

PRIVY COUNCIL OFFICE

Audit and Evaluation Division

[*] An asterisk appears where sensitive information has been removed in accordance with the *Access to Information Act* and *Privacy Act*.

Chief Audit Executive's Annual Report 2014-2015

1.0 Introduction

1.1 Summary of 2014-15 Internal Audit Accomplishments

Under my overall leadership as Chief Audit Executive (CAE), I am pleased to report the following accomplishments of the Audit and Evaluation Division (AED) at Privy Council Office (PCO) in 2014-15:

- Consulted extensively, then developed and vetted a Risk-based Audit Plan (RBAP) featuring more projects with tighter scopes at Executive and Audit Committees before the Clerk approved this RBAP.
- Under an adapted project delivery model, completed three projects that were underway at the start of the year, launched and completed two more projects during the year, and launched an additional project by year end that will be completed in 2015-16 – one of these projects required me to establish special resourcing arrangements with the CAE from another department to ensure completion of the project following the departure of AED's Audit Manager.
- Monitored implementation of Management Action Plans from prior audits to ensure audit results lead to value-added changes at PCO.
- Supported PCO with the management on a file concerning a complaint from the Office of the Information Commissioner.
- Completed implementation of 11 of the 12 recommendations from the 2013-14 Practice Inspection of PCO's Audit and Evaluation Division with the final recommendation being completed shortly after year end.
- Established two new Contracts with Task Authorizations to replace AED's two prior contracting arrangements that expired this year.
- Provided ongoing support to Audit Committee throughout the year, including for each of its four meetings held during the year.
- Re-staffed AED's AS-06 and AS-03 positions ensuring no interruption to project or service delivery, and launched a staffing process at year end to re-staff AED's vacated EC-06 position.

1.2 Purpose and Nature of the Report

I am pleased to provide the Clerk of the Privy Council with my 2014-15 Chief Audit Executive's Annual Report as required by the Treasury Board (TB) Policy on Internal Audit. This, my sixth CAE Annual Report, informs the Clerk on the performance of PCO's internal audit function and how the function contributes to PCO achieving its objectives. It discusses how PCO meets its responsibilities under the TB Policy on Internal Audit, its supporting *Directive on Internal Auditing in the Government of Canada*, and the accompanying *Internal Auditing Standards for the Government of Canada*¹.

In keeping with this Internal Audit Policy Suite, my report provides information on:

- Internal audit's independence, proficiency, performance and results relative to its plan including resource utilization and lessons learned;
- The results of our Quality Assurance and Improvement Program including conformance with the Government of Canada Internal Auditing Standards;
- The results of follow-up on the implementation of management action plans; and
- An overview of aggregate findings following execution of the risk-based audit plan, including actions taken by management to address key findings.

1.3 Background

As described in the approved PCO Internal Audit Charter, internal audit in the Government of Canada is a professional, independent and objective appraisal function that uses a disciplined, evidence-based approach to assess and improve the effectiveness of risk management, control and governance processes. PCO's IA function provides services, the majority of which are assurance services, which are intended to assist PCO decision-makers in exercising oversight and control and in applying sound risk management.

The work of PCO's Internal Audit function stems from the CAE responsibilities in the Internal Audit Charter. Principal among these is establishing and delivering a multi-year plan of PCO internal audit engagements that is based on a risk assessment and is focused predominantly on assurance services. As CAE, I ensure PCO's internal audit resources are deployed to achieve the approved audit plan and that individual internal audit engagements are completed on schedule and provided to the PCO Audit Committee in a timely manner.

¹ Collectively known as the Internal Audit Policy Suite

2.0 Performance of Internal Audit and Overview of Results

2.1 Independence and Proficiency of the Audit Team

The independence of PCO's Internal Audit function was reaffirmed in April 2013 with the Clerk's approval of PCO's updated Internal Audit Charter. To ensure independence is maintained, personnel of the PCO Internal Audit function report to the CAE, who in turn reports to the Clerk. Implementation of the CAE's relationship occurs via the Deputy Clerk of the Privy Council and Associate Secretary to the Cabinet who sits as an internal member of PCO's Audit Committee and who has bilateral meetings with the CAE. This model was commended to PCO in 2010 by the Comptroller General of Canada.

The capacity of PCO's Internal Audit function is appropriate for the Department's needs. AED consists of myself as CAE at the EX-01 level, one Internal Audit and Evaluation Principal at the EC-06 level (currently vacant and being re-staffed), one Internal Audit Manager at the AS-06 level, and one Administrative and Research Officer at the AS-03.

From a resourcing perspective, 2014-15 was a year of change for AED. As the prior 2013-14 fiscal year was nearing its end, [*]. A non-advertised staffing process was immediately launched which led to the re-staffing of this position by June 2014. [*]. An advertised staffing process was completed which re-staffed this position in early December (allowing for an overlap which facilitated knowledge transfer and training). [*] - an advertised staffing action is underway to find a suitable replacement.

Throughout 2014-15, AED supplemented its internal capacity with qualified audit consultants on an as-required basis - this has been the operating model since AED was established in 2007. To ensure availability of contractor support throughout 2014-15, AED had to first address the expiry of its two existing Contracts with Task Authorizations. AED ran a competitive solicitation process which resulted in the successful establishment of two new Contracts with Task Authorization, albeit with two new suppliers. These new arrangements once again give AED's internal audit function flexibility and bench-strength to deliver the projects outlined in PCO's approved RBAP.

AED's professional audit resources, both internal and contracted, individually and collectively possess the knowledge, skills, competencies and credentials needed to perform their responsibilities. In 2014-15, all of AED's professional audit staff held [*] degrees and/or recognized professional auditing and/or accounting designations in good standing. Each AED staff member also followed a training plan that enabled them to attend various training and professional development events during the year.

2.2 Key Activities, Deliverables and Progress with the RBAP

With respect to the development of PCO's Risk-based Audit Plan, more extensive consultations with senior management and other stakeholders are now a standard feature of the annual planning process. Having recently completed this consultation process, I am now bringing forward the draft 2015-18 RBAP for consideration at both PCO's Executive Committee and Audit Committee.

As noted in my last Annual Report, AED adapted its project delivery model in 2013-14 to deliver a larger number of more tightly scoped projects. AED continued delivering RBAP projects under this delivery model in 2014-15.

As 2014-15 began, AED was completing its Audit of Information Technology Management, its Follow-up Audit of Business Continuity Management and its Audit of Contracting. While each of these audits was completed during the year, the Audit of Contracting was completed under a special resourcing arrangement negotiated with the Chief Audit Executive of another department. This was necessary due to the recent departure of AED's former AS-06 Audit Manager.

During the year, AED launched and completed the first ever PCO Fraud Risk Assessment and the Review of the Implementation of Management Action Plans. By year end, AED had also launched the Audit of Internal Control over Financial Reporting, the start of which had been delayed by a request from management. AED had also taken initial steps towards launching the Audit of Recordkeeping Transformation just before year end. Each of these last two audits will be completed in 2015-16 and reported on in my next CAE Annual Report.

In addition to delivering projects, AED also provided full secretariat services to PCO's Audit Committee for each of the four meetings it held in 2014-15.

One additional activity that drew heavily on the CAE's time in 2014-15 was work done in relation to a complaint from the Information Commissioner concerning previous Access To Information and Privacy (ATIP) decisions about the publishing of sensitive audit reports. The CAE spent considerable time working in close collaboration with officials from PCO's legal services, ATIP and Security Operations functions to address the issues raised and to bring closure to this file.

In summary, while managing resourcing issues during 2014-15, AED delivered on most of its RBAP commitments while also supporting Audit Committee and working on other audit related files and activities. Along the way, AED kept Audit Committee fully informed of progress. Information on the projects completed during the year and their value added to the Department are presented below.

2.2.1 Audit of Information Technology (IT) Management

This audit was conducted to provide assurance on the extent that an effective framework of controls over IT management is in place and managed to support PCO business requirements and coordinate IT requirements with Shared Services Canada (SSC). The draft report, first tabled at the February 2014 Audit Committee meeting, was re-tabled and accepted by the Committee in December.

The audit concluded PCO's control framework over IT Management has evolved since SSC was created, but governance documents required updating, and that while this framework has supported PCO's daily operations since the creation of SSC, some aspects of the framework should be improved.

The audit made seven recommendations. Development of the Management Action Plan (MAP) remains a work in progress, but the MAP is expected to be tabled at the fall 2015 Audit Committee meeting. Once accepted, the audit report with MAP will be recommended for your approval.

2.2.2 Follow-up Audit of Business Continuity Management (BCM)

This follow-up audit launched in 2013-14 and was completed, reported to Audit Committee and approved by the Clerk in 2014-15. It assessed the effectiveness of governance structures and controls in place to support BCM program delivery and continued delivery of PCO critical functions in the event of a disruption.

Management developed and is implementing a MAP to address the audit's recommendations. Once implemented, PCO should realize benefits including improved and better coordinated BCM planning, and improved information for senior management.

2.2.3 Audit of Contracting

This audit was launched in 2013-14 and completed in 2014-15. It was reported to Audit Committee and approved by the Clerk in December 2014. The audit explored procurement and contracting activities at PCO and concluded that PCO conducts these activities in a fair, open and transparent manner in accordance with all applicable legislative and policy requirements.

The audit recommended PCO review the mandate of its Contract Review Committee (CRC) to ensure it is aligned with PCO's contracting requirements and risk tolerances. In response, management hired outside contracting specialists who have completed the CRC mandate review. Management is now implementing recommendations made in the firm's engagement report.

2.2.4 Follow-up Review of the Implementation of Management Action Plans

This follow-up review was proposed and approved in the last RBAP to provide assurance that MAPs developed in response to recommendations from internal audit and review engagements have been effectively implemented. This project, which was launched and completed in 2014-15, was tabled at Audit Committee and approved by the Clerk in December 2014.

For this review, a Management Action Plan was defined as actions taken against a specific approved audit recommendation. Using a risk-based approach, seven specific MAPs were selected for testing. The Review concluded all seven MAPs were effectively implemented leading to a variety of improvements in the various areas of the Department. The Review noted that some information used to report on the implementation of MAPs refers to future rather than completed actions and that greater scrutiny of MAP status updates reported to Audit Committee is required. I am taking steps to ensure this aspect of AED support to Audit Committee is improved.

2.2.5 Fraud Risk Assessment

The 2013-14 Practice Inspection of PCO's internal audit function included recommendations about fraud and fraud management at PCO. While the recommendations were implemented, the CAE also proposed and received a mandate to conduct a Fraud Risk Assessment (FRA) at PCO. This FRA was launched and completed in 2014-15. It compared PCO's fraud controls against a fraud management model from the Association of Certified Fraud Examiners. Using this model, the FRA concluded that management has established a good framework of high level internal controls that, when taken as a whole, helps to mitigate the risk of fraud and prevent, detect and respond to allegations of wrongdoing or fraud. With this framework in place, the residual risk of a material fraud occurring at PCO is considered low.

An added benefit from the FRA is that PCO now has a single document which comprehensively captures information about PCO's fraud management controls. This should prove valuable in the future - when Audit Committee accepted the FRA report, they recommended the FRA be repeated every 3-4 years to ensure fraud controls continue to mitigate risks at PCO. Accordingly, I will propose an FRA project at the appropriate time in future RBAPs.

2.2.6 Audit of Internal Control over Financial Reporting

As noted above, AED also launched the Audit of Internal Control over Financial Reporting during the latter part of the year. Although the audit was delayed to accommodate a request from management, the audit was well underway at year end. I will update you further on this audit in my next CAE Annual Report.

2.3 Follow-up on Implementation of Management Action Plans

Implementing management action plans is an important aspect of the internal audit cycle, and a key component of the value added PCO obtains from its internal audit function and Audit Committee. Several years ago, PCO established a self reporting process for monitoring implementation of action plans which features reporting to Audit Committee by the senior executive(s) accountable for each action plan. Within this process, AED distributes a standardized reporting template that is completed by the accountable PCO executive(s). Completed templates are returned to AED who then assess reported progress and identify any issues based on the information reported - AED informs management of the results of this assessment and of any issues noted. If any issues are noted, AED consults with the parties who completed the template. As noted above, greater scrutiny of MAP status updates being reported to Audit Committee is required from AED to ensure that only actions taken (as opposed to pending actions) are considered when assessing progress with the implementation of MAPs.

Following consultations, the information provided and AED's assessment of that information, including any issues noted, is documented in the reporting template. AED ensures reporting managers are informed of the full content of completed templates, including AED's assessment and comments, and final completed templates are then tabled at Audit Committee.

AED and Audit Committee maintained this process throughout 2014-15. At the start of the year, actions against eight internal audit recommendations were in progress. Audits completed in 2014-15 added five additional recommendations, bringing the total being tracked to thirteen. When last reported to Audit Committee, six of these were assessed as having been fully implemented, leaving seven against which actions were being implemented at year end. This does not include the recommendations from the 2013 Audit of IT Management.

What this ongoing attention to implementing MAPs demonstrates is that management is taking the necessary steps to improve PCO's situation in response to internal audit reports. From AED's perspective, this is one indication of the value added that PCO's internal audit function brings to the Department. AED will continue to track the implementation of audit recommendations and report this information to Audit Committee.

2.4 Quality Assurance and Improvement Program

A Quality Assurance and Improvement Program (QAIP) enables an assessment by independent parties of the internal audit function's conformance with the *Internal Auditing Standards for the Government of Canada*, including the Institute of Internal Auditors' *International Professional Practices Framework*. The QAIP

assesses the efficiency and effectiveness of the internal audit function and identifies opportunities for improvement. During a Practice Inspection of an internal audit function, a department's QAIP is assessed by external parties. Deputy Heads must ensure that a Practice Inspection of their department's internal audit function is conducted at least every five years by a qualified independent reviewer.

PCO's internal audit function was subjected to its first Practice Inspection in 2013-14. It indicated PCO's internal audit function generally conforms to the 12 Standards in the *IIA's International Professional Practice Framework* and each of the four OCG domains that were assessed. The report also provided 12 recommendations for improvements to build upon the foundation already in place. AED/PCO accepted these recommendations and developed an action plan to address them, the implementation of which is being overseen by Audit Committee.

I am pleased to report that while 5 of the 12 recommendations were fully implemented as 2014-15 began, only one was not yet fully implemented at year end. Implementation of the last recommendation occurred early in 2015-16 with the CAE's signing of AED's Recordkeeping Accountability Instrument under the Department's Recordkeeping Transformation Strategy. Collectively, the actions taken in response to the 12 Practice Inspection recommendations have strengthened both AED's operations and its documentation and recordkeeping.

3.0 Internal Audit at PCO: 2015-16 and Beyond

As noted above, AED is completing two audits that were in progress at the end of 2014-15. AED also continues to track the implementation of management action plans and to provide secretariat support to Audit Committee. At present, the CAE is clearing the draft 2015-18 Risk-based Audit Plan with Executive Committee and Audit Committee – it will be recommended for formal Clerk approval once it is through this clearance process. In 2015-16 and beyond, subject to successfully re-staffing its vacant EC-06 position, AED will continue delivering the audits and other projects outlined in the approved RBAP.

4.0 Conclusion

The 2014-15 fiscal year was, from a resourcing perspective, a year of change for PCO's Audit and Evaluation Division. New officers now occupy two of AED's three positions which support the CAE, and a process is underway to re-staff AED's recently vacated EC-06 position.

During 2014-15, AED completed the implementation of all but one outstanding recommendation from the Practice Inspection conducted in 2013-14. As well, 2014-15 was the second year during which AED's project delivery occurred

under its new delivery model (e.g. more projects with tighter scopes delivered in shorter turnaround times).

With this as context, I'm pleased to report that AED has, by working in close collaboration with the Department's Audit Committee and with Departmental management, succeeded in delivering on the vast majority of its project commitments for the year. Three projects that were underway at the start of the year were completed during the year, two additional projects were started and completed during the year, and two additional projects were launched towards the end of the year, each of which will be completed in 2015-16. AED also supported the Department through its support to Audit Committee and through its involvement in other audit related files and activities.

Looking ahead, I'm optimistic that the staffing action now underway will lead to the re-staffing of the vacant EC-06 position in the near future, and that AED will complete the two projects now underway in 2015-16 and will, based on decisions made about the draft RBAP that is now in clearance, continue delivering on project commitments through the 2015-16 fiscal year and beyond.