

**Natural Resources Canada Audit Branch**

**Practice Inspection Report**

**December 5, 2013**

**Purpose**

This document presents 1) the results of the Natural Resources Canada (NRCAN) Audit Branch (AB) self-assessment of conformance with Treasury Board (TB) *Policy on Internal Audit* and the Institute of Internal Auditors (IIA) Standards for internal audit and, 2) the results of a validation of the self-assessment conducted by qualified independent external reviewers from BMCI Consulting Inc.

The AB self-assessment was conducted using the Internal Audit Self-Diagnostic Guide produced by the Office of the Comptroller General (OCG), Internal Audit Sector. The validation was conducted against this guidance as well as the *International Standards for the Professional Practice of Internal Auditing (Standards)* of the IIA.

**Background**

The TB *Internal Auditing Standards for the Government of Canada*, which refers to the IIA's *International Professional Practices Framework (IPPF)*, requires that AB perform periodic reviews / assessments as part of a quality assurance and improvement program (QAIP). Both TB Policy and IIA Standards state "external assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization."

The principal objectives of this Practice Inspection are to:

- (1) Assess NRCAN and AB'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 (December 2012);
- (2) Assess AB's conformance with the IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)* and the Code of Ethics; and
- (3) Identify opportunities and provide recommendations for improvement to strengthen the internal audit activity at NRCAN, based upon best practices.

NRCAN'S AB underwent an independent review by PwC in October 2008 to provide an assessment relative to its compliance with IIA Standards and the TB Policy on Internal Audit. At the time this independent review was deemed to be sufficient by the OCG for government entities to satisfy the requirement for an independent practice inspection. Due to the elapsed time of nearly five years since this first independent review AB scheduled the current independent practice inspection for 2013-14. The assessment took the form of an internal self-assessment against standards with independent validation, in accordance with Practice Advisory 1312-2 of the IIA's IPPF.

## Methodology

### A) Self Assessment

AB's self-assessment was conducted between April 1, 2013 and August 16, 2013 based on the criteria set out in the Office of the Comptroller General's Internal Audit Self-Diagnostic Guide. The self-assessment was led by the Chief Audit Executive with support from AB staff. The assessment covered four domains: governance, professional practices, administration and performance. Each domain has between three and five sub-criteria that may in turn have sub-sub criteria. The activity overall was rated based on the total results over all the sub-criteria. Based on the evidence assembled, each criterion was also rated on the following scale:

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

### B) Validation

NRCAN's AB engaged BMCI Consulting Inc. to conduct the independent validation between August and October 2013 against the 12 standards in the IIA International Professional Practice Framework and the four OCG Guide domains of governance, professional practices, administration and performance. To conduct the validation, the consultants:

- Reviewed documentation supplied by AB;
- Reviewed AB's audit processes including the audit manual, Quality Assurance and Improvement Program, the performance management framework;
- Conducted a Quality Assurance Assessment on two audit engagement reports and working paper files;
- Carried out interviews with the Deputy Minister, senior management, the Chief Financial Officer (CFO), and the external members of the NRCAN Audit Committee (AC);
- Conducted meetings with the Chief Audit Executive (CAE) and AB Directors, Managers and auditors;
- Reviewed the Self-assessment report prepared by AB;
- Prepared an Independent Validator Statement on NRCAN and AB'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, and the IIA's International Standards for the Professional Practice of Internal Auditing (Standards) and Code of Ethics.
- Summarized recommendations for improvement that could assist AB in becoming more efficient and/or effective including comments on best practices;
- Discussed the draft report with the CAE; and
- Prepared a briefing deck for presentation to the CAE, the Deputy Minister and AC at the Audit Committee meeting in December 10, 2013.

**Overall results**

Based on the self-assessment results, NRCAN and AB generally conforms to the 12 standards in the IIA International Professional Practice Framework, see Table 1 and each of the four OCG domains see Table 2, with the exceptions noted below.

The independent validators confirmed the findings of the self- assessment and their Independent Validator's Statement is found at the end of this Report.

**Table 1: Internal audit conformance ratings against IIA Standards**

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

**Table 2: Internal audit conformance ratings against OCG Domains**

#	Domain and element	Generally Conforms	Partially Conforms	Does Not Conform
<b>A</b>	<b>GOVERNANCE</b>			
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>B</b>	<b>PROFESSIONAL PRACTICE</b>			
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	✓		
<b>C</b>	<b>ADMINISTRATION</b>			
C.1	Recruitment and Evaluation	✓		
C.2	Learning and Development	✓		
C.3	Security of Working Papers	✓		
C.4	Access to Information and Privacy	✓		
<b>D</b>	<b>PERFORMANCE</b>			
D.1	Internal Audit Performance Measurement Reporting	✓		
D.2	Departmental Audit Committee Annual Report	✓		
D.3	External Quality Assurance / Practice Inspection	✓		

**Internal Audit Strengths**

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

The CAE has a strong working relationship with the Audit Committee (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 Department's strategic priorities and corporate risk mitigation strategies.

The internal audit function is currently staffed with a complement of qualified, experienced professionals who are strongly encouraged to pursue relevant designations and engage in professional development.

**Observations and Recommendations and Associated Action Plans**

Although the function generally conforms overall, both the self- assessment and the independent validation identified areas for improvement (i.e., adopting best practices relative to specific criteria or standards) to build upon the foundation already in place.

The following table identifies areas for improvements and presents the CAE's action plan with the associated time line for implementation of the actions. Observations are linked to specific IIA standards.

Self-Assessment Element or IIA Standard	Observation / Recommendation	NRCAN Action Plan
<p>IIA Standard 1311— Internal Assessments</p>	<p><u>Performance Measurement and Reporting: IIA Standard 1311:</u> “Internal Assessments must include ongoing monitoring of the performance of the internal audit activity”</p> <p><b>Observation:</b> AB measures and reports on some basic IA measures throughout the year, for example, in the CAE Report and at DAC meetings on progress against the RBAP and MAP follow up. However, AB does not have a comprehensive performance management framework, including measures to report on efficiency of the audit function. IIA standards and TB Policy each provide a general framework of some suggested performance metrics to be reported to audit committees.</p> <p><b>Recommendation:</b> The CAE should develop a more formalized performance management framework that would assist DAC and the Deputy Minister to measure performance on an ongoing basis. There should be a dialogue between the CAE, the Deputy Minister and the DAC members to agree upon the key indicators to be reported against and the frequency of reporting.</p>	<p>Agree. CAE will develop a formalized performance management framework for the Audit Branch that will provide information required for the DAC and Deputy Minister. The proposed framework will be presented at the June 2014 DAC meeting and implemented for fiscal year 2014-15.</p>



Self-Assessment Element or IIA Standard	Observation / Recommendation	NRCAN Action Plan
IIA Standard 2030— Resource Management	<p><u>Resourcing the Internal Audit Function:</u> IIA Standard 2030: “The CAE must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.”</p> <p><b>Observation:</b> AB has experienced significant turnover of staff and is now stabilizing the function with the addition of some new qualified resources. This turnover is consistent with the internal audit marketplace.</p> <p>A human resources plan, which is forward looking, describes required resources, succession plans, training and development of staff, including certification would support this objective. AB developed an Integrated AB Human Resources Plan in 2011 for the period of 2011-14, but this Plan has not been updated.</p> <p><b>Recommendation:</b> The CAE should update AB’s Integrated Human Resources Plan and ensure that the plan addresses required resources, succession planning, training and certification.</p>	Agree. The CAE will update the AB Integrated Human Resources Plan. Work has begun on this initiative and will be completed by March 31, 2014.

Self-Assessment Element or IIA Standard	Observation / Recommendation	NRCAN Action Plan
<p><u>Fraud Assessment:</u> IIA Standard 2120.A2: IIA Standard 2210.A2</p>	<p><u>Fraud Assessment:</u> IIA Standard 2120.A2: “The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.” IIA Standard 2210.A2: “Internal auditors must consider the possibility of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.”</p> <p><b>Observation:</b> These are new IIA Standards that need to be fully addressed by NRCAN/AB in order to be in conformance.</p> <p><b>Recommendations:</b> The CAE should:</p> <ul style="list-style-type: none"> <li>• Present and discuss the new Standards and their implications with the NRCAN senior management and DAC; and</li> <li>• Implement the already developed audit policies and procedures with audit projects going forward, to support the conduct of project specific fraud risk assessments for individual audit engagements.</li> </ul>	<p>Agree. Audit Branch has already taken following steps to address fraud risk assessment at the audit engagement level:</p> <ul style="list-style-type: none"> <li>- utilizing information from the Departmental Fraud Risk assessment (2013) during the engagement risk assessment process.</li> <li>- including in its recently approved audit manual (2013) the requirement to consider fraud risk during the engagement risk assessment process.</li> </ul> <p>CAE will expand the current engagement fraud risk assessment process to include the completion of a fraud risk assessment tool for all audit engagements by January 1, 2014.</p>

## Independent Validator Statement

BMCI CONSULTING INC.

The Validators were engaged to conduct an independent validation of NRCAN Office (NRCAN) Internal Audit activities. The primary objectives of the validation were to verify assertions made in the NRCAN Audit Branch's (AB) self-assessment report concerning:

- NRCAN and AB'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
- AB'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 from August to October 2013, 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, external members of the Audit Committee, selected senior management, the Chief Financial Officer, the Chief Audit Executive and AB management and staff.

We conclude that:

- NRCAN and its internal audit activity generally conform 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 IIA's *International Standards for the Professional Practice of Internal Auditing* (Standards) and the Code of Ethics.

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



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