RISK BASED AUDIT PLAN

2008-2011

Audit Branch

June 2008

Preface

The Audit Branch has prepared its 2008-11 Risk-Based Audit Plan in accordance with the Treasury Board Secretariat's requirements. Important enhancements were made to our planning process including the integration with the Treasury Board Secretariat's Management Accountability Framework and the Office of the Comptroller General's Core Management Controls. Our risk-based planning process incorporates much of the latest thinking within the federal government's internal audit community. The enhanced process leverages these concepts and helps to set a foundation for planning through increased transparency, improved methodology and greater flexibility.

I would like to take this opportunity to thank the Office of the Comptroller General, and other government departments we consulted during the preparation of our 2008-11 Risk-Based Audit Plan. I especially want to thank those individuals within the Department who shared their time and insight regarding the development of the 2008-11 Risk-Based Audit Plan. Those contributions helped to formulate an audit plan that will enable the Audit Branch to contribute directly to the effective risk management, sound resource stewardship and good governance within the Department.

Thank you,

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Executive Summary

Natural Resources Canada's (NRCan) Audit Branch's 2008-11 Risk-Based Audit Plan (herein referred to as the Audit Plan) has been prepared in accordance with the applicable requirements stipulated in the Treasury Board Secretariat's (TBS) Internal Audit (IA) policy, directives and guidelines that became effective on April 1, 2006.

In preparation for the development of the 2008-11 Audit Plan, the Branch considered opportunities to strengthen its planning approach with a vision of designing a Risk-Based Audit Plan that would be recognized as value added to departmental Senior Management and acknowledged as a lead practice within the federal government's internal audit community. In this respect, improvements were made in terms of expanding the number of lenses used to define the audit universe, integrating the TBS' Management Accountability Framework and the Office of the Comptroller General's (OCG) Core Management Controls, and leveraging risk assessment and prioritization techniques. These enhanced features have resulted in such key benefits as:

- Improved risk-based methodology;
- Increased transparency;
- Enhanced alignment with the OCG`s horizontal audit planning;
- More cohesive and integrated messaging to the Deputy Minister (DM), the Audit Committee and departmental Senior Management; and,
- Increased compliance with the TBS' IA policy requirements.

In addition, the 2008-11 Audit Plan provides for a longer term vision and foundation that addresses the broader goals and objectives as set out in the IA policy, particularly the provision of holistic assurance regarding departmental governance, risk management and control processes. These improvements also address the interest of both NRCan's DM and the OCG for the Branch to have a more transparent and methodical approach to the selection of audit projects.

In developing the Audit Plan, the Branch looked to provide coverage of the Department over a three-year planning horizon. It also ensured, following requirements of TBS' IA policy and related directives, that the audit plan focuses primarily on the provision of assurance services[1].

The current three-year planning horizon calls for the delivery of a total of 57 audit projects, as outlined below.

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[1] Assurance services result in assurance, independent from line management, on risk management, control and governance processes.

Source of Audit Project	2008-09	2009-10	2010-11	Total
Carry-Forward audits	7	-	-	7
Core program - financial, info. technology/management audits	4	4	4	12
OCG - government wide horizontal audits	4	4	-	8
New audit projects	10	10	8	28
In-reserve audits[2]	2	-	-	2
Total	27	18[3]	12[3]	57

To facilitate the comprehension of the 2008-11 Audit Plan, audit projects are captured under two broad headings: *non-discretionary* and *discretionary*.

▪ *Non-discretionary* audit projects consist of uncompleted engagements from the 2007-08 Audit Plan and a series of what the Branch has deemed to be a core cyclical program of financial and information technology/management audits. They also include directed audit projects contained in the OCG's 2007-10 Horizontal Audit Plan.

▪ *Discretionary* audit projects are those where the Branch recognizes that there is some latitude or discretion in terms of selection. In exercising its professional judgement, the Branch selected these projects based on a consideration of their relative risk and priority. They were also selected with due consideration given to the Department's Corporate Risk Profile, Program Activity Architecture and MAF assessment results. These projects were discussed with Senior Management with respect to the coverage of high priority and/or high risk areas. This also encouraged a dialogue on the reasoning behind why projects were selected for inclusion in the Audit Plan.

The Audit and Evaluation Committee (AEC) approved, at its March 18, 2008 meeting, the implementation of the 2008-09 audit projects. It also approved in principle the projects identified for the 2009-10 and 2010-11 Fiscal Years recognizing that audit priorities could change depending on the results generated from the annual risk-based planning exercise. Further to acknowledging the significant enhancements to the Branch's planning process, the AEC also initiated a motion and approved the risk-based audit planning methodology.

Given that formal approval was granted for the Branch to implement the 2008-09 audit projects, the following table lists the engagements and the quarter of the Fiscal Year in which they are planned to commence.

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[2] In-reserve audit projects require the AEC's approval prior to be initiating.

[3] Currently, the Plan's outlying year's two and three do not fully represent the entire suite of audit projects likely to be undertaken in those given years as the Carry-Forward, OCG Government-wide Horizontal and In-Reserve projects have not yet been identified in all cases. These audits will, however, be identified as required upon completion of our annual risk-based planning.

Audit Project	Timing	Audit Project	Timing
Server management	Q1	Human resource planning and analysis *	Q2
NRCan's TB submission process	Q1	Information technology security	Q3
Off-the-shelf software licence management	Q1	Physical security	Q3
Custom software development	Q1	Nova Scotia Nfld. Transfer	Q3
Management of repayable contributions	Q1	Asset management – departmental assets	Q3
Perf. mgt. at contribution agreement level	Q1	Corporate risk profiles *	Q3
Management of accounts payable	Q1	Department TB authorities	Q3
Payroll and benefits	Q1	Strategic planning	Q4
SSO service delivery	Q1	Follow-up of the review of values & ethics	Q4
GeoConnections program	Q1	Exp. controls (higher risk payments) *	Q4
Public websites management	Q1	Information management	Q4
Contracting information and monitoring *	Q1	HR management – staffing service delivery	**
Transfer payment expenditures	Q2	EcoEnergy – small & medium size orgs.	**
Financial forecasting & Y/E exp. patterns	Q2		

 * OCG government-wide audit.
** In-reserve audits – AEC consultation required prior to implementation.

Moving Forward

While significant and positive strides have been made regarding its audit planning practices, the Branch recognizes that further improvements remain. The Branch has identified "lessons learned" from the 2008-11 planning exercise. These lessons will be incorporated into future year's planning efforts. The planning process has been designed with sufficient flexibility to better adapt to future changes in the planning environment (i.e., possible changes to the number of CMCs, the MAF structure, etc.). In addition, refinements to the Branch's audit engagement planning, examination and reporting practices can be made to further strengthen the degree of compliance with the TBS' IA policy requirements. The associated changes will take time to fully implement and will result in modifications to the Branch's infrastructure and business processes.

Introduction

This document represents Natural Resources Canada's (NRCan) Risk-Based Audit Plan for the period of 2008-11. The plan has been prepared in accordance with the Treasury Board (TB) Policy on Internal Audit and the Institute of Internal Auditors (IIA) Standards. The content of the plan is structured under the following headings:

- Planning context;
- Planning process;
- Audit plan by Fiscal Year; and,
- Moving forward.

Planning Context

Internal Audit (IA) within the Federal Government has been subject to recent directional change. An important element of this government-wide change is expressed through the revitalization of the Office of the Comptroller General (OCG) within the Treasury Board Secretariat (TBS). The OCG's strategy, vision and approach for raising the contribution of IA are formally articulated in the following suite of authorities applicable to large departments including NRCan:

- TB Policy on Internal Audit (2006);
- Directive on Audit Committees;
- Directive on Chief Audit Executives, Internal Audit Plans, and Support to the Comptroller General;
- Guidelines on the responsibilities of Chief Audit Executives; and,
- Guidelines on Expected Qualifications for Chief Audit Executives.

The above mentioned new policy, directives and guidelines have many features and requirements intended to bolster the internal audit function into a strong and credible regime *"… that has the confidence of the government, and contributes directly to effective risk management, sound resource stewardship and good governance, and is repositioned as a key underpinning of governance within departments and agencies and across government[4]"*.

Key among the requirements of the Policy on Internal Audit is for Departments to have an Audit Plan that addresses the areas of higher risk, including audits identified by the Comptroller General for government-wide or sectoral coverage, and supports an annual opinion from the Chief Audit Executive on departmental risk management, control and governance processes.

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[4] Extract from Section 4.1.2 of the TB Policy on Internal Audit.

The Branch launched its 2008-11 planning process with the objective of ensuring that the Department would be well positioned to meet the requirements of the new IA policy and related directives. It also set out to address a request from the Deputy Minister to refine the audit planning process in order that it become more transparent and methodical in its approach and selection of audit projects.

Planning Process

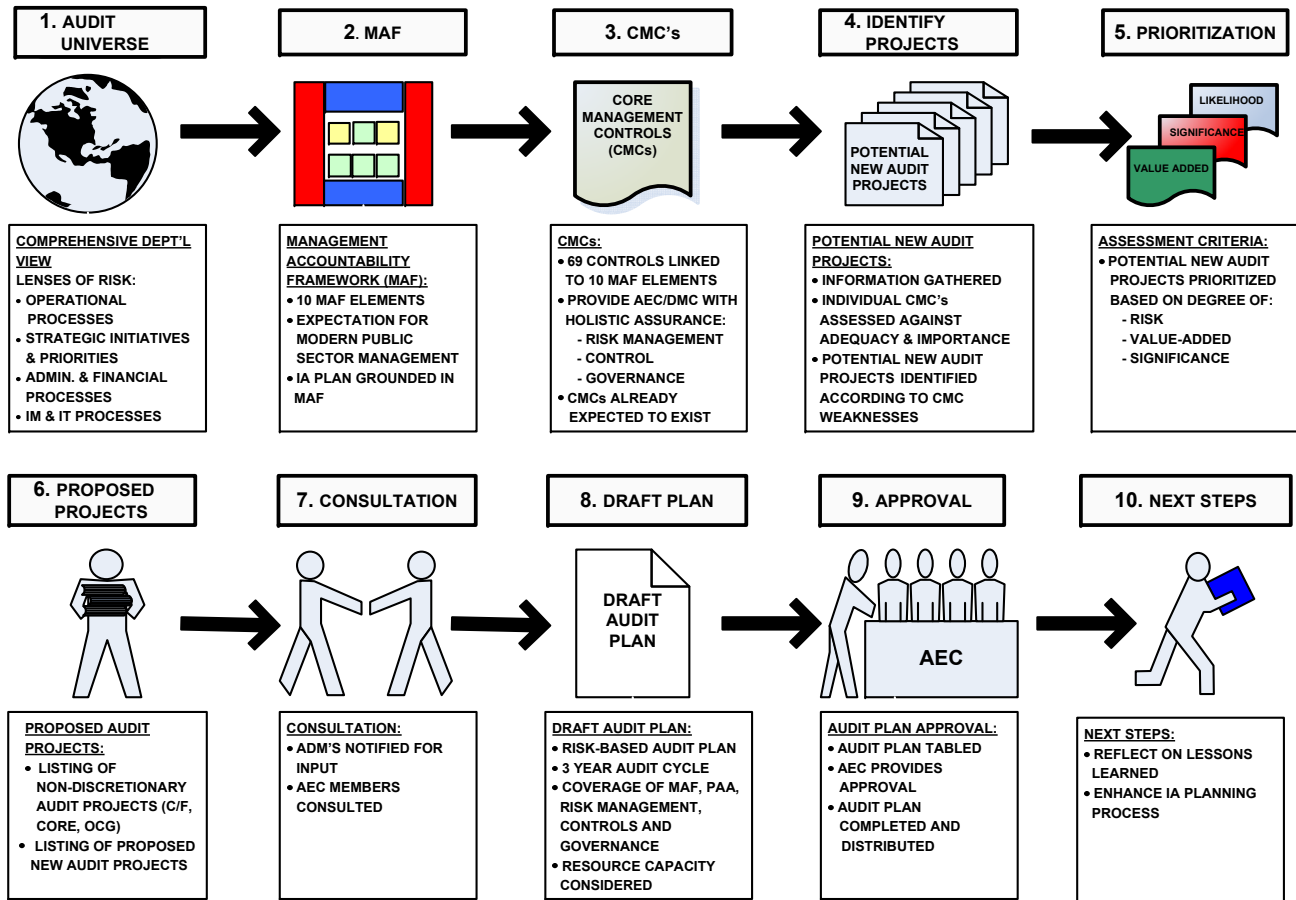Refinements were made to ensure that the 2008-11 Audit Plan:

- Is reviewed by the Department's audit committee[5];
- Is focused primarily on the provision of assurance services;
- Includes internal audits identified by the OCG as part of government-wide coverage; and,
- Is designed to eventually support an annual opinion from the Chief Audit Executive on departmental risk management, control and governance processes.

The Branch will continue to promote continuous improvement and will refine its audit planning process during the upcoming years based on lessons learned. The refinements made to date, however, have established a solid foundation that will enable the Branch to meet expectations associated with the new IA policy.

Exhibit I, provides an illustration of the process applied to develop the 2008-11 Audit Plan. A narrative description of the process steps is contained in Appendix A of this document.

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[5] The Branch is in the process of establishing the Department's audit committee that will include external membership. The content of the 2008-11 Audit Plan was, therefore, reviewed and discussed at the March 18, 2008 meeting of the Audit and Evaluation Committee.

EXHIBIT 1 - PROCESS OVERVIEW: 2008-11 RISK-BASED AUDIT PLAN

1. AUDIT UNIVERSE	2. MAF	3. CMC's	4. IDENTIFY PROJECTS	5. PRIORITIZATION

COMPREHENSIVE DEPT'L VIEW

LENSES OF RISK:
- OPERATIONAL PROCESSES
- STRATEGIC INITIATIVES & PRIORITIES
- ADMIN. & FINANCIAL PROCESSES
- IM & IT PROCESSES

MANAGEMENT ACCOUNTABILITY FRAMEWORK (MAF):
- 10 MAF ELEMENTS
- EXPECTATION FOR MODERN PUBLIC SECTOR MANAGEMENT
- IA PLAN GROUNDED IN MAF

CMCs:
- 69 CONTROLS LINKED TO 10 MAF ELEMENTS
- PROVIDE AEC/DMC WITH HOLISTIC ASSURANCE:
  - RISK MANAGEMENT
  - CONTROL
  - GOVERNANCE
- CMCs ALREADY EXPECTED TO EXIST

POTENTIAL NEW AUDIT PROJECTS:
- INFORMATION GATHERED
- INDIVIDUAL CMC's ASSESSED AGAINST ADEQUACY & IMPORTANCE
- POTENTIAL NEW AUDIT PROJECTS IDENTIFIED ACCORDING TO CMC WEAKNESSES

ASSESSMENT CRITERIA:
- POTENTIAL NEW AUDIT PROJECTS PRIORITIZED BASED ON DEGREE OF:
  - RISK
  - VALUE-ADDED
  - SIGNIFICANCE

6. PROPOSED PROJECTS	7. CONSULTATION	8. DRAFT PLAN	9. APPROVAL	10. NEXT STEPS

PROPOSED AUDIT PROJECTS:
- LISTING OF NON-DISCRETIONARY AUDIT PROJECTS (C/F, CORE, OCG)
- LISTING OF PROPOSED NEW AUDIT PROJECTS

CONSULTATION:
- ADM'S NOTIFIED FOR INPUT
- AEC MEMBERS CONSULTED

DRAFT AUDIT PLAN:
- RISK-BASED AUDIT PLAN
- 3 YEAR AUDIT CYCLE
- COVERAGE OF MAF, PAA, RISK MANAGEMENT, CONTROLS AND GOVERNANCE
- RESOURCE CAPACITY CONSIDERED

AUDIT PLAN APPROVAL:
- AUDIT PLAN TABLED
- AEC PROVIDES APPROVAL
- AUDIT PLAN COMPLETED AND DISTRIBUTED

NEXT STEPS:
- REFLECT ON LESSONS LEARNED
- ENHANCE IA PLANNING PROCESS

Audit Plan by Fiscal Year

To facilitate the Department's internal decision making process concerning the 2008-11 Audit Plan, the audit projects identified for the coming years were captured under one of two headings; either non-discretionary or discretionary.

Non-discretionary audit projects consist of uncompleted engagements from the 2007-08 Audit Plan and a series of what the Branch has deemed to be a core cyclical program of financial and information technology/management audits. They also include directed audit projects contained in the OCG's 2007-10 Horizontal Audit Plan.

The discretionary audit projects were selected based on a consideration of their relative risk and priority. They were also selected with due consideration given to the Department's Corporate Risk Profile, Program Activity Architecture and MAF assessment results. To facilitate an understanding of the reasoning behind which projects were selected for inclusion in the 2008-11 Audit Plan, the Branch wanted to focus Senior Management's and the AEC's attention on the projects labelled as "discretionary". In doing so, the Department was better able to discuss coverage of high priority projects.

The following three tables are used to describe the 2008-11 Audit Plan, one for each of the Fiscal Years covered by the planning period.

Table I: 2008-09 Audit Plan

Audit Project	Preliminary Objective(s)	Preliminary Scope (Sectors)	Timing	Level of Effort (in Days)
2008-09 Carry-Forward Audit Projects				
1. Server Management	Provide assurance that the cost savings and efficiencies across the department identified by SSO are achieved	CMSS/SSO/All	Q1	5
2. NRCan's Treasury Board Submission Process	Assess the efficiency of the TB submission processes in the department	All	Q1	20
3. Off-the-shelf Software Licence Management	Provide assurance on the controls and accountability processes related to management of off-the-shelf software license management	CMSS / SSO / All	Q1	30
4. Custom Software Development	Provide assurance on the controls and accountability processes related to management of custom software development.	CMSS / SSO / All	Q1	30
5. Management of Repayable Contributions	Provide assurance on compliance with TB Policy and Guidelines	CMSS / SSO / All Regions	Q1	20
6. Performance Management at Contribution Agreement (CA) Level	Provide assurance that accurate and complete CA level performance measurement information is being provided to ADM's and that this information is used appropriately in the management of programs.	CMSS / EPS / ESS / CFS / MMS	Q1	30
7. Management of Accounts Payable	Provide assurance on the controls and accountability processes related to Accounts Payable and Disbursements.	CMSS / SSO / All	Q1	65
2008-09 Core Financial Audit Projects				
8. Payroll and benefits	To provide assurance on the design, efficiency and effectiveness of internal controls and the accuracy and completeness of financial information	All	Q1	160
9. Transfer payment expenditures	To assess the design, efficiency and effectiveness of financial controls and the accuracy and completeness of transfer payment information recorded in the department's financial system (*Note – separate core program exists for operating expenditures*).	CMSS / SSO / All	Q2	160
2008-09 Core Information Technology and Information Management Audit Projects				
10. IT Security	To assess the practices applied by the department to secure the data recorded in its information systems.	All	Q3	80
11. Information Management	To assess the practices applied by the department to manage its information holdings	All	Q4	80

Audit Project	Preliminary Objective(s)	Preliminary Scope (Sectors)	Timing	Level of Effort (in Days)
2008-09 Office of the Comptroller General Government-Wide Horizontal Audits				
12. Contracting Information & Monitoring	Assess availability and utilization of management information on contracting attributes and trends; contribution to effective risk management and disclosure.	All	Q1	60
13. Human Resource Planning and Analysis	Assess availability and use of HR management information as a basis for sound planning, including analysis to anticipate emerging trends and issues – as well as indicators of organizational health and integration with Business Plans.	All	Q2	60
14. Corporate Risk Profiles	Assess processes and systems for development and progressive refinement of corporate risk profiles. To consider the interfaces with business planning and performance measurement (i.e. identification of tolerances around particular measures and targets).	All	Q3	70
15. Expenditure Controls (Higher Risk Payments)	Assess design and functioning of controls to flag higher-risk transactions for focused attention and verification.	All	Q4	70
2008-09 New Audit Projects				
16. TB Authorities	To assess the extent of Departmental compliance with Treasury Board delegated authorities.	All	Q3	60
17. Geoconnections Program	To asses the: a) management control framework in place for the program and whether it is operating efficiently, economically and effectively; and, b) the extent to which the Department is complying with the terms and conditions of the program.	CMSS / ESS	Q1	160
18. SSO service delivery	To determine the extent to which the implementation of the SSO initiative has achieved its expected benefits and whether service standards are established, tracked and used as the basis of continuous service improvement.	CMSS / All	Q1	160
19. Public websites management	To assess the extent of departmental compliance with TBS policy requirements (i.e. CLF)	All	Q1	80
20. Financial forecasting & year-end expenditure patterns	To assess processes in place to support sound management of existing budgets and spending patterns, particularly at year-end.	CMSS / SSO/ All	Q2	160
21. Nova Scotia – Nfld. transfer	To assess the design, efficiency and effectiveness of financial controls related to royalty revenue and transfers and the accuracy and completeness of the information recorded in the department's financial system.	CMSS / EPS	Q3	40

Audit Project	Preliminary Objective(s)	Preliminary Scope (Sectors)	Timing	Level of Effort (in Days)
22. Physical security	To assess whether appropriate physical safeguards are in place at facilities to provide for the safeguarding of sensitive information and assets, and the safety and security of employees	All	Q3	80
23. Asset management – departmental assets	To assess life-cycle management practices regarding departmental assets (other than real property), including records, valuations, re-capitalization, maintenance and replacement strategies, rationalization and disposal.	CMSS / All	Q3	160
24. Strategic planning	To assess the extent to which the Department has defined and communicated strategic directions and objectives, aligned with its mandate.	All	Q4	160
25. Follow-up of the review of values & ethics	To assess the extent to which the recommendations contained in the 2005 review of Values and Ethics have been implemented.	All	Q4	120
2008-09 In-Reserve Audit Projects				
26. HR Management – Staffing Service Delivery	To assess the efficiency, effectiveness and timeliness of departmental staffing practices in meeting client needs.	CMSS / SSO / All	*	*
27. EcoEnergy Retrofit – small & medium size organizations	To asses the: a) management control framework in place for the program and whether it is operating efficiently, economically and effectively; and, b) the extent to which the Department is complying with the terms and conditions of the program.	OEE / CMSS	*	*

* In-reserve audit projects represent engagements that may be carried out in 2008-09, subject to the AEC's prior approval, in the event capacity becomes available. Information has not been inserted under the "timing" and "Level of Effort" headings as there is no certainty that the engagements will be launched in 2008-09.

Table II: 2009-10 Audit Plan

Audit Project	Preliminary Objective(s)	Preliminary Scope (Sectors)	Timing	Level of Effort (in Days)
2009-10 Core Financial Audit Project				
1. Financial Statement Preparation & Reporting	To assess the processes used to prepare the department's accrual based financial statements, including the adequacy of the associated note disclosure.	CMSS / SSO / All	Q2	120
2. Revenue, Receivable & Receipts	To provide assurance on the design, efficiency and effectiveness of internal controls and the accuracy and completeness of financial information	All	Q3	160
2009-10 Core Information Technology and Information Management Audit Projects				
3. IT Security	To assess the practices applied by the department to secure the data recorded in its information systems.	All	Q2	80
4. Information Management	To assess the practices applied by the department to manage its information holdings.	All	Q3	80
2009-10 Office of the Comptroller General Government-Wide Horizontal Audits				
5. Business Cases for major investments (risk analysis and plans)	To assess soundness of business cases, including: clarity of assumptions; presentation of costed alternatives; sensitivity analyses for key variables; and, plans for ongoing monitoring and evaluation.	CMSS / All	TBD	80
6. Real property assets (life-cycle management)	The assess management of inventories of real property, including records, valuations, re-capitalization, maintenance/replacement strategies; rationalization and disposal	CMSS / All	TBD	100
7. Financial reporting controls	To assess framework of control in place to assure reliability of financial reports and statements.	CMSS / All	TBD	80
8. Fraud risk and control strategies	To assess measures in place to ensure awareness of potential exposures to fraud; drawing indicators and lessons learned from instances of fraud, and refining pertinent prevention/detection strategies.	CMSS / All	TBD	40
2009-10 New Audit Projects				
9. Departmental governance – regime in support of horizontal NRCan initiatives	To assess the extent to which the department's governance regime actively supports the delivery of major departmental horizontal initiatives and their associated objectives.	All sectors	Q1	160

Audit Project	Preliminary Objective(s)	Preliminary Scope (Sectors)	Timing	Level of Effort (in Days)
10. Asset management - real property assets	To assess life-cycle management practices regarding real property assets, including records, valuations, re-capitalization, maintenance/replacement strategies, rationalization and disposal.	CMSS / All	Q2	160
11. Departmental policies - financial	To assess the completeness of departmental financial policies and the related practices to ensure that they remain current and are applied.	CMSS / SSO / All	Q3	80
12. Budgeting and expenditure management	To assess the departmental budgeting, forecasting and variance analysis practices.	CMSS / SSO / All	Q4	160
13. Business continuity planning – follow-up of NRCan's 2006 internal audit of BCP	To assess the extent to which the recommendations included in the audit of NRCan's Business Continuity Plan (BCP) Program have been implemented by departmental management.	CMSS / All	Q4	40
14. Travel	To assess the level of compliance with departmental and central agency travel policies and directives.	All	Q4	120
15. EcoEnergy for Biofuels Program	To asses the: a) management control framework in place for the program and whether it is operating efficiently, economically and effectively; and, b) the extent to which the Department is complying with the terms and conditions of the program.	CMSS / OEE / Fuel Policy and Program	Q1	160
16. Federal Response to the Mountain Pine Beetle Infestation in BC		CMSS / CFS	Q2	160
17. Expanding Market Opportunities Program		CMSS / CFS / Policy Economic Int'l & Industry Branch	Q3	160
18. EcoEnergy for Building and Houses Program		CMSS / OEE / Building & Housing	Q3	160

Note: The projects contained in the 2009-10 Audit Plan may be subject to change based on the results of the AB's 2009-12 planning exercise.

Table III: 2010-11 Audit Plan

Audit Project	Preliminary Objective(s)	Preliminary Scope (Sectors)	Timing	Level of Effort (in Days)
2010-11 Core Financial Audit Projects				
1. Accounting for capital assets	To assess whether the Department appropriately and consistently accounts for its capital assets in accordance with prescribed Departmental and Central Agency accounting standards and relevant policies. (>$10K)	CMSS / All	Q1	160
2. Purchases, Payables & Payments	To provide assurance on the design, efficiency and effectiveness of internal controls and the accuracy and completeness of operating expenditure information recorded in the department's financial system. (*Note – separate core program exists for transfer payment expenditures*).	All	Q3	160
2010-11 Core Information Technology and Information Management Audit Projects				
3. IT Security	To assess the practices applied by the department to secure the data recorded in its information systems.	All	Q2	80
4. Information Management	To assess the practices applied by the department to manage its information holdings/	All	Q4	80
2010-11 Office of the Comptroller General Government-Wide Horizontal Audits				
To be determined. Not yet specified by the OCG.				
2010-11 New Audit Projects				
5. Departmental governance - IM/IT resources	To assess structures and processes guiding identification of strategic information requirements and investments, as well as management of technical resources.	CMSS / SSO / All	Q1	160
6. Departmental policies – corporate and program management	To assess the completeness of departmental corporate and program management policies and the related practices to ensure they remain current and are applied.	All sectors	Q3	120
7. Operational planning	To assess the extent to which the Department has in place operational plans and objectives aimed at achieving its strategic objectives.	All	Q1	160
8. Departmental project management system	To assess the extent to which a common technical solution is in place to address the department's project management requirements.	All	Q2	120
9. Geomatics Canada	To assess the accuracy and completeness of the financial	CMSS / ESS	Q1	100

Audit Project	Preliminary Objective(s)	Preliminary Scope (Sectors)	Timing	Level of Effort (in Days)
revolving fund	information reported in the Geomatics Canada revolving fund's financial statements.			
10. Gunnar and Lorado Mines	To asses the: a) management control framework in place for the program and whether it is operating efficiently, economically and effectively; and, b) the extent to which the Department is complying with the terms and conditions of the program.	CMSS / MMS	Q2	160
11. Efficiency and Alternative Energy Program		CMSS / OEE / OERD	Q3	160
12. EcoEnergy Technology Initiative Program		CMSS / OEE R&D / ecoETI R&D	Q4	160

Note: The projects contained in the 2010-11 Audit Plan may be subject to change based on the results of the AB's 2009-12 planning exercise.

Moving Forward

The Audit Branch enhanced its audit planning process and made a number of methodology improvements when preparing the 2008-11 Audit Plan. The refined process responds to the requirements of the TB IA Policy. It also provides a solid foundation and strategy to address broader goals and objectives set out in the IA policy, particularly the provision of holistic assurance regarding departmental governance, risk management and control processes.

While significant and positive strides have been made, the Branch recognizes that further improvements remain. The Branch identified "lessons learned" from the 2008-11 planning exercise. These lessons will be incorporated into the Branch's vision for future year's planning efforts. The planning process has been designed with sufficient flexibility to better adapt to future changes in the planning environment (i.e., possible changes to the number of CMCs, the MAF structure, etc.). Strengthening of the Branch's audit engagement planning, examination and reporting practices will also increase the value of the audit function within the Department in addition to improving the degree of compliance with the IA policy requirements. The associated changes will take time to fully implement and will result in further modifications to the Branch's infrastructure and business processes.

The Branch's 2007-08 improvement efforts focused on its planning practices. This was a logical starting point. Initial steps have been taken and a strategy set to support compliance with the IA Policy requirements in a timely fashion considering available resources.

Appendix A: 2008-11 Risk-Based Audit Planning Process

The Branch's 2008-11 Risk-Based Audit Planning Process is illustrated in **Exhibit I** found on page 3. This appendix provides a narrative description of the process steps depicted in Exhibit I.

Audit Universe – Step #1

Risk-based audit planning begins with defining an audit universe. Accordingly, the Branch established a comprehensive appreciation of NRCan and the potential areas of audit. To this end, information was gathered and analyzed using the following nine lenses[6]:

- Organizational units;
- Program activities;
- Departmental initiatives;
- Departmental support functions;
- Departmental policies, processes and procedures;
- Financial statements line items;
- Information technology and management;
- Corporate risk profile (CRP); and,
- Management Accountability Framework (MAF) results.

Management Accountability Framework (MAF) – Step #2

The government's MAF is structured around 10 key elements that collectively define and establish the expectations for modern public sector management. The potential areas of audit associated with each of the lenses used to define the audit universe (see *Step 1* above) were individually mapped to the MAF.   As such, the Branch's risk-based audit planning process is "grounded" from the onset in the MAF. This assists in understanding the extent to which the audit universe provides coverage of the 10 MAF elements. It also helps to increase the relevance of the audit work to be carried out over the course of the planning period as it ensures that a logical relationship can be established between the potential areas of audit and the elements used to assess management's performance on an annual basis.

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[6] A "lense" represents a basis from which to capture and analyze information for purposes of developing an understanding of departmental operations and identifying potential areas of audit. The nine lenses used by the Branch were condensed into four for purposes of Exhibit I – Process Overview.

## Core Management Controls and Identify Projects - Step #3 & #4

The OCG has established 69 CMCs[7] that provide a foundation for CAEs in planning and providing holistic assurance on departmental governance, risk management and control processes. The CMC framework does not seek to introduce new controls. Rather, it selects key controls that already exist and can reasonably be expected to be in place. The *importance* and *adequacy* of each of the 69 CMCs were assessed by the Branch based on a five point rating scale in order to clearly arrange the controls by priority. The Branch focused its attention on the weakest controls for purposes of identifying potential audit projects.

Prioritization – Step #5
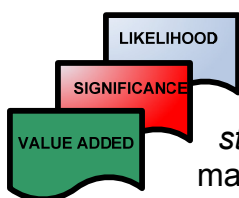
The TB IA Policy is intended to bolster internal audit into a strong and credible regime that "…*has the confidence of the government, and contributes directly to effective risk management, sound resource stewardship and good governance*"[8]. To contribute toward this goal and to maintain a relevant internal audit function within the Department, the Branch established priorities for purposes of allocating its limited resources. Accordingly, a priority ranking score was assigned to each potential audit project based on a thorough assessment of three factors: likelihood, significance and added value. The priority ranking scores ranged from a low of 4.80 to a high of 14.13 out of a maximum potential score of 15.

Consultations – Steps #6 to #9
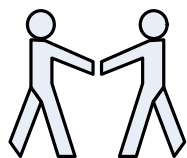
Consultations provide an opportunity for the Branch to engage departmental senior management during the planning process. A document describing the high[9] priority potential audit projects was distributed to departmental senior management[10] for comment. Suggestions with respect to any other potential audit work concerning departmental programs that was not reflected in the distributed document was also sought. Separate meetings were held with members of the Audit and Evaluation Committee (AEC) to obtain their feedback on the high priority potential audit projects

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[7] The OCG has mapped the 69 CMCs to the MAF. The Branch mapped its audit universe to the MAF. Accordingly, the MAF represents a common basis that enabled the potential audit units contained in the audit universe to be linked/mapped to the CMCs.

[8] Extract from Section 4.1.2 of the TBS Policy on Internal Audit.

[9] Potential audit projects that received a priority ranking score in excess of 12, out of a maximum potential score of 15, were deemed high priority projects.

[10] For consultation purposes, departmental senior management represents the Sector ADMs.

and comments on a proposed audit plan for the 2008-09 Fiscal Year. The Branch considered the feedback received during the consultations when finalizing the substance of the 2008-11 Audit Plan which was tabled in a deck presentation at the March 18, 2008 meeting of the AEC.

Next Steps – Step #10

The Branch's risk-based audit planning process is a major undertaking that carries strategic implications. Through the Branch's vision and continuous improvement practices, actions and lessons learned are identified that serve to enhance and strengthen the application of the Branch's risk-based audit planning process in future years.