



Treasury Board of Canada
Secrétariat

Secrétariat du Conseil du Trésor
du Canada

Strengthening Internal Audit, Audit Committees, IT Audit

ISACA Presentation

March 2nd, 2006

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Internal Audit Drivers of Change

- Today's environment is complex, IT driven, high public scrutiny, forensic, horizontality and demands from Canadians
- Landscape of internal audit is experiencing sea change post Enron, Sarbanes-Oxley: dramatic rise of expectation
- Growing stewardship concerns in public and private sectors
- Jurisprudence continues to move the yardstick
- Priority for government and Parliament
- Gomery



Internal Audit Diagnostique

- Internal audit in federal government not working well
 - Public Accounts Committee believes system lacks sufficient independence from line management
 - Variability in capacity, skills, practice, methods and standards
 - Gov't unable to articulate how well control frame is working
 - No systematic, coherent approach to gauge effectiveness of risk management, control, and governance processes
- Not focused on assurance; focused on reviews/consulting
- Not providing Deputies with independent assurance
- First principles of an audit function require real and perceived organizational independence
 - Most IA functions not independent from line organizations
 - Audit committees not independent from line management
- Access to Information weakens the audit regime.



Key Pillars of the Internal Audit Vision

- Qualified Chief Audit Executives, audit committee members and audit professionals
- Standardized approaches, tools, and methodologies, backed by disciplined, systematic and periodic practice inspections
- Independence and effective governance arrangements, within departments and centrally:
 - Independent audit committees
 - Independent audit function
 - Deputy head responsibilities
 - Comptroller General responsibilities
- Timely, effective reporting and oversight



Scope of the Policy Change

Deputy heads of all departments are responsible for:

- Putting in place effective procedures to ensure systematic review of control and accountability processes in their departments.
- Ensuring that the audit committee receives all of the information and documentation needed or requested to fulfill its responsibilities, subject to applicable legislation.
- Ensuring that management action plans are prepared that adequately address the recommendations and findings arising from internal audits, and that the action plans have been effectively implemented.
- Ensuring that completed audit reports are issued in a timely manner and made accessible to the public with minimal formality; and posted in both official languages on departmental web sites in a timely manner.
- Ensuring that the respective Minister is briefed periodically on significant items arising from the work of internal audit and the audit committee.
- Ensuring that the Office of the Comptroller General and its agents, for the purpose of carrying out assigned responsibilities, are given full access to departmental records, databases, workplaces and employees
- Management representations needed to support the planning, conduct, and reporting of audits by the Comptroller General



Scope of the Policy Change

- **Deputy Heads of large organizations**
 - Establish an appropriately resourced internal audit function.
 - Establish an independent departmental audit committee
 - Appoint a qualified chief audit executive at a senior executive level, reporting to the deputy head, to lead and direct the internal audit function.
 - Approve a departmental internal audit plan that addresses all areas of higher risk and significance,
 - Ensure appropriate internal audit coverage for special operating agencies and other entities within their departments and under their control.
- **Comptroller General**
 - Responsibility for small agencies and horizontal audits
 - Oversee capacity of government-wide internal audit function
 - Appointments and appraisals of Heads; stewardship of function and reporting on performance
 - Capacity building through recruitment and learning initiatives
 - Overall assurance on internal controls government-wide; external reporting on performance of function
 - Review effectiveness of new policy

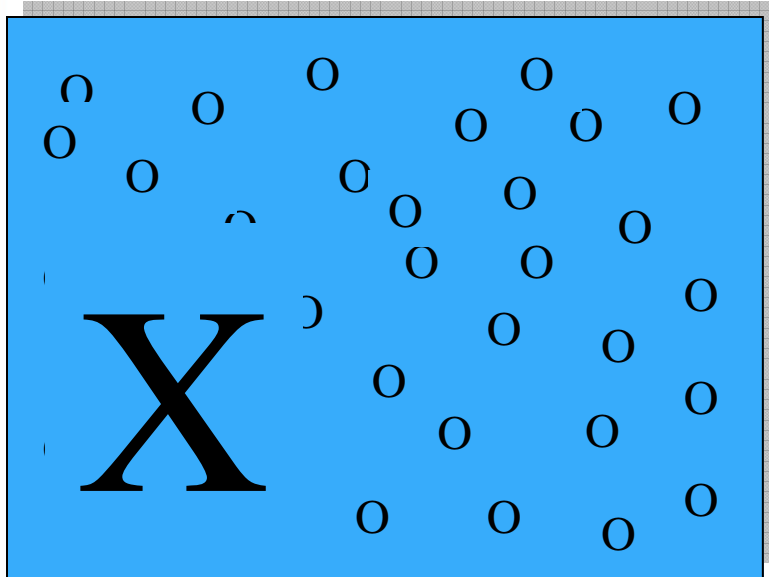


Independent Audit Committees

- Increase the independence by requiring that by 2009 all internal audit committees have a majority of members coming from outside the public service, with the remainder coming from outside the department or agency in question (with the exception of the Deputy Head who may sit on and chair the committee);
- Selected jointly by the Comptroller General and the Deputy Head according to selection criteria determined by the Comptroller General.
- The appointment of audit members is subject to TB approval.
- Deputy to ensure Minister is briefed periodically on significant items arising from work of internal audit and audit committee.
- To address overall health of departmental internal control and significant management risks, it is expected that the Minister would meet annually in camera with the Internal Audit Committee for assurance regarding risk management, control and audit systems. It is also expected that the deputy head would routinely be briefed by the Audit Committee on their assurance findings.

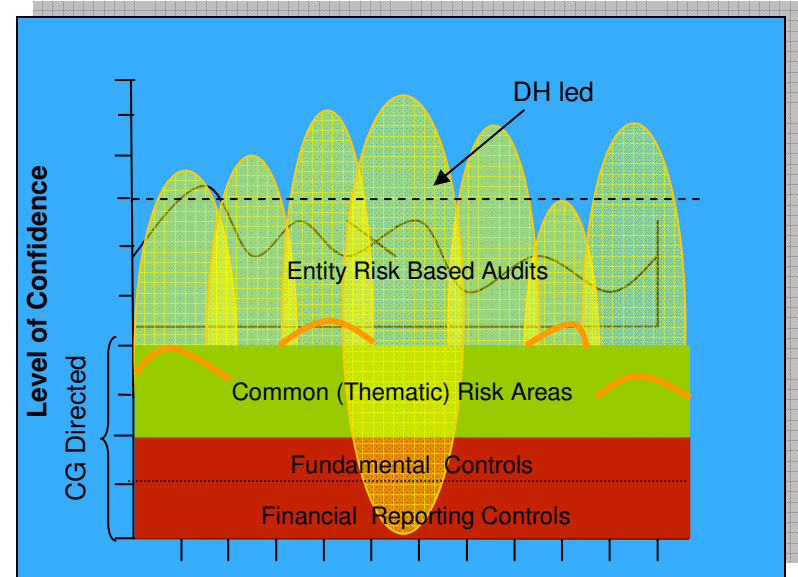
Element 1 – Rebalancing IA

Moving From Risk-Based Entity Based Approach



- Variable approaches
- Limited assurance
- No capacity to roll-up

Moving To Overall Audit Assurance Government-Wide Combined Approach

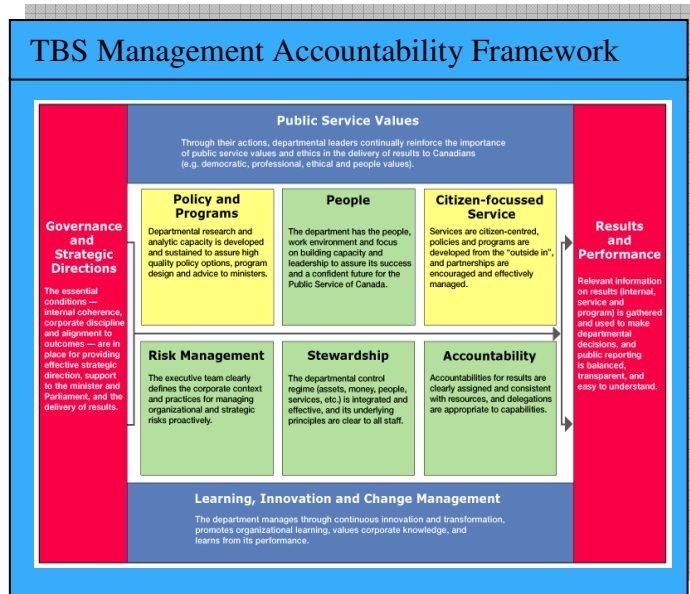


- Systematic, rigorous and disciplined
- Reflects dual responsibilities of DHs and CG
- Can be rolled up
- Key for balanced reporting
- Underpinned by enterprise-wide risk assessment



Levering Off Existing Tools to Identify Key Controls

Government-Wide Combined Approach



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Fundamental Controls*	Key Controls	
✓ ✓ ✓ ✓ ✓	Financial Reporting Controls	Key Controls
	✓ ✓ ✓ ✓ ✓	**

Modern Comptrollership Assessments
COSO, CoCo, COBIT, etc.

- Fundamental Controls include governance, stewardship, and program controls. (100-150 controls)
Financial reporting controls will have separate consideration.
- ** Key Controls are the ones required to prevent a material error (tested for existence, continuity and effectiveness throughout the reliance period) or a reputational error.



IT Audit Support: Input from the Community

- Knowledgeable and skilled IT audit resources are very scarce – difficult to attract and retain
- IT may not have been getting appropriate audit focus



IT Audit Support: Policy Recap

Responsibilities of Comptroller General
include:

- Support departments in undertaking internal audits of information technology.



IT Audit Support: Initial Approach

- Identify and retain services of some expert IT audit resources
- With the assistance of members of the IA Community, review existing TBS IT audit methodologies and refine/strengthen where appropriate
- Share methodologies across the IA Community



Forensic & IT Audit Support: Anticipated Assistance

OCG IT Auditors will be available to the departments for

- Coordinating information sharing for departmental auditors
- Consultation at all levels of audit activity, including
 - integrating IT audits into departmental audit plans
 - developing specific audit programs and audit criteria
 - constructing specific examination tests and consulting on the significance of findings
 - other advice and support



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