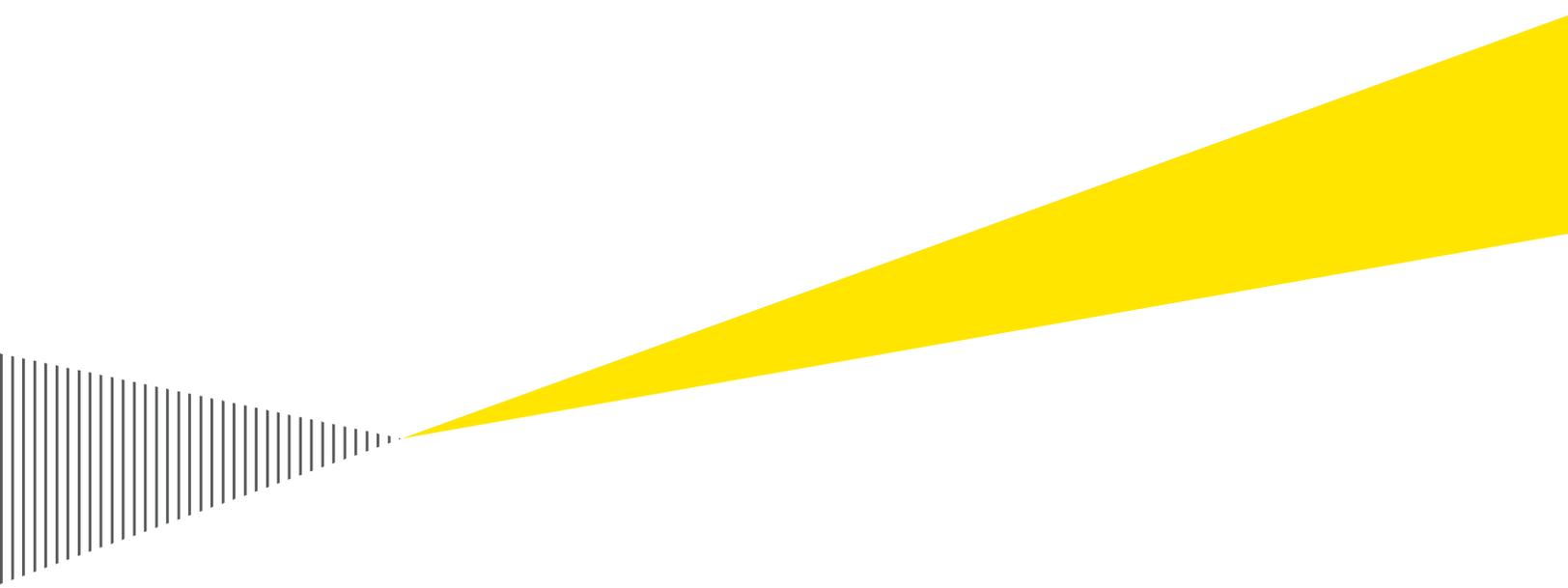


Natural Resources Canada

External Validation of Audit Branch's Self-Assessment
against Government of Canada and Institute of Internal
Auditors Standards

FINAL Report
15 December 2016



Building a better
working world

Table of Contents

- 1. Background..... 1
- 2. Objective and Scope..... 1
- 3. Approach and Methodology 1
- 4. Results 2
- 5. Conclusion 3

Madame Christyne Tremblay
Deputy Minister
Natural Resources Canada
580 Booth Street
Ottawa, ON K1A 0E4
Canada

15 December 2016

External Validation of Audit Branch's Self-Assessment against Government of Canada and Institute of Internal Auditors Standards

Dear Deputy Minister:

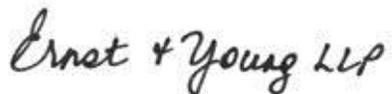
We have completed our procedures with respect to the external validation for the Audit Branch of Natural Resources Canada (NRCan). Our procedures were performed in accordance with our statement of work, and as further defined in the accompanying report.

This report is intended solely for the information and use of the Audit Committee and management of NRCan and is not intended to be and should not be used by anyone other than these specified parties. EY therefore assumes no responsibility to any user of the report other than these specified users. Any other persons who choose to rely on our report do so entirely at their own risk.

This report provides observations and recommendations only in relation to compliance with the global standards of the Institute of Internal Auditors Inc. and the Internal Audit Standards of the Government of Canada. We note that recent pronouncements by regulators in G20 countries set out different requirements for Internal Audit that go beyond those contained in the IIA Standards. This has been addressed by performing this assessment against Government of Canada Internal Audit Standards as well.

We value the opportunity to work with NRCan's Audit Branch and appreciate the cooperation and assistance provided to us during the course of our work. We would be pleased to discuss any aspect of our procedures or this report with you or other members of management at your convenience.

Sincerely,

The image shows a handwritten signature in black ink that reads "Ernst + Young LLP". The signature is written in a cursive, flowing style.

Bill Kessels, CPA, CA, CIA
Partner
613-598-4830
bill.kessels@ca.ey.com

1. Background

The Deputy Minister supports an effective departmental internal audit function to provide independent and objective assurance services designed to add value and improve NRCan's operations. Internal Audit is designed to help NRCan to accomplish its objectives by bringing a systematic, disciplined approach to assess and improve the effectiveness of risk management, control, and governance processes.

The Deputy Minister is responsible for ensuring that the internal auditing work meets the Internal Auditing Standards of the Government of Canada as prescribed by the Comptroller General. Also, as per these standards, the Chief Audit Executive (CAE) must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The quality assurance and improvement program must include both internal and external assessments.

2. Objective and Scope

The objective was to validate the findings and conclusion of the self-assessment conducted to assess NRCan's Audit Branch (AB) conformance with the GoC IA standards¹, and the mandatory requirements of the International Professional Practices Framework of the Institute of Internal Auditors (IIA).

AB's self-assessment focused on the three (3) domains of an effective internal audit function: Governance, Professional Practice and Performance, and consisted of reviewing the working papers to ensure:

- ▶ Appropriate evidence has been collected and proper conclusions have been reached; and
- ▶ AB work performed adheres to the Standards of the Government of Canada and the mandatory requirements of the IIA standards.

The external validation reviewed the results of AB's self-assessment to ensure their conclusions were well supported.

3. Approach and Methodology

The approach for conducting the external validation included the following key activities:

- ▶ Reviewed AB's self-assessment and supporting documentation, including relevant documentation such as governance and organizational structure, internal audit charter, internal audit policies and procedures, audit committee reporting packages, risk assessments, and audit planning documentation.
- ▶ Conducted interviews with those who interact with, or are responsible for the Internal Audit department, including the Chief Audit Executive, the Audit Committee Chair, one additional Audit Committee member, the former Deputy Minister, current and former ADM of Corporate Management and Services Sector and Chief Financial Officer, ADM of

¹ "GoC IA Standards" refers to Treasury Board's Internal Audit Policy Suite (Policy on Internal Audit, Directive on Internal Auditing in the GoC and IA Standards for the GoC) and OCG Internal Audit Reference Centre guidance.

Strategic Policy and Results Sector and the internal audit staff, including Directors, Managers and Auditors.

- ▶ Reviewed selected internal audit files including supporting working papers and audit reports within Teammate.

4. Results

EY concurs with NRCan's self-assessment conclusion of "Generally Conforms". There are no instances where EY disagrees with the assessment against GoC and IIA standards. A summary of the results by Office of the Comptroller General (OCG) domain and IIA standards is provided below.

Assessment against OCG domains:

Section	Domain	Conclusion
A	Governance	Generally Conforms
B	Professional Practice	Generally Conforms
C	Performance	Generally Conforms

The assessment categories are defined by the IIA are as follows:

- ▶ **Generally conforms (GC)** - the internal audit activity has a charter, policies, and processes that are in accordance with the Standards, with potentially some opportunities for improvement.
- ▶ **Partially conforms (PC)** - deficiencies in practice are noted that deviate from the Standards, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.
- ▶ **Does not conform (DC)** - deficiencies in practice are so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

Assessment against IIA standards:

Standard Number	IIA Standard	Conclusion
1000	The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal charter, consistent with the definition of internal auditing, the code of ethics and standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.	Generally Conforms
1100	The internal audit activity must be independent, and internal auditors must be objective in performing their work.	Generally Conforms
1200	Engagements must be performed with proficiency and due professional care.	Generally Conforms
1300	The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.	Generally Conforms
2000	The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.	Generally Conforms
2100	The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.	Generally Conforms
2200	Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations.	Generally Conforms
2300	Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.	Generally Conforms
2400	Internal auditors must communicate the results of engagements.	Generally Conforms

With a generally conforms rating against all of the domains, we do not have any opportunities for improvement against the standards.

5. Conclusion

In assessing Natural Resources Canada Internal Audit function to the Internal Audit standards for the Government of Canada and the International Standards for the Professional Practice of Internal Auditing, our overall assessment is that the Audit Branch at NRCan generally conforms to the Standards.

During the course of our work we noted many leading practices exhibited by AB, particularly in the areas of communication with stakeholders, training of staff and the provision of relevant insight and advice outside of the core audit offerings. Stakeholders interviewed were unanimous in their support and appreciation of the value provided to NRCan by AB and the professionalism of its staff. We wanted to highlight this, as it is not immediately evident through the assessment against IIA and GoC standards.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

For more information, please visit ey.com/ca.

ey.com/ca

© 2016 Ernst & Young LLP. All rights reserved.

A member firm of Ernst & Young Global Limited.