

Chapter 30

Finance—Internal Audit in Ministries

1.0 MAIN POINTS

By July 2020, the Ministry of Finance implemented the outstanding recommendation from our 2012 audit on the effectiveness of internal audit activities of government ministries.¹ Finance communicated requirements for internal audit quality assurance programs and provided training and implementation resources to ministries with an internal audit function. It also used a working group of internal audit staff to share techniques and tools, and monitor practice.

2.0 INTRODUCTION

This chapter describes our third follow-up audit of management's actions on the outstanding recommendation we made in 2012 about effective quality assurance programs for internal audit.

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.

A quality assurance program is typically designed to enable evaluating whether activities of the internal audit function conform to internal auditing standards and accepted practice. It also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.²

Ministries in the Provincial Government use a decentralized internal audit model (i.e., they have their own internal audit functions as opposed to sharing a centralized internal audit function). The Ministry of Finance provides leadership to and helps co-ordinate certain activities (e.g., sharing of best practices) of ministries with internal audit functions. **Figure 1** lists the ministries with an internal audit function at July 2020.

Figure 1—Ministries with an Internal Audit Function at July 2020

<ul style="list-style-type: none"> ➤ Advanced Education ➤ Central Services ➤ Finance (including Public Employees Benefits Agency—a division of the Ministry)^A 	<ul style="list-style-type: none"> ➤ Health ➤ Highways and Infrastructure ➤ Immigration and Career Training^B ➤ Integrated Justice Services^C
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^A The Public Employees Benefits Agency has an internal audit function separate from the Ministry of Finance's.

^B Immigration and Career Training also provides internal audit services to the Ministries of Energy and Resources and Trade and Export Development.

^C Integrated Justice Services provides administrative services including internal audit services to the Ministries of Justice and Attorney General and Corrections and Policing.

¹ For the purposes of this audit, government ministries included the Public Employees Benefits Agency that is a division of the Ministry of Finance.

² na.theiia.org/services/quality/Pages/Quality-Assurance.aspx (18 September 2020).



2.1 Focus of Follow-Up Audit

Our *2012 Report – Volume 2*, Chapter 30, concluded internal audit functions in ministries were not following best practices and made seven recommendations for improvements to the Ministry of Finance, given its role as the lead ministry. By December 2017, Finance had implemented six of the seven recommendations to improve effectiveness of internal audit activities of government ministries.

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

To carry out the audit, we interviewed Finance staff, reviewed key documents such as guidance provided to ministry internal auditors, and surveyed officials responsible for the internal audit function of the ministries.

3.0 STATUS OF RECOMMENDATION

This section sets out the recommendation including the date on which the Standing Committee on Public Accounts agreed to the recommendation, the status of the recommendation at July 31, 2020, and Finance's actions up to that date.

3.1 Quality Assurance Requirements for Internal Audit In Place

We recommended the Ministry of Finance implement effective quality assurance programs for internal audit. (*2012 Report – Volume 2*, p. 236, Recommendation 7; Public Accounts Committee agreement June 17, 2015)

Status—Intent of Recommendation Implemented

By July 2020, the Ministry of Finance set clear and written requirements for quality assurance programs for internal audit functions in ministries. These are being implemented.

Finance set out quality assurance requirements for ministry internal audit functions in the Financial Administration Manual. It also included in the Manual a sample template to support ministries in planning and monitoring their quality assurance programs. We found the quality assurance requirements align with professional standards set by the Canadian Institute of Internal Auditors.

In addition, Finance provided ministry internal audit staff with support to help them implement the requirements. For example, from 2018 to 2020, it provided ministry internal audit staff with training about the requirements. It gave them a list of related resources (such as guides and templates from the Canadian Institute of Internal Auditors). In addition, Finance shared its experience in completing a self-assessment of its internal audit function.

Furthermore, in 2020, Finance created a committee made up of ministry internal auditors to share practices and tools to improve quality assurance programs. Participating in this committee also allows Finance to monitor compliance with its requirements. We reviewed meeting summaries of the committee.

Our survey of the internal audit functions of ministries found relevant ministry officials were aware of the quality assurance requirements. Three ministries (Advanced Education, Health, and Highways and Infrastructure) noted their internal audit function was not fully functioning at July 2020 because of organizational changes or the audit function was newly created. Each of the other ministries indicated they were at various stages of implementing the requirements with some quality assurance processes in place and plans to implement the additional processes necessary to fully meet the requirements.

Strong internal audit quality assurance programs help ministry internal audit functions be effective, continuously improve, and comply with relevant professional standards.

