff. We also reviewed the IA function’s risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a sample of two of the IA function’s working papers and reports.

Internal Audit Strengths and Best Practices

IA is organizationally independent from management and the ACAE reports directly to the Commissioner. IA has full and unrestricted access to CSC personnel, operations, and documentation. IA staff maintains an objective working relationship, ensuring its work is concentrated primarily on providing assurance services.

The IA activity is well-structured and progressive, where IA policy requirements and the IIA *Standards* are well understood by those in the activity and by senior management in the Department.

The ACAE has a good working relationship with the Departmental Audit Committee and the Commissioner who chairs the DAC.

The CAE is well connected with senior management and is working diligently to ensure the IA activity work is contributing in a value added manner to the Department’s strategic priorities and corporate risk mitigation strategies.

The IA function is currently staffed with a complement of qualified professionals and newer auditors are strongly encouraged and are actively pursuing relevant designations.

Observations and Recommendations

While the overall conclusion of the Practice Inspection is that Correctional Service Canada and the Internal Audit Activity is in general conformance with the requirements of the Treasury Board *Policy on Internal Audit* Suite and the IA activity is in general conformance with the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* (Standards) and the Code of Ethics, the Practice Inspection Team has made a number of observations and recommendations that are intended to build on this foundation.

The details of the recommendations that follow in the main body of the Report are divided into:

- Those that concern the governance of CSC and suggest actions by the Commissioner and/or the Departmental Audit Committee; and
- Those that concern the Internal Audit Activity and suggest actions by the Acting Chief Audit Executive.

Management Response and Action Plans

CSC accepts the observations and recommendations resulting from the Practice Inspection. One of the main objectives of the Internal Audit Branch is continuous improvement. Some findings of the Practice Inspection address areas where we are already making change and others will allow us to develop targeted initiatives to concentrate on key areas where improvement is necessary. IAB has developed a comprehensive management action plan to address these recommendations. An overall response is provided in the report for each recommendation with supporting actions included in their entirety in Appendix A.

In line with the objective of continuous improvement IAB will be conducting a self-assessment exercise on an annual basis to ensure the actions of the inspection are implemented and that other potential areas requiring attention are addressed in a timely manner.

The Practice Inspection Team wishes to express its appreciation for the cooperation and assistance afforded by the Commissioner, DAC members, CSC senior management, and the Acting Chief Audit Executive and audit staff.



David Rattray, FCGA, CIA, CGAP
Practice Inspection Co-Leader



Robin Sellar, CA, CPA, CIA,
Practice Inspection Co-Leader

Practice Inspection Report Details

Background

The Treasury Board (TB) of Canada *Policy on Internal Audit* came into effect in July, 2009 and replaced the TB Policy of April, 2006. Its objective is to support strong and accountable public sector management by ensuring effective internal auditing within departments and across government. A requirement of the *Policy on Internal Audit* is that all internal audit activities are subject to a Practice Inspection (PI) every five years. BMCI Consulting Inc. (BMCI) was engaged to conduct the Practice Inspection.

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- (1) Assess Correctional Service Canada and the IA activity's conformity to the requirements of the Treasury Board *Policy on Internal Audit Suite*, as well as the Internal Auditing Standards for the Government of Canada, as stated in the Treasury Board of Canada Secretariat's Internal Audit Practice Inspection Guidebook (June 2010);
- (2) Assess the IA activity's conformance with the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* (Standards) and the Code of Ethics; and
- (3) Provide recommendations for improvements to strengthen the internal audit activity at the CSC, based upon best practices.

Opinion as to Conformity to the Standards

The overall opinion is that:

- Correctional Service Canada and the IA activity are in general conformance with the requirements of the Treasury Board *Policy on Internal Audit Suite*, as well as the Internal Auditing Standards for the Government of Canada; and
- The IA activity is in general conformance with the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* (Standards) and the Code of Ethics.

The Practice Inspection team identified opportunities for further improvements, details of which are provided in this Report.

Conformance to the IA policy requirements are evaluated using the following scale:

“Generally Conforms: means there is no material deficiency, although there may be some minor deficiencies.

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“Does Not Conform” means that there is more than one major deficiency in practice are judged to be so significant as to seriously impair or preclude the internal audit function from performing adequately in all or in significant areas of its responsibilities.

Scope and Methodology

As part of the preparation for the Practice Inspection (PI), the internal audit activity completed an advanced preparation document with detailed information regarding CSC and the internal audit activity. BMCI held initial meetings with the CSC Acting Chief Audit Executive (ACAE) and internal audit managers during July 2011, to discuss timing and approach and provide generic tools and templates which would be used for interviews and the review of audit working paper files. During August and early September, the Practice Inspection team gathered additional background information, selected executives for interviews during the onsite field work, and finalized planning and administrative arrangements for the PI. During the field work phase, interviews were conducted with the Audit Committee external members, the Commissioner, the Acting Chief Audit Executive, the Chief Financial Officer, other key members of senior management, the Office of the Auditor General's (OAG) Assistant Auditor General and Principal assigned to CSC and a representative number of internal audit staff. We also reviewed the IA function's risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a sample of two of the IA function's working papers and reports.

Summary Ratings

The PI team rated the internal audit activity as in general conformance with the Internal Audit Standards for the Government of Canada and the Institute of Internal Auditors (IIA) Standards contained in the *International Professional Practices Framework (IPPF)*.

Tables 1, 2 and 3 illustrate the level of progress by CSC IA towards the requirements of the Treasury Board *Policy on Internal Audit* as well as those of the Policy's related directives covering the roles and responsibilities for Deputy Heads, Departmental Audit Committees, Chief Audit Executives, and support to the Comptroller General.

Table 4 illustrates the conformance ratings of internal audit against the IIA *International Professional Practices Framework (IPPF)*.

Table 1: Summary of Progress Ratings against the Policy requirements and related directives covering Deputy Heads

Policy Requirements covering Deputy Heads	Policy Reference	General Conformance	Partial Conformance
Appropriate internal audit capacity to the needs of the department	5.4.1	x	
Establish an independent DAC with majority external members	5.4.2	x	
Appointing qualified CAE with direct reporting to the Commissioner	5.4.3		Commissioner Recommendation #1
Ensuring the CAE has direct report to the Commissioner and DAC, full access to people and information and provide annual overview assurance reporting	4.1.2	x	
Approving a Departmental RBAP	5.4.4/4.2.1	x	
Ensuring appropriate internal audit coverage	5.4.5	x	
Putting in place effective procedures to ensure systematic monitoring and assurance covering risk management, control and accountability processes	5.6.1	x	
Taking into account the results of OCG Horizontal audits	5.6.2	x	
Ensuring DAC receives all the information and documentation to fulfill its responsibilities	5.6.3	x	
Ensuring Management Action Plans are prepared that address the recommendations and are implemented	5.6.4	x	
Ensuring timely reporting to the Comptroller General on all required IA reports and plans	5	x	
Ensuring completed internal audits are issued in a timely manner and made accessible to the public	5.6.5	x	

Table 2: Summary of progress ratings against the Policy Directive covering Departmental Audit Committees (DAC)

Directives covering Departmental Audit Committees (DAC)	Directive Reference	General Conformance	Partial Conformance
Provides objective advice and recommendations to the Commissioner regarding assurance on the adequacy and functioning of CSC's risk management, control and governance frameworks and processes	4.1.1	x	
Provides advice and recommendations as may be requested by the Commissioner	4.1.2	x	
Review and recommend for approval the DAC Charter, RBAP, monitor adequacy of IA resources, monitor and assess performance of IA, provide advice to Commissioner on recruitment and appointment of a CAE, receive and recommend for approval individual audit engagement reports and MAPs, receive reports on status of MAPs, and receive and recommend for approval an annual assurance report from the CAE.	4.2.2	x	
Advise the Commissioner on the effectiveness of arrangements to monitor and follow up on MAPs responding to recommendations from IA, the OAG and other assurance providers	4.2.4.1	x	
Appointment of external DAC members	4.3.1	x	
DAC with majority of external appointees	4.3.2	x	
Commissioner or external member as DAC chair	4.3.8	x	
DAC roles and responsibilities in a Charter approved by the Commissioner and reviewed periodically	4.4.1	x	
DAC meeting at least 4 times per year	4.4.3	x	
DAC annual report to the Commissioner	4.4.5	x	

Table 3: Summary of progress ratings against the Policy Guidelines covering Chief Audit Executives

Guidelines covering Chief Audit Executives (CAE)	Guideline Reference	General Conformance	Partial Conformance
CAE establish appropriate policies and procedures to guide the IA function	3.1.1	x	
Establish RBAP at least annually	3.1.2 and 3.1.3	x	
Co-ordinate IA activities and plans with other assurance providers	3.1.4	x	
Communicate IA plans to the to the Commissioner and DAC	3.1.5	x	
Ensure IA resources are appropriate, sufficient and effectively employed	3.1.6	x	
Ensure timely completion of IA audit engagements	3.1.7	x	
Ensure reports to DAC on timely basis	3.1.8	x	
Ensure internal auditors have appropriate professional qualifications and skills and opportunities to sufficient training and development	3.1.9	x	
Develop and maintain a quality assurance and improvement program	3.1.10	x	
Ensure a Practice inspection is conducted at least every 5 years	3.1.11	x	
Ensure Professional auditing standards are followed and report is made at least annually that the standards are being followed	3.1.12 and 3.1.13	x	
Report to the Comptroller General without delay after discussion with the Commissioner any issue of risk, control or management practice that may be of significance to the government	3.1.14	No occurrences	

Table 4: CSC IA activity’s conformance ratings against the IIA Standards

IIA Standards	General Conformance	Partial Conformance	Does not Conform or Not Applicable
Purpose, Authority and Responsibility (Standard 1000)	x		CAE Recommendations #1
Independence and Objectivity (Standard 1100)	x		
Proficiency and Due Professional Care (Standard 1200)	x		CAE Recommendations #2
Quality Assurance and Improvement Program (Standard 1300)		x	See CAE Recommendation #3
Managing the Internal Audit Activity (Standard 2000)		x	See CAE Recommendation #4
Nature of Work (Standard 2100)	x		CAE Recommendation #5
Engagement Planning (Standard 2200)	x		
Performing the Engagement (Standard 2300)	x		
Communicating Results (Standard 2400)		x	CAE Recommendation #6
Monitoring Progress (Standard 2500)	x		
Management Acceptance of Risk (Standard 2600)			Not applicable
Compliance with Code of Ethics	x		

Part I – Matters for Consideration by the Commissioner and / or the Departmental Audit Committee

1. Observation- Appointment of the CAE

The current CAE has been functioning in an acting position for the past 20 months. As such, the CAE is no longer a participant at the senior executive committee meetings. The ACAE is debriefed on the meetings by the Chief Financial Officer.

Recommendation #1

The Commissioner should take appropriate action to resolve the acting CAE situation.

2. Observation- Staggered Appointments of DAC Members

The Policy Directive instructs that any second term reappointments of DAC members be staggered to ensure proper rotation of members. Two of the longstanding DAC members have recently had their second terms renewed for an additional four years to 2015. The third member's term ends in 2012. As the longstanding members will both rotate off DAC within one month of each other, this will leave a significant gap in continuity, skills, and corporate knowledge.

Recommendation

The Commissioner should re-examine the appointment process to ensure that the experience and knowledge of DAC members as a group is not compromised by having experienced members rotate off DAC at the same time.

3. Observation-Practice Inspection

There is a requirement under the TB *Policy on Internal Audit*, as well as a requirement by the Institute of Internal Auditors, to conduct a Practice Inspection or Quality Assurance Review every five years. This Practice Inspection is in response to both of those requirements and when completed and tabled with the DAC and accepted by the Commissioner will result in General Conformance with this requirement.

Recommendation

There should be acceptance of the Practice Inspection Report and accompanying Management Action Plan by the Commissioner and a copy provided to the Office of the Comptroller General.

Part II – Matters for the Consideration of the Acting Chief Audit Executive

1. Observation—Communicating the Purpose, Authority and Responsibility of IAB

The role of Internal Audit is generally not well understood by middle management either at headquarters or in the regions. The role is often confused with that of Evaluation, Research, the Office of Correctional Investigators, the Office of the Comptroller General (OCG) and the Office of the Auditor General (OAG). The Acting CAE has done some visits in the regions, to ensure that middle management understands the roles and responsibilities of IAB but she agrees that more could be done in this area. The Acting CAE and IAB are now making extensive use of teleconferencing to augment visits. IAB might wish to consider producing marketing materials (pamphlets, etc.) which could be provided to clients at the commencement of audits, particularly at the middle management level and in the regions.

Recommendation

Internal Audit should engage in activities to improve the understanding of its role at CSC.

2. Observation—Focus on Deficit Reduction Initiatives and Operational Efficiency

One of the key objectives of an internal audit activity is to add value to an organization. Beginning in 2012, CSC will operate within reduced budgets and perhaps additional funds for reinvestment purposes. Internal audit will likely be expected to assist senior management in monitoring and providing independent assurance on the reinvestment initiatives as well as refocusing its direction slightly to look for efficiencies in operations. While auditors normally understand well the concept of efficiency, many have not had sufficient recent experience conducting efficiency audits and will need refresher training.

Recommendation

The Acting CAE should consider introducing a refresher training course on efficiency audit practices and procedures for the IAB staff by mid year 2012.

3. Observation—Performance Management Framework

IAB measures and reports on a number of key performance areas in various documents throughout the year. IIA standards and TB Policy each provide a general framework of some suggested performance metrics to be reported to audit committees. Interviews with DAC members indicated they believed they were getting most of the key indicators but had to search through various documents to locate most. The CAE should use this opportunity to share the results of post audit surveys with the DAC and the Commissioner. A suggestion was made that a more formalized and comprehensive performance management framework would assist DAC and the Commissioner in this area. There would be a dialogue between the Acting CAE, the Commissioner and the DAC members to agree upon the key indicators to be reported against and the frequency of reporting.

Recommendation

The Acting CAE should develop a more formalized and comprehensive Performance Management Framework to be reviewed with DAC and approved by the Commissioner.

4. Observation—Engagement of Senior Management, DAC and audit staff in preparation of Risk Based Audit Plan (RBAP)

Senior management was consulted in the development of the RBAP in the initial stage, particularly with the identification and discussion of CSC risks, and received an electronic copy of the draft RBAP for review and comments prior to its presentation to DAC. However, the Acting CAE did not formally present the RBAP at Executive Committee. As a result, some of the senior management interviewed felt that they were not provided with the opportunity to collectively discuss the RBAP.

In discussions with the audit staff, they are currently not involved with the development of the RBAP. It would be beneficial if they were more involved for two reasons: first, to receive the benefit of their experience in the RBAP development and second, to give the auditors the broader more strategic perspective to the audit engagements they will be asked to participate in later.

Recommendation

In the development of the RBAP the CAE should ensure that the:

- Draft RBAP is presented to senior management and Executive -Committee prior to its submission to the DAC and Commissioner;
- Audit staff is included in the preparation of the RBAP.

5. Observation— Evaluate the Potential for the Occurrence of Fraud as part of the RBAP

IIA Standard 2120.A2 states that "the internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk". To date there has been very limited focus by internal audit on evaluating the potential for the occurrence of fraud although IAB is currently contracting someone to conduct a fraud risk assessment. There is an opportunity for IAB to assist CSC in further strengthening its fraud risk management by identifying current strength and weakness in CSC's a Fraud Policy and protocol. From an audit perspective, IAB can further develop policies, procedures and training for internal auditors in order to comply with this new standard.

Recommendation

IAB should:

- Ensure that the department's senior management and internal audit staff have a clear understanding of the roles and responsibilities of internal audit in the prevention and detection of wrongdoing and fraud.;
- Review the department's fraud awareness and prevention processes, conduct an overall fraud risk assessment, and understand the department's specific fraud risk exposure.
- Evaluate the potential for the occurrence of fraud on an overall basis, as part of the RBAP and as a part of each individual audit; and

- Ensure that as part of each audit internal auditors have the skills and knowledge necessary to recognize the signs of fraud and that all parties have a clear understanding of the procedures to follow when a possible fraud is detected during the conduct of an internal audit. Developing policies and procedures for inclusion in the IA Manual would assist auditors on that front.

6. Observation—Communicating Results of Internal Audit Reports

IAB has implemented a Quality Assurance practice for its audit working paper files and audit reports as part of its Quality Assurance and Improvement Program (QAIP). Files reviewed by the PI Team revealed that the audit procedures are well followed and there is sufficient and appropriate evidence to support observations and recommendations. However, based upon observation and commentary received from interviews, internal audit reports when presented to DAC are not written in a business-like enough manner and there are too many recommendations in the reports which are not of a strategic nature. In addition, some of the IAB report recommendations of past reports have not been as precise as the Commissioner and DAC members would have wanted. This has caused MAPs and response activities to be less precise at times. The QAIP is lacking a senior QA review of the reports that would provide a critical challenge that would support reports to be written in a more business-like manner with fewer, more precise and more strategic recommendations. A previous recommendation included in this report to spend more time in the planning stage of each audit with senior management getting properly orientated to the challenges and risks and environment of the program or function will complement this recommendation.

Recommendation

IAB should provide report writing training.

IAB should strengthen its QAIP to provide the necessary senior critical challenges to the draft reports in the final draft stages with senior management and prior to presentation to DAC and the Commissioner, to ensure reports are written in a more business like style and the recommendations are limited in number, more strategic and precise in nature.



Internal Audit and Evaluation Report on the Self-Assessment of the Internal Audit Activity

July 11, 2011

Self-assessment team:

Christian Kratchanov, MBA, CIA, CMC, Adm.A, Chief Audit Executive

Ora Tsang, CIA, CGAP, Audit Manager

Beth McClurg, CMA, CIA, Senior Auditor

Field work: January –July 2011

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1.0 Purpose

This document presents the findings of the self-assessment of the internal audit function at the Department of Finance Canada (Finance Canada). The detailed self-assessment was performed based on the Office of the Comptroller General's *Internal Audit Self-Diagnostic Guide* for a practice inspection, which forms part of the Treasury Board of Canada Secretariat's Internal Audit Practice Inspection Guidebook (June 2010). The assessment was conducted in preparation for an external assessment exercise that will be conducted in 2011.

2.0 Background

The Treasury Board *Internal Auditing Standards for the Government of Canada*, which references the Institute of Internal Auditors *International Professional Practices Framework (IPPF)*, requires that internal audit functions perform periodic reviews / assessments as part of a quality assurance and improvement program. This includes, but is not limited to, internal audit engagement supervision, quality assurance reviews of individual audits, and periodic reviews through self-assessments of the function. In addition each internal audit function must be subject to an external assessment (a practice inspection) or a self-assessment with independent validation exercise at least once every five years. External practice inspections / independent validation exercises are conducted in order to:

- Assess conformance to requirements set forth by Treasury Board and the Institute of Internal Auditors;
- Allow audit functions to formally report that they comply with auditing standards when issuing final approved audit reports; and
- Facilitate reliance on internal audit results by other providers of assurance, such as the Office of the Auditor General.

The Internal Audit and Evaluation (IAE) organization within Finance Canada has performed a detailed self-assessment. In accordance with Practice Advisory 1312-2 of the IIA IPPF, in order to fulfill the requirements of an external assessment, the results of the self-assessment will be validated by a qualified, independent reviewer. The results of the external assessment will be presented to Finance Canada's Audit and Evaluation Committee.

3.0 Methodology

The self-assessment was conducted in the spring of 2011. It was conducted based on the Office of the Comptroller General's *Internal Audit Self-Diagnostic Guide*. The self-assessment was led by the Chief Audit and Evaluation Executive with support from the Internal Audit staff.

All of IAE's practices and procedures were reviewed in order to arrive at an overall conclusion for each of the four domains of the diagnostic tool – governance, professional practices,

administration and performance. Consistent with the diagnostic tool, the rating scale that was employed consists of the following:

Generally conforms	There is no material deficiency, although there may be some minor deficiencies.
Partially conforms	There is one material deficiency, and there may be some more minor deficiencies.
Does not conform	There is more than one material deficiency in the requirements being examined.

4.0 Results

4.1 Overall results

Overall, based on the self-assessment results, IAE generally conforms to each of the four domains under review. The results are presented below in Table 1. The detailed results of the self-assessment exercise are presented in Annex A.

Table 1 – Overall results of the self-assessment

#	Domain and element	Generally Conforms	Partially Conforms	Does Not Conform
A.	GOVERNANCE	✓		
A.1	Values and Ethics	✓		
A.2	Deputy Head	✓		
A.3	Departmental Audit Committee	✓		
A.4	Chief Audit Executive	✓		
A.5	Internal Audit Charter	✓		
B.	PROFESSIONAL PRACTICE	✓		
B.1	Nature of Internal Audit	✓		
B.2	Departmental Internal Audit Plan	✓		
B.3	Internal Audit Engagement Process	✓		
B.4	Overview Assurance Reporting	✓		
B.5	Quality Requirements for Internal Audit	✓		
C.	ADMINISTRATION	✓		
C.1	Recruitment and Evaluation	✓		
C.2	Learning and Development	✓		
C.3	Security of Working Papers	✓		
C.4	Access to Information and Privacy	✓		
D.	PERFORMANCE	✓		
D.1	Internal Audit Performance Measurement Reporting	✓		
D.2	Departmental Audit Committee Annual Report	✓		
D.3	External Quality Assurance / Practice Inspection		✓	

5.0 Recommendation

The internal audit function generally conforms to each domain except for the following:

- 1) B.3.3.b.3 – Reporting that engagements are conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*;
- 2) D.1.b.1 - Conformance with the *International Standards for the Professional Practice of Internal Auditing*. IAE has not undergone a quality review or an external assessment to allow the use of this statement; and
- 3) D.3.a.1-D.3.a.4 - External Quality Assurance/Practice Inspection requirements.

All items pertain to having completed an external assessment. An external assessment is planned to be completed by September 30, 2011 and once the assessment is completed, all items will be in full conformance.

Recommendation

It is recommended that once an external assessment has been conducted and results indicate that IAE conforms to the *International Standards for the Professional Practice of Internal Auditing*, IAE should update its assurance statement to reflect it's conformity to the standards.

6.0 Action Plan

The following action plan has been developed in order to address the recommendation.

Item Number	Item Description	Planned Actions	Timelines
B.3.3.b.3	Internal auditors may report that their engagements are "conducted in conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> ", only if the results of the quality assurance and improvement program support the statement.	1) The conduct of an independent assessment (external validation) is planned to commence in fiscal-year 2011-12 and will be completed by September 30, 2011. The results are expected to support this statement; therefore, IAE's assurance statement will be amended to so that IAE can report that their engagements are conducted in conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> .	1) Sept 30, 2011
D.1.b.1	Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> in assurance statement	1) The conduct of an independent assessment (external validation) is planned to commence in fiscal-year 2011-12 and will be completed by	1) Sept 30, 2011

	The chief audit executive may state that the internal audit activity conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> only if the results of the quality assurance and improvement program support this statement.	2) The appropriate wording will be used in the assurance statement once an external assessment has been conducted and results indicate that IAE conforms to the <i>International Standards for the Professional Practice of Internal Auditing</i> .	2) Sept 30, 2011
D.3.a.1- D.3.a.4	External assessments have been completed and reported. <i>IIA standard 1312: "External assessments must be carried conducted at least once every five years by a qualified independent reviewer or review team from an outside organization."</i>	1) The conduct of an independent assessment (external validation) is planned to commence in fiscal-year 2011-12 and will be completed by September 30, 2011.	1) Sept 30, 2011

INDEPENDENT VALIDATOR STATEMENT

The Validator was engaged to conduct an independent validation of the Department of Finance internal audit (IA) activity's self-assessment. The primary objectives of the validation were to verify the assertions made in the self-assessment report concerning:

- Department of Finance and IA activity's conformity to the requirements of the *Treasury Board Internal Audit Policy Suite*, as well as the Internal Auditing Standards for the Government of Canada, as stated in the Treasury Board of Canada Secretariat's Internal Audit Practice Inspection Guidebook (June 2010);
- IA activity's conformance with the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* (Standards) and the Code of Ethics, and
- To satisfy the Department of Finance response to the Office of the Auditor General's 2011 Status Report, Chapter 3, to conduct an external quality assurance review by September 2012.

In acting as Validator, we are fully independent of the organization and have the necessary knowledge and skills to undertake this engagement. The validation, conducted during July-August 2011, consisted primarily of a review and testing of the procedures and results of the self-assessment.

In addition, interviews were conducted with the Deputy Minister, the Chair and External members of the Departmental Audit Committee, selected senior management, CFO, CAE, and the OAG Principal. A focus group was also conducted with audit managers and audit staff.

We concur with the IA activity's conclusions in the self-assessment report (attached, dated July 11, 2011) that:

- The Department of Finance and IA activity is in general conformance with the requirements of the Treasury Board *Policy on Internal Audit Suite*, as well as the Internal Auditing Standards for the Government of Canada;
- The IA activity is in general conformance with the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* (Standards) and the Code of Ethics, and
- The Practice Inspection satisfies the Department of Finance response to the Office of the Auditor General's 2011 Status Report, Chapter 3, to conduct an external quality assurance review by September 2012.

Suggestions for improvement against best practices, intended to build upon the strong foundation already in place, were provided to the CAE for consideration.



David Rattray, FCGA, CIA
Independent Validator
Associate Partner, BMCI



Robin Sellar, CA, CPA, CIA
Independent Validator
Associate Partner, BMCI

Date: August 23, 2011

Department of Finance

Independent Validation of a Self-Assessment of the Internal Audit Activity

August 23, 2011

Independent Validation

David Rattray, B.Comm, FCGA, FCIS, PAdm, CIA and
Robin Sellar, B. Comm, MBA, CPA, CA, CIA,
BMCI Associate Partners were contracted to conduct
an independent validation of the Department of
Finance internal audit (IA) activity's self-assessment.

Objectives

Primary objectives of this Independent Validation were to verify the assertions made in the IA Self-Assessment Report concerning:

- IA activity's conformity to the requirements of the *Treasury Board Internal Audit Policy Suite*, as well as to the Internal Auditing Standards for the Government of Canada;
- IA activity's conformance with the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* (Standards) and the Code of Ethics; and
- To satisfy the Department of Finance response to the Office of the Auditor General's 2011 Status Report, Chapter 3, to conduct an external quality assurance review by September 2012.

Approach

- Read extensive background information supporting the understanding of the Department;
- Reviewed Report on the Self-Assessment of the Internal Audit Activity prepared by IA;
- Reviewed all supporting documentation, including audit methodology and other professional practices, governance methodology and documents supporting DAC;
- Conducted a quality assurance review of two audit files previously presented to DAC; and
- Conducted interviews with the DM, Chair and external members of DAC, selected senior management, CFO, CAE, audit managers, audit team and the OAG Principal.

Comments on IA Activity

- Highly professional approach to Practice Inspection exercise;
- IA was well prepared and organized;
- Provided excellent support to consultants; and
- IA is very strong, relative to others.

Independent Validator Statement

Concur with the IA activity's conclusions in the self-assessment report that:

- The Department of Finance and IA activity is in general conformance with the requirements of the *Treasury Board Internal Audit Policy Suite*, as well as the Internal Auditing Standards for the Government of Canada;
- The IA activity is in general conformance with the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)* and the Code of Ethics, and
- The Practice Inspection satisfies the Department of Finance response to the Office of the Auditor General's 2011 Status Report, Chapter 3, to conduct an external quality assurance review by September 2012.

Suggestions for Improvement

Building upon the strong foundation already in place, the following represent a few suggestions for improvement:

- Formalize the performance management framework with the DM and DAC;
- Further engage audit team in the development of the RBAP;
- Communicate an integrated view to senior management of all work planned by the various assurance providers; and
- Enhance audit engagement project management.

Next Steps

- DM to accept Practice Inspection Report and accompanying Management Action Plan;
- Table the Practice Inspection Report with DAC;
- Provide the OCG with the Practice Inspection Report; and
- Notify the Office of the Auditor General of the full implementation of the recommendation addressed to the Department of Finance in their Audit of Internal Audit.



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Human Resources and Skills Development Canada

**Ressources Humaines et Développement Des
Compétences Canada**

Practice Inspection



Practice Inspection Report

Date: June 7, 2011

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Executive Summary

Background

The Treasury Board (TB) of Canada Secretariat Policy on Internal Audit came into effect in July, 2009 and replaced the TB Policy of April, 2006. Its objective is to support strong and accountable public sector management by ensuring effective internal auditing with departments and across government. A requirement of the Policy on Internal Audit is that all internal audit activities are subject to a Practice Inspection every five years.

Objectives of the Practice Inspection

As required by the Treasury Board Secretariat Policy on Internal Audit, a Practice Inspection (PI) of the internal audit activity at Human Resources and Skills Development Canada (HRSDC) was conducted. The principal objectives of the Practice Inspection were to:

- (1) assess internal audit activity's conformity to the mandatory requirements of the TBS Internal Audit Policy Suite (internal audit policy requirements), which includes the Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing* (IIA Standards), and
- (2) based upon best practices, provide recommendations for improvements to strengthen the internal audit activity at HRSDC.

Opinion as to Conformity to the Standards

The overall opinion is that the internal audit activity at HRSDC generally conforms to the TBS Internal Audit policy requirements as well as to the Internal Auditing Standards for the Government of Canada.

The Practice Inspection team identified opportunities for further improvements, details of which are provided in this Report.

Conformance to the IA policy requirements are evaluated using the following scale:

“Generally Conforms: means there is no material deficiency, although there may be some minor deficiencies.

“Partially Conforms” means there is one material deficiency, and there may be minor deficiencies.

“Does Not Conform” means that there is more than one major deficiency in practice are judged to be so significant as to seriously impair or preclude the internal audit function from performing adequately in all or in significant areas of its responsibilities.

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Scope and Methodology

As part of the preparation for the Practice Inspection, the internal audit activity completed an advanced preparation document with detailed information regarding HRSDC and the internal audit activity. Prior to commencement of the onsite work by the PI team in January, 2011, the team leaders made a preliminary visit to HRSDC to gather additional background information, selected executives for interviews during the onsite field work, and finalized planning and administrative arrangements for the PI. During the field work phase, interviews were conducted with the Audit Committee external members, the Deputy Minister, the Chief Audit Executive, the Chief Financial Officer, other key members of executive management, the Office of the Auditor General (OAG) Principal and a representative number of internal audit staff. We also reviewed the IA function's risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a representative sample of the IA function's working papers and reports.

Internal Audit Strengths and Best Practices

The IA activity is well-structured and progressive, where IA policy requirements and the IIA *Standards* are well understood by those in the activity and by senior management in the Department.

The IA activity has a very experienced Chief Audit Executive (CAE) who is making significant strides in advancing the practice of internal audit at HRSDC.

The CAE and his Directors have a strong working relationship with the Departmental Audit Committee and the Deputy Minister who chairs the DAC.

The CAE is well connected with senior management and is working diligently to ensure the IA activity work is contributing in a value added manner to the Department's strategic priorities and corporate risk mitigation strategies.

The CAE and his Directors have worked closely with the Internal Review Committee (IRC) to further strengthen the Risk Based Audit Plan consultation process as well as substantially enhancing the planning and reporting phases of internal audit engagements.

IA management has a comprehensive audit engagement quality assurance process where all draft audit reports and supporting documentation are reviewed by external consultants and recommendations are acted upon promptly.

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Observations and Recommendations

While the overall conclusion of the Practice Inspection is that the Internal Audit Activity generally conforms to the TBS Internal Audit policy requirements as well as to the Internal Auditing Standards for the Government of Canada, the Practice Inspection Team has made a number of recommendations that are intended to build on this strong foundation already in place.

The details of the recommendations that follow in the main body of the Report are divided into two parts:

- Those that concern the governance of HRSDC and suggest actions by the Deputy Minister and/or the Departmental Audit Committee; and
- Those that concern the Internal Audit Activity and suggest actions by the Chief Audit Executive.

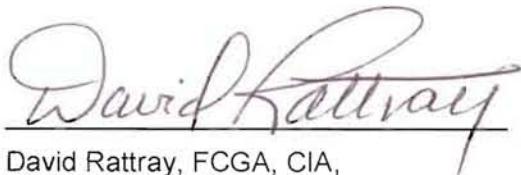
Management Response and Action Plans

HRSDC accepts the recommendations resulting from the Practice Inspection. One of the main objectives of the Internal Audit Services Branch is continuous improvement. Some findings of the Practice Inspection address areas where we are already making change and others will allow us to develop targeted initiatives to concentrate key areas where improvement is necessary. IASB has developed a comprehensive action plan to address the recommendations resulting from the Practice Inspection. These actions are broken down by recommendation in the report and then included in their entirety in Appendix A.

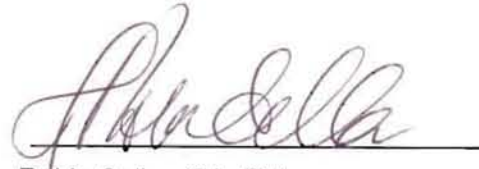
In line with the objective of continuous improvement IASB will be conducting a self-assessment exercise on an annual basis to ensure the actions of the inspection are implemented and that other potential areas of weakness are addressed in a timely manner.

HRSDC thanks the Centre for Public Management and specifically the Practice Inspection team for the thorough review of the Internal Audit function within the Department.

The Practice Inspection Team wishes to express its appreciation for the cooperation and assistance afforded by the Deputy Minister, DAC members, HRSDC senior management, and the CAE and audit staff.



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Practice Inspection Report Details

Background

The Treasury Board (TB) of Canada Secretariat *Policy on Internal Audit* came into effect in July, 2009 and replaced the TB Policy of April, 2006. Its objective is to support strong and accountable public sector management by ensuring effective internal auditing within departments and across government. A requirement of the *Policy on Internal Audit* is that all internal audit activities are subject to a Practice Inspection every five years.

Objectives of the Practice Inspection

As required by the Treasury Board Secretariat *Policy on Internal Audit*, a Practice Inspection (PI) of the internal audit activity at Human Resources and Skills Development Canada (HRSDC) was conducted. The principal objectives of the Practice Inspection were to:

- (1) assess internal audit activity's conformity to the mandatory requirements of the TBS Internal Audit Policy Suite (internal audit policy requirements), which includes the Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing* (IIA Standards), and
- (2) based upon best practices, provide recommendations for improvements to strengthen the internal audit activity at HRSDC.

Opinion as to Conformity to the Standards

The overall opinion is that the internal audit activity at HRSDC generally conforms to the TBS *Policy on Internal Audit* requirements as well as to the Internal Auditing Standards for the Government of Canada.

The Practice Inspection team identified opportunities for further improvements, details of which are provided in this Report.

Conformance to the IA policy requirements are evaluated using the following scale:

“Generally Conforms: means there is no material deficiency, although there may be some minor deficiencies.

“Partially Conforms” means there is one material deficiency, and there may be minor deficiencies.

“Does Not Conform” means that there is more than one major deficiency in practice are judged to be so significant as to seriously impair or preclude the internal audit function from performing adequately in all or in significant areas of its responsibilities.

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Scope and Methodology

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Summary Ratings

The PI team rated the internal audit activity as in general conformance with the Internal Audit Standards for the Government of Canada and the Institute of Internal Auditors (IIA) Standards contained in the *International Professional Practices Framework (IPPF)*.

Tables 1, 2 and 3 illustrate the level of progress by HRSDC IA towards the requirements of the Treasury Board *Policy on Internal Audit* as well as those of the Policy's related directives covering the roles and responsibilities for Deputy Heads, Departmental Audit Committees, Chief Audit Executives, and support to the Comptroller General.

Table 4 illustrates the conformance ratings of internal audit against the IIA *International Professional Practices Framework (IPPF)*.

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Table 1 Summary of progress ratings against the policy requirements and related directives covering Deputy Heads

Policy Requirements/Directives covering Deputy Heads	Policy/Directive Reference	General Conformance	Partial Conformance
Appropriate internal audit capacity to the needs of the department	5.4.1	x	
Establish an independent DAC with majority external members	5.4.2	x	
Appointing qualified CAE with direct reporting to the Deputy Minister	5.4.3	x	
Ensuring the CAE has direct report to the DM and DAC, full access to people and information and provide annual overview assurance reporting	4.1.2	x	
Approving a Departmental RBAP	5.4.4/4.2.1	x	
Ensuring appropriate internal audit coverage	5.4.5	x	
Putting in place effective procedures to ensure systematic monitoring and assurance covering risk management, control and accountability processes	5.6.1	x	
Taking into account the results of OCG Horizontal audits	5.6.2	x	
Ensuring DAC receives all the information and documentation to fulfill its responsibilities	5.6.3	x	
Ensuring Management Action Plans are prepared that address the recommendations and are implemented	5.6.4	x	
Ensuring timely reporting to the Comptroller General on all required IA reports and plans	5	x	
Ensuring completed internal audits are issued in a timely manner and made accessible to the public	5.6.5		x See Deputy Minister Recommendation #2

Table 2 Summary of progress ratings against the policy guidelines covering the Departmental Audit Committee (DAC)

Policy Directives covering Departmental Audit Committees (DAC)	Directive Reference	General Conformance	Partial Conformance
Provides objective advice and recommendations to the Deputy Minister regarding assurance on the adequacy and functioning of HRSDC's risk management, control and governance frameworks and processes	4.1.1	x	
Provides advice and recommendations as may be requested by the Deputy Minister	4.1.2	x	
Review and recommend for approval the DAC Charter, RBAP, monitor adequacy of IA resources, monitor and assess performance of IA, provide advice to DM on recruitment and appointment of a CAE, receive and recommend for approval individual audit engagement reports and MAPs, receive reports on status of MAPs, and receive and recommend for approval an annual assurance report from the CAE.	4.2.2	x	
Advise the Deputy Minister on the effectiveness of arrangements to monitor and follow up on MAPs responding to recommendations from IA, the OAG and other assurance providers	4.2.4.1	x	
Appointment of external DAC members	4.3.1	x	
DAC with majority of external appointees	4.3.2	x	
Deputy Minister or external member as DAC chair	4.3.8	x	
DAC roles and responsibilities in a Charter approved by the Deputy Minister and reviewed periodically	4.4.1	x	
DAC meeting at least 4 times per year	4.4.3	x	
DAC annual report to the Deputy Minister	4.4.5	x	

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Table 3 Summary of progress ratings against the policy guidelines covering Chief Audit Executives

Policy Guidelines covering Chief Audit Executives (CAE)	Guideline Reference	General Conformance	Partial Conformance
CAE establish appropriate policies and procedures to guide the IA function	3.1.1		X See CAE Recommendation # 1
Establish RBAP at least annually	3.1.2 and 3.1.3	x	
Co-ordinate IA activities and plans with other assurance providers	3.1.4	x	
Communicate IA plans to the to the Deputy Minister and DAC	3.1.5	x	
Ensure IA resources are appropriate, sufficient and effectively employed	3.1.6		X See CAE Recommendation #2
Ensure timely completion of IA audit engagements	3.1.7	x	
Ensure reports to DAC on timely basis	3.1.8	x	
Ensure internal auditors have appropriate professional qualifications and skills and opportunities to sufficient training and development	3.1.9	x	
Develop and maintain a quality assurance and improvement program	3.1.10	x	
Ensure a Practice inspection is conducted at least every 5 years	3.1.11	x	
Ensure Professional auditing standards are followed and report is made at least annually that the standards are being followed	3.1.12 and 3.1.13	x	
Report to the Comptroller General without delay after discussion with the Deputy Minister any issue of risk, control or management practice that may be of significance to the government	3.1.14	No occurrences	

Table 4 illustrates HRSDC IA activity's conformance ratings for the IIA Standards categories.

IIA Standards	General Conformance	Partial Conformance	Does not Conform or Not Applicable
Purpose, Authority and Responsibility (Standard 1000)	x		
Independence and Objectivity (Standard 1100)	x		
Proficiency and Due Professional Care (Standard 1200)	x		
Quality Assurance and Improvement Program (Standard 1300)	x		
Managing the Internal Audit Activity (Standard 2000)	x		
Nature of Work (Standard 2100)	x		
Engagement Planning (Standard 2200)	x		
Performing the Engagement (Standard 2300)		x See CAE Recommendation #3	
Communicating Results (Standard 2400)		x See CAE Recommendation #4	
Monitoring Progress (Standard 2500)	x		
Management Acceptance of Risk (Standard 2600)			Not applicable
Compliance with Code of Ethics	x		

Part I – Matters for the Consideration of the Deputy Minister and / or the Departmental Audit Committee

1. Observation- Practice Inspection

There is a requirement under the TB Policy on Internal Audit, as well as a requirement by the Institute of Internal Auditors, to conduct a Practice Inspection in the case of TB Policy and a Quality Assurance Review (QAR) in the case of the IIA Standards, every five years. This Practice Inspection is a response to both of those requirements and when completed and tabled with the DAC and accepted by the Deputy Minister will result in General Compliance with this requirement for both organizations.

Recommendation

- a) Table the completed PI Report with the DAC.
- b) Obtain acceptance of the Report and accompanying Management Action Plan by the Deputy Minister.
- c) Provide the Office of the Comptroller General with a copy of the Final PI Report.

Management Response

HRSDC Senior Management and the Departmental Audit Committee were involved and kept abreast throughout the conduct of the inspection. The Deputy Minister and Chief Audit Executive will discuss the results of the inspection during the CAE's bilateral in the month of May. In addition, IASB has committed to presenting the Practice Inspection report as well as the Action Plan to the DAC at their June 7, 2011 meeting.

The Office of the Comptroller General was informed of the Practice Inspection early in the conduct phase. IASB has committed to sharing the results with the OCG and will do so after the Deputy Minister has reviewed and accepted the report and after the DAC has had an opportunity to discuss the findings.

2. Observation- Audit Reports Accessible to the Public in a Timely Manner

There are a few occasions where the posting of completed audit reports to the departmental website have not met the 90 day reporting requirement.

Recommendation

Review and streamline the reporting process for the public reporting of internal audit reports to meet the 90 day reporting timeline.

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Management Response

HRSDC respects the TB Policy on Internal Audit and the need to publish reports in a timely manner. IASB has hired an experienced staff member whose role is to manage the information within the branch (individual was hired midway through the conduct of the inspection). This includes the dissemination of reports to the public via the HRSDC internet site. In the past a lack of a dedicated resource has created difficulties in terms of processes, consistency, and respect for deadlines due to competing priorities.

The initial priorities will be to publish the backlog of reports and to develop a process which allows for the timely release of reports. The subsequent priority will be the enforcement of the process and respect for timeframes.

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Part II – Matters for the Consideration of the Chief Audit Executive

1. Observation—Policies and Procedures to Guide the Audit Function

Although the internal audit function has spent considerable time to develop new professional tools and templates, the supporting audit manual has not been completely updated to reflect these changes and the modifications to the Institute of Internal Auditors IPPF.

Recommendation

Update the audit manual to reflect the newly developed tools and templates and the use of automated working papers/technology.

Chief Audit Executive Response

The IASB Internal Audit Manual will be thoroughly reviewed and subsequently updated to ensure there are no gaps and that the information within accurately reflects the practices in the branch. Contributing to this will be the recently established working group which will focus on ensuring the manual meets the needs of those conducting engagements.

Beyond this, IASB has begun an exercise to fully integrate the use of TeamMate during engagements. This exercise comes at an opportune time as the branch is upgrading to version 9.1 of TeamMate and can therefore release the new version and deliver the training required to allow for the integration at the same time.

The review and update of the manual will be conducted in parallel with the TeamMate exercise to ensure information and guidance provided to staff is sufficient as well as consistent.

2. Observation— Appropriate, Sufficient and Effectively Employed Resources

Although adequate financial resources have been provided, the IA function is not sufficiently resourced to handle its requirements. Also, staff turnover has been high and there is often a lack of staff consistency from the beginning to the conclusion of the audit. There is also insufficient experience and knowledge in certain areas, such as grants and contributions and finance. There is a need to staff additional resources at all levels and ensure that such resources, at the Director, senior manager and auditor level, are stronger to support the requirements of the internal audit function.

Recommendation

Actively engage in the recruitment of additional, qualified resources. Consider developing a Human Resources Recruitment and Retention Strategy to support the success of this effort.

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Chief Audit Executive Response

IASB is currently developing a Human Resource Plan which is tied directly to operational needs as well as the organizational structure. The Human Resource Plan focuses on the strategies to be used to recruit staff as well as the initiatives in place to create a Workplace of Choice thus reducing turnover. This Human Resource Plan will also include succession planning. In the next few years several experienced staff members within IASB will be eligible for retirement. It is essential that the branch is prepared for this with a lengthy transition period which allows for knowledge transfer.

IASB has mitigating strategies in place to ensure commitments and senior management priorities are met. These strategies include the use of highly skilled consultants, including those with Grants and Contributions and financial experience. This strategy will continue to be used to meet the commitments within the Risk-Based Internal Audit Plan and ensure teams possess the knowledge, skills, and other competencies required to perform engagements.

3. Observation—Performing the Audit Engagement

- a) **There is not always a clear link between the evidence gathered, the completed audit program and the determination of findings which are eventually reported in the audit report.**
- b) **As critical findings are identified, the auditee is not always informed on a timely basis, as part of the ongoing debriefing process.**

Recommendation

- a) Ensure that the audit program is completed and that findings arising from work are properly referenced to the audit report, management letter or determined to be not reportable.
- b) Inform the auditee of critical findings identified on a timely basis, prior to the issuance of the audit report.

Senior Management Response

Throughout the fiscal year IASB focused on consistency of processes and information management. As a result of this focus, the senior management team is pleased with the progress made to do within the branch in relation to this recommendation.

Although strides have been made, as the IASB senior management firmly believes in continuous improvement, the Practice Management team within IASB will soon begin to conduct thorough quality assurance reviews of completed engagements. The intent of these reviews is not to repeat the work of the external quality assurance reviewers but to identify trends, strengths and weaknesses which should be shared and addressed horizontally (as appropriate) with staff. Specific attention will be paid towards the linkages between the audit program and the report as well as to the cross-referencing of working papers.

The management action related to the internal audit manual will also contribute to this as more guidance will be provided in terms of what findings should be included in the report versus what should be included in a management letter.

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IASB will review processes to determine whether auditee consultation should be included more explicitly. In the mean time senior management will continue to reinforce the need to communicate results with auditees on a regular basis.

IASB recently requested that each branch/region within the Department identify a primary branch contact for internal and external audits. This contact is to be someone at a senior level within the branch who reports directly to the Assistant Deputy Minister/Regional Executive Head. IASB has committed to keeping contacts informed throughout engagements; in turn this will contribute to ADMs being more informed.

4. Observations—Communicating Audit Results

- a) The audit cycle time/duration is still an issue although this is improving.
- b) Audit reports need to be enhanced, both from a structure and content perspective. They need to be more strategic in nature with less important items to be included in a management letter.
- c) A process supporting appropriate records retention has not been developed.

Recommendations

- a) Make use of the newly implemented performance management process to ensure that audits are delivered within the committed time-frame, as established in the original Terms of Reference;
- b) Consider providing report writing training to audit staff to enhance the quality and focus of audit reports.
- c) Develop and implement a records retention process.

Senior Management Response

The use of the Audit Management Tool will continue to be mandatory throughout internal audit engagements. This tool has contributed to improved planning within the branch. Building on the tool, internal quality assurance activities will focus not only of the quality of work but on the performance of engagements, including estimated versus actual timeframes. This will contribute to timelier delivery of engagement results as management will be more aware of the potential bottlenecks and where improvements are necessary.

Prior to offering report writing training to staff conducting engagements, IASB will conduct a review of recent reports to ensure the training is focused on key areas for improvement. IASB senior management will also look into making audit report writing training mandatory for all new staff. Both formal and informal training mechanisms will be considered. In addition, the aforementioned peer review process will contribute to the strategic focus and ensuring the information included within reports adds value for the auditee and Department as a whole.

As previously noted, IASB now has an experienced individual responsible for information management within the branch. Part of this person's responsibilities includes the development and maintenance of a records management retention process. This process, which will include both electronic and paper records, will then be shared with all staff.

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