



Canadian Grain Commission
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Audit of design and operating effectiveness of entity level controls

FINAL REPORT
Canadian Grain Commission

May 2017

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1.0 Executive summary

The Treasury Board Policy on Internal Control came into effect on April 1, 2009. The policy requires the Deputy Head and Chief Financial Officer sign an annual departmental Statement of Management Responsibility Including Internal Control Over Financial Reporting. The Canadian Grain Commission has established and maintained a broad system of internal control over financial reporting. This system is a set of means to provide reasonable assurance about the reliability of financial reporting and the preparation of accurate financial statements. Under the Policy on Internal Control, departments are required to document and assess 3 levels of controls, one of which is entity level controls.

It is particularly important to periodically evaluate entity level controls as strengths and weaknesses in those areas may have significant impact on an organization's culture, values and ethics, transparency, accountability, risk management, and roles and responsibilities. Because entity level controls are pervasive across an organization, many experts indicate these controls have more of an impact (whether positive or negative) than financial process controls.

The Canadian Grain Commission's Audit and Evaluation Services unit completed an audit of the test of design of entity level controls in the 2010 to 2011 fiscal year. The audit included 7 recommendations. Since then, the Canadian Grain Commission's Finance division has tested design and effectiveness and monitored implementation of recommended improvements.

This audit of design and operating effectiveness of entity level controls was included in the risk-based audit plan and in the Internal Control over Financial Reporting Monitoring Plan for the 2016 to 2017 fiscal year. To conduct the audit fieldwork, the Canadian Grain Commission contracted the consulting firm Ernst & Young LLP.

The objectives of this audit were to assess the design and to test the operating effectiveness of entity level controls against an established framework (COSO 2013). The results of the audit provide a level of assurance as to the quality of the Canadian Grain Commission's entity level control framework to the Chief Commissioner and management and provide practical recommendations for improvement where appropriate.

Conclusion

The audit concluded that the Canadian Grain Commission has designed a strong system of entity level controls to promote management excellence, good governance, and quality financial reporting throughout the organization. The majority of controls were found to be operating effectively, in whole or in part. Executive management is committed to being effective leaders and modeling the behaviours by which employees are expected to act. Internal communication is achieved through a range of vehicles to reach every employee on an ongoing basis. The Canadian Grain Commission has a departmental values and ethics code supported by awareness activities. Various risk management activities are undertaken to ensure appropriate mitigation strategies are in place. A program is in place to provide all employees with annual work objectives and mid-year and year-end performance reviews. Policies and procedures are established regarding financial and information technology activities.

A total of 31 high-level entity level controls were assessed during the audit. Within each of these entity level controls are a number of specific control activities. Strengths and opportunities for improvement at the control activity level are combined in the conclusions for each entity level control area.

The following is a summary of the test results for the 31 entity level control areas:

2.0 Background

Policy requirements and control framework

The Treasury Board Policy on Internal Control (PIC) came into effect on April 1, 2009. It requires that the Deputy Head (Canadian Grain Commission's Chief Commissioner) and Chief Financial Officer (Chief Financial Officer) sign an annual departmental Statement of Management responsibility including Internal Control Over Financial Reporting. The Canadian Grain Commission has established (where necessary) and maintained a broad system of internal control over financial reporting. This system is a set of means to provide reasonable assurance regarding the reliability of financial reporting and the preparation of accurate financial statements.

A system of internal control over financial reporting includes controls at three levels:

- entity
- information technology
- business process

Entity level controls are controls that have a pervasive effect on the achievement of the organization's objectives for internal control. Some entity level controls help define the overall control environment of the organization, while other entity level controls are implemented at the sub-process, process, location or business unit levels to monitor specific risks. Examples of entity level controls include the organization's overall governance structure, its hiring practices and its regular monitoring activities.

Information technology general controls are controls that relate to many operating systems, applications, and databases supporting the operation of information systems, and form the foundation of the information technology control environment. Examples of information technology general controls are system access controls, change management controls and backup and recovery controls.

Business process controls are controls that are embedded within a specific key financial business process. Examples of key business financial processes are payroll, capital assets, operating expenditures, financial reporting and revenues. Examples of business process controls include approval of invoices and review of financial statements.

In performing its assessment of internal controls over financial reporting, Canadian Grain Commission has selected COSO 2013 as its applicable internal control framework, which is in-line with other federal departments and agencies and described in the Policy on Internal Control itself:

"3.2 ... Numerous frameworks have been developed by various professional associations and bodies relating to internal control. One widely recognized framework is that of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) that was established in the United States in 1985. Within the COSO integrated framework, everyone in the organization has responsibility for internal control to some extent."¹

¹ <http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=15258§ion=text>

In 1992, COSO developed its Enterprise Risk Management-Integrated Framework, often referred to as the COSO ERM Framework.

The COSO ERM Framework states that internal control is a process affected by an entity's directors, management and other personnel that is designed to provide reasonable assurance about the achievement of objectives in the following categories:

- effectiveness and efficiency of operations
- reliability of financial reporting
- compliance with applicable laws and regulations

In 2013, COSO updated its control framework to address changes in the business, operating and regulatory environment. These updates, although not fundamental in nature, were intended to: (1) address significant changes in the business environment, (2) specify criteria to use in the development and assessment of internal control; and (3) increase the focus on operations, compliance and non-financial reporting objectives. Refer to Appendix A for COSO 2013 Pillars and Principles.

These updates to COSO's control framework, including the specific criteria for each of the 5 areas of internal control, have been considered by the Canadian Grain Commission in its assessment of internal controls over financial reporting. The Canadian Grain Commission's internal control over financial reporting monitoring plan includes assessing Canadian Grain Commission's entity level controls in the 2016 to 2017 fiscal year (deferred from the 2015 to 2016 fiscal year due to other priorities).

Previous assessments of entity level controls

Since the Policy on Internal Control was implemented, the Canadian Grain Commission has continued an ongoing monitoring and assessment program for entity level controls.

Audit and Evaluation Services conducted an audit of test of design of entity level controls in the 2010 to 2011 fiscal year and published a final report in 2012. Results showed strong controls with 7 recommendations. Subsequently, the responsibility for following up on those recommendations and conducting future assessments was assumed by the Canadian Grain Commission's Finance division.

Finance tested the design and effectiveness of entity level controls in the 2012 to 2013 fiscal year. Responsibility for conducting a formal assessment of entity level controls was transferred to Audit and Evaluation Services for inclusion in its risk-based audit plan for the 2015 to 2016 fiscal year and deferred until the 2016 to 2017 fiscal year.

3.0 Methodology

3.1 Scope

The scope of this assessment is the 2016 to 2017 fiscal year and covers 5 categories of entity level controls:

- control environment
- risk assessment
- control activities
- information systems & communication
- ongoing monitoring

Refer to Appendix A for COSO 2013 Pillars and Principles.

3.2 Design effectiveness assessment

The first step in the evaluation process is to identify entity level controls and assess their design effectiveness. The design of an internal control is assessed to validate whether the following is present:

- alignment between the controls and risks identified (for example: whether business processes and related controls appear to be effective in achieving the Canadian Grain Commission's stated objectives and managing its risks)
- frequency controls are applied (for example: whether controls will prevent or detect identified risks in a timely fashion)
- knowledge and experience of the individuals who are performing the controls
- segregation of duties relevant to the process being controlled
- timeliness in addressing issues and exceptions that result from control activities
- reliability of information used in performing controls
- period the controls cover
- monitoring and enforcement of compliance with designed controls

Interviews were carried out with 20 people from across the organization to identify entity level controls, including:

- Chief Operating Officer
- Director of Industry Services
- Director of Grain Research Laboratory
- Director of Human Resources
- Chief Financial Officer
- Chief Audit Executive

In assessing the entity level controls, the Canadian Grain Commission mapped identified controls against COSO's 2013 framework and 17 principles to validate appropriate coverage and design effectiveness.

3.3 Operating effectiveness assessment

Using a sample of transactions, operating effectiveness testing was performed to determine whether the identified entity level controls operated effectively over the period in scope. Once controls were identified, test plans were developed for each control, including:

- nature and description of tests

- sampling strategy
- sample selection process (depending on total population and control frequency)
- extent of testing
- period covered by tests
- key administrative items (who, when, where and using what documentation)
- resulting supporting documentation required to evidence tests

Controls are expected to operate consistently without exception. When testing the operating effectiveness of internal controls, each specified control is tested based on the frequency at which it is performed. For example, controls executed on a daily basis are tested to a higher frequency than controls executed on a quarterly basis. If testing indicates that a control does not operate as expected or designed, that control is noted as an exception. When one exception is observed and a reasonable explanation can be provided, sampling can be extended. Then, assuming that no further exceptions are noted in the additional sample items, the control is deemed effective. On the other hand, if an exception is observed and a reasonable explanation cannot be provided, or additional exceptions are noted in the larger sample, the control is deemed to be ineffective.

This report also includes opportunities for improvement where observed. These do not reflect a control deficiency but rather serve to improve the overall strength of internal controls.

3.4 Definitions for classifying conclusions

As a result of documentation and testing activities, we have concluded on each control in one of the following ways:

Conclusion	Definition
Not designed (gap)	No control activity was identified.
Designed but not implemented	Control activity is designed but has not been implemented.
Ineffective (Designed effectively but not operating effectively)	Control activity is designed and implemented, but is not found to operate effectively over time.
Effective	Control activity is designed and, based on testing, can be concluded as operating effectively.
Unable to conclude	Control activity is designed and implemented, but due to extenuating circumstances, evidence to support the operating effectiveness of the control could not be obtained.
Opportunity for improvement	No control deficiency was identified. However, improvements could be implemented to improve the overall strength of the control.

Consistent with the Canadian Grain Commission's risk assessment approach to internal control over financial reporting activities, results of entity level control testing are risk rated using a scale of high, medium, or low based on:

- **likelihood** or the probability that a material misstatement will occur

- **impact** or the estimated severity of a material misstatement or measures how important an item is to a reader of the financial statements

The final rating also considers other factors, such as compensating controls, that may mitigate the Canadian Grain Commission's risk exposure.

RISK MATRIX				
IMPACT	HIGH	MEDIUM Significant	HIGH Significant	HIGH Significant
	MEDIUM	LOW Not significant	MEDIUM Significant	HIGH Significant
	LOW	LOW Not significant	LOW Not significant	MEDIUM Significant
		LOW	MEDIUM	HIGH
LIKELIHOOD				

Risk	Response
High	<ul style="list-style-type: none"> • should be addressed within 6 months • could result in significant exposure to risk and significant impact on the entity's financial reporting
Medium	<ul style="list-style-type: none"> • should be addressed within 12 months • could result in exposure to risk and have an impact on the entity's financial reporting
Low	<ul style="list-style-type: none"> • minimal risk or opportunity for improvement

4.0 Findings and recommendations

Overall, the Canadian Grain Commission was found to have a strong system of entity level controls. The following section describes some of those controls in detail and identifies those areas where improvements are desirable.

It should be noted that since the previous audit of entity level controls, the Canadian Grain Commission has undergone transformational changes in programs, operations, and structure. In addition, significant turnover at the executive management level has occurred. Maintaining a system of internal controls throughout such extensive changes has been challenging but successful.

While controls have been concluded on at an individual level, the suite of controls warrant further discussion and are described below. To assist the reader in associating the results with the framework utilized, the following section is organized by COSO's 2013 Pillars and Principles. This section provides only a summary of findings and examples of designed and effective controls at the Canadian Grain Commission. The following section does not include a description of every key entity level control identified through the assessment process. However, each control activity identified as a "gap", "ineffective", or "opportunity for improvement" is discussed below.

4.1 Control environment

The control environment is the foundation of the other internal control components. It reflects the overall attitude, awareness and actions of management and those charged with governance about the importance of controls and the emphasis placed on them in determining the entity's policies, processes and organizational structure. It sets the tone of an organization and provides discipline and structure, influencing the control consciousness of its people. It has a significant effect on the likelihood of fraudulent financial reporting and misappropriation of assets. It encompasses management's attitude toward the accounting estimates, judgments and disclosures that are incorporated in the financial statements and, ultimately, its financial reporting philosophy. It is the context in which every control operates.

Findings

Principle 1: The Canadian Grain Commission has a departmental-specific values and ethics code called Living Our Values, in addition to the government-wide Values and Ethics Code for the Public Sector. Both of these fall under the Public Servants Disclosure Protection Act. The Canadian Grain Commission has established other related policies including a policy on reporting wrongdoing in the workplace and various security policies and procedures. These guidelines and policies are posted on the Canadian Grain Commission's internal website for employees and are updated regularly by Human Resources and other responsible areas. The code describes expected standards of ethical or moral behavior, acceptable business practices and conflicts of interest. It also includes examples of behaviors that are acceptable and others that are unacceptable.

All employees are initially made aware of values and ethics policies (code of conduct, conflict of interest and post-employment guidelines) through a letter of offer and are required to acknowledge that they have read and understood these policies. Since compensation centralization started in 2014, employee files have been maintained at the Government of Canada pay centre in New Brunswick rather than at the Canadian Grain Commission. As a result, we were unable to obtain evidence of the signed code of conduct upon hiring for a complete sample of employees. More recently, Public Services and Procurement Canada has advised that the responsibility for housing various original documents is returning to individual

departments. As a result, the Canadian Grain Commission has started to maintain more robust personnel files on employees. Sign-off after the initial letter of offer is required when updates to collective agreements occur or annually when performance agreements are created. However, information was received to indicate that performance agreements were not finalized for all employees; consequently, some employees did not acknowledge their compliance with the code of conduct after their initial hire date.

Recommendation:

- 1) It is recommended that the Canadian Grain Commission maintain personnel files and monitor that employees are acknowledging the code of conduct at designed intervals.

The Canadian Grain Commission has a Policy on Employment Equity and Diversity, an Employment Equity and Diversity Champion and a National Employment Equity and Diversity Committee. The committee has developed a five year employment equity and diversity plan that has been approved and is being implemented. This plan includes activities to increase representation at all levels, educate staff on topics related to employment equity and diversity, and address any barriers or challenges in work requirements and conditions, etc.

The Canadian Grain Commission also has a values and ethics working group made up of volunteers from various areas of the organization. . However, not all divisions nor regional locations are represented and a terms of reference has not been established. The working group meets regularly. It primarily focuses on awareness and education activities.

Recommendation:

- 2) It is recommended that the value and ethics working group:
 - a) develop a formal terms of reference for the values and ethics working group
 - b) include members that are representative of all Canadian Grain Commission divisions and regions

Principle 2: The Departmental Audit Committee Charter, consistent with Treasury Board requirements, provides a mandate for the Departmental Audit Committee. The charter outlines structure, duties, areas of focus, procedures, and qualifications including having independent, financially literate members, as well as one financial expert on the committee. The Departmental Audit Committee Charter is reviewed annually by the Departmental Audit Committee for reaffirmation by the Chief Commissioner. An independent and objective reporting structure exists by which the Chief Financial Officer and the Chief Audit Executive report directly to the Chief Commissioner. In addition, the Internal Audit unit has unlimited access to the Departmental Audit Committee and Chief Commissioner, if required.

Principle 3: Management's philosophy and operating style, including overall governance , indicates that the principles of management excellence are applied throughout the organization. The Commissioners (Chief Commissioner, Assistant Chief Commissioner and Commissioner), the Executive Management Committee (EMC) and the Departmental Audit Committee set an appropriate tone from the top in guiding the Canadian Grain Commission as it achieves its operational and strategic objectives.

However, we noted a gap in the governance of information technology and its link with the direction of the organization. Without representation on EMC nor inclusion in key strategic and operational planning, the current structure could lead to disconnects, possible non-alignment of

information technology resources and underlying systems and investments, and missed opportunities.

Recommendation:

- 3) It is recommended that an information technology resource be incorporated into EMC to support strategic and operational planning.

The Canadian Grain Commission's raison d'être, responsibilities, strategic outcomes and program alignment architecture, organizational priorities and risk analysis have been communicated clearly internally through the internal website and to external stakeholders through the Report on Plans and Priorities. EMC and Commissioners conduct annual strategic planning sessions in order to identify strategic priorities and to identify significant risks for the upcoming fiscal year. Each division's director receives input from their direct reports and others in order to gather information for input into the strategic planning process.

At the start of this audit, all 3 commissioner positions (Chief Commissioner, Assistant Chief Commissioner and Commissioner) were vacant. While the positions were filled during the audit, each commissioner is too new to the position for the audit to test and form a conclusion on this oversight body's effectiveness.

Principle 4: The Canadian Grain Commission's Awards and Recognition Program recognizes exemplary behavior and acknowledges the contributions, integrity, mutual respect, professionalism and performances of employees through both formal and informal means.

The Canadian Grain Commission also has a strong commitment to employee learning and development. All employees are required to complete a personal learning plan aimed at helping them acquire and maintain knowledge and skills related to their work, and at helping them develop. The Chief Commissioner is responsible for ensuring that each employee has a personal learning plan. Information was received to indicate that learning plans were not developed or approved for all employees. Further, performance reviews were not performed for all employees (refer to Principle 5 below). Managers monitor personal learning plans during performance reviews.

Recommendation

- 4) It is recommended that management ensures learning plans are prepared and reviewed, and that Human Resources monitors progress and follows up with management to verify completion.

Principle 5: The performance of all employees is evaluated bi-annually, at mid-year and year-end. The review process allows managers and employees to communicate and provide feedback. A manager reviews an employee's achievements and provides feedback during designated review periods. The review is approved by the next level manager, if applicable.

As a result of testing, the following completion percentages were noted by division for the 2015 to 2016 fiscal year-end:

Division	Percent completed
Executive and Corporate Affairs (excluding Information Management and Technology Services)	72%
Finance	96%
Grain Research Laboratory	94%
Human Resources	100%
Industry Services	80%
Information Management and Technology Services	98%
Canadian Grain Commission overall	86%

Recommendation

- 5) It is recommended that management implement a performance cycle for each Canadian Grain Commission division to enhance the ability to formally track and monitor the review process.

4.2 Risk assessment

Risk assessment involves a dynamic and iterative process for identifying and analyzing risks to achieving the entity's objectives and forming a basis for determining how risks should be managed. In the context of the Policy on Internal Control, risk assessment is focused on identifying and analyzing risks that the organization's external financial statements are not fairly presented in accordance with the requirements of the applicable financial reporting framework. As part of this process, management considers possible changes in the external environment, such as changes in the applicable financial reporting standards and within its own processes and procedures, which may impede its ability to achieve its objectives.

Findings

Principle 6: EMC and Commissioners conduct annual strategic planning sessions in order to identify strategic priorities as well as significant risks to the Canadian Grain Commission for the upcoming fiscal year(s). These risks generally inform the development of a corporate risk profile. Priorities and risks are monitored by EMC against the strategic plan. Within the Canadian Grain Commission, the integrated risk management process is established and led by an integrated risk management working group. The working group identifies and assesses risk at the operational, financial, and tactical level. The end result is a risk register. The top 8 to 12 risks assessed through a combination of likelihood and impact are reported to and monitored by EMC.

Principle 7: Besides those processes identified in Principle 6, various other risk assessment exercises are undertaken. As part of the internal control over financial reporting monitoring plan, an internal control over financial reporting risk assessment process is undertaken annually. Internal Audit develops a multi-year risk based audit plan based on its own risk assessment, while considering other similar exercises within the Canadian Grain Commission. The audit plan is updated annually and is reviewed and recommended by Department Audit Committee for approval by the Chief Commissioner.

Principle 8: Senior management takes an active role in the internal control over financial reporting risk review process and considers the potential for fraud risk. However, no overall fraud risk management policy framework exists.

Recommendation

- 6) It is recommended that the Canadian Grain Commission develop a formal fraud risk management policy framework.

Principle 9: The internal risk management working group updates the risk register quarterly. The update includes identifying and assessing any current developments that could indicate emerging risks to the Canadian Grain Commission and its objectives. EMC reviews the risk register on a quarterly basis and determines if further mitigation steps are required.

4.3 Control activities

Control activities are actions established by management to help ensure that organizational objectives are achieved. Control activities are performed at all levels of the entity and at various stages within business and financial reporting processes. Control activities also take place within the information technology environment.

Findings

Principle 10: EMC members are responsible for reporting quarterly on progress against planned deliverables for the strategic initiatives and key performance indicators for which they are accountable. These reports are submitted to EMC. The fourth quarter reports are used as references the Canadian Grain Commission's annual Departmental Performance Report is prepared. The Departmental Performance Report is communicated to all employees, stakeholders and other interested parties via the Canadian Grain Commission's website. For each program activity, the Canadian Grain Commission has performance indicators linked with expected results.

Procurement is one example of where the Canadian Grain Commission has developed strong control activities. The procurement management regime clearly delineates accountabilities, supports procurement practices that are fair, open, transparent, and that provide value for money, and ensures ongoing compliance with the Government of Canada's legal and policy requirements.

Principle 11: Information technology policies and procedures exist. Updates on information technology operational and strategic priorities are presented to EMC on a monthly basis by the Chief Information Officer. Information technology has a priority setting exercise for application and infrastructure development that includes divisional input and EMC oversight.

Principle 12: The organization deploys control activities through policies, directives, guidance, training, and other communications. Several of these policies and supporting procedure and guidance documents have been developed and posted on the Canadian Grain Commission's internal website to be convenient and accessible to employees. Support processes include, but are not limited to, an informal conflict management system and the workplace network. The informal conflict management system is promoted by management as the first step in resolving employee disputes. The workplace network creates working groups to facilitate communication and the flow of information through the Canadian Grain Commission. However, we identified that certain policies, procedures and committee terms of references were out of date or missing on the Canadian Grain Commission's internal website, which could interfere with a consistent information delivery method that relates to the objectives and responsibilities for internal control.

Opportunity for improvement

- 7) It is recommended that management ensure that the Canadian Grain Commission internal website is monitored to verify that key policies, committee terms of references, and other important guidance documents are updated regularly.

It was identified that there was no business continuity plan as part of these policies and procedures. The business continuity plan was last updated on February 14, 2006. A business continuity plan should include strategies, actions, communications, and procedures to resume business operations in the event of a disaster or other business interruption.

Recommendation

- 8) It is recommended that management update the business continuity plan to reflect risks related to its current operations.

The disaster recovery plan, which focuses on resuming technology services as part of the business continuity plan, has also not been updated to reflect the Canadian Grain Commission's current operations.

Recommendation

- 9) It is recommended that Canadian Grain Commission update the disaster recovery plan.

The Delegation of Financial Authorities Instrument for both Vote 1 and Vote 5 are signed by the Deputy Head annually to confirm acceptance of delegated authorities. These documents are accompanied by the Delegation of Financial Authorities Instrument Supplementary Notes which includes the responsibilities, authority limits and requirements for the Directive on Delegation of Authorities and the required training and references for financial signing authority. Samples selected for testing verified that personnel with Financial Administration Act Section 34 authority held the required training in accordance with Canadian Grain Commission's requirements. However, in 2016 to 2017 the annual acknowledgment of the Financial Administration Act Section 34 authority was not performed due to resource constraints. It was also noted that employees in acting positions under 4 months take an in-house test to ensure they have a basic understanding of their Financial Administration Act Section 34 delegation of authority role rather than completing the Canada School of Public Service training courses.

Opportunity for improvement

- 10) It is recommended that:

- a) annual confirmation of delegation of authority responsibility is performed annually
- b) acting positions executing Financial Authority Act Section 34 authority hold a certificate from the Canada School of Public Service.

4.4 Information and communication

Information is necessary for the organization to carry out internal control responsibilities to support the achievement of its external financial reporting objectives. Communication is the

continual, iterative process of providing, sharing and obtaining necessary information to design, implement and conduct internal control, and to assess its effectiveness.

Findings

Principle 13: Information Management policies and procedures exist to ensure that records, data and information are appropriately gathered and secured in compliance with government standards and that information can be accessed appropriately.

The Canadian Grain Commission follows the Directive on Departmental Security Management under the Policy on Government Security. The Canadian Grain Commission has also established an Integrated Security Program which is comprised of various functions. As part of the program, there is a National Security Awareness week, publications in the Canadian Grain Commission newsletters, continuous site risk assessments and a departmental security plan.

Principle 14: Treasury Board and other central agency finance policies, directives, and guidelines are communicated to departments through formal communications, webcasts, Deputy Chief Financial Officer and Chief Financial Officer calls, and working groups. When new or changed policies, directives and guidelines are implemented by Treasury Board and central agencies, impacts to Canadian Grain Commission policies, procedures, and forms are determined and communicated internally as appropriate through various means including directly from the Chief Financial Officer, staff bulletins or department-wide emails.

It was noted that while review and communication occurs within the Finance division and to employees about policy changes or other changes, there is currently no formal process to review, update, and track the implementation of new or changed Treasury Board or central agency policies and directives.

Recommendation

11) It is recommended that management establish a process for ensuring that policies, procedures and other information necessary for carrying out financial reporting be reviewed and updated at regular intervals to ensure that employees have the most current and accurate information available.

Principle 15: The mandate, vision, mission and values are available to the public via the Canadian Grain Commission's website. These statements are also found in financial and non-financial reporting documents related to the functioning of internal control.

4.5 Monitoring

Monitoring consists of the activities used to ascertain whether each of the 5 components of internal control, as well as the internal controls themselves, are present and functioning. In an appropriate monitoring program, findings are evaluated and deficiencies are communicated in a timely manner, with serious matters reported to senior management.

Findings

Principle 16: The Canadian Grain Commission's internal control over financial reporting monitoring plan outlines the approach for performing the periodic assessment and remediation of all significant components of the system of internal control over financial reporting, in accordance with the Policy on Internal Control. The internal control over financial reporting monitoring plan also outlines the ongoing risk assessment approach, the resulting multi-year monitoring work plan, and the ensuing documentation and testing activities that will be applied

to entity level controls, information technology general controls and business process controls. It also describes reporting activities that will be undertaken each fiscal year.

Canadian Grain Commission updated its internal control over financial reporting monitoring plan in the 2016 to 2017 fiscal year to reflect the temporary reduction of available resources within the Financial Systems and Controls unit due to the implementation of SAP. Entity level controls, information technology general controls, and all key processes and sub-processes will be assessed over a 3-year period.

Principle 17: The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action. Management action plans are taken into consideration by division directors or EMC and prioritized as part of operational planning.

4.6 Summary

We documented the summary of observations and recommendations in Appendix B. As 3 findings have been rated as medium risk using the definitions outlined in section 3.4, we have listed them in order of priority starting with the observation that would have the most direct impact on financial reporting and ending with the observation that would have the least direct impact on financial reporting. All control objectives not listed in Appendix B were concluded to be operating effectively.

5.0 Acknowledgements and contacts

We express our appreciation to staff and management throughout the Canadian Grain Commission for their assistance during the course of this audit.

This audit has been reviewed with:

Chief Operating Officer
Chief Financial Officer
Director, Human Resources

Audit and Evaluation Services contact:

Chief Audit Executive

Appendix A – COSO 2013 Pillars and Principles

Control environment	
Principle 1	The organization demonstrates a commitment to integrity and ethical values.
Principle 2	The senior management demonstrates independence from management and exercises oversight of the development and performance of internal control.
Principle 3	Management establishes, with senior management oversight, structures, reporting lines and appropriate authorities and responsibilities in the pursuit of objectives.
Principle 4	The organization demonstrates a commitment to attract, develop and retain competent individuals in alignment with objectives.
Principle 5	The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.
Risk assessment	
Principle 6	The organization specifies objectives with sufficient clarity to enable identifying and assessing risks related to objectives.
Principle 7	The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
Principle 8	The organization considers the potential for fraud in assessing risks to the achievement of objectives.
Principle 9	The organization identifies and assesses changes that could significantly impact the system of internal control.
Control activities	
Principle 10	The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
Principle 11	The organization selects and develops general control activities over technology to support the achievement of objectives.
Principle 12	The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.
Information and Communication	
Principle 13	The organization obtains or generates and uses relevant, quality information to support the functioning of internal controls.
Principle 14	The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
Principle 15	The organization communicates with external parties regarding matters affecting the functioning of internal control.
Monitoring	
Principle 16	The organization selects, develops and performs ongoing or separate evaluations to ascertain whether the components of internal control are present and functioning.
Principle 17	The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action

Appendix B – Observations and Recommendations

The following table describes the audit findings and the related entity level control statement. Findings are categorized as affecting either design or operating effectiveness and are listed in order of significance within each category.

Ref #	Control	Observation	Conclusion	Risk	Recommendation	Owner	Management action plan
Design effectiveness							
3	entity level control-31 Management has in place an effective information technology governance structure to identify and respond to business needs.	The governance structure does not support a strong link between the Information Management/Information Technology unit and the Canadian Grain Commission's operational and strategic planning. With neither representation on EMC, nor inclusion in key strategic and operational planning, the current structure could lead to disconnects, possible non-alignment of information technology resources and underlying systems and investments, and missed opportunities.	Design gap	Medium	It is recommended that an information technology resource be incorporated into the EMC to support strategic and operational planning.	Chief Operating Officer	Accepted: The role of the Chief Information Officer in providing support to the strategic and operational planning processes will be determined by the Chief Operating Officer, with input from EMC and the commission, by September 30, 2017.
8	entity level control-26 Processes and procedures exist to support the continuity of information and systems.	The business continuity plan was last updated on February 14, 2006 and as such has not been updated to reflect the Canadian Grain Commission's current operations.	Design gap	Medium	It is recommended that management update the business continuity plan to reflect the risks related to its current operations.	Chief Financial Officer	Accepted: The business continuity plan coordinator role will be transferred to the Real Property and Security unit effective July 2017. The National Security Officer will update the business continuity plan by March 31, 2018. Full tabletop testing of the plan will be completed by March 31, 2019.
9	entity level control-	The disaster recovery plan as	Design gap	Medium	It is recommended that	Chief	Accepted: Canadian

Ref #	Control	Observation	Conclusion	Risk	Recommendation	Owner	Management action plan
	30 Management has appropriate plans for data backup and recovery protocols and appropriate physical and virtual security protocols to protect sensitive information.	part of the business continuity plan has not been updated to reflect the Canadian Grain Commission's current operations.			management update the disaster recovery plan.	Information Officer Chief Financial Officer	Grain Commission approved a project plan ("PMO 2016 –0025 – IMTS") in December 2016 to update the existing outdated IMTS disaster recovery plan. The completed and validated Information Management and Technology Services disaster recovery plan will be completed by January 31, 2018. Following change in ownership, as identified in entity level control-26, the National Security Officer will engage with the Chief Information Officer to ensure the disaster recovery plan is updated and forms a part of the business continuity plan. To be completed by March 31, 2018.
6	entity level control-16 Management identifies the risks that may preclude the achievement of its objectives.	No overall fraud risk management policy framework exists.	Design gap	Low	It is recommended that the Canadian Grain Commission develop a formal fraud risk management policy framework.	Chief Financial Officer	Accepted: Manager, Financial Systems and Controls will develop a formal fraud risk management policy framework by September 30, 2018.
11	entity level control-21	There is no formal process to review, update, and track the	Design gap	Low	It is recommended that management establish	Chief Financial	Accepted: For the suite of financial management

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	<p>Financial management policies are appropriately designed to mitigate financial risks and are communicated.</p> <p>entity level control-22</p> <p>Financial management policies are reviewed regularly and revised, as required.</p>	implementation of new or changed Treasury Board or central agency policies, directives, etc.			a process for ensuring that policies, procedures and other information necessary in carrying out financial reporting be reviewed and updated at regular intervals to ensure that employees have the most current and accurate information available.	Officer	<p>policies approved by the Treasury Board in April, 2017, the manager of Accounting Operations will:</p> <ol style="list-style-type: none"> 1) coordinate a review of all Treasury Board financial management policies 2) create a document listing of all current Canadian Grain Commission processes and procedures which will then be linked back to the Treasury Board policies. This will assist in identifying gaps or required changes to existing documents 3) add an item the yearend check list to ensure Treasury Board policies are reviewed annually for any updates <p>To be completed by March 31, 2018.</p>
Operating Effectiveness							
1	<p>entity level control-8</p> <p>Employees formally</p>	Full employee files are not maintained at the Canadian Grain Commission and as	Ineffective	Low	It is recommended that Canadian Grain Commission maintain	Director of Human Resources	Accepted: The manager of Planning, Programs, and Business Support

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	and regularly acknowledge compliance with the organization's corporate values and ethics, code of conduct or equivalent policy.	such we were unable to obtain evidence of the signed code of conduct upon hiring for a sample of employees. After the initial hire date, employees acknowledge compliance with the code of conduct through the performance review cycle. Performance agreements were not finalized for all employees; consequently some employees did not acknowledge their compliance with the code of conduct after the initial hire date.			personnel files and monitor that employees are acknowledging the code of conduct at the designed intervals.		Unit of Human Resources will: 1) create personnel files for all new appointments to document code of conduct acknowledgments 2) create a process to remind supervisors and employees to complete the voluntary values and ethics acknowledgement annually through the Public Service Performance Management process To be completed by March 31, 2018.
4	entity level control-11 The organization provides employees with the necessary training, tools, resources and information to support the discharge of their responsibilities.	Personal learning plans were not developed for all employees. Since not all performance reviews were completed (entity level control-12 and 13), some learning plans were not monitored by management.	Ineffective	Low	It is recommended that management ensures learning plans are prepared and reviewed and HR monitors progress and follow-up with management to verify completion.	Director of Human Resources	Accepted: A report is generated and presented to EMC prior to each performance review interval (mid-year, end of year) to monitor and report on personal learning plan completion status. The manager of Human Resources Planning, Program and Business Support will establish a follow-up process with

Ref #	Control	Observation	Conclusion	Risk	Recommendation	Owner	Management action plan
							management to verify completion by March 31, 2018.
5	entity level control-12 The organization has in place a system for the performance evaluation of employees. entity level control-13 Open and effective channels exist for internal communications and feedback.	Mid-year and year-end performance reviews were not performed for all employees and reviewed by management.	Ineffective	Low	It is recommended that management implement a performance cycle for each Canadian Grain Commission division to enhance the ability to formally track and monitor the review process.	Director of Human Resources	Accepted: the manager of Human Resources Planning, Program and Business Support will implement a formal performance cycle monitoring and tracking and reporting process for each division by March 31, 2018.
2	entity level control-4 Management, through their actions, demonstrates that the organization's integrity and ethical values cannot be compromised.	We identified that there are no terms of reference for the values and ethics working group. We also identified that given the representatives on the working group are volunteers, they do not include members from all divisions and regions.	Ineffective	Low	It is recommended that: a) a formal terms of reference for the values and ethics working group is developed; and b) that the values and ethics working group include members that are representative of all divisions and regions of the Canadian Grain Commission.	Director of Human Resources	Accepted: The chair of the values and ethics working group will complete the terms of reference and solicit broader divisional representation on the working group by March 31, 2018.

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7	entity level control-2 The oversight body (or bodies) has a clearly communicated mandate that includes roles with respect to governance, risk management and control.	Per review of the Canadian Grain Commission internal website, certain policies, procedures, committee terms of references, etc. were out of date or missing, which could interfere with a consistent method of delivery of information that relates to the objectives and responsibilities for internal control.	Opportunity for improvement	Low	It is recommended that management ensure that the Canadian Grain Commission internal website is monitored to verify that key policies, committee terms of references, and other important guidance documents are updated regularly.	Chief Operating Officer	Accepted: The Chief Operating Officer will establish a monitoring process by December 31, 2017 to ensure that key policies, terms of reference, and important guidance documents are updated on the Canadian Grain Commission internal website in a timely manner.
10	entity level control-29 Authority, responsibility and accountability are clear and communicated.	Samples selected for testing verified that personnel held the required training in accordance with Canadian Grain Commission's requirements; however, it was noted that the annual acknowledgment of Financial Authority Act Section 34 authority was not performed in the 2016 to 2017 fiscal year due to resource restraints. It was also noted that employees in acting positions under four months take an in-house test to ensure they have a basic understanding of their Financial Authority Section 34 delegation of authority role rather than completing the Canada School of Public Service	Opportunity for improvement	Low	It is recommended that: a) the annual confirmation of delegation of authority responsibility is performed annually b) acting positions executing Financial Authority Act Section 34 authority hold a certificate from the Canada School of Public Service	Chief Financial Officer	Accepted: a) Reviews will resume in the current fiscal year. The manager of Accounting Operations will ensure 2017 to 2018 confirmations are completed by May 31, 2017. Going forward, confirmations will be done by October 31 each year so as to reduce added pressures at year-end. a) The manager of Accounting Operations to send a communication to the EMC by July 31, 2017 to propose that

Ref #	Control	Observation	Conclusion	Risk	Recommendation	Owner	Management action plan
		training courses.					effective January 2018, all short term actors must complete the required training prior to receiving any delegated authority.