

# Natural Resources Canada

External Validation of the Internal Audit Function's  
Self-Assessment

Final Report

15 December 2020



Building a better  
working world

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Deputy Minister  
Natural Resources Canada  
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Canada

December 2020

## External Validation of the Internal Audit Function's Self-Assessment against Government of Canada Internal Audit Policy and Institute of Internal Auditors Standards

Dear Deputy Minister:

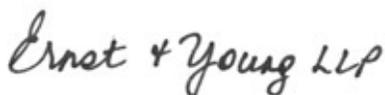
We have completed our external validation of the Internal Audit Function of Natural Resources Canada (NRCan). Our procedures were performed in accordance with our statement of work, and as further defined in the accompanying report.

This report is intended solely for the information and use of yourself, NRCan's Departmental Audit Committee, your senior management team and relevant Central Agencies and is not intended to be used by anyone other than these specified parties.

This report provides a conclusion regarding compliance with the global Standards of the Institute of Internal Auditors and the Treasury Board *Policy on Internal Audit*. We note that 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 including the *Policy on Internal Audit* in our assessment.

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

Sincerely,



Bill Kessels, CPA, CA, CIA  
Partner  
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## 1. Background

Reporting directly to the Deputy Minister, the Internal Audit Function (IAF) strives to provide independent and objective assurance services designed to add value and improve NRCan's operations. IAF helps NRCan 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 internal audit in the department is carried out in accordance with the Institute of Internal Auditors' International Professional Practices Framework (the Standards). Included in the Standards is the requirement that the Chief Audit Executive (CAE) develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and includes both internal and external assessments. The Standards require an external quality assessment, such as this report, every five years, and NRCan has implemented a three-year cycle to promote continuous improvement.

## 2. Objective and Scope

The objective of this engagement was to validate the findings and conclusion of the self-assessment performed by IAF of its conformance with both the Standards and the Treasury Board (TB) *Policy on Internal Audit*.

This external validation consisted of reviewing the working papers supporting the self-assessment and interviewing key stakeholders to ensure:

- ▶ Appropriate evidence has been collected and proper conclusions have been reached within NRCan's self-assessment
- ▶ IAF work formed adheres to the TB's *Policy on Internal Audit* and the Standards of the Institute of Internal Auditors

In addition to the validation of IAF's self-assessment, consideration was given to best practices within the internal audit profession and public sector internal audit community. These insights, while not directly linked to specific standards, support NRCan's continuous improvement efforts and help build an efficient, effective and value-adding Internal Audit Function and have been provided in a separate report.

### Approach and Methodology

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

- ▶ Reviewed IAF's self-assessment and supporting 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 both interact with, and are part of, the Internal Audit function, including the Chief Audit Executive, the Audit Committee Chair, the Associate Deputy Minister, the Strategic Advisor to the Deputy Minister, the Assistant Deputy Minister of Strategic Policy and Innovation, the Assistant Deputy Minister of Corporate Management and Services and the internal audit staff, including Directors, Managers, and Auditors.
- ▶ Reviewed selected internal audit files including supporting working papers and audit reports within Teammate.

### 3. Results

EY concurs with NRCan's self-assessment conclusion of "Generally Conforms". There are no instances where EY disagrees with the assessment against the *Policy on Internal Audit* and IIA standards. A summary of the results by Standard is provided below.

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.

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 Standards, we do not have any opportunities for improvement.

### 4. Conclusion

We concur with the IAF's self-assessment that NRCan generally conforms with the Standards and the *Policy on Internal Audit*. The fact that NRCan performs its self-assessment on a three-year cycle, rather than a five-year cycle, undoubtably has contributed to the results of this assessment.

During our work we noted many leading practices exhibited by IAF, particularly in the areas of internal audit file quality, innovative audit approaches (such as joint audit and evaluations), training of staff and the provision of relevant insight and advice outside of the core audit offerings. Stakeholders interviewed voiced their support and appreciation of the value provided to NRCan by IAF and the professionalism of its staff.

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