

# Unlocking the Power of Internal Audit in the Public Sector

By Carmen Abela, CIA, CCSA, MPA  
and  
James R. Mitchell



The Institute of Internal Auditors  
L'Institut des auditeurs internes  
Canada

## Unlocking the Power of Internal Audit in the Public Sector

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1. Carmen Abela
2. James R. Mitchell

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## ABOUT IIA CANADA

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IIA Canada (IIAC) is the authoritative voice and advocate for Canada's internal audit profession, representing over 7,600 internal auditors in Canada. As one of 109 affiliates of the global Institute of Internal Auditors, IIA Canada advances international standards, applying them in support of uniquely Canadian issues.

### IIAC'S CORE PURPOSE

To advance the internal audit profession and serve the unique needs of Canadian members.

### IIAC'S MISSION

Through its national operations and its network of local chapters and volunteers, IIA Canada:

- Promotes and advocates for the internal audit profession in Canada by:
  - building awareness and a common understanding of the profession's value to Canadian organizations;
  - promoting the profession of internal auditing as a career of choice for top talent; and
  - contributing to public policy, regulation, and other areas of strategic interest to the profession.
- Sustains and assures the professionalism, value, and credibility of internal audit in Canada through professional certification and the application of the global professional standards.
- Strengthens the expertise and value of the profession through thought leadership, innovation, and professional development.
- Provides outstanding and timely services to all Canadian members and to the broader community of practitioners.
- Manages its operations in an accountable, financially sustainable, transparent, and collaborative fashion, in accordance with the highest standards of governance and ethics.

### THE IIAC'S VISION FOR THE CANADIAN PROFESSION OF INTERNAL AUDITING

The Canadian internal audit profession is integral to the success of the organizations served, protecting, with ethics and integrity, interests of their stakeholders and the Canadian public.



## ABOUT THE AUTHORS

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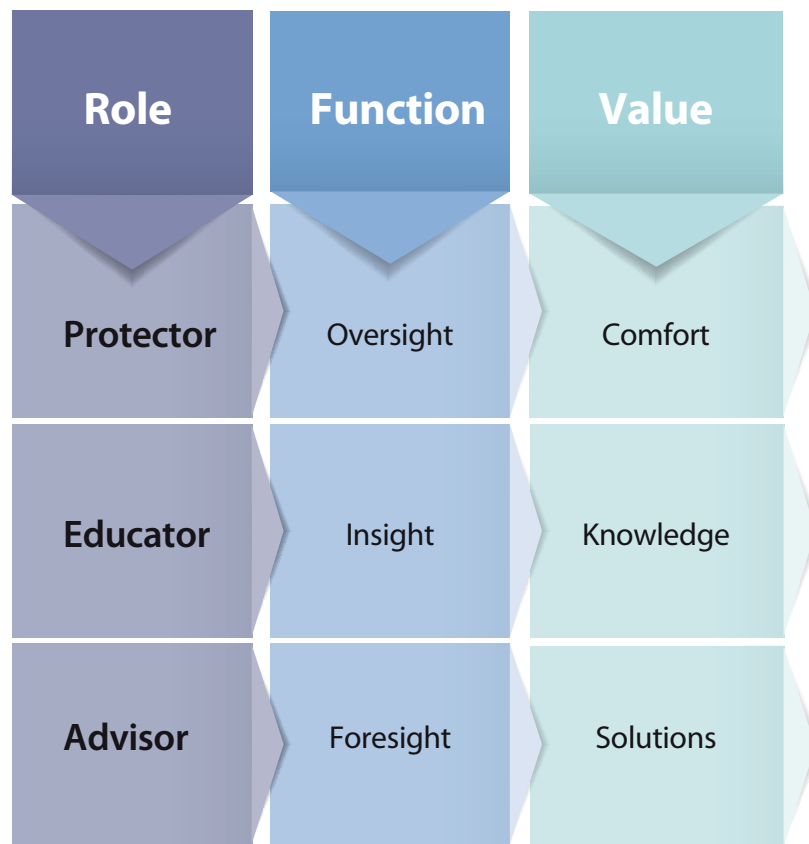
**Carmen Abela** is the incoming Chair of National Board of Directors for IIA Canada and is the Managing Director of WindReach Consulting Services, an Ottawa-based firm specializing in public sector management. In her capacity of National Chair, she represents the IIA Canada on the Government Internal Auditors Council of Canada, a national forum of audit leaders from the federal and provincial jurisdictions. Ms. Abela is a Certified Internal Auditor with an extensive practice serving the public sector audit and senior executive community in virtually all sectors of the federal government. Her internal audit credentials and experience are complemented by her educational background in public administration and public policy: she holds a Masters Degree in Public Administration and a Bachelor Degree in Political Science. As such, she straddles the professional worlds of internal audit and public administration.

**James (Jim) Mitchell** was a founding partner of the policy consulting firm Sussex Circle. An experienced consultant and departmental audit committee member, he has many years of experience in the analysis and resolution of complex public policy issues and in dealing with ministers and senior government officials. His experience in government includes service as Assistant Secretary at the Treasury Board of Canada Secretariat and Assistant Secretary to the Cabinet (Machinery of Government) in the Privy Council Office. In the latter role, he was responsible for providing advice to successive Secretaries to the Cabinet and Prime Ministers on matters related to the organization of government, the reform and renewal of the Public Service, and a host of other issues related to governance and change in Canada.

## EXECUTIVE SUMMARY

Written for deputy ministers, government audit committees and the chief audit executives (CAEs) who serve them, this paper is intended to help Canadian officials benefit from the full value of the internal audit function. Its premise is that the role and value of internal audit is ideally positioned to respond to the demands of the current public sector – demands that stem from expanding oversight requirements, increasingly complex problems of public administration, and eroding public trust.

The paper presents a three-pronged value proposition for public sector internal auditors:



- As a **Protector**, internal audit contributes to public sector *oversight*, providing senior leaders and audit committees with comfort that their management systems and practices are designed appropriately and working effectively. As an independent, unbiased diagnostician, internal audit is also a powerful resource for Canadian taxpayers, giving them confidence that the systems of oversight, accountability and control inside government are working

as intended. This helps to safeguard the reputation of the public sector and contributes to public trust.

- As an **Educator**, internal audit provides public sector leaders with *insight*, equipping them with knowledge and expertise in the areas of public sector governance, risk management and control. In this way, internal audit supports senior managers in the fulfillment of their management responsibilities in an ever-changing and increasingly complex environment.
- As a **Business Advisor**, internal audit provides senior officials with *foresight* through the provision of honest, reliable and relevant advice on difficult questions of public administration.

These three value propositions are not mutually exclusive and they are anchored in the unique attributes and assets that the audit profession brings to the public sector table. These include professionalism, trustworthiness, independence, objectivity and robust methodologies.

Yet while public sector internal auditors have matured significantly as a community over the past decade and have made important contributions to government and governance, there remain a number of challenges that may be holding back the profession from realizing its full value. These challenges – identified through surveys, interviews and literature review – are both professional and cultural. The paper notes that, ironically, some of these challenges may stem directly from qualities that are among internal audit’s most notable assets. The paper asks:

- Does independence keep internal auditors too far removed from the client and their business, restricting them from providing meaningful advice, counsel and education?
- Do the robust professional methods employed by internal audit work against timely delivery of insight?
- Does the commitment to an evidence-based approach keep auditors from venturing into the “grey zone” that characterizes the complex questions of public administration?
- Has the emphasis on professionalism and certification kept internal auditors from developing leadership skills and “C-Suite” acumen?

A number of senior officials interviewed for this study suggest that these unintended consequences may indeed be present in government today. While this poses dilemmas for the profession, these challenges are not insurmountable. Strategies are presented in this paper to assist deputy ministers, audit committees and chief audit executives in maintaining robust audit practices and the value they generate, while enhancing the strategic contributions that internal audit can make in the public sector.

The paper offers strategies and specific suggestions in three key areas:

**Professional Practices:** Robust professional practices are essential to an effective internal audit function and must not be eroded – to do so would undermine the basic value of internal audit. But professional practices can be improved to heighten the relevance, efficiency and focus of internal audit. Chief audit executives must lead here, with the support of deputy ministers and their audit committees. It is their responsibility to maintain high expectations for leadership, professionalism and value-added from their internal audit functions. This paper offers advice and recommended actions to enable this.

**Perspectives:** The world of public administration is complex and demands a wide range of skills, perspectives and competencies on the part of the public sector auditor. The paper presents strategies and actions to broaden the internal audit talent pool so that new and broader perspectives can be brought to the existing talent base.

**Positioning:** Not only is there a need to evolve the professional practices and perspectives of internal audit, so too is there a need to advance the perspectives of public sector managers. The paper provides strategies on how to strategically position the internal audit function as an integral element of the government's broader oversight regime.

Taken together, actions taken in these three areas will go a long way to unlocking the full potential of internal audit in the public sector.

## Chapter 1

# INTRODUCTION

## SCOPE AND PURPOSE

Written for deputy ministers, government audit committees, and the chief audit executives (CAEs) who serve them, this paper is intended to help Canadian public officials benefit from the full value of the internal audit function. Its premise is that the role and value of internal audit is aligned to the needs of senior public leaders and is ideally positioned to respond to the demands of the current public sector. These demands stem from expanding oversight requirements, increasingly complex problems of public policy and public administration, and eroding public trust.

The paper identifies three core roles, and thus three value propositions for public sector internal auditors:

- internal audit as protector,
- internal audit as educator, and
- internal audit as business advisor.

With internal audit, deputy ministers and government audit committees have at their disposal a tremendous asset that can and should be used to support their responsibilities in the areas of public sector governance, performance, and control. Yet, while much has been achieved over the past years, more work can still be done to realize value and better serve public sector leadership. The principal question facing the internal audit community today is: *How do we define the asset of internal audit, maximize its value, and convey its contribution to today's public sector?*

This paper provides strategies to deputy ministers and chief audit executives that will help them nurture and harness the unique value that internal audit brings to public administration. These strategies have been derived from the views of Canadian practitioners and an analysis of Canadian best practice and global standards.

The IIA Canada undertook this original study in line with its commitment to bring Canadian thought leadership to our country's internal audit profession and the organizations we serve.

The results of this study are not, in all cases, positive and some messages may be considered provocative. But the messages are equally optimistic, charting a constructive course for the profession. Through this work we intend to challenge public sector leaders — within and beyond the internal audit profession — to raise the bar in support of strong Canadian public administration and good governance.

For this work, the researchers reviewed Canadian and international literature, conducted case studies, and administered a wide-ranging survey of public sector executives and chief audit executives across the federal, provincial, and territorial governments.<sup>1</sup> The surveys were sent to more than 2,200 public sector executives across the federal and territorial jurisdictions and 43 chief audit executives.<sup>2</sup> Survey results were supplemented by interviews with deputy ministers and audit leaders from across the country.

## TODAY'S INTERNAL AUDIT CONTEXT

### *Public administration is “messy.”*

Government is becoming more challenging and unpredictable: interdependencies are numerous and relationships with stakeholders are increasing in number, diversity, and complexity. The role of non-governmental organizations is becoming more prominent, introducing new players into public administration and new voices into the public policy discourse. At the same time, decision makers have a duty to consult on matters of public policy and program design, pushing them into a new realm where they need to consider a diversity of views and voices. With this comes heightened public scrutiny and media attention. And, while these factors are important in a transparent and democratic system, they can have the effect of transforming government operations into a “fishbowl,” increasing caution and, in turn, risk aversion in public sector managers.

Expectations for accountability and stewardship are on the rise. These demands stem from various sources, not the least of which has been the need for public administrators and political players to provide meaningful responses to high-profile control breakdowns such as the federal sponsorship and Senate expense scandals. Provincial counterparts to these problems exist, the most recent being the details arising from the Charbonneau Commission on public construction contracts in Quebec.

### THE GROWING OVERSIGHT IMPERATIVE: AN ILLUSTRATION

In her November 2003 Report to the House of Commons on the federal government's sponsorship program, the Auditor General of Canada noted the “unexplained and continual failure of oversight mechanisms and essential controls to detect, deter, and report flagrant violations of rules, regulations, and policies.”<sup>3</sup> In the wake of the scandal and the ensuing report of the Gomery Commission, the federal government put in place many improvements aimed at strengthening governance and oversight. Among them were the passing of the Federal Accountability Act, the creation of independent departmental and agency audit committees with external members, a more robust *Policy on Internal Audit*, which included the adoption of the IIA's professional standards, and a new *Policy on Internal Control*.

1 We understand that the Canadian public sector is far broader in scope than the federal and provincial jurisdictions and includes municipalities, para-public organizations, Crown corporations, and agencies. However, in part because of differences in the governance regimes, the focus of this research is on the federal, provincial, and territorial systems. We are confident, however, that lessons learned from this study are equally applicable to other public sector jurisdictions.

2 Please see Annex C for a description of the research methodology, including the survey techniques used.

3 Office of the Auditor General of Canada. November 2003 Report to the House of Commons, Chapter 3, The Sponsorship Program, paragraph 3.92.



As expectations for accountability grow, there is anecdotal evidence that public trust in Canadian government institutions is low or at risk of eroding.<sup>4</sup> Driven by oversight requirements and eroding public trust, there are ever more players in the public sector mandated to assess, review, examine, and opine on government operations and performance. They include a range of management and management advisory functions such as program evaluation and risk management which are mandated to measure government results and risks respectively. As well, individual departments and ministries have various internal compliance functions in place, tasked to assess and attest to the department's conformity to internal policies, controls, or quality expectations. Examples here include compliance and quality functions related to regulatory oversight activity, transfer payment management, or administrative activities such as staffing and procurement. In many jurisdictions, the monitoring and oversight role of the Chief Financial Officer is increasing in scope and authority. Added to this are the myriad external functions that play an increasingly active role in assessing and overseeing government operations. Among the most notable of these are the legislative auditors, mandated to audit financial statements and to audit the effectiveness, efficiency, and economy of departments, agencies, and Crown corporations. As well, external parties such as ombudsmen and commissioners of privacy, ethics, and official languages examine compliance with law and policy and report annually to Parliament or legislative assemblies.

As this continuum of players examines and reports independently on government operations, public sector managers themselves are required to report on their own performance, risk management, and control. They face a multitude of reporting requirements to respond to the ever-expanding oversight demands.

Paradoxically, but not surprisingly, as the number of accountability instruments increases, so also do calls to reduce oversight burden and streamline controls. In response, at all levels of government, efforts are underway to streamline the policies and regulatory frameworks to which bureaucrats and stakeholders must conform.<sup>5</sup>

To organize and align the players in this public sector regime, we propose using the Three Lines of Defence<sup>6</sup> model put forth by the Institute of Internal Auditors.

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4 Limited current and longitudinal Canadian research exists on the state of public trust of Canadians in their public sector institutions. Some international studies, in which Canadians were surveyed (e.g., Edelman Trust Barometer, 2014) point to a low level of public trust in Canada – ranging between 56% and 44% over the last five years, for the informed public.

5 Federally, the Red Tape Reduction Commission was formed to identify irritants to business stemming from federal regulatory requirements. It recommended options to address the irritants, streamline control, and reduce compliance burden over the long term while ensuring that the environment and the health and safety of Canadians are not compromised in the process. As well, the 2007 report of the Blue Ribbon Panel on Grants and Contributions resulted in a major effort to reduce internal red tape. In response to these and other drivers, the federal Treasury Board of Canada Secretariat pursued policy renewal in an effort to manage federal departments' and agencies' burden in relation to their internal compliance obligations.

6 Institute of Internal Auditors, "Position Paper: The Three Lines of Defence in Effective Risk Management and Control," January 2013.

- The first line of defence is management, which is required to put in place and monitor the system of internal control that helps them to manage their risks and achieve their objectives.
- The second line of defence consists of support, advisory and oversight functions that help build and monitor the first line of defence controls. In most cases, functions such as compliance and risk management form the backbone of this defence.
- The third line of defence is internal audit, with a mandate for the independent and objective examination of the organization's systems of governance, risk management, and control. Internal audit has a bird's-eye view of the organization and its management systems and provides not only assurance, but also trusted advice to management on how to sustain and improve these systems.

Legislative auditors, like external auditors in the private sector, sit outside this internal regime and provide yet another layer of oversight.

### THE PIVOTAL ROLE OF THE GOVERNMENT AUDIT COMMITTEE

Atop the various "lines of defence" sits the government audit committee. Governance arrangements and audit committee mandates differ, in some cases significantly, across the federal, provincial and territorial jurisdictions. Some, but not all have external members. Some provide advice to deputy ministers while others have a more traditional governance and oversight role, actively directing the work of the internal audit function. Depending on the jurisdiction, internal audit's main client can be the audit committee, not the deputy minister.

Notwithstanding these differences, in all cases public sector audit committees are key instruments through which the independence of internal audit is safeguarded. Further, public sector audit committees represent an important pillar of public sector governance and provide a forum for the discussion and scrutiny of systemic risks, governance and control.

While this report focuses heavily on the relationship between the internal audit function and the deputy minister, the critical role played by the audit committee must not be overlooked or under-estimated.

Figure 1 illustrates how the three lines of defence work together.

**Figure 1: The Three Lines of Defence Work Together for Effective Risk Management and Control**



Source: Adapted for government, from the IIA Position Paper, The Three Lines of Defence in Effective Risk Management and Control, January 2013

It is important to note that while internal audit does not and must not play an active role in the first and second lines of defence, we will show in this paper that internal auditors do have knowledge and expertise that ideally position them to support and enable these first two lines.

And if this were not complex enough, there is the small matter of change. Change is a pervasive and constant feature of government today. Institutions at all levels have been called upon to navigate through significant cuts and operational realignments to generate savings, enhance service to Canadians and increase value for money. Some of the change is incremental, but much is transformational, such as the move to shared services or the devolution of federal responsibilities to territorial control in the cases of the Government of the Northwest Territories and, before it, Nunavut and Yukon.

Simply stated, federally, provincially, and territorially, public sector leaders are navigating agendas of both greater accountability and greater efficiency. Today's emphases on performance, control, and value for money are neither new nor is there any indication they will diminish over time. Indeed, we can expect these agendas to escalate to meet the expectations of a more engaged and, some might suggest, cynical taxpayer.

All this means that the world of the public servant is becoming more technical, nuanced, political, and fast-paced. As risks increase, so does risk aversion.<sup>7</sup> At the same time, expectations for control, efficiency, and quality service delivery are rising, presenting public sector managers with complicated trade-offs and challenges.

This is the world of the deputy minister: a key client of internal audit.

### THE DEPUTY MINISTER: THE BUCK STOPS HERE

The deputy minister is responsible for supporting the collective and individual responsibilities of the minister, acts as the minister's chief policy advisor and is the chief administrative officer and steward of the organization.<sup>8</sup> Accordingly, deputies are called upon to be both inward and outward facing. They are accountable for the department's system of governance, risk management and control while responding to political direction and myriad external forces that affect their strategies and operations. Deputies are required to "fearlessly advise" their political masters on matters of public policy and public administration, and, in our democratic system, they must also "faithfully implement" the will of the minister. They are preoccupied daily with the internal management of their departments and with external responses to media, stakeholders, and their political masters.

The deputy minister is responsible for putting in place and overseeing the essential conditions, systems, and practices that enable financial, operational, program, and policy performance.

In this complicated world, *what is a deputy to do?*

The remainder of this paper is dedicated in part to answering this important question.

7 Ralph Heintzman, "Renewal of the Federal Public Service: Toward a Charter of Public Service," Canada 2020, June 2014.

8 Privy Council Office of Canada. *Accountable Government. A Guide for Ministers and Ministers of State.* 2011.

## Chapter 2

# NEEDED: OVERSIGHT, INSIGHT AND FORESIGHT

To do their jobs well and to navigate in this increasingly complex and demanding environment, deputy ministers and audit committees need reliable, trusted *oversight*, *insight*, and *foresight* to support informed decision-making and good governance. These three broad elements are called for because of the value they produce, namely *comfort*, *knowledge*, and practical *solutions*.

## THE VALUE OF OVERSIGHT, INSIGHT, AND FORESIGHT

### *Comfort*

In the current age of ever-increasing accountability, deputies and senior officials exercise a formal oversight role, signing off on systems of internal control, spending commitments, and the accuracy of financial and non-financial reports to Parliament and legislative assemblies<sup>9</sup>. Beyond the deputy, senior operational leaders are moving into a role that their private sector counterparts have been playing since the advent of the U.S. Sarbanes–Oxley Act or Ontario’s Bill 198<sup>10</sup>, and that is designing, implementing, and monitoring controls. Historically, the notion of control had been almost entirely the purview of finance and audit, but with the advent of new policy directions,<sup>11</sup> senior public sector managers are being called upon to serve as a formal “first line of defence.”

Interviews with deputy ministers indicated that while the commitment to due diligence has always existed, the formal sign-off of the deputy minister and the Chief Financial Officer brings this commitment to a new, more personal, level of responsibility. This heightened responsibility in turn brings with it a demand for trustworthy information on the state of risk management, controls, and governance in the organization, providing management with comfort that their decisions and attestations are appropriately supported. For their part, audit committees require the same reliable information to effectively discharge their oversight and advisory duties.

9 This formal responsibility is complemented by the more informal oversight role of the audit committee.

10 The Sarbanes–Oxley Act of 2002 (SOX) is a United States federal law that set new or enhanced standards for all U.S. public company boards, management, and public accounting firms. The act introduced new and enhanced measures related to auditor independence, corporate governance, internal control assessment, and financial disclosure. In 2002, Ontario enacted Bill 198 (also referred to as Canadian SOX, or C-SOX). The bill brought into effect regulations similar to the Sarbanes–Oxley Act for Canadian companies listed on the Toronto Stock Exchange. As the TSX is the main exchange in Canada, Bill 198 applies to almost all publicly traded companies in Canada.

11 Treasury Board of Canada Secretariat. Policy on Internal Control. 2010.

## **Knowledge**

We have established that the business of government is becoming more complex and multi-faceted. Risks are expanding in variety and intensity while more senior public sector officials are nearing retirement<sup>12</sup>. For those entering or working in the public service, mobility is increasing. As average experience and tenure decreases, accumulated knowledge, judgment, and “seasoning” of public servants may be at risk. This creates a new imperative: ensuring the public sector is effectively supported with the understanding and insight needed to meet ever-greater compliance, control, service, and performance expectations.

## **Solutions**

The inherent complexities of government, including change and current fiscal pressures, mean that deputies need problem solvers around them. Whether they are designing or adjusting programs, venturing into new policy areas, seeking efficiencies, or streamlining operations, deputies need what can best be termed ‘foresight’: i.e., proactive, anticipatory analysis into the issues and circumstances that may contribute to or undermine success. Of the deputies we interviewed for this study, a number noted that they need reliable “antennae”: trusted advisors who can provide early warnings and advice to support future directions of their organizations.

## **OVERSIGHT, INSIGHT, FORESIGHT: ENTER INTERNAL AUDIT**

We maintain that internal audit is ideally positioned to serve all the above-noted needs of deputy ministers and their senior officials, and that the roles played and functions served by internal audit can deliver precisely the value that senior management demands.

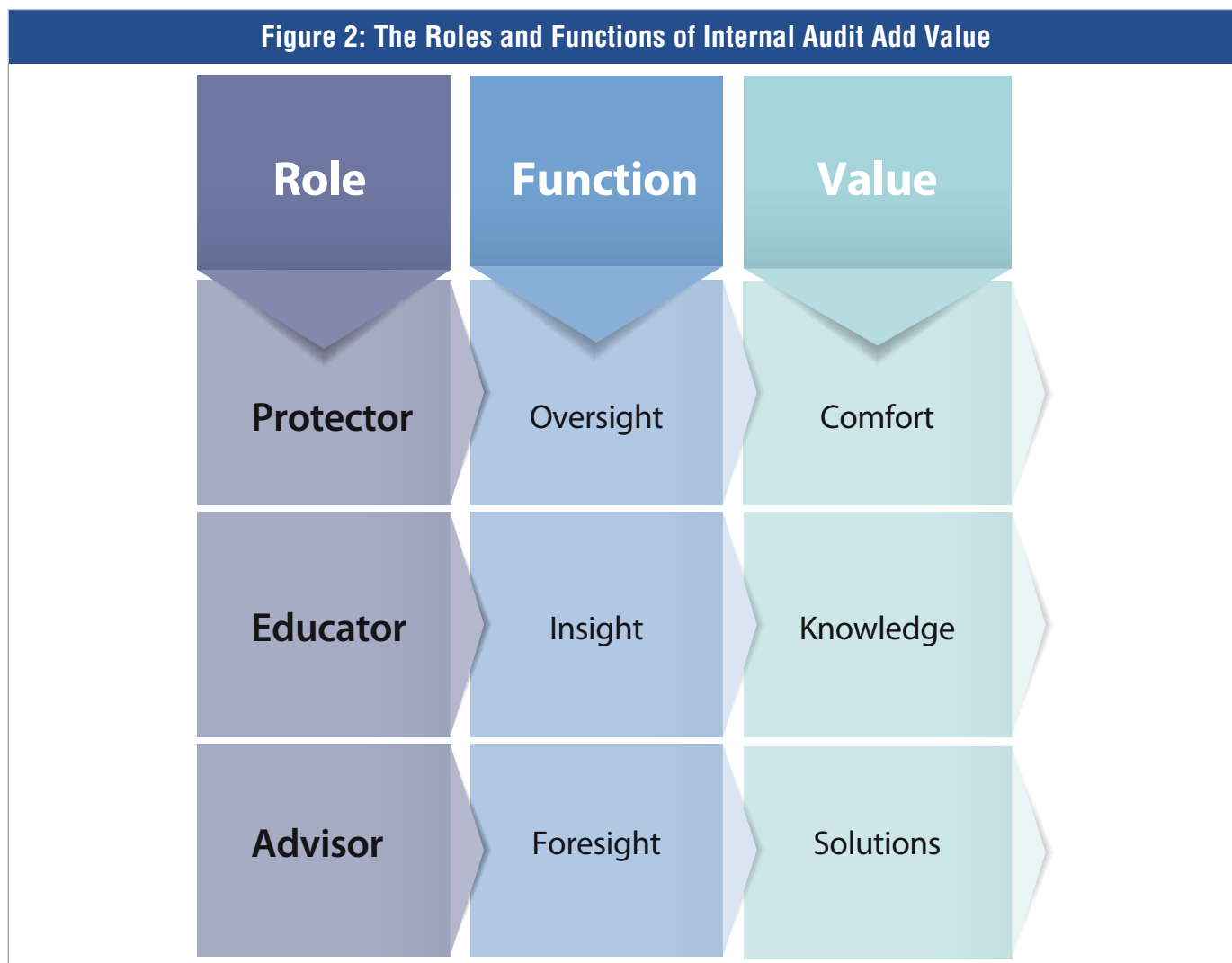
The internal audit value chain is shown in Figure 2.

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12 Treasury Board of Canada Secretariat. Office of the Chief Human Resources Officer. Demographic Snapshot of the Federal Public Service, 2013. <http://www.tbs-sct.gc.ca/res/stats/demo13-eng.asp#part1-3>



**Figure 2: The Roles and Functions of Internal Audit Add Value**

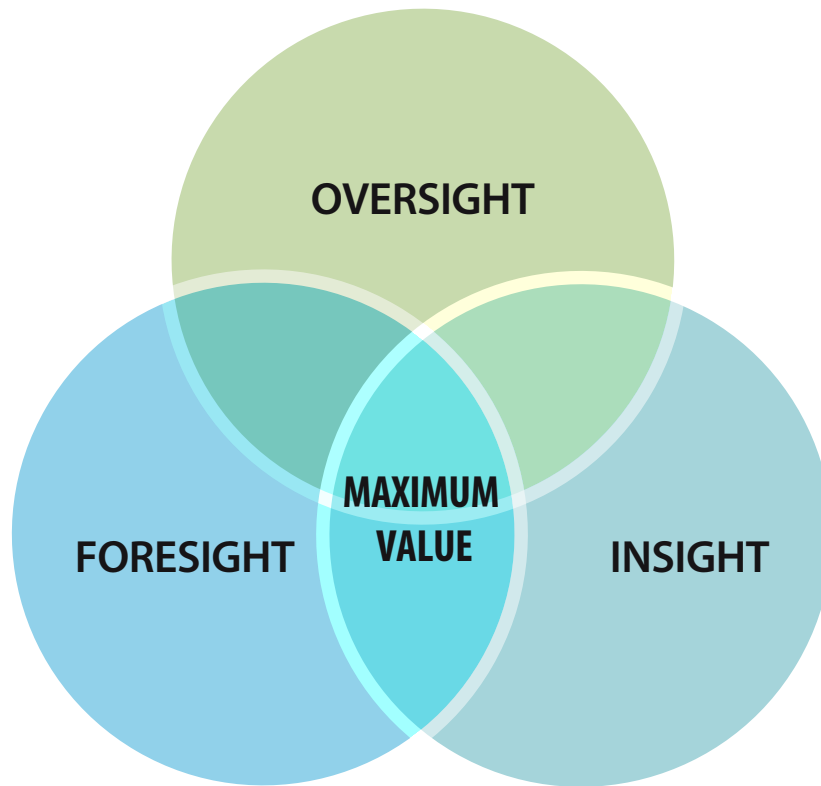


Internal audit's three value propositions stem directly from its:

- independence and objectivity,
- risk-based focus,
- unfettered access and direct reporting relationship to the deputy minister and audit committee,
- adherence to professional standards and commitment to continuous improvement and quality assurance and
- evidence-based approach to analysis and diagnostics.

Note that the three value propositions are not mutually exclusive. Indeed, it is the combination of all three that makes the internal audit function such a powerful asset for a deputy minister and for the audit committee (Figure 3).

**Figure 3: Internal Audit's Three Value Propositions Add Maximum Value**



## THE INTERNAL AUDIT VALUE PROPOSITION IN THE PUBLIC SECTOR

### ***Oversight: Internal Audit as Protector***

Internal audit provides assurance to public sector organizations and their audit committees on the adequacy and effectiveness of management systems, practices and controls. In cases where internal controls are failing or are at risk of failing, internal audit provides trustworthy and reliable information in support of improvements. And, by acting as an “early warning system,” internal audit helps to safeguard the interests and assets of public sector organizations and enables management and audit committees to effectively discharge their oversight responsibilities.

It would be a mistake to presume that only assurance products, which use in-depth auditing techniques, provide this protection. “Under development” auditing of controls as they are being designed affords protection

in real time, allowing the chief audit executive to strike a balance between timelines and comfort in support of management.

### ***Insight: Internal Audit as Educator***

Internal audit maintains expertise in systems of management control, risk management and governance, all of which are critical to good public administration. The internal audit function has in-depth knowledge of best practices and expectations in these areas and uses these standards as the basis upon which to draw conclusions about government systems, practices and cultures. This knowledge positions internal audit as an ideal educational function, equipping management with the insight and expertise it needs to fulfil its responsibilities as the first and second lines of defence. Indeed, as was the case with the implementation of risk management in some jurisdictions, internal audit can be a powerful incubator of important new management practices.

In the public sector, as staff mobility increases and leaders adapt to their responsibilities as the first line of defence, internal audit is ideally positioned to provide training, guidance, and insight into the standards of adequate and effective control. Moreover, internal audit can be a “dot connector,” providing, through annual reports or other mechanisms, accumulated intelligence and insight into horizontal, systemic issues that management may not receive from any other authoritative source.

### ***Foresight: Internal Audit as Business Advisor***

Internal audit standards explicitly position the function as both an assurance and a consulting function. Deputies and audit committees may typically think of internal audit’s advisory role as stemming from its consulting activities, but again, this is only partially correct. Assurance products, while they take longer to produce, can be a powerful source of foresight, provided the auditors are able to draw forward-looking conclusions based on past evidence.

Irrespective of the product being delivered — assurance or consulting — through its expertise, objectivity, and knowledge of organizational risks and key internal controls, internal audit can play the role of trusted advisor to its key clients, providing them with honest, reliable, and relevant advice in support of effective government operations.

Theoretically, internal audit is the answer to many problems. *But what is the reality?*

To answer this question, we interviewed deputy ministers and conducted a government-wide survey of public sector executives (ranging from director to deputy minister level). The results, while positive, suggest that more work needs to be done to fully develop the public sector internal audit function and to realize its value to deputy ministers and to public sector audit committees.

Some of the challenges facing the public sector audit community relate to the performance of the function, some to its strategic positioning, and others to how internal audit is perceived by clients. The remainder of this paper is devoted to discussing these challenges and strategies to address them.

## Chapter 3

# THE STATE OF INTERNAL AUDIT IN THE PUBLIC SECTOR

### OVERVIEW

Our consultations with public sector executives suggest that the state of internal audit in government has greatly advanced over the past decade. While no baseline data is available to demonstrate the change in realized value over time, deputy ministers and their senior officials expressed confidence in internal audit’s work and contributions, viewing the function largely positively (Figure 4). General success factors appear to be the powerful role played by audit committees and the widespread efforts to professionalize the audit function through certification and technical skills development.

**Figure 4: Survey respondents generally view the work of internal audit positively**

Survey statement	Agreed or strongly agreed	Disagreed or strongly disagreed
<b>Internal audit is almost always service-oriented and helpful to me as a leader.</b>	69%	31%
<b>Internal audit helps support the achievement of the organization’s objectives and priorities.</b>	72%	28%
<b>Internal audit is seen as a strategic and trusted advisor and is often sought out for advice and insight</b>	52%	48%

Of the public sector executives we surveyed, 69 percent agreed or strongly agreed with the statement “*Internal audit is almost always service-oriented and helpful to me as a leader.*” Further, 72 percent of responding executives agreed or strongly agreed with the statement “*internal audit helps support the achievement of the organization’s objectives and priorities.*”

Yet the survey and interview results also strongly suggest that more work remains to be done to enhance the value provided by internal audit. Approximately half (52 percent) of the respondents indicated that internal audit is regularly sought out for advice and insight, indicating that more work is needed to position the function as a trusted and strategic advisor.

## INTERNAL AUDIT AS PROTECTOR

Historically, internal audit has been seen — and has seen itself — as the organization’s “police force”: detecting non-compliance, enforcing rules, and compelling “bad” managers to change their ways. Our research indicates that this notion of “gotcha” auditing is less and less reflective of how internal audit operates today. “Gotcha” is being slowly transformed into the protective notion of “we’ve got your back.” Rather than policing, the new protector model of internal audit is one where auditors play a reassurance role, providing managers with the information and perspective to achieve their goals and to safeguard their financial, operational, physical, and reputational assets.

In the public sector, this means providing clients with comfort that their spending and other resourcing controls respect and conform to legislation, policies, and procedures. It also means providing assurance that program design is appropriate and incorporates the necessary governance, risk management, and controls to contribute to success in service delivery. Further, internal audit, done well, can provide leaders with comfort that risks will not materialize, or can be mitigated, thereby avoiding or minimizing costly reputational damage.

By providing oversight, insight and foresight, internal audit helps deputies and audit committees manage the risks to their organizational reputations; however, in some jurisdictions, internal audit reports are publicly available, opening up the possibility that the reports may contribute, in the short term, to reputational damage. Many of the deputies interviewed acknowledged this risk, but noted that the value obtained from internal audit outweighed the risks. To help manage the risk of inadvertent reputational damage, one federal deputy noted that he specifically looks for chief audit executives with communications expertise to ensure that audit findings are appropriately conveyed and less susceptible to mis-interpretation.

The protector role shows up in our survey results: 66 percent of responding executives viewed internal audit as *protector*, either to a significant or great extent. These results are consistent with the perceptions of deputy ministers, many of whom noted that the traditional focus on rules and compliance has equipped the function with the methods and perspectives needed to identify gaps that could be costly to management.

Assurance is valuable in a steady state environment and particularly valuable to deputies in transformational circumstances. As noted in the Infrastructure Canada case study on Canada’s Economic Action Plan (described below in the section “Internal Audit as Business Advisor”), internal audit there served both an educational function and a real-time assurance function, providing oversight and insight into the state of controls *as they were being built*.

This value proposition is not unique to the public sector. Independent assurance and advice is always valuable to leaders in gaining trusted insight. However, the value internal audit brings to the public sector is as a means of sustaining or restoring public trust in government institutions and programs. Earlier in this paper, we expressed concern that public trust in government is eroding. As an independent, unbiased diagnostician, internal audit is

a powerful resource not only for deputies, but also for the Canadian taxpayer, giving them confidence that the systems of oversight, accountability, and control inside government are working as intended.

But as successful as internal audit is in this domain, deputies and CAEs alike observed that value could nonetheless be enhanced:

- A greater focus on strategic risks and issues of public administration is needed to ensure that assurance is being sought in the areas of greatest priority to management. Deputies stressed that a “transactional” approach to internal auditing is no longer sufficient. Many of the deputies interviewed used terms like “mechanical” to describe an audit approach that is heavily focused on process and rules. They noted that while management is always concerned about compliance, the bigger and more pressing questions facing them are those of strategy, service, culture, and governance. Audits that focus only on compliance requirements may in certain circumstances be less relevant and therefore less valuable.
- Many of the deputies interviewed noted that audit products must be delivered in a more timely fashion, noting the inherent conflict between robust methods and the need for real-time advice. Nonetheless, they seek more targeted and timely advice from the internal auditors.
- Almost all deputies interviewed complained that internal audit lacks sufficient knowledge of their business to understand and respond to the needs of senior management. Ironically, they felt that the imperative of independence from management may be unintentionally contributing to this challenge.
- Further, deputies speculated that auditors’ traditional focus on accounting and financial management, while still valuable, nonetheless leaves some important holes in the ideal competency framework for a public sector auditor. Accordingly, deputies are calling for more ‘systems-thinkers’ with a track record in program management and knowledge of the workings of government.
- Indeed, some deputies went so far as to wonder if the often conservative personalities of internal auditors may be holding them back from asking more open-ended, non-traditional questions of public administration — the very questions with which leaders themselves have to grapple.

Notwithstanding these reservations, public sector executives remain optimistic: all deputies who were interviewed believed these impediments can and should be overcome.

A good example where these challenges were successfully tackled to the benefit of the department was the case of the Internal Audit of Policy, Planning and Priority-setting, conducted by the federal department Public



Safety Canada, shown in the case study below. Not only does it demonstrate the value of strong assurance products, it also reminds us of the benefits that can come from a courageous CAE who is prepared to stretch beyond traditional competencies and lines of enquiry.

## CASE STUDY

### AUDITING THE PUBLIC POLICY DEVELOPMENT PROCESS: PUBLIC SAFETY CANADA

Public Safety Canada was formed in 2004 to exercise national policy and program leadership in relation to its portfolio, composed of a number of complex and autonomous departments and agencies including the RCMP, the Canada Border Services Agency, and Correctional Service Canada. As portfolio lead, Public Safety acts as a quasi-central agency, setting, communicating and helping its partner agencies to deliver on common directions in response to public safety risks and threats.

#### *The challenge*

The risks and program activities of this department are, in large measure, the same as those in any other department or agency. Its activities include grant and contribution programs as well as the human resources, financial, and operational activities that can be found in any other government department. But, because of its portfolio leadership role, its public policy and directional processes are also critical to achieving its mandate. Until 2012, internal audit did not focus on the criticality of this function.

However, in the 2011–12 risk-based audit planning cycle, the Chief Audit Executive saw the risk. Public Safety is a small, relatively young department with a mandate to set and coordinate policy direction for complex, large and independent agencies. This meant there were inherent risks in relation to alignment, coordination, and engagement. Compounding this was the fact that, unlike a central agency, Public Safety Canada does not have the spending power or formal authority to compel its portfolio partners to follow its direction.

In light of the importance of these risk factors, internal audit had to examine this part of the business.

The question was, how best to do this?

Audits of compliance with corporate policy were in abundance, both within Public Safety Canada and elsewhere. But few to no audits of the processes and controls by which “Big-P” public policy is developed had been done before in the federal system. Breaking new ground, the Chief Audit Executive faced some scepticism from departmental leadership that such an audit could or should be done and whether it would have any value. After all, one might ask, what does internal audit know about public policy development?

### ***Audit approach***

By virtue of her independence, the CAE could simply have proceeded with the audit. Instead, she took the time to negotiate with the executive team, educating them on internal audit's mandate and the value it could bring. Among the most significant lessons she had to impart was that the systems of governance, risk management, and control, which form the scope of internal audit's mandate, did not stop with the department's administrative processes. Those systems are equally relevant to public policy and direction setting.

With the support of the deputy minister, the CAE moved to the next challenge: acquiring the necessary knowledge to plan and conduct such a path-breaking audit. The traditional accounting background often brought to the table by internal auditors would not be sufficient. To be credible and to add the most value, the team needed a broader set of skills and knowledge, including expertise with the policy process and the machinery of government. If the team could not speak the language of the department's policy people, credibility would be undermined and the true state of the risks and controls would be missed. The CAE's solution was to form an integrated team composed of internal audit and public policy expertise.

Together the members of the team invested heavily in the planning phase to ensure the audit program was optimally aligned to the reality of this important function. As no off-the-shelf audit criteria existed, the team conducted research and consultations with a wide range of policy experts inside and outside the department to map the policy development process and to analyze risks and the controls that mitigated them. Key controls ranged from formal research and development practices to informal practices and organizational culture that set the "tone at the top" and affected how the department engaged on matters of policy development.

Through the planning phase, the audit team acquired valuable insight into the department's direction-setting processes. While this helped to heighten internal audit's credibility with its clients and uncovered many new risks, it also posed challenges for testing the controls over these risks: by its nature, policy is developed, creatively, sometimes iteratively and often opportunistically. Records are not often kept, leaving the traditional auditor in a quandary: Where is the evidence? Public Safety Canada worked through some of these challenges by using innovative ways to test the controls, including case studies to document how the setting of specific policy directions was enabled by the current system of governance, risk management, and control.

### ***Results***

In the end, the value of the audit was multi-fold. First, the deputy minister reaped the benefit of the bird's-eye view afforded by internal audit's examination of what had hitherto been unexamined. The audit equipped him with insight and objective analysis that helped him to manage the unique governance and

relationships within and beyond his department. In turn this allowed him to engage his assistant deputy ministers and portfolio deputy heads in a concrete, constructive discussion of the portfolio management processes, thereby solidifying the department's role and value.

From the CAE's perspective, important progress was made. The project allowed internal audit to demonstrate its value in a manner directly related to the core business of the department and of government. The CAE's courage and vision, coupled with a willingness to think outside the box and bring non-traditional competencies to the audit process, established the audit function as not just a provider of assurance, but also as an educator and trusted business advisor, capable of using innovating approaches to answer important questions of public administration.

## INTERNAL AUDIT AS EDUCATOR

As noted above, internal audit maintains expertise in systems of governance, risk management and control — all of which are core responsibilities of the deputy minister and critical to good public administration. Internal audit has in-depth knowledge of best practices and expectations in these areas, using these standards as the basis for audit criteria and as foundations for professional judgment. Government auditors can go further, guiding their clients on the public sector nuances of these important elements. For instance, public sector auditors can answer questions such as:

- What constitutes adequate and effective governance for departments that are working through interdepartmental channels to achieve both ministerial and government-wide objectives?
- How can the principles of risk tolerance be applied in regulatory oversight programs where the public's tolerance for risk to human health and safety is effectively nil?
- How can controls be streamlined in an environment of zero tolerance for risk?
- How can organizational culture be adapted to promote an appropriate and efficient attention to control?

If this knowledge exists and is properly harnessed, these insights can be invaluable to public administrators. Not only do they help executives in better understanding generic requirements for good management, but customizing these lessons to specific government operations provides executives with answers to difficult questions of public management.

However, when public sector executives were asked to what extent they perceived internal audit as an educator, the results were mixed: 51 percent of respondents felt that internal audit was an educator to almost no extent or

to little extent. For their part, CAEs noted that their risk-based audit plans are primarily focused on assurance products, and that they allocate little to no time to educational activities.

There are no definitive answers as to why internal auditors are not perceived as educators; however, we posit that some professional and cultural characteristics of the internal audit profession may be at the root of this perception. The auditor may fundamentally see himself or herself as a diagnostician rather than an educator. Or, related to this, one might argue that the acumen and disposition needed to be a good educator are fundamentally different than the analytical skills one might more readily find in the traditional auditor. More likely, auditors may be concerned about the impact that educational activities could have on their professional objectivity. The risk is that by sharing knowledge on expectations for control, auditors will effectively be designing, or be seen as designing, these controls.

While we agree that professional objectivity is imperative, in this situation we believe that the fear of losing it is unwarranted. The professional standards define internal audit as an “*independent, objective assurance and consulting activity designed to **add value and improve an organization’s objectives***”<sup>13</sup> (emphasis added). Educational activities aimed at sharing internal audit’s knowledge and expertise are of significant value to the organization. To withhold this value from management due to a fear of compromised independence is not only incorrect, but also a significant missed opportunity.

The following case, from the Ontario Public Service, highlights the value that internal audit can play as an educator. As described below, internal audit here played a leadership role, imparting knowledge and tools in support of management’s evolving role as the second line of defence. In so doing, the auditors enhanced audit efficiency and advanced management’s knowledge.

### CASE STUDY

#### ESTABLISHING A PEER REVIEW PROCESS IN ONTARIO CORRECTIONAL FACILITIES

The Province of Ontario operates a network of correctional facilities across its jurisdiction. These facilities employ almost 6,000 people and are highly operational in nature. All the services provided at correctional facilities are controlled by the provincial government and are characterized by many legislative, policy and procedural requirements, for which conformity must be assured.

The Justice Audit Service Team (JAST) had been conducting assurance engagements in Ontario correctional facilities for many years, assessing compliance with policies, procedures, and standards of physical security. However, as resources became scarcer in recent years and the demands increased for internal audit to become more strategic in focus, it became more difficult for JAST to cover a sufficient number of facilities. Options had to be explored to boost efficiency.

With the support of senior management, JAST eventually decided that its best course of action would be to establish a peer review process in which it would train correctional facilities managers to

13 Institute of Internal Auditors, “International Professional Practices Framework,” 2013.

conduct compliance assessment themselves at other correctional facilities in the province. The goal was two-fold: free up time for internal audit to play a more strategic role, while supporting management in its responsibilities for monitoring risk and internal control.

To support this new peer review process, JAST developed a Risk Assessment Workbook for correctional managers. This workbook was updated by JAST every year to take into account the selected policies and procedures to be assessed. JAST also set up a training program for correctional managers. Training sessions are held each year to train a new team of managers as reviewers. The JAST-trained reviewers then set out to conduct peer reviews at predetermined correctional facilities. Reviewers do not assess facilities in their own regions, to ensure objectivity. JAST remains responsible for the scheduling and coordination of the peer review process and may be called upon to validate some of the observations made by peer reviewers. JAST also prepares roll-up reports to identify systemic issues that might indicate corporate attention is needed.

Upon receipt of a peer review report, senior management at correctional facilities is required to develop action plans to address any deficiencies noted. These reports compel quality and compliance at individual facilities but also provide important input to the JAST-specific processes. For instance, JAST prepares a report on emerging trends and systemic issues observed across all reviewed facilities.

Overall, through its innovative peer review approach, JAST has educated and enabled its client to self-identify operational risks and address them in a meaningful way. In addition, JAST has elevated its role to a more strategic one and in so doing improved the efficiency of the compliance assessment process. Constructive new relationships have been forged between management and internal audit which have been useful in facilitating the conduct of other assurance engagements. For their part, correctional managers acting as peer reviewers have gained a better understanding of the internal audit process and are now more likely to call JAST for advice on various matters.

## INTERNAL AUDIT AS BUSINESS ADVISOR

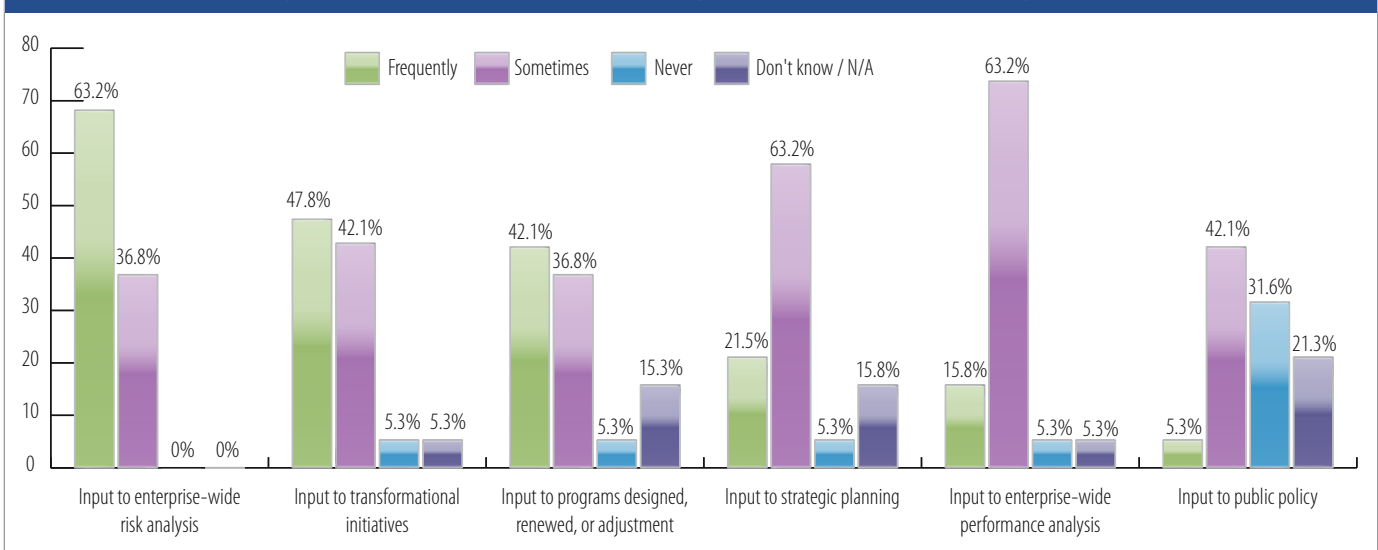
Few other functions in government have the organizational placement, unfettered access, and objectivity enjoyed by internal audit. These qualities translate to one word: Trust. Internal audit standards explicitly position the function as both an assurance and a consulting function. Having a trusted objective in-house consultant on issues of management and control provides deputies and senior executives with honest, reliable, and relevant advice as they deal with the ever-increasing pace of change in government operations.

Through our interviews, we observed that when discussing internal audit advisory activities, deputies almost exclusively focused on consulting activities such as risk analysis and advice on control design. While we agree that consulting services provide an important source of advice, we maintain that assurance products can be equal advisory value, particularly when the assurance report highlights not only findings but also their implications for the future strategies and risks to the organization.

Just as in the case of the educator role, internal audit is still not universally seen as a business advisor: only half of the public sector executives who responded to the survey perceived internal audit as a strategic and trusted advisor.

Consistent with this, survey responses from public sector CAEs noted that internal audit reports or other audit products are sometimes used as inputs to decision-making, but not frequently (Figure 5).

**Figure 5: Use of Internal Audit Reports for Decision Making Varies**



- On a positive note, 63 percent of respondents stated that internal audit is most frequently used as an input to enterprise risk analysis, but is significantly less used for enterprise performance analysis. This is despite the fact that internal audit has unique insight into the state of the controls and management practices that are in place to enable high performance.
- Approximately 60 percent of respondents said that internal audit was never or only sometimes used to support strategic or business planning. This suggests that planners either do not know the value that internal audit can bring to an environmental scanning or priority-setting process, or that internal audit is not providing this type of intelligence and advice.



- Only about 50 percent of respondents said they use internal audit reports when they are considering or implementing transformational initiatives. Major changes come with significant risks, for which controls ought to be put in place, yet unfortunately, project managers are not always tapping into internal audit's knowledge of these areas.
- Some 74 percent of respondents indicated that internal audit is not considered as an input when public policy is being developed, perhaps because questions of policy relate more to stakeholder needs and political direction. Yet changes in public policy can be an important response to systemic weaknesses or instances of non-performance in government, all of which internal audit understands. More positively, internal audit work is more often being used as an input to program design, but with less than 60 percent of respondents noting its use in this area, there is some work still to be done to highlight the value of insights from internal audit to program design.

Interviews at the federal level — where independent, external departmental audit committees (DACs) have been in place since 2006 — indicated that these committees also play a management advisory role, serving as an important sounding board for deputies and allowing them to seek advice and safe counsel from subject matter experts. We believe that the CAE can play a similar role and in many cases already is, but not sufficiently so for deputies. Some of the impediments appear to be as follows:

- Deputies seek advice from DACs because DAC members, as industry leaders and former officials, have been there. They have acquired extensive, hands-on programmatic and policy experience as well as experience in audit and financial management in the private sector. CAEs have typically not had this range of senior-level experience, often coming to their positions from within the internal audit community or from other corporate functions such as finance, risk management or planning.
- Deputies say that CAEs not only lack this experience, but may also lack the gravitas, the confidence and the senior executive skills to engage effectively and authoritatively with senior management. A common theme raised in interviews, both with DMs and with CAEs, is that CAEs are too often seen as “children at the adults’ table” — if they are at the table at all. Of the CAEs who responded to our survey, just over 52 percent sat at the executive table as a full participant, 16 percent sat as an observer only, and 32 percent were not at the table at all.
- Yet another cultural impediment to an advisory role for the CAE may be the auditor's discomfort with operating in a “grey zone.” Auditors are trained to be evidence-based and to provide definitive answers. Stepping into management questions where answers are not always evident or may themselves come with new risks can be uncomfortable.

- One very seasoned deputy mused that, paradoxically, the emphasis on professionalizing the internal audit function — while it has greatly strengthened professional credibility — may have unwittingly worked against the CAEs' ability to operate in the grey zone. The concern raised was that, as with any profession, emphasis is primarily placed on the acquisition and maintenance of technical expertise rather than strategic leadership experience. In turn, professional requirements may create unintentional barriers to movement into or out of the internal audit field, which would enable an injection of different and valuable perspectives and skills. To be sure, no one — neither the authors nor the deputies we interviewed — would suggest a de-emphasis on professionalism and certification. Indeed we have established that these are the very assets that allow for important elements of internal audit's value to be realized. But strategies are needed that allow for a balance of technical and strategic skills and perspectives.

Despite these concerns, it is clear from our research that the value of internal audit as a business advisor at the most senior levels is attainable. Indeed, our consultations with senior executives suggest this role is needed now more than ever, in light of the complexities, evolving risks, and ever-present change agenda in government.

Internal audit's involvement in the Canada's Economic Action Plan provides an example of constructive engagement at the federal level on matters of control design and real-time assurance.

### CASE STUDY

#### CANADA'S ECONOMIC ACTION PLAN: INFRASTRUCTURE CANADA

Infrastructure Canada is a small department that leads federal efforts to ensure that Canadians benefit from world-class, modern public infrastructure.<sup>14</sup> Under Canada's Economic Action Plan (EAP), the department was responsible for delivering \$5.5 billion in new, short-term funding to support construction-ready infrastructure projects<sup>15</sup> between government fiscal years (FY) 2009 and 2011.

Between FY 2009 and 2011, Infrastructure Canada ramped up staffing, expanding by over 100 full-time equivalents, increasing its total organizational capacity by a significant amount. While this influx of capacity brought with it a high degree of risk in itself, the risk was compounded by the goal of getting this new EAP funding out to projects and partners, quickly and be completed *within two years*.

Management had to design new programming that included an efficient, robust application process, criteria for selection, a governance structure to support the decision-making and an on-going monitoring regime. To ensure they did their job appropriately, the Office of the Auditor General of Canada (OAG) notified the department that it would be conducting an audit, which it tabled in 2011.

14 "About Infrastructure Canada," <http://www.infrastructure.gc.ca/about-apropos/index-eng.html>.

15 Departmental Performance Report 2009–2010, Infrastructure Canada, <http://www.tbs-sct.gc.ca/dpr-rmr/2009-2010/inst/inf/inf01-eng.asp>

In September 2009, the first Chief Audit Executive was appointed at the same time as the EAP was introduced. In light of the greater operational risk associated with this new program and the time constraints on program delivery, the CAE concluded that the standard assurance engagements would not be best suited to effectively respond to the department's needs and risks. What was required, and where Internal Audit could add the most value, was on the front-end of the department's program design efforts. Using the in-house expertise of her group of auditors and the audit criteria shared by the Auditor General for the planned audit, the CAE set out to add value and work in an advisory capacity with and for management.

Value was demonstrated by a series of internal audit interventions. Initially, the audit team identified the risks and related control requirements associated with the program processes, as they were being designed. This was done through detailed process mapping, which allowed internal audit to identify areas where control effectiveness and efficiency could be enhanced. In this way, internal audit responded to the department's dual objectives to fund projects in a timely, but compliant fashion.

Once the program was up and running, internal audit conducted a readiness assessment using the OAG audit criteria. This allowed management to address any shortcomings early on, to ensure a successful rollout of the program and to better position them for positive results for the eventual OAG audit.

As the program advanced in its life cycle, advisory work was succeeded by assurance activities, providing management with early warning signs of control gaps and protecting management from reputational damage.

In this short space of time, and by taking a mixed approach to its interventions, internal audit was able to establish relevance and credibility with senior management. In turn this led to sustained engagement with management and an increased demand for advisory services in other programs. In addition, OAG audit findings were favorable, demonstrating the positive effect that internal audit's role played on many fronts.

## Chapter 4

### **STRATEGIES FOR UNLOCKING THE VALUE**

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In dealing with a complex and demanding policy and operational environment, today's deputy ministers and audit committees need comfort, knowledge, and practical solutions. Internal audit is positioned to provide this value through its three main roles:

- protector
- educator
- business advisor

Internal audit's principal assets stem from its key attributes: professionalism, trustworthiness, independence, objectivity and robust methodologies. Internal audit is organizationally positioned and professionally equipped to “speak truth to power” and to reliably inform senior, strategic deliberations and decisions.

But, as we have seen, some systemic, cultural factors may be holding back the profession in today's public sector. These include operational challenges of balancing the workload between assurance on the one hand and education and advice on the other. As well, fears of losing objectivity — the very cornerstone of the audit profession and its value — coupled with the typically conservative culture and traditional competencies of auditors, may make it harder and more uncomfortable for CAEs to play a larger advisory role.

These challenges and impediments are not insurmountable. They can and should be addressed to meet the needs of deputies and to secure the position of internal audit in government organizations, thereby strengthening public sector governance and decision-making. In support of these objectives, three broad strategies are offered below to unlock the power of internal audit in the public sector. These strategies relate to

- professional practices
- perspectives
- positioning.

## PROFESSIONAL PRACTICES

### STRATEGY:

**Maintain, invest in, and advance the profession of internal audit in ways that secure it as the “third line of defence” and that enable it to support management in playing its roles in the system of governance, risk management and control**

Robust professional practices are imperative and must not be eroded – to do so undermines an integral element of internal audit’s value proposition. But professional practices can be advanced to heighten relevance, efficiency and focus. To this end, chief audit executives must actively invest in and sustain high-quality, leading-edge practices that equip internal auditors with the skills and tools they need to add value, not just as the third line of defence, but also as enablers of the first and second lines. To this end, CAEs should:

- **Know the business.**

The value added by internal audit, in all of its roles, is directly predicated on its knowledge of the organization it serves. The relevance of its lines of enquiry, the capacity to gain trust among its clients, and the meaningfulness of its recommendations all rely on this knowledge. Accordingly, CAEs must invest in tools, methods, and approaches that better equip auditors with knowledge of business. These tools include:

- *robust risk analysis* that allows for a thorough understanding of the business conditions that predispose the organization to risk;
- *rotational programs and secondments* that allow for a two-way transfer of knowledge between internal audit and operations; and
- *more active involvement* in departmental or ministry task forces related to key operations, special initiatives or transformations.

Internal audit must maintain its independence and objectivity, but must not hide behind it. As internal audit engages more actively with management, measures can be taken to safeguard objectivity; but to restrict all engagement and collaboration would be a significantly missed opportunity to add value.

- **Be focused and be nimble.**

Inasmuch as assurance contributes value, if it is provided in an untimely fashion, or for its own sake, little value is added. Accordingly, CAEs must use effective risk-based audit planning to focus their assurance resources on the key questions facing management and design audit methods to allow for more precise, timely diagnostics and insight. They should also not be afraid of complementing their assurance activities with focused consulting activities aimed at tackling management questions in a focused and timely fashion.

Deputies and audit committees have an active role to play here as well. They should do the following.

- **Ensure professionalism.**

Deputies and audit committees should insist on professional certification of CAEs and the audit teams they lead. Without this and without the adherence to robust professional standards, the audit function's reliability and trustworthiness — which we have argued is a cornerstone of internal audit's value — will eventually erode. With it, internal audit will be technically equipped to provide trusted answers to support leaders in the discharge of their growing oversight responsibilities..

- **Support leadership.**

While they oversee and direct a relatively technical function in the department or ministry, CAEs should not be regarded merely as technicians. Rather, they should be expected to play a significant, strategic function in the organization. To support them in this role, deputies should foster the development of senior executive (“C-suite”) skills among CAEs and the CAE feeder group. A seat at the senior executive table should complement leadership development for CAEs. And, as noted below, CAEs should be held accountable for making value-added contributions in those senior forums. These measures, coupled with professional certification, will equip internal audit with the gravitas to engage authoritatively on complex questions of public management.

## PERSPECTIVES

### **STRATEGY:**

**Broaden the perspectives of internal audit and of management.**

The world of deputy ministers is complex; accordingly, the potential contributions of internal audit must go far beyond finance, accounting, and compliance. CAEs, deputy ministers, and audit committees must work together to broaden auditors' professional perspectives. To this end, they should do the following collectively.

- **Broaden the talent pool.**

The collective competencies of the internal audit function should be broadened through recruitment and development. While certification and internal audit standards must be maintained, the recruitment of non-traditional perspectives will equip the function with the talent to respond to the diverse questions of public administration today. Within the public sector, opportunities exist to tap into other talent pools for this purpose: engineers, regulatory inspectors, policy analysts and program managers all share analytical and professional attributes with internal audit and these could easily be harnessed to complement the traditional

skill sets of internal auditors. As well, communication skills should be emphasized: a team of highly trained auditors only has value if its insights can be effectively conveyed to and understood by the client.

## POSITIONING

### **STRATEGY:**

**Strategically position the internal audit function, establishing and protecting it as an integral, indispensable element of the government's oversight regime.**

Not only is there a need to evolve the professional perspectives of internal auditors, but so also is there a need to change the perceptions of managers, educating and demonstrating the value that internal audit can bring to them.

To this end, deputy ministers and audit committees should:

- **Set a positive tone at the top.**

In addition to supporting their CAEs in their professional development and insisting on adherence to professional and organizational independence, deputies and the audit committees should, through their messages and actions, actively position internal audit in key questions of management. This means, as noted above, actively engaging the CAE on the leadership team. It also means setting expectations, both for senior leaders and for CAEs, around the use of internal audit products in strategic decision-making. The insight and advice contained in internal audit and consulting reports can be a valuable contribution to business and strategic planning, transformation working groups, and performance reporting. Internal audit's participation in these activities is not incompatible with organizational independence; it is simply good use of existing talent and insight.

For their part, CAEs must be ready when called on by the deputy minister. To this end, they should:

- **Step up.**

Equipped with a broad knowledge of the business and a deep technical knowledge, internal auditors must join, fearlessly, in complex discussions of public administration and leadership. The foregoing strategies related to professional practices and perspectives will go a long way to supporting this approach, but in the end it comes down to one thing: professional courage.



- **Be strategic.**

More generally, CAEs need to strategically position their function in the context and directions of the senior leaders they serve. Developing a strategic plan and directly involving the deputy minister and the audit committee in its creation will go a long way to “looking out and up” for new and emerging issues, risks and pressures to which internal audit should respond. Not only do such plans help to focus the function, they are also powerful marketing tools to enable CAEs to convey internal audit’s value.

- **Share knowledge.**

That internal audit products contribute greatly to public sector oversight is not in question, but more needs to be done to share the insights that come as an important by-product of internal audit enquiry. CAEs should position themselves as an agent of change and an agent of excellence by proactively educating management on public sector governance, risk management and control. Many mechanisms can be used for this, including the development of training and guidance and the publication of periodic “audit intelligence” reports or briefs. The sharing of such insights will go a long way to positioning internal audit as a source of organizational knowledge and will secure demand for this knowledge over time.

Taken together, the above-noted strategies will reinforce both the supply of and demand for internal audit. Each on their own is insufficient, but taken collectively, high-quality supply and a strong demand will go a long way to unlocking the value of internal audit in the Canadian public sector.

## Annex A:

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## Annex B:

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- Anthea English, Assistant Comptroller General of Canada, Office of the Comptroller General of Canada, Internal Audit Sector
- Jeff Erdman, Vice Chairman of the IIA Canadian Board-Emerging Issues
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## Annex C:

### METHODOLOGY

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For this study, a combination of literature review, online surveys, interviews and case studies were used to develop conclusions and proposed strategies for increasing internal audit's value to the Canadian federal, provincial and territorial public sectors. The main area of focus throughout the research was on internal audit's value as a protector, educator, and a business advisor to organizations.

#### *Methods Employed*

##### **Literature Review**

In order to understand and communicate the conditions in which internal audit and senior executives operate in the Canadian public sector, Canadian and international literature reviews were conducted. This included reviewing:

- Papers examining the value of internal audit as a profession, and where internal audit needs to go to deliver more value to its clients.
- Papers, studies and survey results reporting confidence levels of the Canadian public service or its management.
- Federal, provincial and territorial policies for internal audit in the Public Sector.

##### **Surveys**

Two online surveys were administered to obtain the perspectives of executive management and chief audit executives (CAE) within the federal, provincial and territorial public sectors. The surveys were sent to over 2,200 public sector executives across the federal/provincial/territorial jurisdictions and 43 CAEs.

The executive management survey focused on obtaining respondents' perspectives on internal audit's performance and value in their organization in general, as well as from the perspective of internal audit as a protector, educator and business adviser. The survey also sought to determine executive management's perceived relationship with internal audit. The paper was not able to study in depth the provincial/territorial executive management perspectives on internal audit value due to a low response rate – 4 of 186 from this jurisdiction.

The CAE survey focused on determining internal audit's scope and focus; relationship and strength of executive management engagement; adequacy of service delivery; and the role internal audit plays as a protector, educator and business adviser. A total of 19 CAEs responded, 13 of which were Federal respondents and 6 were Provincial/Territorial.

### **Deputy Minister Interviews**

A total of nine deputy minister interviews were conducted. Five were from the Federal jurisdiction and four were from Provincial/Territorial jurisdictions. These interviews supplemented survey data by providing deeper insights into management needs and perspectives on internal audit value within the Canadian public service jurisdictions examined. Outputs of those interview questions were also categorized into internal audit's value as a protector, educator and business adviser and compared against survey responses.

### **Case Studies**

Cases were used to outline examples of how internal audit brought value to their organization. A total of three case studies were completed, using interviews and documentation review. One case study was prepared for each internal audit proposition presented in the paper – protector, educator, and business adviser.



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