Office of the Superintendent of Financial Institutions Canada
Bureau du surintendant des institutions financières Canada

Office of the Superintendent of Financial Institutions

Internal Audit Report on Corporate Services Learning and Development

August 2013

OSFI
BSIF

Canada

Table of Contents

1. Background

Introduction

Internal Audit conducts assurance work to determine whether the Office of the Superintendent of Financial Institutions Canada's ("OSFI's") risk management, control and governance processes, as designed and represented by management, are adequate and functioning in a manner to ensure risks are appropriately identified and managed, and to ensure compliance with such requirements as policies, plans, procedures and applicable legislation and regulations.

The audit of Corporate Services–Learning and Development was approved by the OSFI Audit Committee and the Superintendent for inclusion in the Internal Audit Plan for 2012-13.

This report presents the results of that audit based on audit work completed at the end of April 2013. The audit recommendations will support Corporate Services to continuously improve their control framework for the learning and development process.

This report was presented to the OSFI Audit Committee and approved by the Superintendent on August 22, 2013. The Assistant Superintendent, Corporate Services, and Human Resources and Administration Division management, who have reviewed this report and provided comments and responses.

Context

An effective learning and development program is essential to ensure that employees have the necessary skills and knowledge and to enable employees to develop through a systematic and integrated approach to managing performance and learning. At OSFI, executives, managers and employees have an important shared responsibility to align learning and development goals with business objectives, and to achieve continuous learning results that contribute to OSFI's success as well as to individual employees' success.

The complexity of the financial industry and the risks posed by the current economic environment require that OSFI employees are trained effectively and on a timely basis. The increase in new employees over the last few years has also increased the need for learning and development to meet employee and organizational requirements from a technical, behavioural and managerial perspective.

As part of the annual performance evaluation process, individual learning plans are prepared for each employee. Some sector-specific learning guides are also in place. The learning and development framework includes a continuous process to review learning needs and progress to plans at sector management team meetings. Quarterly progress reporting is provided to the Executive Committee.

1. Background, Continued

Context
(Continued)

OSFI is also aware of the need to ensure that employees are preparing for emerging risks through focused and timely training. The Office philosophy is to provide an average of five training days per employee per year. For 2012-13, the Office now averages six days.

2. Audit Objective, Scope and Approach

Audit Objective   The objective of the audit was to provide reasonable assurance that the management control framework in place for learning and development is designed and administered in an effective manner to support the achievement of OSFI's strategic outcomes and operational requirements.

Audit Scope   The audit scope included both the 2012-13 and previous fiscal period up until the end of the conduct phase (April 2013). The audit focus covers the overall learning and development management control framework that is currently applied in the sectors of OSFI, and the systems and processes that are in place for planning, allocating resources, developing and executing individual learning plans, as well as the reporting and monitoring activities related to learning and development office-wide.

Audit Approach   The audit criteria (described in *Section 4–Overall Assessment*) sets out the elements and related components that formed the basis for assessing the learning and development management control framework. These criteria are based on the internationally recognized Enterprise Risk Management–Integrated Framework recommended by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The approach to conducting the audit included:
- Interviewing key stakeholders,
- Reviewing the management control framework, including the policies, guidelines, processes, plans, priorities and the supporting IT systems,
- Process walkthroughs, and
- Testing employees' learning plans and key management reports.

Audit evidence was obtained through a number of methods including interviews, documentation reviews, analysis and testing. Relevant documentation included OSFI plans, HR learning plans, process documentation, performance and compliance reporting, performance appraisal and learning plans, policies and guidelines, procedures manuals and training material, prior audit reports and minutes.

3. Conclusion

Conclusion

Overall, the audit found that the learning and development management control framework is well established in the Office and sets a solid basis for effective program delivery. Employees are receiving learning and development activities. Learning activities are planned, developed, executed and monitored regularly by management, and results are reported to senior management quarterly.

Internal Audit has identified opportunities for improvement and provided recommendations that can further strengthen the learning and development process and controls activities as follows:

- Measuring the effectiveness of learning and development
- Integrating the learning and development activities
- Maintaining the Learning and Development Information System

In my professional judgment as Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinion provided and contained in this report. The opinion is based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed on with management. The opinion is applicable only to the entity examined. The audit was conducted in conformance with the internal audit standards of the Government of Canada, as supported by the results of the Quality Assurance and Improvement Program.

We wish to recognize the excellent collaboration of all those involved in the audit. The depth of the review and the ability to focus on what matters would not have been possible without the support received throughout the audit.

_____   _____

Chief Audit Executive, IA   Date

4. Overall Assessment

Control Element / Audit Criteria	Observation
1. Process and Control Activities	
1.1. The learning and development framework is integrated and is linked with the business and HR planning cycle in addressing skills and knowledge requirements.	• OSFI has a framework in place that is part of and integrates with the HR and business planning framework. • There is a process for identifying the learning and development requirements needed to address the skills and knowledge needs of the Office.
1.2. There is evidence that senior management has communicated its views on OSFI's learning and development to planners who have incorporated them into learning and development objectives, strategies, and priorities.	• Learning and development is a senior management commitment that is continuously demonstrated, evidenced and communicated throughout the organization.
1.3. Learning and development planning objectives, strategies, priorities and comprehensive plans are maintained with due consideration for: • OSFI learning and development needs; • Funding requirements and expenditure management; • Assumptions/decisions that were subject to scrutiny and constructive challenge; and • Appropriate sign-off by all accountable parties, including senior management.	• The HR Plan (2013/14–2015/16) addresses the objectives, strategies and priorities of the Office for learning and development. • OSFI has a comprehensive annual planning and performance management process that addresses current learning and development needs and priorities throughout the organization. • Learning and development objectives have been consolidated into a senior management approved funding plan that is allocated to sectors, divisions and responsibility centres on an annual basis. ***There are opportunities for improvement. Refer to Observation 2, points 1, 2 and 4***
2. Operating Environment	
2.1. A Learning and development organization is in place with adequate resources, defined roles, responsibilities and accountability for learning and development formally articulated, communicated to stakeholders, and understood by those who are responsible.	• The Learning and Development Division in HR has enhanced resources to support the importance of learning and development. • Resources in sectors are also contributing to learning and development in collaboration with the HR Learning and Development Division. • Roles and responsibilities are well described in the Learning and Development Policy and Guidelines.
3. Objective Setting	
3.1. Learning and development policies and procedures are clear, formally established, communicated and understood by those who are responsible.	• The updated learning and development policy and guidelines clearly define and establish the current practices. • Senior management has formally approved the Policy in February 2013 and communicated this to all employees.

Control Element / Audit Criteria	Observation
4. Risk Management	
4.1. The learning and development activity's risks, key controls, and strategies to mitigate, transfer or avoid risk are identified evaluated, monitored, and reported.	• Learning and development are integrated into the Enterprise Risk Management (ERM) processes of the Office.
5. Information and Communication	
5.1. Learning and development planning is transparent (i.e. decisions are supported) and well communicated as evidenced by an ongoing communication within management and among staff on objectives and priorities and their alignment with the Sector and Division plans and priorities.	• The communication of learning and development is documented throughout the organization in the various plans and priorities, and in the individual learning plans that are prepared for each employee as part of the annual performance management process.
5.2. Learning and development planning is information-driven. Learning and development information management systems appropriately support the planning process and decisions through the provision of timely, factual and relevant information on current and future competency/capacity requirements.	• Information management systems are in place. *There are opportunities for improvement. Refer to Observation 2, point 3 and Observation 3.*
6. Monitoring and Management Reporting	
6.1 A management oversight body (i.e. a committee) has a clearly communicated mandate that includes roles defined with respect to providing oversight for learning and development approval and monitoring.	• Senior management and management are continuously involved in overseeing learning and development activities.
6.2. There is a process in place with effective measures to monitor and report on learning and development performance and to regularly report progress in achieving learning and development objectives in support of OSFI's mandate.	• There are good learning and development quantitative measures which are reported to senior management regularly. These measures are focussed on learning activities undertaken. • There are some effectiveness assessments on the quality of learning and development such as employee surveys and training evaluations. *There are opportunities for improvement. Refer to Observation 1.*

5. Management Response

Overview

This report has been reviewed by the Managing Director, Human Resources and Administration, and the Assistant Superintendent, Corporate Services, who acknowledge its observations and recommendations.

Responses / Comments

Management understands and agrees with the observations made and the recommended opportunities for improvement. The Learning and Development (L&D) Division of OSFI has made continuous improvements in providing an established learning and development framework for the organization as noted in the audit. The recommendations provided are additional opportunities to implement best practices and will be adopted to the extent suitable for an organization of our size.

6. Observations and Recommendations

Observation 1   **Measuring the effectiveness of learning and development**

Senior management has available and reviews on a quarterly basis good quantitative performance indicators that provide information on current and historical training costs and the amount of time spent by employees on learning and development.

While there are some assessments of effectiveness, such as the employee performance process, regular employee surveys and training evaluations, effectiveness measures are not fully in place. These would include measures such as the extent of improved on-the-job behaviour, knowledge and skills, and the contribution of learning and development to achieving OSFI's objectives.

As stated in the OSFI 2013/14–2015/16 Human Resources Plan, continuous learning remains a priority and requires employees that are trained effectively and on a timely basis. Without good, continuous, qualitative measures of effectiveness, it is difficult to assess the effectiveness of the investment in the learning and development program.

Recommendation:

Learning and Development should establish evaluation measures for the Learning and Development Program and report the results to senior management on a regular basis, as well as feedback into the Learning and Development Program in support of continuous improvement.

Action Plan:

Given that many organizations struggle with capturing learning data, management believes that OSFI is already ahead of the curve in its ability to provide quantitative learning measures to senior management. Management agrees that further measures of the effectiveness of learning would be useful information to report to senior management on a regular basis.

The Kirkpatrick Model is a well-known model for measuring the effectiveness of learning programs. The Model is structured on four levels of effectiveness measures: Level 1 (Reaction), Level 2 (Learning), Level 3 (Behaviour) and Level 4 (Results). OSFI has been measuring effectiveness at Levels 1 and 2 for a number of years. In 2012-13 and continuing, we are adding further evaluations to Level 3 and will incorporate these in all high impact courses in 2013-14. We do not anticipate moving to Level 4 measures given the size of our organization or the capacity of the L&D team.

Completion date: March 2014 – Human Resources and Administration

6. Observations and Recommendations, Continued

Observation 2   **Integration of the Learning and Development Activities**

The Office has made good progress in implementing and integrating many important learning and development processes and activities into the Office planning and human resource management framework.

Nonetheless, there are opportunities for improvement in order to maintain and enhance the effectiveness of the Office's Learning and Development Program.

Internal Audit noted the following:

a) For 2013-14, the Learning and Development Plan, embedded into the OSFI Human Resources Plan, does not sufficiently address Office-wide learning and development long-term strategies, market trends, leading practices, nor an analysis of sectors' plans in support of long-term needs. Some Office-wide issues may be missed or opportunities for the future may not be identified if a strategic focus is lacking in the Plan.

b) Starting in 2010-11 the employee performance management process included a mandatory learning plan in the performance appraisal and goal-setting for each employee. While some of the learning plans did not get documented in the first year, our limited testing of the 2011-12 learning plans indicates an inconsistent practice. Some of the 2011-12 performance appraisals included only the outcome of the year's learning plan, while others included the next year's learning plan.

c) The learning and development database is the repository that records and maintains employees' historical training activities. It is used for monitoring and reporting the learning and development quantitative performance measures to senior management. Manual processes are used to update and maintain the database. The business rules for the system/database-generated key performance indicator, "average days of training," were not documented and could not readily be demonstrated or re-performed by staff. Internal Audit recalculated the indicator and found it to be reasonably accurate. Nevertheless, it is important that the underlying basis for generating a performance indicator is well understood to ensure consistency and relevance especially when changes are made to the database.

d) The audit could not find evidence that the sector learning plans have been formally approved. Those obtained at the end of April 2013 were still in draft form.

6. Observations and Recommendations, Continued

Observation 2
(continued)

Recommendations:

a) The Learning and Development Division should document the overall OSFI learning and development strategy and explicitly provide for and inform management of the potential strategies, long-term needs, opportunities, initiatives or trends that should be considered.

b) Learning plan guidance should be clarified to ensure that learning plans cover both the results of the previous year's accomplishments as well as those desired learning needs for the future.

c) Controls and business rules should be developed and documented to enhance the integrity of the learning and development database.

d) Sector learning plans should be approved formally with evidence retained.

Action Plan:

Management agrees with the recommendations and will include the strategic learning and development direction in the next HR Strategic Plan. Individual Learning Plans have only recently been implemented at OSFI, and we will continue to make sure that managers and employees understand their use and the necessity to plan for learning activities. The controls and business rules will be documented and Sector Learning Plans will be formally approved by Sector Heads.

Completion date: April 2014 – Human Resources and Administration

Observation 3

Learning and Development Information System

The Office is going through a major information technology renewal that will, over the long term, substantially alter the information technology tools that are available today. The business case for the Corporate Systems Renewal project recommended PeopleSoft as the information technology solution for the human resources functional requirements. The fit-gap analysis identified that none of the learning and development functional requirements could be met with the initially chosen business case recommendation of PeopleSoft. At that time, there were no plans to accommodate any learning and development needs.

Subsequent events have resulted in a rework of the future HR system renewal direction. In the meantime, there will be an immediate upgrade of OSFI's current HR software to ensure continued stability; however learning and development is not supported by this software. Currently, the learning and development needs are supported by a software database.

6. Observations and Recommendations, Continued

Observation 3
(continued)

Recommendation:

Management should ensure that the database used to support learning and development continues to be considered for maintenance and support as it is not part of the HR renewal effort.

A requirements analysis should be done to decide on the best solution for meeting the learning and development functional requirements and user needs. Consideration should be given to enhancing the current database as a quick win to meeting learning and development user needs.

Action Plan:

Management agrees with the intent of the recommendations. However, the current access database used by Learning & Development for reporting purposes serves the needs of the organization. HR will work with IM/IT to ensure that there will continue to be support for the existing Access database.

Completion date: September 2013 – Human Resources and Administration