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Chapter: Government Accounting Policy			
Directive Title: INTERNAL AUDIT SERVICES			

1. POLICY

The oversight of public resources through the Government is strengthened by a professional and objective internal audit function that is independent of departmental or public agency management.

The Government will establish and support an internal audit activity as an independent appraisal function, to examine and evaluate organizational activities. The internal audit function assists in promoting efficiency, effectiveness and economy, and strengthens accountability, risk management and good governance in all government departments and public agencies.

The Internal Audit Services branch is accountable to the Comptroller General for administrative matters and the Central Accountability Committee for operational issues.

2. DEFINITION

Internal auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal controls and governance processes.

3. DIRECTIVE

In accordance with this directive, the Internal Audit Services branch, Department of Finance, shall conduct compliance audits and operational/performance audits.



They may also conduct investigative audits and perform consulting/advisory services for government departments and public agencies upon request.

In addition to or as part of these audits, the Internal Audit Services branch shall examine internal controls and performance measurements, and make recommendations for improvements to departmental or public agency internal controls. Where these recommendations have a broader application than the individual department or public agency being examined, the Internal Audit Services branch may recommend new or amended Financial Administration Manual (FAM) directives.

The Internal Audit Services branch shall be free from interference in determining the scope of internal auditing, performing work and communicating results.

All government departments and public agencies are subject to this directive. It is, however, the responsibility of government departments and public agencies to implement proper internal controls, and to practice proper and effective program evaluation and program effectiveness monitoring.

4. PROVISIONS

4.1. Responsibility of the Central Accountability Committee

- 4.1.1. The Central Accountability Committee, formed and co-chaired by the Deputy Minister of Finance, shall approve annual audit plans referred to in provision 4.1.2. below and any material changes to those plans. Notwithstanding the activity of the Central Accountability Committee, the Deputy Minister of Finance or the Comptroller General may request that Internal Audit Services conduct special investigations in situations that they consider appropriate.
- 4.1.2. Based upon ongoing risk assessments and consultations with the senior management of departments and public agencies, Internal Audit Services shall prepare and submit to the Central Accountability Committee, annual and long-range audit plans complete with staffing requirements and a projected budget. A copy of the audit plan and any amendments thereto, shall be provided to the Comptroller General, and the Office of the Auditor General of Canada. Annual audit plans shall identify objectives and propose timeframes, audit staff complement, and other resource requirements of each planned audit; however:

- a) A government department or public agency may request a previously unscheduled audit or special investigation, an increase to the scope of a planned audit or a change in the audit schedule. Should such a request produce a conflict with the audit plan or budget approved under provision 4.1.1. above, the matter will be referred to the Central Accountability Committee for resolution; and,
- b) The Deputy Minister of Finance or the Comptroller General may request a special audit investigation of any department or public agency and may request a police investigation, consistent with his/her responsibility pursuant to the *Financial Administration Act* and FAM Directive 913 Loss of Cash or Other Assets.

- 4.1.3. In those rare instances where the audited entity and Internal Audit Services cannot agree on an audit recommendation or compliance with an action plan, the matter will be referred to the Central Accountability Committee for resolution.
- 4.1.4. Should a dispute arise that affects the ability of Internal Audit Services to determine the scope, work plan or communication of the results of an audit, the matter will be referred to the Central Accountability Committee for resolution.
- 4.1.5. In resolving the matters referred to in provisions 4.1.3. and 4.1.4. above, the Central Accountability Committee may employ all of the resources available, including requesting the assistance of the Deputy Minister of Finance, the Comptroller General or the Minister of Finance.

4.2. Responsibility of Internal Audit Services

- 4.2.1. Internal Audit Services shall conduct its activities in accordance with the Standards for the Professional Practice of Internal Auditing, as promoted by the Institute of Internal Auditors. Internal Audit Services may also, as it deems appropriate to each specific audit, apply additional standards set out by various professional associations like the Chartered Professional Accountants of Canada, the Association of Certified Forensic Investigators, the Association of Certified Fraud Examiners, and the Information Systems and Audit Control Association.
- 4.2.2. As a minimum, all internal audits performed by the Government shall comply with the objectivity, proficiency, planning, performance and communicating results standards of the Institute of Internal Auditors.

- 4.2.3. Internal Audit Services shall plan and conduct a variety of internal audits of government departments and public agencies on an ongoing basis as well as carry out special assignments from time to time as required by the Deputy Minister of Finance, the Comptroller General, or Deputy Heads of departments and public agencies. These audits shall include:
- Compliance audits, which determine whether the terms and conditions of a contribution agreement or other agreements with an external organization and the rules and regulations applicable to an activity or practice prescribed in an agreement by either the external organization or the Government, are being followed by both parties.
 - Operational/performance audits, which examine the efficiency (resource utilization versus output) and effectiveness (goal accomplishment) of operational and administrative processes; reliability and integrity of financial and operational information; safeguarding of assets; compliance with laws, regulations and contracts; and to determine whether internal controls are adequate and working as intended.
 - Financial assurance engagements which examine the supporting documents of financial statement components or Government's financial claims, to provide assurance that the statements and claims are accurate and in compliance with applicable standards and conditions.
 - Investigative audits, which are normally requested by senior management and focus on alleged irregular conduct. This may include internal theft, fraud, misuse of property, and conflict of interest.
 - Consulting/advisory services, which may be requested by senior management or the Comptroller General, consist of providing advice on internal controls, risks and vulnerabilities, effective controllership and good governance in terms of values and ethics, stewardship, performance measurement, fraud prevention and risk management.
- 4.2.4. Prior to the conclusion of each audit, the audit findings and recommendations will be presented, in draft form, to senior management and the Deputy Head of the department or public

- agency being audited. Management will be given appropriate time to respond to and comment on the audit findings.
- 4.2.5. During an audit, Internal Audit Services shall maintain ongoing communication with the senior managers of the audited entity.
- 4.2.6. The senior managers shall include within their response, required under provision 4.2.4. , an action plan to correct the observed deficiency, and shall implement the plan without undue delay. The final audit report shall incorporate the management response as set out in provision 4.2.4. If an action plan is not part of the final report, or if the audit entity disagrees with an audit recommendation, the reason for its omission or disagreement will be stated.
- 4.2.7. All final reports will be issued to senior management and the Deputy Head of the department or public agency being audited. In the case of special investigation, the report will be issued to the party requesting the investigation. A copy of all final and special reports will be forwarded to the Deputy Minister of Finance, the Comptroller General, the Central Accountability Committee and the Office of the Auditor General.
- 4.2.8. Internal Audit Services may conduct follow-up audits, within a reasonable timeframe (as established by the action plan) to test compliance with action plans submitted by government departments or public agencies. Instances of non-compliance shall be reported to the Deputy Minister of Finance, the Comptroller General and the Central Accountability Committee, when considered necessary, but annually at a minimum.
- 4.2.9. The reports on special investigations conducted by Internal Audit Services shall include recommendations for improvements to internal controls, whether further action is considered appropriate, and any recommended recovery steps.
- 4.2.10. Internal Audit Services will assist and cooperate with the Office of the Auditor General in all areas that are of benefit to either organization.
- 4.2.11. Internal Audit Services shall advise the Office of the Auditor General of any matter that, in the opinion of Internal Audit Services, has not been resolved and which affects Internal Audit Services' ability to carry out its responsibilities in accordance with the professional standards recommended by the Institute of Internal Auditors.

4.3. Responsibility of Departments or Public Agencies Being Audited

- 4.3.1. To enable Internal Audit Services to carry out its audit duties and responsibilities, the Deputy Head of the organization being audited shall ensure that Internal Audit Services has full, unrestricted and timely access to all organizational activities, records, property and personnel.
- 4.3.2. In cases where a special investigative audit has been requested that involves suspected loss, criminal offence or negligence, the protocol and reporting requirements of FAM Directive 913 Loss of Cash or Other Assets must be adhered to.
- 4.3.3. In any special investigation, the Deputy Head of the organization being audited shall ensure that the necessary confidentiality and protocols are maintained.
- 4.3.4. Within 180 days of receiving the final report, the senior managers of the audited entity shall report in writing to the Deputy Minister of Finance, with a copy to the Comptroller General and the Chief Internal Auditor, the status of the corrective action taken together with an action plan to correct the observed deficiency.
- 4.3.5. The Comptroller General shall report to the Financial Management Board, when it is considered necessary, but annually at a minimum, all instances of non-compliance with action plans.