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Internal Audit Guideline

Objective

The objective is to outline direction for ministries concerning the establishment and operation of a ministry-wide internal audit function (Internal Audit).

Authority

The Financial Administration Act, 1993, clause 5(a), subsection 10(2)

Applicability

This policy applies to ministries.

Background

A ministry-wide internal audit function (Internal Audit) is an independent, objective assurance and consulting activity designed to add value and improve the operations of a ministry. It can help a ministry accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

A ministry-wide internal audit function should be distinguished from other audit functions that may be undertaken by a ministry that are not subject to this policy. For example, an audit/assurance function that exists primarily to provide quality assurance over the revenue or expenses associated with a particular program does not mean the ministry has established a ministry-wide internal audit function.

Provincial Comptroller Guideline

- .01 Ministries are responsible for establishing and maintaining adequate systems and controls to deliver their programs and services.
- .02 To assist them in meeting this responsibility, ministries should consider the benefits of a ministry-wide internal audit function.
- .03 Ministries that establish and operate a ministry-wide internal audit function should do so in accordance with Provincial Comptroller directives.

Provincial Comptroller Responsibilities

- .04 *The Financial Administration Act, 1993, charges the Provincial Comptroller with oversight responsibilities for the receipt, recording and proper disposition of public money, the control of disbursements from the General Revenue Fund and ensuring compliance with Treasury Board orders and directives.*

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- .05 The Provincial Comptroller accomplishes these responsibilities, in part, through audits, system reviews and other work undertaken by his Office. These activities are distinct from work performed by all audit/assurance functions of ministries.
- .06 The Provincial Comptroller supports ministries in the establishment and operation of internal audit functions through:
- development of Government internal audit guidelines and protocol;
 - coordinating various educational opportunities to further the advancement of internal audit in Government including sharing of audit methodologies, plans, and programs; and,
 - monitoring/sharing trends and developments in internal audit practices and standards.

Ministry Responsibilities

- .07 Ministries are responsible for establishing and maintaining adequate systems and controls to ensure:
- effective and efficient programs and services;
 - reliable and timely financial and operational information;
 - safeguarding of public money, property and information; and,
 - compliance with laws, regulations, and policies.
- .08 Ministries should monitor, assess and update their systems and controls to ensure they are current and operating as intended. The use of internal audit functions can assist ministries with this responsibility.
- .09 Ministries are responsible for staffing and resourcing internal audit functions and ensuring their structure and activities comply with Government policies and directives, particularly the Financial Administration Manual.

Accountability

- .10 Internal Audit should report functionally to an Audit Committee for guidance and support. For administrative purposes, such as the approval of timesheets, expense claims, and space and equipment requirements, Internal Audit may report to a member of the ministry's senior management.

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While an Audit Committee is preferred, Internal Audit may report functionally to the Permanent Head or another member of the ministry's senior management designated by the Permanent Head.

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|---|-----|---|
| Audit Charter | .11 | Internal Audit should have an internal audit charter that includes the following: purpose and mission, authority, independence and objectivity, scope, responsibilities, quality assurance and improvement, and standards of practice. See Schedule A. The charter should be reviewed with and approved by the Audit Committee or top designated official. |
| Standards | .12 | Internal Audit staff should be guided by the Standards and Guidance of the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors, except where superseded by Treasury Board policy or Provincial Comptroller directives. |
| Independence/Objectivity | .13 | Internal Audit should operate independently within the ministry. Internal Audit should not be subject to undue influence by ministry staff concerning its scope, work methods and recommendations. |
| | .14 | Internal Audit should not: <ul style="list-style-type: none"> • initiate or approve accounting transactions external to the operation of the internal audit function; • be responsible for any day-to-day operations of the ministry; • develop or implement new financial policies where assurance services are provided; or, • develop or implement new information technology systems. |
| Audit Committee/
Top Organization Official | .15 | If there is an Audit Committee, it should consist of three to five individuals and ministries should consider having at least one member that is independent of the ministry. At least one member should have significant knowledge and expertise in relevant financial areas such as accounting, business processes and internal controls. |
| | .16 | The Audit Committee or top organization official should meet at least twice per year with Internal Audit. |

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- .17 The role of the Audit Committee or top organization official should include:
- approving the audit charter and periodic review of it for revision;
 - approving the annual audit plan;
 - reviewing the performance of Internal Audit;
 - reviewing management letters from the Provincial Auditor and appointed auditors, any recommendations and the responses or actions taken or proposed by management to address concerns; and,
 - monitoring external and internal environments for matters affecting the strategic direction or plans of Internal Audit.

.18 The Audit Committee or top organization official should formally document and approve its role and operating protocol in an audit committee charter which includes: purpose, authority, membership, meetings, responsibilities, and reporting. See Schedule B.

Authority

.19 To establish that Internal Audit has sufficient authority to fulfill its duties, the Audit Committee or top organization official should approve the Internal Audit Charter, the risk based audit plan, budget and resource plan, etc.

.20 The Audit Committee or top organization official should convey that reports of Internal Audit are to receive serious consideration by ministry management and recommendations are expected to be acted on in a timely manner.

Scope

.21 Internal Audit should consider all programs and activities of a ministry. Areas subject to internal audit should be selected based on financial significance and risk and these should be documented in the audit charter.

Annual Audit Plan

.22 Internal Audit, in consultation with the ministry's senior management, should present an annual audit plan to the Audit Committee or top organization official for approval. The plan should be risk-based and consider the priorities and plans of the ministry as well as any issues or areas recommended by the Provincial Comptroller.

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- .23 Where practical, Internal Audit should coordinate its work plans with the Provincial Auditor, appointed auditors and Provincial Comptroller's Office to help ensure adequate assurance coverage for the ministry and to reduce duplication of effort. To accomplish this, protocols should be established concerning sharing of plans, working papers and reports.
- Access**
- .24 Internal Audit should have access at all reasonable times to all ministry documents, accounts, property, records, correspondence and other data necessary to perform its work.
- Nature of Work**
- .25 Internal Audit should focus on providing assurance and consulting services for the ministry's internal controls, risk management system and processes, and governance practices.
- .26 Internal Audit should give priority to basic audit coverage for the ministry by providing assurance that systems and controls:
- produce timely and reliable financial information;
 - safeguard public assets; and,
 - result in compliance with applicable laws and policies.
- .27 Internal Audit may provide assurance and/or advice concerning:
- the achievement of programs, plans and objectives;
 - the identification and management of risks;
 - the efficient and economical use of public resources;
 - governance practices (e.g., compliance with the Government's fraud policy, code of conduct, etc.);
 - risks and controls related to new or revised programs and systems and specialized areas such as information technology; and,
 - other services approved by the Audit Committee or top organization official.
- .28 Internal Audit may undertake special investigations (e.g., incidents of fraud, non-compliance with policies or laws, etc.).
- Reports**
- .29 Internal Audit should issue reports detailing audit work performed, the results of that work, recommendations and any actions that management has proposed to address any concerns identified.

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- .30 The reports should be issued as drafts to obtain management's agreement with the findings and responses. Final reports should be sent to management in a timely fashion after the audit is complete and a copy made available to the Audit Committee or top organization official.
- .31 Follow up reports should be issued outlining management's progress on addressing issues that have been raised in previous reports.
- Competencies**
 - .32 Internal Audit staff should possess the knowledge, skills and other competencies needed to perform their individual responsibilities.
 - .33 Internal Audit should have written job descriptions for audit staff identifying required qualifications and competencies.
 - .34 Ministries should recruit individuals to lead Internal Audit who possess a combination of strong management, leadership and technical auditing and accounting skills.
 - .35 Ministries may staff Internal Audit through external resources or through a shared services arrangement with another ministry.
- Professional Development**
 - .36 Internal Audit staff should be provided with ongoing professional development opportunities to assist them in carrying out their work. Areas for training should be based on an assessment of individual needs as well as specialized skills and knowledge required to support Internal Audit's mandate (e.g., information technology courses).
- Quality Assurance**
 - .37 Internal Audit should continuously monitor its effectiveness. Quality assurance reviews should be conducted by evaluating Internal Audit's conformance with the IIA Standards and Code of Ethics, assessing its efficiency and effectiveness, and identifying opportunities to improve Internal Audit's performance and services. See Schedule C for a sample quality assurance and improvement program.
- Periodic Assessment**
 - .38 A periodic assessment of Internal Audit's role and performance should be conducted. The scope and terms of the assessment should be approved by the Audit Committee or top

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organization official and should focus on whether Internal Audit is meeting its objectives.

Reference

Website

Institute of Internal Auditors

<http://www.theia.org>

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Schedule A

Ministry of _____ Internal Audit Charter

1. Purpose and Mission

State the purpose and mission of the internal audit function. For example, the purpose is to provide independent, objective assurance and consulting services designed to add value and improve operations. The mission is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. Internal audit helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

2. Independence, Objectivity and Authority

Describe the functional reporting relationship of the internal audit function with the Audit Committee (or the Permanent Head or designated senior official) and any administrative reporting to ministry management. Describe the authorities granted to the internal audit function regarding access to records/information, assistance from personnel, and accomplishment of audit objectives. The internal audit function must have no direct operational responsibility or authority over any of the activities audited. Internal auditors must maintain an unbiased mental attitude. Any impairment of independence or objectivity, in fact or appearance, should be disclosed.

3. Scope and Reporting

Describe the nature and scope of the internal audit function and what will be reported. Define the programs, operations, systems, and entities that are subject to the internal audit function, and what will be evaluated. Define what will be reported by the internal audit function, such as Internal Audit's performance relative to its plan, significant risk exposures and control issues, results of audit engagements, resource requirements, unacceptable responses to risks by management. Also, include coordination with or reliance on the work of other internal/external assurance or consulting service providers.

4. Responsibilities

Describe the responsibilities of the internal audit function, i.e. a risk based audit plan, communication of changes to the audit plan, how engagements are executed, engagement follow ups, maintaining internal audit's competency, consideration of internal auditing best practices, adherence to policies, etc.

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5. Quality Assurance and Improvement Program

The internal audit function should maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will evaluate internal audit's conformance to the Standards and Code of Ethics, assess the efficiency and effectiveness of internal audit, and identify opportunities for improvement. The results should be reported to the Audit Committee or top organization official.

6. Standards of Practice

Internal audit functions should be guided by the Standards and Guidance in the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors, except where superseded by Treasury Board Policy or Provincial Comptroller -Directives. An internal and external assessment of internal audit's conformance to the Standards and Code of Ethics should be reported periodically to the Audit Committee or top organization official.

Signed

Chief Audit Executive

Date

Audit Committee Chair

Date

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Schedule B

Ministry of _____ Audit Committee Charter/The Role of the Top Organization Official

1. Purpose

State the purpose of the Audit Committee or top organization official. For example, the purpose of the Audit Committee is to provide structured and systematic oversight of the ministry's governance, risk management, and internal control practices.

2. Authority

The committee has the authority to carry out its responsibilities as articulated in the Audit Committee Charter. The committee is empowered to oversee and preapprove all audit and non-audit services performed by the internal audit function.

3. Committee Membership/Position

Describe the composition of the committee membership (how many, competencies, who, term of service, etc.) or the official's position.

4. Committee Meetings/Meetings

Describe the frequency of meetings, what constitutes a quorum, the expectations relating to preparation for and attendance of meetings, when/if non-members may attend, requirements for meeting minutes, etc.

5. Responsibilities

Describe the key responsibilities of the committee or official. For example, the committee will provide oversight of the internal audit function to obtain reasonable assurance with respect to:

- *the Internal Audit Charter (reviewed and approved at least annually)*
- *internal audit resources (sufficient to achieve the internal audit plan)*
- *the Chief Audit Executive's performance (provide input to management)*
- *the internal audit strategic plan, objectives, performance measures, and outcomes*
- *the proposed risk-based internal audit plan, engagements and projects*
- *internal audit's performance relative to the audit plan*
- *internal audit reports, communications to management, and tracking of management's action plans*
- *the internal audit function's conformance with the IIA Standards and Code of Ethics*
- *the internal audit function's quality assurance and improvement program*

Also, describe the committee's responsibilities regarding the Provincial Auditor and appointed auditors.

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6. Reporting

Describe the reporting requirements to the appropriate authority. Describe who the report will be provided to, the frequency, and what the report will contain (for example, a summary of the work performed, a summary of management's progress in addressing audit recommendations, the number of meetings held and details of the meetings, etc.).

Signed

Audit Committee Chair/ Official

Date

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Schedule C

**Ministry of _____
Internal Audit Quality Assurance and Improvement Program (QAIP)**

The Quality Assurance and Improvement Program is designed to enable an evaluation of the internal audit activity’s conformance with FAM, its Charter and the *Standards* and whether internal auditors apply The IIA’s Code of Ethics. Through conformance with the *Standards* and the Code of Ethics, the internal audit activity also achieves alignment with the Definition of Internal Auditing and the Core Principles. The Quality Assurance and Improvement Program provides reasonable assurance to the Audit Committee and other stakeholders of the internal audit activity that it operates in an effective and efficient manner and that it is perceived as adding value and improving organizational operations.

Internal ongoing assessments should occur during and after each audit engagement. Internal periodic assessments should occur at least every two years and it is recommended that they coincide with the Government’s planning cycle. External assessments should occur at least every five years. Internal and external assessment plans should be approved by and the results reported to the Audit Committee or top organization official.

The statement “Conforms with the International Standards for the Professional Practice of Internal Auditing” may be used on internal audit reports only when the results of the Quality Assurance and Improvement Program support such a statement. This statement enhances the profile of the internal audit activity by advancing its credibility, however, it is not mandatory.

The following rating criteria should be used for documenting the results of the QAIP assessments.

Legend		
Generally Conforms	<ul style="list-style-type: none"> • Generally effective OR • Internal Audit good practice OR • Generally conforms with FAM, the Charter and the <i>Standards</i> 	GC
Partially Conforms	<ul style="list-style-type: none"> • Opportunity for improvement OR • Partially conforms with FAM, the Charter and the <i>Standards</i> 	PC
Does Not Conform	<ul style="list-style-type: none"> • Not effective OR • Does not conform with FAM, the Charter or the <i>Standards</i> 	DNC

No.	Standard	Quality Standard and Element	Frequency	Timing	Result	Supplementary Information	Reviewed By
1	1300, 1310	Quality Assurance & Improvement Program (QAIP)					
1.1		Quality Assurance and Improvement Program is maintained for Internal Audit.					
1.2		Quality Assurance and Improvement Program aligns with FAM, the Charter and the <i>Standards</i> .					
1.3		Quality Assurance and Improvement Program comprises: <ul style="list-style-type: none"> • Internal Assessments – Ongoing • Internal Assessments – Periodic • External Assessments 					
2	1311	Internal Assessments - Ongoing					
2.1		Supervision, work paper review and sign-off for internal audit engagements.					
2.2		Internal audit engagement planning, fieldwork and reporting in compliance with Internal Audit Policies and Procedures, FAM and the <i>Standards</i> .					
2.3		Chief Audit Executive review and approval of internal audit final reports and recommendations.					
2.4		Survey feedback on internal audit engagements.					
2.5		Performance metrics.					
3	1311	Internal Assessments - Periodic					
3.1		Risk assessment for the purposes of audit planning.					
3.2		Internal Audit Charter review.					
3.3		Internal Audit Policies and Procedures review.					
3.4		FAM review.					
3.5		Self-assessment of conformance to the <i>Standards</i> and the Code of Ethics.					
3.6		Staff performance reviews.					
3.7		Continuing professional development.					
3.8		Executive leadership/management and internal audit staff feedback surveys.					
3.9		Performance metrics.					
3.10		Post engagement reviews.					
3.11		Staff declarations.					

No.	Standard	Quality Standard and Element	Frequency	Timing	Result	Supplementary Information	Reviewed By
3.12		Opportunities for continuous improvement.					
4	1312	External Assessments					
4.1		Independent external quality assessment of internal audit.					
5	1320	Reporting on the Quality Assurance and Improvement Program					
5.1		Results of the Quality Assurance and Improvement Program are reported to the Audit Committee.					
6	1321	Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”					
6.1		Statement may be used on internal audit reports only when the results of the Quality Assurance and Improvement Program support such a statement.					
7	1322	Disclosure of Non-conformance					
7.1		Instances of non-conformance with FAM, the Charter or the <i>Standards</i> and the associated impact are disclosed to the Audit Committee.					

Signed

Chief Audit Executive

Date