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## **Audit of Policy on Internal Controls: Selected Business Processes**

**Office of the Chief Audit and Evaluation Executive  
Audit and Assurance Services Directorate**

**April 2014**





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## List of Acronyms

AAP	Athlete Assistance Program
ADM	Assistant Deputy Minister
AOFPS	Accounting Operations, Financial Policy and Systems
CFO	Chief Financial Officer
DAC	Departmental Audit Committee
DM	Deputy Minister
EXCOM	Executive Committee
<i>FAA</i>	Financial Administration Act
FinCom	Financial Committee
FPIC	Financial Policies and Internal Control Unit
ICOFR	Internal Control over Financial Reporting
IT	Information Technology
OCAE	Office of the Chief Audit Executive
PCH	Canadian Heritage
PIC	Policy on Internal Controls
RBAP	Risk-Based Audit Plan

# Executive Summary

## Introduction

The Treasury Board *Policy on Internal Control* (PIC) took effect on April 1, 2009 and is issued pursuant to section 7 of the *Financial Administration Act* (FAA). The Deputy Minister (DM) is designated as the accounting officer of the department, and is accountable before the appropriate committees of the Senate and the House of Commons for the measures taken to maintain effective systems of internal control in the department<sup>1</sup>. In this context, the Chief Financial Officer (CFO) supports the DM by establishing and maintaining a system of internal control related to financial management, including financial reporting and departmental accounts. In addition, other senior departmental managers establish and maintain a system of internal controls for their areas of responsibility that form a key component of the departmental system of internal control<sup>2</sup>.

The authority for this audit is derived from the Multi-Year Risk-Based Audit Plan (RBAP) 2012-2013 to 2014-15 which was recommended by the Departmental Audit Committee and approved by the Deputy Minister in March 2012.

Under the PIC, the Department's Chief Financial Officer and Deputy Minister must sign an annual Statement of Management Responsibility that includes responsibilities for maintaining an effective system of internal controls over financial reporting (ICOFR). As such, the conduct of internal PIC audits through the Office of the Chief Audit Executive (OCAE) is an important element of the Department's overall control framework in providing independent assurance to the Deputy Minister and CFO regarding the completeness and effectiveness of the Department's ICOFR framework, upon which they rely in conducting their annual certification on ICOFR.

The Office of the Auditor General of Canada (OAG) reported in June 2011 on their audit of Financial Management and Control and Risk Management and in Fall 2013 on their Follow-up Audit on Internal Controls Over Financial Reporting. The Department of Canadian Heritage was not included in the scope of either audit. Nevertheless, the results of these OAG audits were considered in planning this audit of the Policy on Internal Control.

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<sup>1</sup> Extract from *Financial Administration Act*, Art. 16.4(1)b

<sup>2</sup> Extract from *Policy on Internal Control*, Art. 3.6

The overarching approach to implementing the *Policy on Internal Control* (PIC) involves assessing three levels of controls: Entity Level Controls (ELCs), Information Technology General Controls (ITGCs) and Business Process Controls<sup>3</sup>.

The Audit of Compliance to the Treasury Board *Policy on Internal Control* has been divided into three phases:

**Phase I:** Audit of the Management Control Framework used in the implementation of the policy (*Completed in 2011-12*)

**Phase II:**

1. Audit of Entity Level Controls (ELCs) - (*Completed in 2013-14*);
2. Preliminary Assessment of Information Technology General Controls (ITGCs) – (*Completed in 2013-14*); and
3. Audit of Policy on Internal Controls: Selected Business Processes - (*Current audit*);

**Phase III:** Selected areas of audit of the Treasury Board *Policy on Internal Control* will be determined as a result of the annual Risk-Based Audit Plan.

The objective of the current audit was to provide the Department of Canadian Heritage (PCH) senior management assurance that:

- PCH has implemented effective departmental risk-based systems of internal controls to ensure its compliance with the *Policy on Internal Control*, and
- Appropriate and timely action is taken to address significant issues relating to the departmental system of internal control and over financial management and financial reporting.

The scope of the audit was focused on higher risk business processes, and was limited to:

- Planning for Grants and Contributions – Generic;
- Testing and reporting for Grants and Contribution of the Athlete Assistance Program (AAP);
- Monitoring and follow-up for deficiencies and errors identified under the Purchase and Payables Process; and
- Testing and reporting for Salaries Process.

A separate audit of the department's entity level controls and a preliminary assessment of information technology general controls were previously conducted.

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<sup>3</sup> Business Process Controls are: G&C Generic; G&Cs AAP; Salaries Process; Purchase and Payables Process; Capital Assets; Financial Reporting processes.

## Key Findings

Throughout the audit fieldwork, the audit team observed several examples of controls in place to help ensure compliance with the PIC and to help ensure the Department's internal controls over financial reporting are properly designed and applied effectively. This resulted in several observed strengths which are listed below:

- A governance framework has been developed and implemented to provide oversight of the implementation of the PIC. The key governance committee is the Finance Committee (FinCom), which is a level 2 Governance Committee. FinCom reports to the Level 1 Executive Committee, chaired by the Deputy Minister/Associate Deputy Minister.
- The Department has documented and implemented an Internal Control over Financial Reporting (ICOFR) Framework which defines PCH's expectations and requirements with respect to the application and compliance to the PIC. The ICOFR Framework is consistent with the Policy on Internal Controls.
- On an annual basis, an Internal Control Annual Plan is updated to help ensure that resources are focused on areas of highest risk to financial reporting. As part of this process, a risk assessment of areas of relevance to the Department's financial reporting is conducted.
- Based on the audit team's re-performance of a sample of ICOFR testing performed by the FPIC unit, the audit team confirmed that the Financial Policies and Internal Controls' (FPIC) conclusions on testing results were reasonable and accurately reflected the results of testing.

Although considerable progress has been made in formalizing the Department's processes and procedures over assessing the effectiveness of internal controls over financial reporting, the audit team identified three opportunities for improvement to existing management practices and processes that should be addressed by Departmental management:

1. There is no formal and consistent approach for conducting and reporting on follow-up activities for control deficiencies, related recommendations, and action plans that have been identified through ICOFR testing. While we observed evidence of some follow-up activities being performed by the FPIC unit, the lack of a consistent approach in conducting follow-up activities creates difficulties in determining whether management's implementation of any remedial activities is being conducted in a timely manner.
2. The control testing approach adopted by the FPIC team includes the application of judgement and interpretation of the testing methodology approved in the ICOFR Framework. Controls interpreted to have the same objectives are combined and tested based on the frequency of occurrence, thereby reducing the number of

individual sample items required for each. However, there is no formal documentation and communication of these interpretations to help ensure transparency in the level of coverage provided by control testing. In addition, in some cases, the expected sampling approach for some process control activities is not explicitly defined within the methodology contained in the ICOFR Framework.

3. Current testing documentation does not sufficiently describe the nature and results of specific testing procedures performed and, in some cases, does not provide sufficient information to enable re-performance of the testing. As a result, the FPIC unit may not be able to substantiate the results of its testing, and the lack of sufficient supporting documentation may also create inefficiencies in the future in times of transition.

## **Recommendations**

1. The Director of Accounting Operations, Financial Policy and Systems should implement a formal and consistent approach to follow-up on recommendations and action plans resulting from internal control testing activities.
2. The Director of Accounting Operations, Financial Policy and Systems should ensure that interpretations in the application of the ICOFR testing strategy are documented and communicated to promote the understanding of the level of coverage provided by control testing.
3. The Director of Accounting Operations, Financial Policy and Systems should ensure that sufficient documentation and information is retained to support the nature and extent of testing performed and to permit the re-performance of testing to support the conclusions reached.

## **Statement of Conformance**

In my professional judgment as Chief Audit and Evaluation Executive, the audit was conducted in accordance with the Internal Auditing Standards for the Government of Canada. A practice inspection has been conducted and subject to approval.

## **Audit Opinion**

In my opinion, the Department's system of internal controls is properly designed and applied effectively in areas audited to help ensure compliance with the Policy on Internal Control. Opportunities for improvement exist in the internal control follow-up process and documentation of testing procedures and approaches.

Original signed

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**Richard Willan**

Chief Audit and Evaluation Executive  
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# 1. Introduction and Context

## 1.1 Authority for the Project

The authority for this audit is derived from the Multi-Year Risk-Based Audit Plan (RBAP) 2012-2013 to 2014-15 which was recommended by the Departmental Audit Committee (DAC) and approved by the Deputy Minister (DM) in March 2012.

## 1.2 Background

The Treasury Board *Policy on Internal Control (PIC)* took effect on April 1, 2009 and is issued pursuant to section 7 of the *Financial Administration Act (FAA)*. The objective of the *Policy on Internal Control* is to help ensure that risks relating to the stewardship of public resources are adequately managed through effective internal controls, including internal controls over financial reporting (ICOFR). The policy requires each department to develop an effective risk-based system of internal control which is properly maintained, monitored and reviewed, and employs timely corrective measures when issues are identified.

A departmental system of internal control is composed of several internal control systems covering various management areas, such as financial management, financial reporting, resources, systems, processes, culture, structure and tasks<sup>4</sup>. These internal controls taken together will support people in managing risks to achieve the organization's objectives. More specifically, internal controls over financial reporting can be divided into three core categories: entity level controls, process level controls, and IT general controls.

The Deputy Minister is designated as the accounting officer of the department, and is accountable before the appropriate committees of the Senate and the House of Commons for the measures taken to maintain effective systems of internal control in the department<sup>5</sup>. In this context, the Chief Financial Officer (CFO) supports the DM by establishing and maintaining a system of internal control related to financial management, including financial reporting and departmental accounts. In addition, other senior departmental managers establish and maintain systems of internal control for their areas of responsibility and within the departmental system of internal control<sup>6</sup>.

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<sup>4</sup> Extract from *Policy on Internal Control*, Appendix A - Definitions

<sup>5</sup> Extract from *Financial Administration Act*, Art. 16.4(1)b

<sup>6</sup> Extract from *Policy on Internal Control*, Art. 3.6

The policy also requires the DM and CFO of Canadian Heritage to sign an annual *Statement of Management Responsibility Including Internal Control Over Financial Reporting*. This Statement prefaces the financial statements, and includes the following:

- acknowledgement of management's responsibility for ensuring that an effective system of internal controls is maintained over financial reporting;
- acknowledge the conduct of an annual assessment of the effectiveness of the system of internal controls;
- acknowledgement of the establishment of an action plan; and
- a summary of the results of the assessment and the actions taken in response to issues.

The Office of the Auditor General of Canada (OAG) reported in June 2011 on their audit of Financial Management and Control and Risk Management and in Fall 2013 on their Follow-up Audit on Internal Controls Over Financial Reporting. The Department of Canadian Heritage was not included in the scope of either audit. Nevertheless, the results of these OAG audits were considered in planning this audit of the Policy on Internal Control.

Within the Department of Canadian Heritage, the Accounting Operations, Financial Policy and Systems (AOFPS) Directorate of the Finance Management Branch, is responsible for the implementation of the *Policy on Internal Control*, and managing the internal control over financial reporting framework in support of the *Statement of Management Responsibility Including Internal Control Over Financial Reporting*. The AOFPS has updated its ICOFR Framework, plans, tools, and resources over the past year. The framework documents the state of implementation of the *Policy on Internal Control*, the procedures, tools and resources used in the assessment of ICOFR, and the current gaps. AOFPS prepared a Three-Year Plan on Internal Controls that provides the current status of the control activities, walkthroughs, and testing of controls, and identifies the work that will be performed for each key business process over the next 3 years.

The overarching approach to implementing the *Policy on Internal Control* (PIC) involves assessing three levels of controls: Entity Level Controls (ELCs), Information Technology General Controls (ITGCs) and Business Process Controls.

The Audit of Compliance to the Treasury Board *Policy on Internal Control* has been divided into three phases:

**Phase I:** Audit of the Management Control Framework used in the implementation of the policy (*Completed in 2011-12*)

**Phase II:**

1. Audit of Entity Level Controls (ELCs) - (*Completed in 2013-14*);
2. Preliminary Assessment of Information Technology General Controls (ITGCs) – (*Completed in 2013-14*);and

### 3. Audit of Policy on Internal Controls: Selected Business Processes (*Current audit*);

**Phase III:** Selected areas of audit of the Treasury Board *Policy on Internal Control* will be determined as a result of the annual Risk-Based Audit Plan.

## 2. Objective

The objective of this audit engagement was to provide the Department of Canadian Heritage (PCH) senior management assurance that PCH has implemented an effective departmental risk-based system of internal controls to ensure its compliance with the *Policy on Internal Control* and that appropriate and timely action is taken to address significant issues relating to the departmental system of internal control and over financial management and financial reporting.

The results have been reported under governance, internal control, and risk management.

## 3. Scope

The scope of this audit covered ICOFR activities related to PIC implementation for the period extending from April 2012 to the completion of the audit field work in December 2013.

Specifically, the scope of the audit was focused on higher risk business processes, and was limited to:

- Planning for Grants and Contributions – Generic;
- Testing and reporting for Grants and Contribution of the Athlete Assistance Program (AAP);
- Monitoring and follow-up for deficiencies and errors identified under the Purchase and Payables Process; and
- Testing and reporting for Salaries Process.

## 4. Approach and Methodology

All audit work was conducted in accordance with Treasury Board Secretariat's *Internal Auditing Standards for the Government of Canada* and *Policy on Internal Audit*.

Audit criteria identify the standards against which an assessment is made and form the basis for the audit work plan and conduct of the audit. Audit criteria are specific to each audit's objectives and scope. The detailed audit criteria for the audit objectives for the Audit of Compliance with the Policy on Internal Controls are provided in Appendix A. Audit criteria were developed based on Treasury Board Secretariat's *Audit Criteria related to the Management Accountability Framework* and policies and directives related to the *Policy on Internal Control*.

The audit methodology included:

- Reviewing relevant documentation, including guidelines, procedures, policies and processes relevant to the internal control assessment process, including narratives and control matrices;
- Interview with one member of the Departmental Audit Committee;
- Interviews with two members of FinCom;
- Ongoing communication with the representatives of the FPIC Unit;
- Reviewing and re-performance of a sample of tests performed by the FPIC Unit for the Grants and Contribution under the Sport Canada Athlete Assistance Program (AAP) and the Salary processes; and
- Analyzing information obtained through documentation review and interviews.

## 5. Findings and Recommendations

This section presents detailed findings and related recommendations for the audit. The findings are based on a combination of the evidence gathered through the examination of documentation, analysis, file testing, and interviews conducted for each of the audit criterion. Appendix A provides a summary of all findings and conclusions for each of the criteria assessed by the audit team.

The audit team identified three opportunities for improvement resulting in three recommendations. Details of the audit's observations and recommendations are provided below.

### 5.1 Governance

The results of the audit indicated that effective governance structures have been established for oversight of the Department's compliance with the *PIC*.

The importance of internal controls within PCH is recognized and supported by senior management and is reflected in PCH's governance and oversight structures. In this regard, a number of oversight committees oversee, advise on, and respond to matters related to the implementation of internal controls. These committees, which include EXCOM, FinCom and DAC, have senior representation and meet regularly to discuss matters related to the implementation and progress of the Department's ICOFR program. Roles and responsibilities for the implementation of internal controls are well defined within the ICOFR Framework as well as within the Terms of Reference of each of the committees.

Based on the review of supporting documentation, the audit confirmed that governance committees receive updates in regards to the status of the implementation of internal control testing through regular committee meetings. Reports such as the Internal Control Annual Plan, which provides a status of the Department's internal control program as well as the activities scheduled for the next three years, and results of process reviews

and testing performed by the FPIC unit are presented to these committees.

## **5.2 Internal Control**

The audit found that PCH has focused on developing and implementing a number of internal controls to support the implementation of its ICOFR program. Areas to further improve existing practices were identified with respect to the transparent application of the ICOFR sampling strategy, follow up on recommendations and action plans, and documentation of testing activities and results.

PCH has documented and implemented an ICOFR Framework that defines PCH's expectations and requirements with respect to the assessment of its internal controls over financial reporting. The ICOFR Framework was last updated in July 2013 and is consistent with the requirements of the *Policy on Internal Control*.

In addition, based on the audit team's re-performance of a sample of ICOFR testing performed by the FPIC unit, the audit team confirmed that the FPIC's conclusions on testing results were reasonable and accurately reflected the results of testing.

The audit team identified three areas for improvement in relation to internal control.

### **5.2.1 Follow-up on Control**

The audit found that although follow-up activities are being performed, a formalize process for following-up on recommendations and action plans to remediate control deficiencies and areas for improvement identified through control testing activities has not been implemented.

#### **Analysis**

As part of its review and testing of processes, the FPIC provides management with an analysis of potential control weaknesses identified as well as related recommendations.

The audit identified evidence of management acknowledging the recommendations made, as well as providing action plans for remediation. Specifically, this type of evidence was identified in the Athlete Assistance Program report presented to the DAC as well as confirmation by the Director General of Human Resources and Workplace Management Branch of agreement with the observations identified in the control testing of the Salary process.

However, there is currently no formal and consistent approach for conducting and reporting on follow-up activities for control deficiencies, related recommendations, and action plans that have been identified through ICOFR testing. While we observed evidence of some monitoring activities being performed by the FPIC unit, the lack of a consistent approach in conducting follow-up activities creates difficulties in determining

whether management's implementation of remedial activities is being conducted in a timely manner.

A risk-based approach to FPIC's monitoring and follow-up on the results of ICOFR testing would help to ensure that FPIC resources and monitoring efforts are appropriately focused on areas of highest risk and significance to the Department. Such an approach would help to prioritize monitoring activities and would also define the nature of activities required to support ongoing monitoring by the FPIC. For example, follow-up on lower risk items may require written confirmation from management that the action item has been addressed. For medium and higher risk action items, follow-up activities may take the form of review of supporting documentation and/or testing to confirm that the required action has been implemented and appropriately addresses the intent of the original recommendation.

### **Risk Assessment**

A formal and consistent approach to the follow-up of recommendations for improvement, would increase the likelihood that action plans are completed in a timely manner, thereby reducing the Department's exposure to ongoing risk.

### **Recommendation**

1. The Director of Accounting Operations, Financial Policy and Systems should implement a formal and consistent approach to follow-up on recommendations and action plans resulting from internal control testing activities.

## **5.2.2 Application of ICOFR Testing Methodology**

The audit found that the control testing approach is not formally documented and communicated to help ensure transparency in the level of coverage.

### **Analysis**

The Departmental ICOFR Framework, approved by the CFO and the ADM in August of 2013, specifies the Department's requirements regarding the extent of testing necessary to support a conclusion that controls are operating effectively, provided that no exceptions are found. The Framework specifies the expected sample sizes to be used to test manual controls based on the frequency of the control's performance. The approach to sampling and related sample sizes as defined in the Framework is consistent with generally accepted sampling methodologies utilized in the private and public sectors to test controls, based on a 90% to 95% confidence level.

The audit noted that in the interests of efficiency, the FPIC team has chosen to combine testing for some multiple controls with the same objectives, thereby reducing the number of individual sample items required for each control. This is appropriate in cases where

different controls have the same underlying risk and the control is applied or exercised by the same personnel or function.

The results of our testing identified instances in which the FPIC team confirmed they had combined the sampling and approach to testing for controls they believe to be common, such as FAA Section 34 approvals. However, in certain cases, based on our examination of the control definition and objective, it was noted that the underlying risks and control activities being performed could be interpreted as being sufficiently different to warrant separate testing for these controls. This, in turn, would warrant the selection of specific samples for individual controls.

Based on our review of a sample of key control testing performed, we identified one case of 10 key controls tested (10%) in which the number of sample items selected for control testing was not defined in the ICOFR Framework. This related to a control that occurs on an as needed basis. The total population for this control consisted of over 300 transactions in the fiscal year, and as such could be interpreted as being performed on daily basis. The ICOFR Framework requires a sample size of between 20 and 40 items for daily controls and between 5 and 15 items for weekly controls. The actual sample size tested was 10 items, as the FPIC team interpreted the occurrence as being weekly.

#### **Risk Assessment**

In cases where lower sample sizes are selected, the related confidence level will automatically fall. As a result, there is a risk that the interpretation and application of the ICOFR sampling approach may, in some cases, not be providing the desired or expected level of coverage.

#### **Recommendation**

2. The Director of Accounting Operations, Financial Policy and Systems should ensure that interpretations in the application of the ICOFR testing strategy are documented and communicated to promote the understanding of the level of coverage provided by control testing.

### **5.2.3 Documentation of Testing Activities**

There are opportunities to strengthen the consistency of process documentation and documentation supporting the nature, extent, and results of ICOFR testing.

#### **Analysis**

In the course of the audit team's re-performance of a sample of control tests, we noted that the FPIC unit does not retain copies of supporting documentation for control testing nor does it maintain details in regards to the nature of control testing performed. For two controls related to salary modifications, the audit team was unable to trace back the approval of overtime hours to the original timesheets to enable the same conclusion as

that of the FPIC unit on the testing results due to the absence of sufficient details in the testing worksheets. In these two cases, we requested the FPIC unit to assist us in re-performing the control testing to demonstrate how their conclusion was reached. Although representatives of the unit were able to re-perform the test and the results of testing sufficiently supported the conclusion, this re-performance required significant effort due to the lack of supporting information.

As a result, the FPIC unit may not be able to substantiate the results of its testing, and the lack of sufficient supporting documentation may also create inefficiencies in the future in times of transition.

Our review of process documentation identified that, in some cases, documentation had not been formally approved by the Manager of FPIC and/or were still in draft form. We also noted that there was no documented evidence of review and approval of the documentation by the process owners.

### **Risk Assessment**

There is a risk that the FPIC unit may not be able to substantiate the results of its testing, without consistent and complete information and sufficient supporting documentation to support the nature and extent of control testing performed. In addition, without formal approval and “sign-off” by process owners on process documentation and testing results, the accountability of the process owners for maintaining effective controls within their area of responsibility may not be consistently reinforced.

### **Recommendation**

3. The Director of Accounting Operations, Financial Policy and Systems should ensure that sufficient documentation and information is retained to support the nature and extent of testing performed and to permit the re-performance of the test and support the conclusion reached.

### **5.3 Risk Management**

The audit found that effective mechanisms are in place to identify, assess, and develop mitigation plans for risks related to the Department's financial reporting.

#### **Analysis**

The Department's Internal Control Annual plan provides details on the areas of focus for the FPIC unit's control testing activities for each fiscal year. The plan includes a risk assessment of the Department's eight key financial areas/processes <sup>7</sup> to determine the frequency in which to conduct testing and monitoring activities. The results of the risk assessment are used to develop a three year plan to determine the time and frequency of monitoring of the financial processes. These practices help to provide assurance to the Accounting Officer on the degree to which the Department's system of internal controls over financial reporting is functioning effectively and helps to prioritize the allocation of resources on areas of most significance or risk to the Department.

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<sup>7</sup> Grants and Contributions; Athlete Assistance Program; Purchases and Payables; Salaries; Tangible Capital Assets; Financial Reporting; Entity Level Controls; and IT Controls.

## Appendix A – Audit Criteria

The conclusions reached for each of the audit criteria used in the audit were developed according to the following definitions.

Numerical Categorization	Conclusion on Audit Criteria	Definition of Conclusion
1	Well Controlled	<ul style="list-style-type: none"> <li>• well managed, no material weaknesses noted; and</li> <li>• effective.</li> </ul>
2	Controlled	<ul style="list-style-type: none"> <li>• well managed, but minor improvements are needed; and</li> <li>• effective.</li> </ul>
3	Moderate Issues	<p>Has moderate issues requiring management focus (at least one of the following two criteria need to be met):</p> <ul style="list-style-type: none"> <li>• control weaknesses, but exposure is limited because likelihood of risk occurring is not high;</li> <li>• control weaknesses, but exposure is limited because impact of the risk is not high.</li> </ul>
4	Significant Improvements Required	<p>Requires significant improvements (at least one of the following three criteria need to be met):</p> <ul style="list-style-type: none"> <li>• financial adjustments material to line item or area or to the department; or</li> <li>• control deficiencies represent serious exposure; or</li> <li>• major deficiencies in overall control structure.</li> </ul> <p>Note: Every audit criteria that is categorized as a “4” must be immediately disclosed to the CAEE and the subjects matter’s Director General or higher level for corrective action.</p>

The following are the audit criteria and examples of key evidence and/or observations noted which were analyzed and against which conclusions were drawn.

<b>Audit Objective 1:</b> PCH has implemented an effective departmental risk-based system of internal controls to ensure compliance with the <i>Policy on Internal Control</i> and appropriate and timely action is taken to address significant issues relating to the departmental system of internal control over financial management and financing reporting.			
<b>Criteria #</b>	<b>Audit Criteria</b>	<b>Conclusion</b>	<b>Examples of Key Evidence / Observation</b>
1.1	PCH assesses progress against action plans for integrating risk information to strategic planning, decision-making and its operations, within a reasonable time.	<b>2</b>	<ul style="list-style-type: none"> <li>• The Internal Control Annual plan as well as the three year plan are updated and reviewed annually based on an assessment of risks related to identified processes.</li> <li>• However, there are opportunities to strengthen the timeliness and transparency of information related to deviations from plans to oversight committees.</li> </ul>
1.2	Internal control is implemented and works as expected throughout the year.	<b>1</b>	<ul style="list-style-type: none"> <li>• The FPIC conducts a review and testing of control processes on a two year rotational basis.</li> <li>• Recommendations related to control deficiencies are provided to management for action.</li> </ul>

1.3	Management identifies and assesses the controls that are in place to manage the risks to the organization.	1	<ul style="list-style-type: none"> <li>As part of the annual plan, a risk assessment of processes is completed to guide the testing of controls based on highest areas of risk.</li> <li>The FPIC conducts a review and testing of key controls on a two year rotational basis.</li> </ul>
1.4	Management evaluates the adequacy of the range of controls in place and regularly monitors their effectiveness.	1	<ul style="list-style-type: none"> <li>The FPIC conducts a review and testing of control processes on a two year rotational basis through which internal controls for identified processes are reviewed, assessed and tested.</li> <li>Reports are presented to oversight committees.</li> </ul>
1.5	Procedures, guides, tools and resources are identified or developed to support the implementation of the monitoring process (tests) of internal control.	2	<ul style="list-style-type: none"> <li>The ICOFR Framework provides overall guidance with respect to the requirements of the Department's internal control program.</li> <li>Opportunities exist to strengthen the consistency of the application of ICOFR guidance and to strengthen testing documentation.</li> </ul>
1.6	Appropriate and timely action is taken to address	2	<ul style="list-style-type: none"> <li>Follow up of recommendation and action plans is performed</li> </ul>

	significant issues relating to the departmental system of internal control and over financial management and financial reporting.		by the FPIC in an ad hoc manner. <ul style="list-style-type: none"><li>• However, there is currently no formal and consistent approach for conducting and reporting on follow-up activities for control deficiencies.</li></ul>
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## Appendix B – Management Action Plan

<b>MANAGEMENT ACTION PLAN</b>			
<b>5.2.1 Follow-up on Control Deficiencies</b>			
<b>Recommendation</b>	<b>Actions</b>	<b>Who</b>	<b>Target Date</b>
The Director of Accounting Operations, Financial Policy and Systems should implement a formal and consistent approach to follow-up on recommendations and action plans resulting from internal control testing activities.	<p>A formal follow-up approach will be developed which will include;</p> <ol style="list-style-type: none"> <li>1. regular submissions to the CFO outlining the status of action plans resulting from internal control testing activities. and</li> <li>2. when required additional testing of controls will be conducted.</li> </ol> <p>This formal process will be documented in The Internal Control Over Financial Reporting Framework.</p>	Director of Accounting Operations, Financial Policy and Systems	April 2014

<b>5.2.2 Application of ICOFR Testing Methodology</b>			
<b>Recommendation</b>	<b>Actions</b>	<b>Who</b>	<b>Target Date</b>
The Director of Accounting Operations, Financial Policy and Systems should ensure that interpretations in the application of the ICFOR testing strategy are documented and communicated to promote the understanding of the level of coverage provided by control testing.	Testing strategies documented in the ICOFR Framework will be further explained to provide greater understanding of the level of coverage required for control testing.	Director of Accounting Operations, Financial Policy and Systems	April 2014

<b>5.2.3 Documentation of Testing Activities</b>			
<b>Recommendation</b>	<b>Actions</b>	<b>Who</b>	<b>Target Date</b>
The Director of Accounting Operations, Financial Policy and Systems should ensure that sufficient documentation and information is retained to support the nature and extent of testing performed and to permit the re-performance of testing to support the conclusions reached.	Working papers will contain additional information to permit the re-performance of the test.	Director of Accounting Operations, Financial Policy and Systems	Completed – ongoing activity