



Issue Date: September 2009	Effective Date: Immediate	Responsible Agency: Internal Audit Services Branch	Directive No: 603
Chapter: Government Accounting Policy			
Directive Title: INTERNAL AUDIT			

1. POLICY

It is the policy of the Government to establish and support an internal audit activity as an independent appraisal function, to examine and evaluate organizational activities. The audit function assists in promoting efficiency, effectiveness and economy and strengthens accountability, risk management and good governance in departments and agencies.

The Internal Audit Services Branch is accountable to the Deputy Minister of Finance for administrative matters and the Internal Audit Committee for operational issues.

2. DIRECTIVE

In accordance with this directive, the Internal Audit Services Branch, Department of Finance, shall conduct compliance audits, operational/performance audits, and financial audits. In addition, they may also conduct investigative audits and perform consulting/advisory services for departments 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 agency internal controls. Where these recommendations have broader application than the individual department or agency being examined, the Branch may recommend new or amended Financial Administration Manual directives.

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

3. PROVISIONS

- 3.1. All departments of the Government are subject to this directive. It is, however, the responsibility of departments to implement proper internal controls and to practice proper and effective program evaluation and program effectiveness monitoring.
- 3.2. An Internal Audit Committee, formed and chaired by the Deputy Minister of Finance, shall approve annual plans referred to in provision 3.3 below and any material changes to those plans. Notwithstanding the activity of the Internal Audit Committee, the Deputy Minister of Finance or the Comptroller General may request that the Internal Audit Services Branch conduct special investigations in situations that they consider appropriate.
- 3.3. Based upon on-going risk assessment and consultation with the Executive Finance Officer (EFO) of departments and agencies, the Internal Audit Services Branch shall prepare and submit to the Internal Audit 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, the Chairman of the Financial Management Board and the Auditor General. Annual plans shall identify objectives, and propose timeframes, audit staff complement, and other resource requirements of each planned audit; however,
 - a) a 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 paragraph 3.2 above, the matter will be referred to the Internal Audit 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 Financial Administration Manual Directive 913 - Loss of Cash or Other Assets.
- 3.4. The Internal Audit Services Branch shall conduct its activities in accordance with the Standards for the Professional Practice of Internal Auditing, as promoted by the Institute of Internal Auditors. The Internal Audit Services Branch may also, as it deems appropriate to each

specific audit, apply additional standards set out by various professional associations such as the Canadian Institute of Chartered Accountants, the Association of Certified Forensic Investigators, the Certified Fraud Examiners Association, and the Information Systems and Audit Control Association, and similar associations.

- 3.5. 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.
- 3.6. To enable the Internal Audit Services Branch to carry out its audit duties and responsibilities, the Deputy Head of the organization being audited shall ensure that the Internal Audit Services Branch has full, unrestricted, and timely access to all organizational activities, records, property, and personnel.
- 3.7. In cases where a special investigative audit has been requested that involves suspected loss, criminal offence, or negligence, the protocol and reporting requirements of Financial Administration Manual Directive 913, Loss of Cash or Other Assets, must be adhered to.
- 3.8. In any special investigation, the Deputy Head of the organization being audited shall ensure that the necessary confidentiality and protocol are maintained.
- 3.9. The Internal Audit Services Branch shall plan and conduct a variety of internal audits of departments 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. These audits shall include:
 - *Compliance audits* which assess whether operations comply with laws, regulations, policies and procedures.
 - *Operational/performance* audits which examine the efficiency (resource utilization versus output), effectiveness (goal accomplishment) of operational and administrative processes.
 - *Financial audits* which examine the supporting documents of financial statements or GN financial claims, to provide assurance that the statements and claims are accurate.
 - *Investigative audits* which are normally requested by management and focus on alleged, irregular conduct.
 - *Consulting/Advisory services*, which may be requested by management or the Comptroller General, consists of providing

- advice on internal controls, risks and vulnerabilities, effective controllership and good governance.
- Assisting OAG with the year end audit.
- 3.10. During the audit, the Internal Audit Services Branch shall maintain ongoing communication with the managers of the audited entity.
- 3.11. Prior to the conclusion of each audit, the audit findings and recommendations will be presented, in draft form, to the senior management and Deputy Head of the department or agency being audited. Management will be given appropriate time to respond to and comment on the audit findings.
- 3.12. The senior managers shall include within the response, required under 3.11 above, 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 Item 3.11 above. 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.
- 3.13. Within 90 days of receiving the final report, the senior managers of the audited entity shall, in writing to the Comptroller General, with a copy to the Director of Internal Audit Services Branch, report on the status of the corrective action taken.
- 3.14. All final reports will be issued to the senior management and the Deputy Head of the department being audited. In the case of special investigations, the report will be issued to the party requesting the investigation. A copy of all final and special reports will be forwarded to the Comptroller General, the Internal Audit Committee, the Chairman of the Financial Management Board and the Auditor General.
- 3.15. The Internal Audit Services Branch may conduct follow up reviews, within a reasonable time frame (as established by the action plan) to test compliance with action plans submitted by departments or agencies. Instances of non-compliance shall be reported to the Comptroller General, when considered necessary, but annually at a minimum.
- 3.16. 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.

- 3.17. The reports on special investigations conducted by the Internal Audit Services Branch shall include recommendations for improvements to internal controls, whether further action, including the possibility of police involvement, is considered appropriate and recommended recovery action.
- 3.18. The Internal Audit Services Branch will cooperate with, and assist, the Auditor General of Canada in all areas that are of benefit to either organization.
- 3.19. In those rare instances where the audited entity and the Internal Audit Services Branch cannot agree on an audit recommendation or compliance with an action plan, the matter will be referred to the Internal Audit Committee for resolution.
- 3.20. Should a dispute arise that effects the ability of the Internal Audit Services Branch to determine the scope, work plan or communication of the results of an audit, the matter will be referred to the Internal Audit Committee for resolution.
- 3.21. In resolving the matters referred to in 3.19 and 3.20 above, the Internal Audit Committee may employ all of the resources available to it, including requesting the assistance of the Comptroller General or the Minister of Finance.
- 3.22. The Internal Audit Services Branch shall advise the Auditor General of Canada of any matter that, in the opinion of the Internal Audit Services Branch, has not been resolved and which affects the Branch's ability to carry out its responsibilities in accordance with the professional standards recommended by the Institute of Internal Auditors.
- 3.23. The Internal Audit Services Branch shall, with the approval of the appropriate Minister, be the auditor of the following public agencies:
 - a) The Human Rights Tribunal;
 - b) The Labour Standards Board;
 - c) The Legal Services Board of Nunavut;
 - d) The Liquor Licensing Board;
 - e) The Qullit Nunavut Status of Women Council;

and any other public agency designated by the Financial Management Board and allowed by the *Financial Administration Act*.



FINANCIAL ADMINISTRATION MANUAL

