

Chapter 19

Finance—Internal Audit in Ministries

1.0 MAIN POINTS

By December 2017, the Ministry of Finance strengthened, in part, internal audit in ministries. It implemented all but one recommendation outstanding from our *2012 Report – Volume 2*, Chapter 30 audit on the effectiveness of internal audit activities of government ministries.

Finance evaluated several options for organizing internal audit in ministries. Based on its evaluation, Finance decided to continue with a decentralized internal audit model across ministries.

Finance took a co-ordination role in setting up a Best Practice Focus Group to support and promote the use of internal audit and risk management best practices within ministries. The Group typically met quarterly and shared methodologies and tools to support risk-based internal audit planning.

Government ministries with an internal audit branch have not yet developed effective quality assurance programs for internal audit as suggested in the Government of Saskatchewan's *Financial Administration Manual* and professional standards to ensure continuous improvement in internal audit activity.

2.0 INTRODUCTION

This chapter describes the results of our second follow up of management's actions on recommendations about internal audit in ministries that we first made in our *2012 Report – Volume 2*, Chapter 30.

Internal audit is an important component of sound governance for public sector organizations. Internal audit provides value to governing bodies and senior management by providing an objective source of independent advice. Internal audit function refers to personnel within an organization who perform the roles and responsibilities of an internal auditor.

Ministries in the Government of Saskatchewan use a decentralized internal audit model, that is, they have their own internal audit function as opposed to sharing a centralized internal audit function. See **Figure 1** for a listing of ministries with internal audit functions as of December 2017.

Figure 1—Internal Audit Functions in Ministries as of December 2017

Ministry	Chief Audit Executive	Number of Internal Audit Positions as of December 31, 2017
Advanced Education	Director	3
Central Services	Director	3
Economy	Manager	2
Environment	Internal Auditor	1
Finance	Director	8
Health	Director	2
Justice	Director	2



Our *2012 Report – Volume 2*, Chapter 30 concluded that internal audit in ministries was not following best practices, and as a result, we made seven recommendations to the Ministry of Finance in its role as the lead ministry for improvements to the effectiveness of internal audit activities of the core government.¹ Core government includes all ministries. By June 2014, as reported in our *2014 Report – Volume 2*, Chapter 46, Finance had implemented one of the seven recommendations.²

The Ministry of Finance is the lead ministry for improvements to the effectiveness of internal audit activities of the core government. This is because the Provincial Comptroller (who is part of the Ministry of Finance) has oversight responsibility for the receipt, recording, and proper disposition of public money; the control of disbursements from the General Revenue Fund; and ensuring compliance with Treasury Board orders and directives.³

To conduct this follow-up audit, we followed the standards for assurance engagements published in the *CPA Canada Handbook – Assurance* (including CSAE 3001). To evaluate Finance's progress towards meeting our recommendations, we used the relevant criteria from the original audit. Finance's management agreed with the criteria in the original audit.

Our audit approach primarily included interviewing Finance staff and reviewing key documents including meeting minutes of the Best Practices Focus Group. In addition, we surveyed the seven ministries with an internal audit function (see **Figure 1**) about their internal audit function.

3.0 STATUS OF RECOMMENDATIONS

This section sets out each recommendation including the date on which the Standing Committee on Public Accounts agreed to the recommendation, the status of the recommendation at December 31, 2017, and Finance's actions up to that date. We found that Finance implemented three recommendations but has more work to do to implement the remaining recommendation.

In **Section 3.2**, we grouped three of the six outstanding recommendations together as they were related.

3.1 Assessment of Organization Models for Internal Audit Completed

We recommended that the Ministry of Finance evaluate various organization models for internal audit. (2012 Report – Volume 2; Public Accounts Committee agreement June 17, 2015)

Status – Implemented

In April 2015, Finance evaluated five internal audit organizational models and decided to continue with a decentralized model for ministries. Under the decentralized model of

¹ The original report regarding these recommendations can be found at www.auditor.sk.ca/publications/public-reports. We reported the original audit work in *2012 Report – Volume 2*, Chapter 30, pp. 227-238.

² In *2014 Report – Volume 2*, Chapter 46, pp. 369-372.

³ *The Financial Administration Act, 1993*, Section 10.

internal audit, each ministry has its own internal audit branch responsible for maintaining its own internal audit function, and for work completed including audit planning and reporting.

To evaluate different internal audit models, Finance researched internal audit functions in other jurisdictions (e.g., other provinces, Federal Government) and in use at the Crown Investments Corporation of Saskatchewan. Also, it considered an outside consultant's 2007 recommendations. It analyzed the pros and cons of each of the five different models. Its analysis considered the potential impact on ministries budgets and personnel. It did not analyze, in detail, the associated costs and savings of each model.

As noted in **Section 3.2**, since our 2012 audit, Finance has increased collaboration between its internal audit branch and other ministry internal audit functions through the Best Practices Focus Group.

3.2 Collaborative Work on Internal Audit Structures, Competencies, Methodology, and Risk-Based Planning Implemented

We recommended that the Ministry of Finance and ministries collaborate on methodology and tools to support risk-based internal audit planning.

(2012 Report – Volume 2; Public Accounts Committee agreement June 17, 2015)

Status – Implemented

We recommended that the Ministry of Finance work with ministries to:

- ***Implement appropriate internal audit reporting structures to support effective internal audit***
- ***Ensure that internal auditors have appropriate competencies***
- ***Develop risk-based internal audit plans***

(2012 Report – Volume 2; Public Accounts Committee agreement June 17, 2015)

Status – Implemented

Ministry internal audit leaders regularly collaborate on good practices in internal audit including structures, competencies, methodologies, and risk-based planning primarily through quarterly meetings of the Best Practices Focus Group.

Finance participated in the creation of the Group in 2013. The Group's purpose is to promote the use of internal audit and risk management best practices within all ministries in the field of internal audit and risk mitigation by way of quarterly meetings.⁴ The Group, comprised of ministry internal audit leaders, including Finance, began meeting/collaborating quarterly in September 2013.

By December 2017, this collaboration had resulted in sharing of methodologies and a greater availability of tools to support risk-based audit planning (e.g., ACL Analytics). Also, in January 2014, Finance developed guidelines for internal audit and included these in the

⁴ Executive Government Best Practice Focus Group Terms of Reference—last revised November 26, 2015.



Financial Administration Manual.⁵ These guidelines outline appropriate reporting structures, staff competencies, and risk-based internal audit plans. The guidelines link to The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Six of seven ministries responded to our survey.⁶ We found that:

- All six ministries have an appropriate functional and administrative reporting structure, including having a chief audit executive leading internal audit.
- Four ministries have an audit committee responsible for approving audit plans, charters, and reports. The Provincial Comptroller or delegate approves the audit plans, charters, and reports for the Ministry of Finance. For the Ministry of Advanced Education, a Deputy Minister's committee approves the audit plans, charters, and reports.
- All six ministries' internal audit branches have staff who are Chartered Professional Accountants (CPAs) and/or Certified Internal Auditors (CIAs) in good standing. These ministries indicated that they give their internal audit staff sufficient professional development to enable them to have appropriate competencies.
- All six ministries indicated that they use risk-based audit planning to identify areas of the highest risk to determine where to focus their resources.

Using the results of risk assessments is critical to a successful internal audit function.⁷ They support the development of risk-based audit plans. Risk-based audit plans focus audit resources on the highest risk areas of the ministry. This in turn helps maximize the value of the internal audit function to a ministry.

3.3 Quality Assurance Program Needed

We recommended that the Ministry of Finance implement effective quality assurance programs for internal audit. (2012 Report – Volume 2; Public Accounts Committee agreement June 17, 2015)

Status – Not Implemented

By December 2017, ministries with an internal audit function had not developed effective quality assurance programs for internal audit as suggested in the Government of Saskatchewan's *Financial Administration Manual* and professional standards.

The guidelines in the *Financial Administration Manual* state that *Internal Audit staff should be guided by the Standards and Guidance of the International Professional Practices Framework issued by The Institute of Internal Auditors, except where superseded by Treasury Board Policy and directives.*

⁵ The purpose of this Manual is to communicate to ministries and public agencies, Treasury Board's policies and the Provincial Comptroller's directives for the control, management and accounting of government financial resources <http://applications.saskatchewan.ca/fam/background%20> (04 April 2018).

⁶ Ministry of the Economy did not respond to our survey.

⁷ Risk assessment encompasses the identification, assessment, prioritization, and mitigation of an organization's risks.

International Professional Practices Framework standards require chief audit executives to develop and maintain a Quality Assurance and Improvement Program that covers all aspects of the internal audit activity. Such a Program evaluates whether the internal audit function operates in a way that meets professional standards for internal auditors. It can also assess the efficiency and effectiveness of the internal audit function and identify opportunities for improvement. This includes assessing internal audit performance for the purposes of continuous improvement and engaging in an external quality assessment review every five years.⁸

Four of six ministries that responded to our inquiries noted that they do not have a formal quality assurance program in place, and all six ministries noted they have not had an external quality assessment review.

Without having a periodic formal quality assurance program, ministry internal audit functions may not maintain an environment of continuous improvement, risk non-compliance with *International Professional Practices Framework* standards, and have inconsistent work methods.

⁸ The Institute of Internal Auditors, *International Standards for the Professional Practice of Internal Auditing*, (2016), pp. 7-8.

