

Internal Audit Planning Perspectives:

Risks Facing the Delivery of *Results for Canadians*



This document was sponsored by Treasury Board Secretariat's Centre of Excellence for Internal Audit and was championed and co-authored by Jim Van Adel, Director General Review Services, Department of National Defence, with the assistance of David Wright and Janak Shah of Consulting and Audit Canada, and Hussein Rostum of Bytown Consulting. It incorporates, and profits from, input from the federal internal audit community.

Synopsis

This document presents the results of an analysis of risks pertaining to the principles and commitments described in *Results for Canadians: A Management Framework for the Government of Canada*. The views on risk are offered from the perspective of Internal Audit. These views substantially represent a synthesis of input from the federal government Internal Audit community.

The purpose of this document is to initiate a dialogue and a process in support of audit planning across the federal government of Canada, and to promote greater connectivity, coherence, and contribution of the collective work of the Internal Audit community, particularly as this work relates to understanding and managing risk. This is a timely undertaking which, when put in context, coincides with several major government initiatives aimed at improving government management practices, and with related initiatives aimed at revitalizing Internal Audit in the federal government (particularly, for example, with the deployment of the new *Policy on Internal Audit* published by Treasury Board Secretariat in February 2001).

This current document essentially amounts to a prototype, a first effort, to identify, in a systematic way, government-wide converging areas of high-risk for which the Internal Audit community can provide value-added contributions for decision-making. The intention is to set in motion a process through which the Internal Audit community would report annually on its views about areas of high risk, real or emerging, and to help Treasury Board articulate and roll up the risks across government. Three criteria were used in this report to prioritize areas of high risk for IA consideration. First, the risk must be significant and pervasive relative to the achievement of *Results for Canadians*; second, there should be a discernible management dimension associated with the risk; and, third, the opportunity should exist for Internal Audit to contribute effectively to addressing the risk.

The analysis works through the challenges that affect the delivery of government services, through the response to these challenges as described in *Results for Canadians*, and, finally to the associated general and specific risk areas. The report considers the challenges facing the Public Service in the near, medium and long terms, and suggests key risk areas for consideration by Internal Audit over the next one-to-two years. The final result is a listing of eleven high-risk priority areas for consideration by departments and agencies. At the same time, it is recognized that specific risk areas and priorities will warrant interpretation and adjustment to accommodate the perspectives and circumstances of individual departments and agencies. Accordingly, this document is intended to provide general guidance to assist Internal Audit planning. It is not intended to be prescriptive.

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I Introduction

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1.1 Management Context

1.1.1 Results for Canadians: Putting the Needs of Citizens First

Recently the Government of Canada published *Results for Canadians: A Management Framework for the Government of Canada*.² This *Framework* integrates a number of key management initiatives and sets out an agenda for change in the way in which departments and agencies manage and deliver their programs and services. *Results for Canadians* has been followed by the development of the *Integrated Risk Management Framework*,³ and by new policies for Internal Audit and Evaluation.⁴

Results for Canadians integrates the best of current management practices, and priorities for change, into a coherent whole. The framework and agenda for change set out by *Results for Canadians*:

- recognize that the federal government exists to serve Canadians and that a “citizen focus” must therefore be built into all government activities programs and services;
- highlight the importance of sound public service values;
- focus on the achievement of results for Canadians; and
- promote discipline, due diligence and value for money in the use of public funds.

¹ This document was sponsored by Treasury Board Secretariat’s Centre of Excellence for Internal Audit and was championed and co-authored by Jim Van Adel, Director General Review Services, Department of National Defence, with the assistance of David Wright and Janak Shah of Consulting and Audit Canada, and Hussein Rostum of Bytown Consulting. It incorporates, and profits from, input from the federal internal audit community.

² *Results for Canadians: A Management Framework for the Government of Canada*, Treasury Board of Canada, Ottawa, 2000.

³ *Integrated Risk Management Framework*, Treasury Board of Canada, Ottawa, January 2001.

⁴ *Policy on Internal Audit*, Treasury Board Secretariat, February 1, 2001; and *Evaluation Policy*, Treasury Board Secretariat, February 1, 2001.

To enhance performance, departments and agencies need, among other things, to advance the integration of modern comptrollership into the heart of their management practices. Also, continued attention must be given to the development of a professional, skilled workforce able to serve the public interest and achieve cost-effective, responsive service for Canadian citizens. Responsive government means putting the needs of citizens first.

1.1.2 *Integrated Risk Management Framework: Developing a Risk-Smart Workforce*

As an important part of addressing public and government concerns and expectations, the government continues to respond to the *Report of the Independent Review Panel on Modernization of Comptrollership in the Government of Canada*.⁵ This report, endorsed by Treasury Board Ministers, emphasized the need to strengthen risk management in modernizing comptrollership and placed it as a priority on the government management agenda.

The Treasury Board Secretariat, therefore, in collaboration with federal organizations, academics and private interests, led research and consultations on risk management. The results highlighted the need for a common understanding of risk management and a more corporate, systematic approach. This initiative produced the *Integrated Risk Management Framework* report. This document provides a comprehensive approach to better integrate risk management into strategic decision-making, and is designed to advance the development and implementation of modern management practices and to support innovative management approaches throughout the federal public service.

The purpose of the *Integrated Risk Management Framework* is to:

- provide guidance to advance the use of a more corporate and systematic approach to risk management;
- contribute to building a risk-smart workforce and environment that allows for innovation and responsible risk-taking while ensuring legitimate precautions are taken to protect the public interest, maintain public trust, and ensure due diligence; and
- propose a set of risk management practices that departments can adopt, or adapt, to their specific circumstances and mandate.

The *Integrated Risk Management Framework* builds on existing risk management practices and expertise throughout the public service. Its application is designed to strengthen management practices, decision-making and priority setting, to better respond to citizens' needs. Practicing integrated risk management is expected to support the desired cultural shift to a risk-smart workforce and environment in the federal government.

⁵ *Report of the Independent Review Panel on Modernization of Comptrollership in the Government of Canada*, Treasury Board Secretariat, 1997.

1.2 Internal Audit Context

1.2.1 *Policy for Internal Audit: Providing Assurances Relative to Risk*

A new *Policy for Internal Audit* (IA) has been undertaken by the federal government, envisioning a revitalized IA function charged with provision of *assurances* relative to the soundness of risk management, management controls and information for decision-making.

The stated objective of the revised Internal Audit Policy is:

“To provide departmental management with objective assessments about the design and operation of management practices, control systems, and information, in keeping with modern comptrollership principles and thereby contributing to the government’s continuous management improvement program and accountability for results.”

The new policy also intends that departments:

- develop an effective, independent and objective internal audit function that is properly resourced to meet professional standards and to provide sufficient and timely assurance services on all important aspects of the department’s risk management strategy and practices, management control frameworks and practices, and information used for decision-making and reporting;
- incorporate internal audit results into their priority setting, planning and decision-making processes; and
- issue completed reports in a timely manner and make them accessible to the public with minimal formality in both official languages.

The deployment of the revised *Policy on Internal Audit* provides the impetus for the Government of Canada to establish a renewed, strengthened and re-positioned IA function within federal departments and agencies.

1.2.2 *Positioning the New IA Policy: Connectivity, Coherence, Contribution*

To help position itself and build its capacity to meet the challenge of its enhanced role under the new IA Policy, the IA community has undertaken an initiative to identify areas of risk relative to the management agenda advanced in *Results for Canadians*. The preparation of this IA document represents an initial step, a prototype effort, towards identifying key risk areas and towards articulating the IA contribution to a risk-smart government workforce.

More specifically, by preparing and disseminating this document on internal audit perspectives on risk, relative to the principles and commitments articulated in *Results for*

Canadians, it is intended that a dialogue and process in support of audit planning will be initiated aimed at achieving:

- *connectivity*: raising awareness of *Results for Canadians* within the IA community and generating an active dialogue on the related agenda for change and management framework;⁶
- *coherence*: to contribute a more focused rationale and common basis from which internal auditors can discuss risk-related issues with their managers, and more generally with staff in their own departments;
- *contribution*: initiating an annual process whereby the IA community can collectively identify an updated list of priority areas where IA can provide focused services to contribute to improvements in government as articulated in *Results for Canadians*.

This document on IA planning perspectives is premised on the notion that there is value in federal government internal auditors having a degree of agreement regarding a strategic view of the risks affecting the delivery of government services. It is further premised on the belief that there is value in IA documenting and sharing this view.

A continuing dialogue and process involving the perspectives of IA on risk and *Results for Canadians* should naturally encourage greater horizontal connectivity and coherence in the work of Internal Auditors across government. This in turn provides a strategic context for the IA community's contribution to improved government.

⁶ The key components of the agenda for change include: citizen-centred service delivery; Government of Canada On-line; modern comptrollership; improved reporting to Parliament; program integrity; and developing an exemplary workplace.

II Risk and the Contribution of Internal Audit

The Internal Audit community, by virtue of its expertise, is in a good position to help senior management identify certain risks, to suggest ways in which these risks might be managed and, ultimately, provide assurance that they are being appropriately managed. The opportunity for IA to provide such support is strengthened by the new *Policy on Internal Audit*, which emphasizes the role of audit as the provider of professional assurance services to senior management.

Recent changes brought about by the various initiatives to improve management practices and responsible Canadian government, such as modern comptrollership, program integrity, and Government On-line, constitute a significant imperative for the Internal Audit community to contribute to the process of managing risk. Effective contribution, however, presumes a connected, coherent perspective on risk.

2.1 A Common Perspective on Risk

2.1.1 Definitions

While the *Integrated Risk Management Framework* document recognized that there is no consensus on a definition of risk, after much research and discussion the authors of that document developed a workable definition for the federal public service:

“Risk refers to the uncertainty that surrounds future events and outcomes. It is the expression of the likelihood and impact of an event with the potential to influence the achievement of an organization’s objectives.”⁷

As with the definition of risk, there are many accepted definitions of risk management in use. For the purpose of the *Integrated Risk Management Framework*:

“Risk management is a systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding, acting on and communicating risk issues.”⁸

In order to apply risk management effectively, it is vital that a risk management culture be developed. The current operating environment is demanding a more integrated risk management approach. It is not sufficient to manage risk at the individual activity level or in functional silos. Hence, for the purpose of the *Integrated Risk Management Framework*:

⁷ *Integrated Risk Management Framework*, op cit., page 7.

⁸ Ibid., page 8.

“Integrated risk management is a continuous, proactive and systematic process to understand, manage and communicate risk from an organization-wide perspective. It is about making strategic decisions that contribute to the achievement of an organization’s overall corporate objectives.”⁹

The Government of Canada has already used an integrated risk management approach to manage risk related to Y2K and is currently applying the approach to other major initiatives such as Government On-line and program integrity.

2.1.2 Risk Convergence

It is not difficult to perceive that there are common risk drivers and risks facing the delivery of government services by different departments and agencies. In fact, this commonality extends internationally. The more apparent and pervasive influences are those associated with such factors as changing demographics, security, technology, public expectations and the reduced costs of knowledge. Recent trends in the equity and currency markets, as well as health and food protection issues, are illustrative of globalization and the convergence of risks. So too are concerns relative to security and privacy risks introduced by the increasing use of technology. Aging populations in North America will also pose common issues for the workforce, the burden of responsibility across levels of government, and ensuring the long-term sustainability of social entitlements.

The Canadian government is not alone in developing approaches to identifying and managing these converging risk challenges. The approaches and perspectives of other auditors have been considered in preparing this IA document, particularly of those in Australia and the United States. The Auditor-General for Australia, Mr. Pat J. Barrett, for example, has said over four years ago that the Australian National Audit Office (ANAO) “uses a risk management perspective in performance audits basically because this approach can assist us to form a balanced view and perspective of the complexity of issues facing program managers.”¹⁰ More recently, Mr. Barrett has stated that risk management is now “an essential element of corporate governance underlying many of the reforms that are currently taking place in the public sector.”¹¹

The Comptroller General of the United States has developed a structured approach to periodically updating a listing of high-risk areas. Biennial high-risk updates to this list have been done since 1993. GAO’s high-risk program started with fourteen high-risk areas – nineteen areas were added and eleven areas were removed since the early 1990s. The changes over the years represent a shift towards “an added emphasis on government

⁹ Ibid., page 9.

¹⁰ “Managing Risk as Part of Good Management – An ANAO Perspective”, speech delivered by Mr. P.J. Barrett, Auditor-General for Australia, delivered October 10, 1996 on the occasion of the launch of the *Australian Guidelines for Managing Risk in the Australian Public Service*.

¹¹ “Dealing with Risks to Ensure Greater Effectiveness”, speech delivered by Mr. P.J. Barrett, Auditor-General for Australia, delivered May 1, 2001 to the IIR Conference on *Risks in Outsourcing in the Public Sector*.

functioning as economically, efficiently, and effectively as possible, both for today and in the future.”¹²

In preparing this current document on IA planning perspectives and risks for the IA community, the authors benefited greatly from the approach and work of the U.S. General Accounting Office, particularly the approach to listing and prioritizing high-risk areas.¹³

The observations about management accountability and changing the structure of government in the last report by Mr. Denis Desautels, the outgoing Auditor General of Canada, have also been considered in preparing this document. For example, the Auditor General suggests that government organizations must be able to deliver on “risk management and control”:

“An organization must be able to identify anything that could put at risk its ability to achieve its objectives, and it must establish a framework for managing and controlling those risks.”¹⁴

The option of borrowing from private sector perspectives on Internal Audit and risk is also very real for government auditors in developing their own views on risk. With the greater convergence of the public and private sectors (for example as related to the outsourcing of activities and contract procurement, the electronic delivery of services, the emphasis on outcomes and results, and an increasing customer/client focus) there is a greater need to focus more systematically on risk management practices in decision-making. Such an approach should also encourage a more outward looking examination of the role of Internal Audit in the identification and management of risk. By looking outwards the IA community is able to stay connected and develop a coherent, focused perspective on risk.

2.2 Contribution of Internal Audit

In developing an appreciation of risks from an audit perspective, it is necessary to consider the role of audit in contributing to the successful delivery of government services.

¹² “High Risk and Major Challenges”, slide presentation by David M. Walker, Comptroller General of the United States, General Accounting Office, delivered January 25, 2001, at the Association of Government Accountants Federal Leadership Conference.

¹³ In this context, useful references from the General Accounting Office include: *Strategic Plan, 2000-2005*, GAO, Spring 2000; *Managing in the New Millennium: Shaping a More Efficient and Effective Government for the 21st Century*, GAO, March 29, 2000; and *High-Risk Series: An Update*, GAO, January 2001.

¹⁴ *Reflections on a Decade of Serving Parliament: Report of the Auditor General of Canada to the House of Commons*, Office of the Auditor General of Canada, Ottawa, February 2001, page 27.

2.2.1 Assurance

The new Internal Audit Policy demands renewed methodological rigour for the internal audit process. It also calls upon Internal Auditors to provide substantiated *assurances* relative to risk management, control and information for decision-making. Internal Auditors will play an important role in assuring that the fundamental elements of the management framework supporting the achievement of *Results for Canadians* are in place.

2.2.2 Professional Excellence

Additionally, and just as is the case for all public servants, Internal Auditors must strive to set a positive example in relation to *Results for Canadians*. This demands demonstrated professional excellence, adherence to high standards and accountability for the effective application of assigned resources. Citizens must be viewed as important stakeholders for Internal Audit and completed audit reports must be made public with minimal formality. These reports must communicate succinctly, understandably and contextually. Internal Audit findings and conclusions must be clearly presented and appropriately situated, including a description of their reliability.

2.2.3 Looking Outward

The previous discussion of the convergence of risks, as well as the importance of collaboration, horizontal connectivity and integration, lead to certain imperatives for Internal Audit. Genuine results-oriented management and risk management are fundamentally outward looking. To be effective, IA must be similarly outward looking. It must seek collaboration with professionals in other federal agencies and levels of government, form knowledge-based alliances and partnerships with external sources of expertise and ensure that audit criteria are defensible and relevant. Audit criteria studies will be required to identify, and keep current, universally accepted standards and bases for assessment that will extend from compliance matters through to recognized best and innovative practices.

2.2.4 Measurement and Control

Internal Audit must also be prepared and equipped to confront measurement challenges inherent in the progressive posture of *Results for Canadians*. For example, contemporary management control frameworks recognize the criticality of softer controls such as leadership, values and ethics. The Criteria of Control (CoCo) model developed by the Canadian Institute of Chartered Accountants (CICA) maintains that well-functioning organizations are purposeful, having a capable, aligned and committed workforce, with necessary measurement and learning mechanisms in place, and presuming underlying values and strong leadership. Accordingly, auditors must have methodologies for assessing not only the traditional, “specific” controls, but also those that have a softer dimension.

2.2.5 Process and Product

It is intended that a process be developed to guide annual audit planning by departments. This process will consider high-level trends, influences and broad-based risks, leaving it to individual departments to interpret the implications and risks within their own particular environments. This guidance would differ from the prior mechanism whereby the Government Internal Audit Plan tended to be prescriptive and did not have the benefit of more recent developments with respect to risk management and the agenda for change promulgated by *Results for Canadians*.

Potential topics would be suggested for audit attention relative to the identified high-risk areas, and relative to specific criteria such as the potential for IA to make an effective contribution (see Section 3.1). However, it is acknowledged that individual departments may elaborate their specific risk landscapes and arrive at a distinct set of Internal Audit priorities that depart from those suggested. The risk areas and topics listed in this document are not intended to be prescriptive.

Supplemented by research, analysis and coordination by the Policy Centre for Internal Audit in the Treasury Board Secretariat, it is proposed that, annually, heads of IA provide input to the identification and ranking of strategic-level risks to the delivery of government services, and to the achievement of the principles and commitments articulated in *Results for Canadians*. Validation discussions would then take place with a spectrum of senior executive leaders, including program officers in the Treasury Board Secretariat.

An annually updated analysis of key risk areas would provide guidance to the development of departmental internal audit plans, helping to demonstrate relevance and better situating audit results. An annual report, the main product of the process, would present continuing high risks and newly emerging high risks relative to successful delivery of government services and achievement of *Results for Canadians*.

III Identifying High-Risk Areas for Consideration by Internal Audit

The rest of this report is devoted to identifying general and specific areas of risk, and related management considerations, which may have implications for the achievement of the benefits associated with *Results for Canadians*. The principal risks identified are related to capacities or enablers that will be required to moderate these risks and to promote the success of *Results for Canadians*.

3.1 Criteria for Identifying Risk

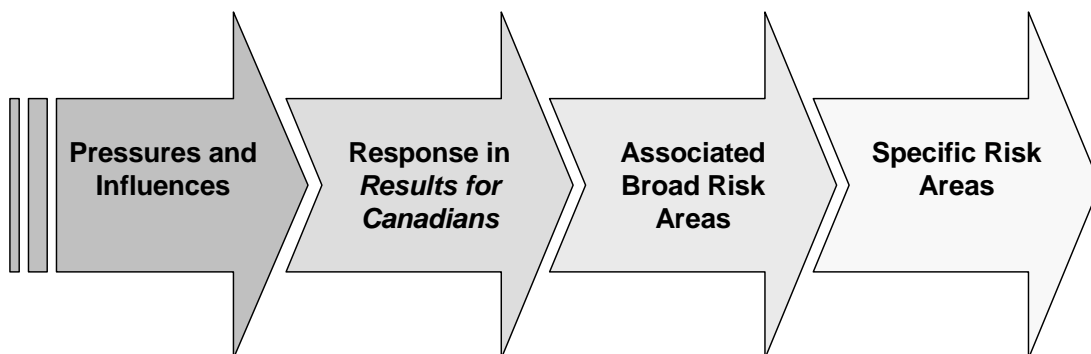
The approach taken in this report to identify high-level risks was guided by reference to the following criteria:

- the significance to the achievement of *Results for Canadians*;
- a discernible relationship to a management framework (i.e., having a strategic dimension); and
- the opportunity for Internal Audit to contribute effectively to addressing the issue of risk.

These criteria provide a basis for identifying key government-wide risk areas for potential consideration by the Internal Audit community. Some of these risks may have a longer-term sustained influence, while having particular elements that are more active in the nearer term (e.g., the implementation of the Financial Information Strategy). On the other hand, some risk issues may be more transitory (e.g., as was the case with Y2K).

Exhibit 1 provides a broad depiction of the framework adopted in this report for identifying risk areas for IA consideration.

Exhibit 1: Process for Identifying Risk



3.2 Overview of an IA Perspective on Risk

Exhibit 2 builds on the broad depiction shown in Exhibit 1, to develop an IA perspective on risk. The intention is that this perspective be coherent across government and connected with government-wide management and strategic frameworks. Specific areas of risk identified would be a focus for consideration by the IA community in the provision of assurance services. The elements listed in the lower part of Exhibit 2 are selections of common risk areas that are discussed in more detail in Section IV of this report. They are developed and presented exclusively of individual departmental/agency mandates. Accordingly, these elements are likely to be articulated, prioritized and dealt with in different ways, depending on particular circumstances and mandates.

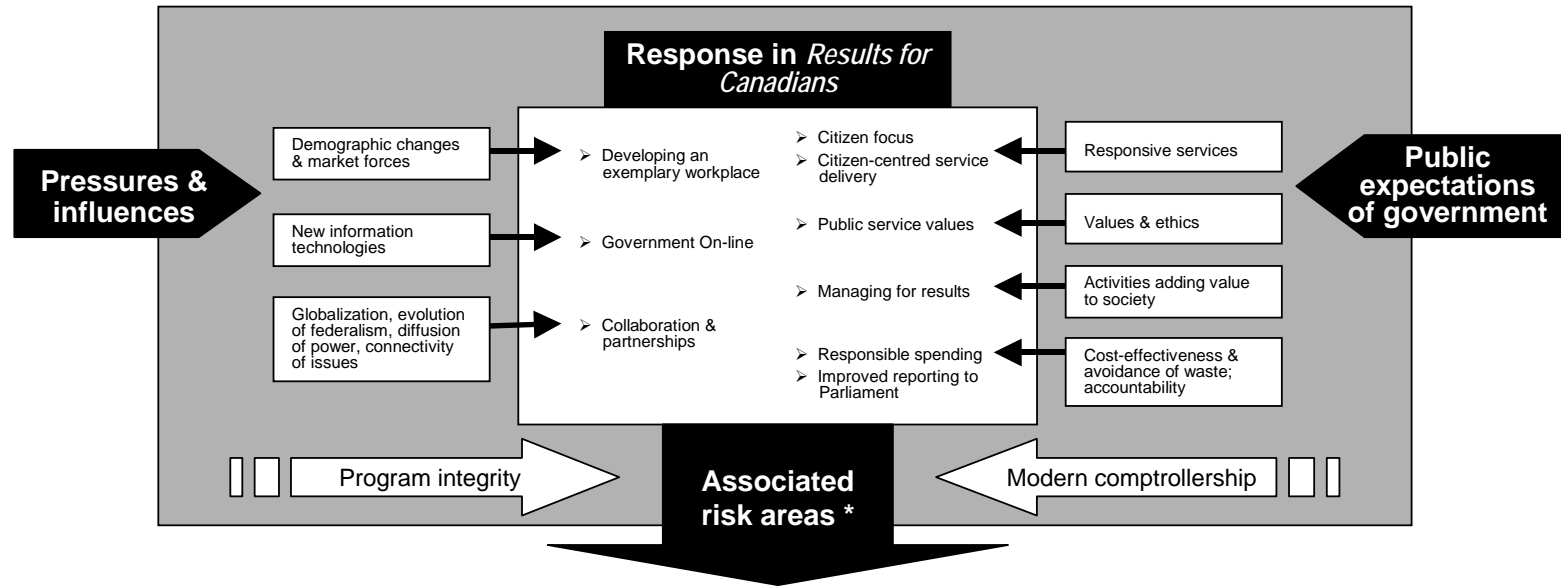
In Canada, over the past decade or so, the government has been confronted by increasing pressures and long-term influences that have necessitated a concerted and sustained response. Key among these pressures has been a significant demographic shift brought about by an aging population, with broad-reaching implications for social services and other government interventions. A robust economy, more globalized in its orientation (e.g., with various trade harmonization initiatives), has also sparked many new and innovative approaches to the delivery of government services to Canadians (e.g., initiatives associated with the Government On-line agenda). New information technologies and increasing public expectations for value-added, responsive government, add considerable pressure for developing a risk-conscious government workforce.

Results for Canadians provides a framework that responds to these pressures and influences, and to public expectations of government. The elements of this response have been expressed as management commitments to excellence in four areas that are critical to a well-performing public sector. First, the Government of Canada will sharpen its *citizen focus* in designing, delivering, evaluating and reporting on its activities. Second, the Public Service will be guided by a clear set of *values*. Third, as an integrating principle, management will be focused on the achievement of *results*. Fourth, the Government of Canada will ensure *responsible spending*.

Major change initiatives envisioned within the framework of *Results for Canadians* include making the federal public service an exemplary workplace, one in which employees are able to make their best contributions to Canadians, and giving Canadians on-line access to all government information and services by 2004. These initiatives will require sustained, collaborative efforts between government departments and agencies, to support the development of modern management practices and program integrity across the Government of Canada.

Given the framework and the agenda for change as set forth by *Results for Canadians*, what are the obstacles to implementation and the associated areas of risk? And what are the specific areas that could be considered by the IA community to provide a contribution to understand and mitigate the risks? Responding to these questions is the focus of the rest of this report. Exhibit 2 provides an overview of an IA perspective on risks and *Results for Canadians*, while subsequent sections and Exhibits of this report provide more detailed discussion and treatment of this perspective.

Exhibit 2: Perspective on Risk and Results for Canadians



People strategies & leadership	Technology	Collaboration & strategic alliances	Focus on results	Public expectations & confidence	Values & culture	Responsible spending
People management strategies Work environment Performance management & rewards Leadership continuity Flexibility Recruiting Retention HR Development Competencies Diversity Change fatigue	Security Privacy Inclusion Investment strategies Project management Relevance & reliability of information Evolution of enterprise management systems	Strategic planning Outward looking orientation Knowledge management Contracting strategies & management Incentives Performance metrics Attribution & accountability	Clarity Balancing conflicting interests Attribution Measuring, monitoring & reporting results	Need for context on events Transparency & reporting to Canadians Communication & consultation mechanisms Performance measurement Balancing competing priorities & divergent interests Risk tolerance	Consensus around core values Supply view Bureaucratic creep – returning to safe ground Valuing diversity	Exploiting accrual accounting Costing of programs Managing risk Major procurements Investment analysis Transfer payments Devolution & smart controls Environmental management Preventing fraud & waste

* The specific risk areas listed above are government-wide and not presented to reflect any particular departmental mandate. These risk areas are discussed in detail in Section IV.

IV Building Capacities to Address Risks

Exhibit 2, in the previous section, provides a selection of progressively specific areas of risk that have been identified as potential areas for consideration by the Internal Audit community. It identifies broad areas in which the public sector must build its capacities. Similarly, the IA community, as it evolves in response to the new federal government *Policy on Internal Audit*, will need to strengthen and develop its own capacities to contribute to understanding and managing risks, and for providing related audit and assurance services to support management decision-making. The following sections provide a perspective on these risk areas—discussing obstacles to capacity building, and identifying high-risk areas that could be considered by the IA community to provide a contribution towards understanding and mitigating the risks.

4.1 People Strategies and Leadership

4.1.1 Obstacles

There are a number of potential obstacles to the recruitment, retention, development and motivation of a workforce of sufficient capacity and skills to operate in the emergent knowledge-intensive environment. The President of the Treasury Board has recently spoken to the challenges associated with an inflexible, if not entirely outdated, human resource management regime which is insufficiently responsive to the imperatives of contemporary people management.

People Management Strategies—The development of effective people management strategies for the Public Service has been hampered by a control regime that has been acknowledged to be quite rigid. A clear risk is that this regime is not conducive to achieving a balance between control and effectiveness. There has been insufficient flexibility to respond to a changing marketplace for people, to achieve necessary diversity in the workplace and to ensure that competencies are well aligned with core requirements.¹⁵ Necessary enablers have not kept pace with new realities. Management solutions to these conditions can tend to be makeshift, incremental and, often, circuitous. One avenue for accessing resources and expertise is that of contracting for services. However, regulatory framework for contracting can also be very cumbersome. New HR strategies must be supported by a vision for the public service of the future, including its core capabilities and its relationship with the private sector.

Leadership Continuity—Corporate memory, as well as leadership experience and capabilities, are at risk due to the recognized circumstances whereby a large proportion of

¹⁵ See related discussion about “human capital issues”, and the implementation of modern human capital practices for the federal government, in *Managing in the New Millennium*, GAO, op. cit.

executives and their successors will become eligible for retirement over the next several years.

Performance Management—The relatively immature state of Performance Measurement in government, an area of priority in *Results for Canadians*, will affect the opportunities to appropriately motivate people through reasonable linkages between rewards, recognition and the achievement of results.

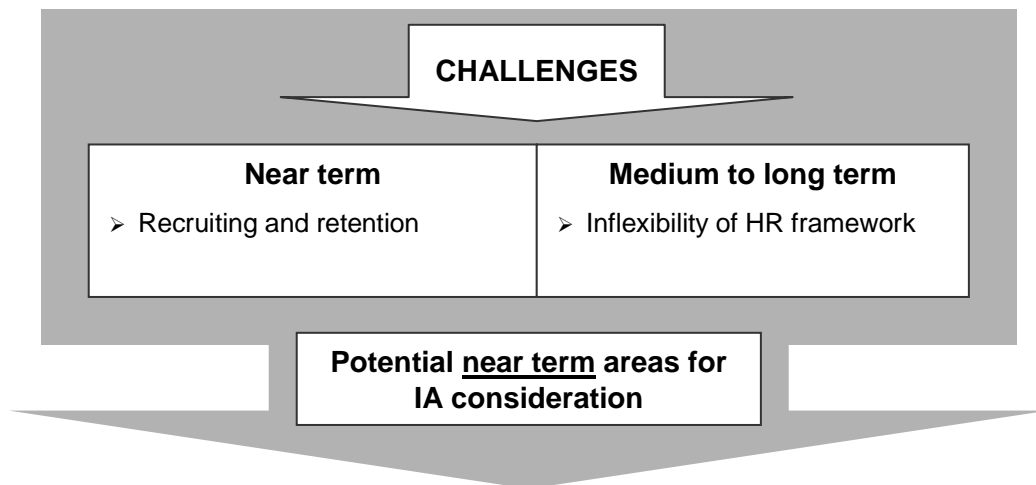
Change Fatigue and the Integration of Priorities—The capacity of the workforce to respond effectively to emerging priorities and change is at risk if these priorities are not appropriately integrated. (This will also be directly pertinent to ensuring that commitments, as viewed by the Canadian Public, remain realistic.) *Results for Canadians* has done much in this respect. However, such priorities as Integrated Risk Management; the Financial Information Strategy; Government On-Line; a representative and diverse workforce; the position classification system—not to mention new Audit and Evaluation Policies—must be seen to be harmonized in terms of importance, targets and deadlines. Without this integrated view, associated workload may well be perceived as insurmountable. Too many competing priorities can effectively mean no priorities.

4.1.2 Implementation Risks

It will be critical that reform of the Human Resource Management regime be guided by a long-term vision of the Public Service in the new millennium. It must be appropriately reconciled with the envisioned composition, role and functioning of the Public Service, attendant competencies, emerging governance mechanisms and structures, management philosophies and systems, and interdependencies with other sectors and jurisdictions. Reform of this regime must be of sufficient breadth to be viable in the long term. It must also balance short-term exigencies with longer-term directions and requirements. The transitional period must encourage the maximization of existing flexibility and options for recruiting and staffing by promoting innovation and exchange of best practices.

Ultimately, care will be required to safeguard the merit principle while ensuring that well-intentioned managers can acquire and manage the resources necessary to accomplish results. The following chart (Exhibit 3) is designed to highlight that the principal, sustained risk driver with respect to the effective management of people, is the applicable regulatory regime. However, this does not negate the immediate importance of recruiting and retention challenges. Moreover, in this latter respect, there are areas within which risk can be moderated. These will deal principally with issues of employee well-being, including training, development, communications, workload distribution and acknowledgment of contribution. Accordingly, these lead to considerations that may be given attention by the work of Internal Auditors.

Exhibit 3: People Strategies and Leadership



- **HR Information and Planning (Competencies, Gap Analysis):** Is there good information and analysis to support the identification of required competencies, current and future?
- **Follow-up on Action Plans from *Public Service Survey*:** Have departmental/agency action plans been developed and followed-through with respect to the Survey? Has the organization developed and tracked indicators of organizational health (e.g., turn-over, sick leave, overtime)?
- **Training and Development Strategies:** Are there effective training and development plans, delivery strategies and evaluation?
- **Organizational Design and Resource Allocation:** Are organizations appropriately designed for delivery (e.g., de-layered, flexible, team-based)? Are resource allocation mechanisms effective in ensuring equitable work distribution? Are there sound HR business plans in place?
- **Internal Communication Strategies:** Are well-designed, coherent internal communication strategies in place?
- **Staffing and Hiring Options:** Is there sufficient delegation of staffing and classification authority and do managers access the full spectrum of existing options for acquiring human resources?
- **Rewards and Recognition:** Do managers make use of existing flexibility to celebrate success and to acknowledge contributions?

4.2 Technology

4.2.1 Obstacles

Technology is a critical enabler and strategic resource for planning and delivering results, measuring expectations and performance, monitoring operations and sharing information through reporting. However, possible obstacles to exploiting information technology include: lack of awareness of its potential, risk averse project management, and procurement systems which may not keep stride with the pace of change. Other potential barriers include insufficient resources and expertise to efficiently acquire and make effective operational and strategic use of such technology. There is a clear linkage between technology and people issues – in terms of developing and acquiring expertise, as well as the implications for the organization of work. Another barrier is the significant investment involved and dependence upon existing legacy systems. Additionally, knowledge management principles and approaches will need to be further developed, taking advantage of technology, and preserving corporate memory.

4.2.2 Implementation Risks

Interoperability—There are key risks to pursuing the exploitation of information technology. While there can be certain advantages in duplication and redundancy, separate information infrastructures may continue to be developed to mirror organizational silos, without ensuring necessary interoperability. This can continue to happen within organizations at a time when interoperability should be extended to external partners and alliances.

Multiple enterprise management systems may also exist within single organizations without longer term plans to exploit the relative strengths of these systems, irrespective of perceptions about who the organizational owner of the individual system may be.

Security and Privacy—Clearly the use of technology has the advantage of allowing the capture, storage and accessibility of data. An attendant risk is that information holdings may be subject to unauthorized access or tampering. Additionally, policies with respect to record keeping may not appropriately anticipate the complexities of automation. Automated information, especially that held in decentralized operations, may be created, stored and deleted without appropriate attention to security, privacy and/or retention requirements.

Systems Delivery and Costs—The successful delivery of major systems acquisitions, including the risk of incurring excessive development costs, have challenged all organizations. These challenges may occur as a result of weak business cases and investment analyses, protracted procurement, inadequate contracting strategies and/or insufficient project management resources and/or expertise.

Information as a Strategic Resource—Information technology may not be exploited at the strategic level for purposes of analysis, decision modeling and scenario analyses. There is a continuing danger that information systems design remains locked into an administrative paradigm.

Reliability of Data—In addition to issues affecting the relevance of information, there will also be risks associated with the reliability of data and the quality and consistency of information for decision-making and reporting, both within and external to, the responsible organization. Similarly, information may be voluminous, but insufficiently integrated so as to achieve quality over quantity.

Equality of Access—Progress toward Government On-line and increased reliance on technology in the delivery of government services can have implications for the equality of access to services by citizens – the technology “haves” and “have-nots”.

As suggested by the representation in Exhibit 4, a perspective on medium to longer term sources of risk highlights the requirement for: a strategic vision for the exploitation of technology; the capacity for interoperability within, and external to, organizations; well-defined investment strategies; and, a streamlined, responsive procurement framework. In the nearer term, the sources of risk deal with security, privacy, data integrity, investment analysis, project and contract management, as well as access to technological expertise.

Potential areas that would benefit from audit *assurances* are the development of information enterprise architectures, the implementation of security and privacy safeguards, sound business cases and systems delivery, data reliability and the management of technological expertise.

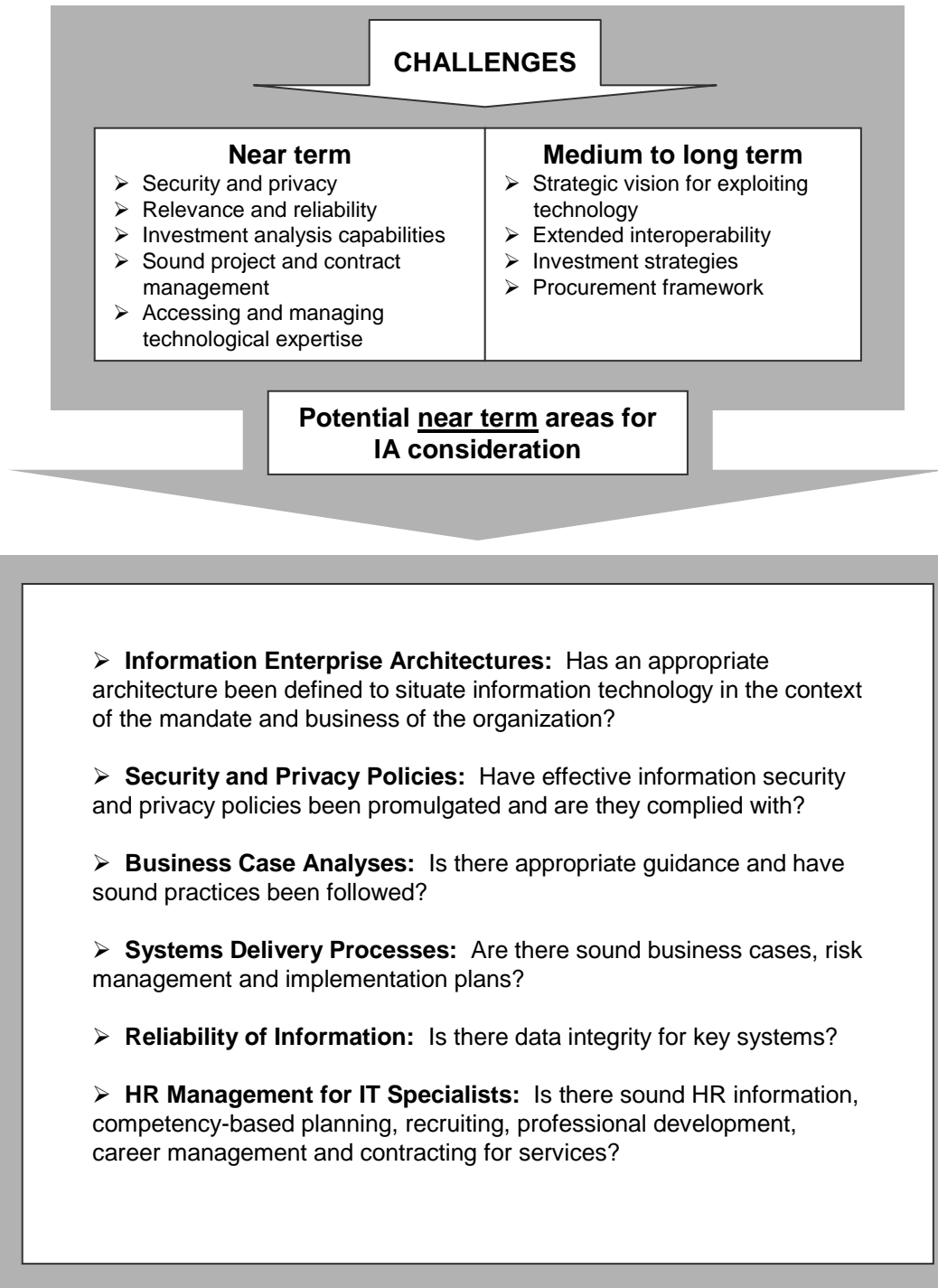
4.3 Collaboration and Strategic Alliances

4.3.1 Obstacles

Outward looking Perspective—Effective collaboration and partnering among government organizations, as well as between government organizations and the private sector, is fundamental and essential to policy development, achieving results, maintaining citizen focus and ensuring cost-effective program delivery. Critical enablers to this collaboration will include: an outward looking, learning culture; new and innovative governance and accountability structures; new competencies; personnel mobility (between institutions and sectors); and mature risk management strategies.

Risk Management Capacities—Effective risk management requires that organizations be sufficiently outward looking to scan the environment and to assess who may be the most effective at managing certain risks. Private-sector organizations have appreciated the importance of ensuring appropriate incentives for collaboration; one such incentive is broad-based, international profit sharing. Performance management systems in government will have to be similarly innovative.

Exhibit 4: Technology



Contracting Mechanisms—The capacity of existing tendering and contracting mechanisms, including performance metrics, to support alliances with the private sector are questionable. Public service managers will have to develop a sound understanding of business principles and incentives in order to interact effectively with business leaders and to leverage private-sector capacities.

Knowledge Management and Continuous Learning—Knowledge management principles and practices are not well developed in the public sector. Government does not do a particularly good job, for example, of cataloguing and protecting its intellectual property. The private sector is relatively more advanced in this respect. As mentioned above, the private sector is increasingly promoting incentives (especially profit sharing) to encourage exchange and cooperation, domestically and internationally.

4.3.2 Implementation Risks

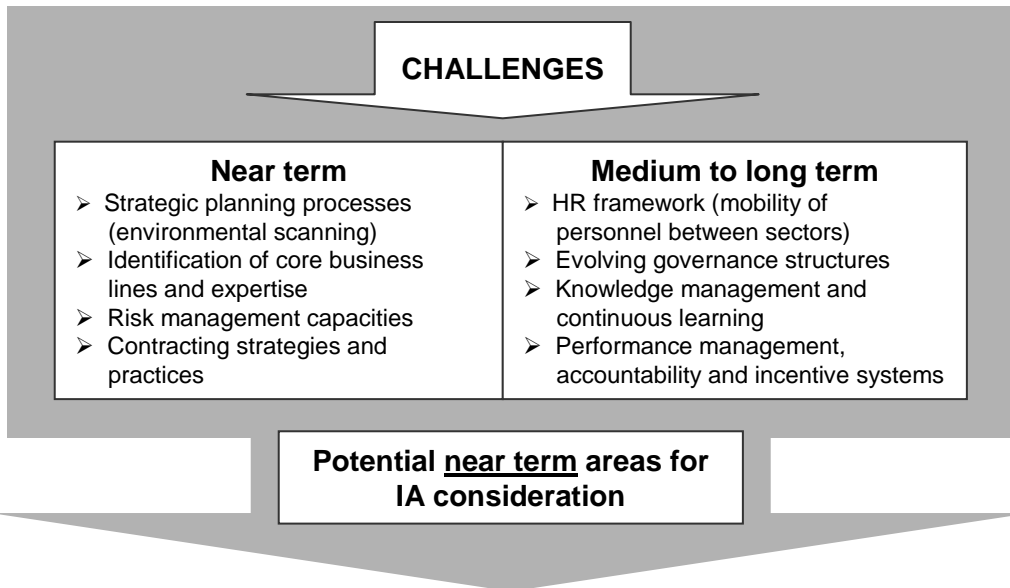
There are definite advantages in alliances and other collaborative arrangements that exploit the competitive advantage and expertise of diverse organizations and sectors. However, some of the attendant risks are as follows:

- Attribution and accountability becomes more difficult as multiple players become involved in the delivery of programs and services.
- Financial risks may arise due to liability for the actions of partners, the costs of co-ordination and the potential to create monopolies.
- The public interest may not prevail over the interests of corporate “partners”.
- Restrictions on information flow, corporate memory and learning can occur due to business confidentiality and proprietary interests.
- Public values with respect to the means of delivery may come under pressure (e.g. fairness, official languages, diversity).
- Continuity of service may become at risk due to weaknesses in corporate capacity and/or re-direction of resources to other priorities (in Canada or otherwise).
- Privacy and security issues come into play as alliances may be formed with corporate interests with governance frameworks that extend beyond Canadian borders.

Exhibit 5 presents a view of risks associated with collaboration and strategic alliances. A theme is that government organizations need to develop an outward looking culture, supported by incentives to promote active cooperation, and sufficiently flexible contracting mechanisms.

Well-developed strategic planning, risk management, knowledge management, continuous learning and innovative contracting strategies are all critical elements to promoting and facilitating an outward looking perspective.

Exhibit 5: Collaboration and Strategic Alliances



- **Strategic Planning Processes:** Do strategic planning processes include routine environmental scanning, identification of core business lines and sources of expertise?
- **Enterprise Risk Management:** Has the organization developed an appreciation of its corporate risk management capacities as well as plans to address opportunities and shortcomings?
- **Contracting Policies, Management Systems and Practices:** Are contract management policies, systems and practices forward-looking and incentive-based as well as being supportive of win/win alliances, while preserving accountability? Have appropriate performance metrics been developed? Is legal expertise brought to bear to help safeguard the public interest in more innovative contracting arrangements?
- **Continuous Learning:** Has the organization promoted continuous learning through such processes and practices as benchmarking, best practices research and exchange systems and lessons-learned analysis and sharing?

4.4 Focus on Results

4.4.1 Obstacles

Clarity of Objectives—Among the obstacles to achieving a focus on results are lack of clarity and/or consensus on what results are intended (i.e., targets) as well as on the appropriate balance between conflicting demands and interests. Difficulties may also arise in isolating the specific impacts of programs, measuring results and monitoring of performance. It has always been problematic for government, and not only in Canada, to fully articulate all of the objectives of programs. Different stakeholders may have unique perspectives on the central objectives of programs and may derive their own particular value from that perspective.

Measurement Capabilities—A recent study of performance measurement in the federal public service, found that even those organizations which were the furthest ahead, could only profess to be “half way there”. Strong strategic planning capabilities and processes must be in place to demonstrate linkages, at least in logic, between program outputs and outcomes. The outputs are often the most readily measured.

Performance Management—New definitions of accountability may have to embrace the notion of spheres of responsibility, control and influence in assessing the performance and contribution of organizations and public servants.

Consultation—Public servants have not necessarily developed the competencies or inclination to consult with diverse stakeholders and to facilitate the reconciliation of competing interests.

4.4.2 Implementation Risks

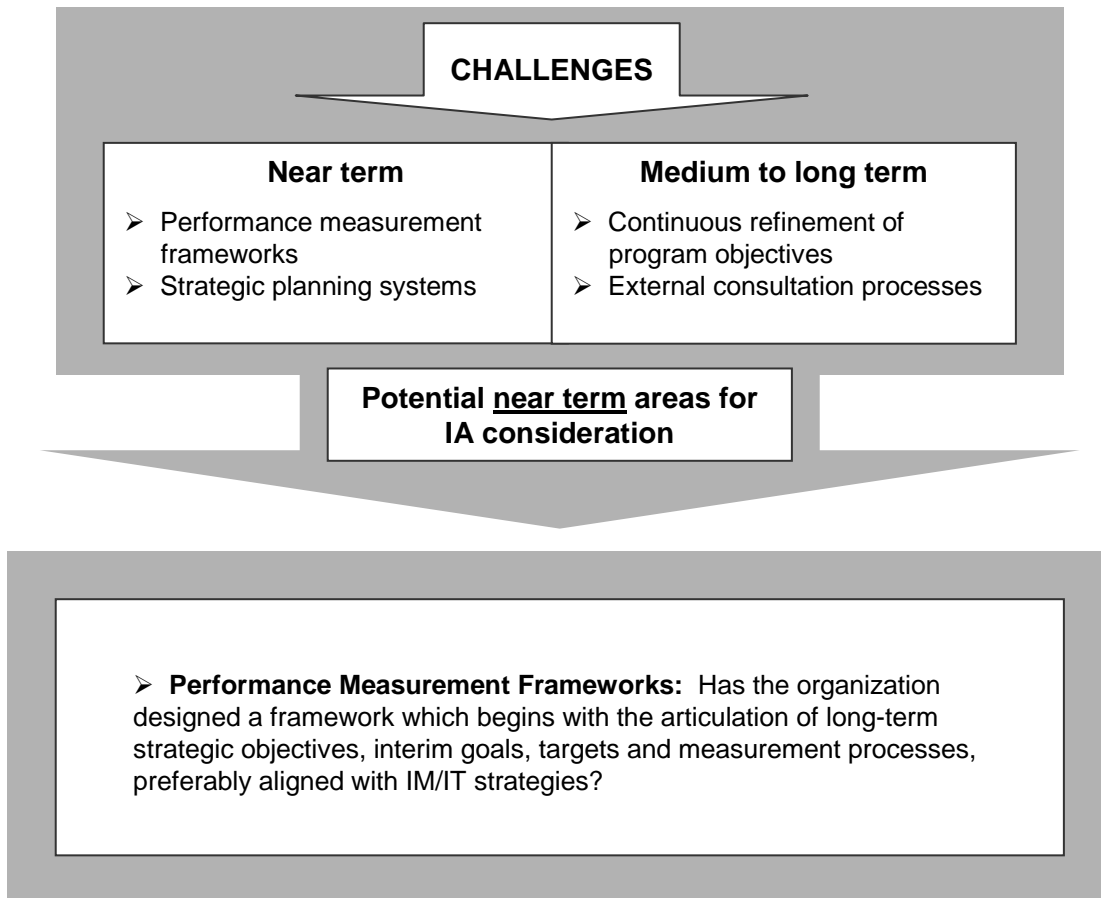
Balancing Conflicting Interests—It may not always be clear which results are consistent with the common good or the public interest. Such concepts are often elusive in practice. There may be no clear consensus on what constitutes desirable outcomes. Thus, a focus on results and citizens will often require that a balance be struck among conflicting interests and reconciling multiple and competing objectives. It can be difficult for government to balance conflicting interests and to discontinue programs which may be relatively ineffectual but having a limited, although very committed and vocal support base. *Results for Canadians* generally acknowledges the need for balance. However, and quite understandably, there is no general formula for getting there. Since Parliament, and not the public service, determines what balance of interests constitutes the public good, it is important to ensure that democratic processes are respected when making such determinations. It is also important that there be sufficient opportunity to refine statements of program objectives as such determinations are made.

Performance Measurement—There are many pitfalls that can arise through the accelerated development of performance measurement systems in government. Goal displacement and other negative consequences can accompany efforts to place undue

reliance on immature performance indicators that may not have been validated for relevance and reliability. The confidence of stakeholders, including employees on the front line, can be eroded if results measurement is not sufficiently rich in terms of quantitative and qualitative indicators and transparent analyses providing interpretation of these measures and up-front qualification of their reliability. Credibility issues can also arise through the over-selling of program expectations and over-simplification of the measures of success.

Public servants cannot be fairly held directly accountable for results over which they may have limited control. On the other hand, their contribution should not be ignored in those instances where they may have contributed much through the exercise of positive influence outside of their immediate span of control.

Exhibit 6: Focus on Results



4.5 Public Expectations and Confidence

4.5.1 Obstacles

Citizen Focus—The citizen focus component of *Results for Canadians* aims to make the public service more responsive, accessible and less bureaucratic. Potential obstacles to this include insufficient decentralization of decision-making, inability to achieve the necessary degree of co-ordination and collaboration within government, and a failure to develop a citizen-focused culture. Public confidence is an enabler to flexibility and innovation in government operations. There is little question that it can be adversely affected by events and the media portrayal of these events.

Risk Tolerance—Public confidence, including a reasonable level of risk tolerance, is a critical enabler to the cost-effective delivery of service to Canadians. This confidence can be bolstered through many avenues including transparency, active consultation, clear and understandable reporting on the use of tax dollars and communication of the context surrounding events. In the absence of sound risk management, dialogue on risk tolerance parameters, and consultation to arrive at realistic expectations, public service managers remain vulnerable to critics who may build a constituency for error-free government and standards that are unattainable within reasonable costs.

Harmonization of Priorities—It is often the case that a high percentage of the recognition for change initiatives accrues to those who initiate and design the change. There is often less public attention given to the difficult task of implementation of the changes. Accordingly, the Public Service can frequently, and with the best of intentions, announce more change initiatives than will actually come to fruition. This can tend to promote a proliferation of change priorities with insufficient preparation for the very real challenges of implementation. Ultimately, stated priorities will influence public expectations, as well as those of employees. Accordingly, it is important that priorities are focused and that care be taken to ensure that implementation plans are realistic, and that they clearly identify responsibilities for design and implementation. Setting reasonable and measurable performance targets also contributes to managing public expectations.

4.5.2 Implementation Risks

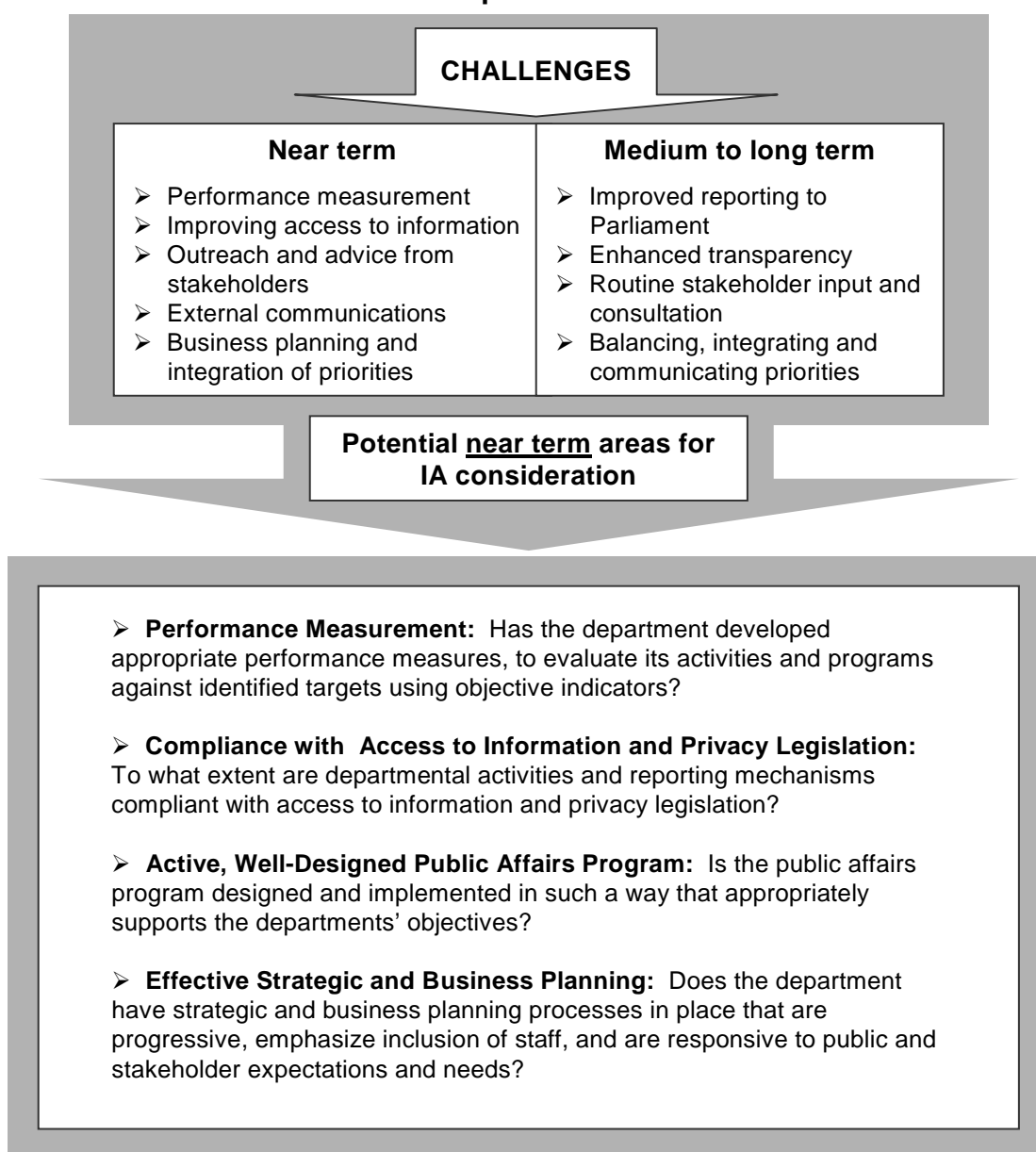
Citizen Focus—A citizen focus is a fundamental requirement, notwithstanding that there are some attendant risks, such as:

- undue influence by special interests;
- single-minded pursuit of client satisfaction at the expense of observance of regulations intended to preserve fairness and probity in the management of public resources;
- over-selling of programs based on highly optimistic projections of results and corresponding encouragement of unrealistic public expectations;
- subversion of the democratic process by failing to respect the role of Ministers and Parliament to mediate between the interest of different groups.

Managing Expectations—Service innovations, such as the use of information technology, may also raise citizen expectations for responsiveness that will be difficult to meet, given limited resources. In addition, most government services involve some restrictions (such as eligibility requirements) that limit what can be delivered. Therefore, it is important to understand citizen expectations and to communicate clearly what can and cannot be reasonably delivered.

Maintaining Balance—In adopting a citizen focus, it will be necessary to ensure that service attributes and priorities reflect the needs of all stakeholders (including taxpayers in general) in a balanced and equitable way and that democratic processes are respected when determining the appropriate balance.

Exhibit 7: Public Expectations and Confidence



4.6 Values and Culture

4.6.1 Obstacles

“Values and culture” encompass not only adherence to public service values, but also stronger accountability, acceptance of responsibility, and the development of a results-oriented, collaborative and responsive culture focused on the public interest. There are many potential obstacles to such cultural change, including entrenched attitudes and perspectives, lack of leadership and commitment, change fatigue, day-to-day workload pressure, but most particularly, failure to anticipate and align incentives with the desired direction.

4.6.2 Implementation Risks

Cultural change is inevitably disruptive. If the change is not handled effectively and the message is not consistent, there is a risk of confusion, destabilization and cynicism.

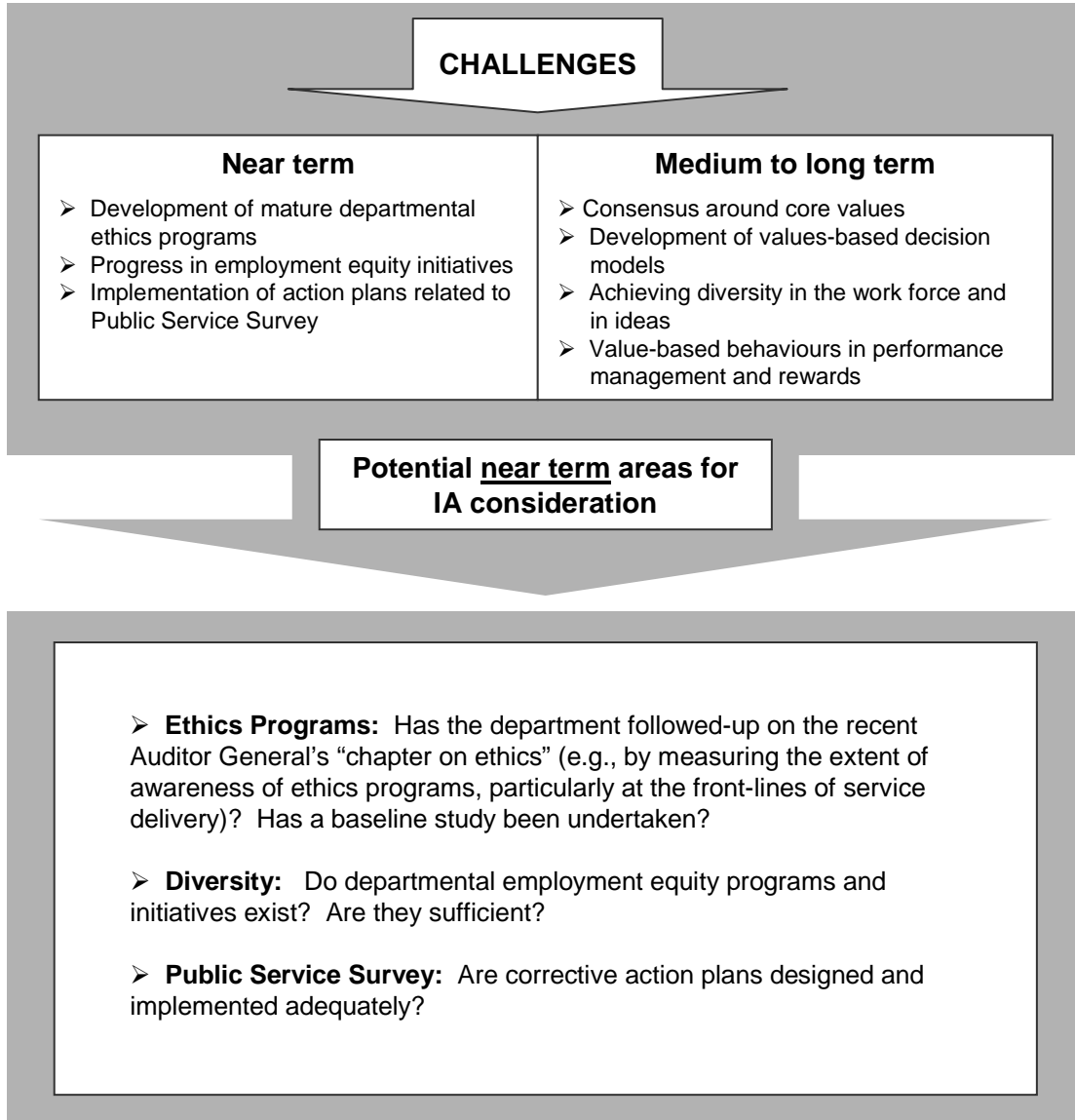
Maintaining Balance—As John Tait acknowledged in his report of the Task Force on Public Values and Ethics, values such as responsiveness and innovation can conflict with values such as equity and prudence.¹⁶ In the more empowered environment of the future, there is likely to be less reliance on compliance with rules and more on the exercise of individual judgment. Thus public servants will need to be aware of the values at stake in key decisions and be able to exercise balanced judgment. At the same time, it will be important to communicate which values predominate in any given situation. This becomes particularly critical in circumstances where public servants interact with partners who may hold very different values. How to establish and reinforce such values is a significant issue. The risks include a retreat to safe comfort zones that may be characterized by bureaucratic “creep”, risk aversion and a protective “provider” view, versus client-orientation in the delivery of services.

Enhancing Accountability—As noted, there are significant accountability issues raised by a focus on results and also by the use of collaborative arrangements. The challenge will be to make public servants accountable for aspects of performance over which they do not exercise exclusive control, while also requiring them to understand, monitor and explain the connection between such aspects and their ultimate impact on society. At the same time, it will be important that those to whom public servants are accountable hold public servants to account, while being clear about their information requirements.

Commitment and Consistency—Cultural change will require committed leadership, clarity and consistency of communication, alignment of incentives and a willingness to make the necessary resources available. These are major issues for departments and the Treasury Board, whose roles in the change process and their capacities to affect change are next addressed.

¹⁶ *A Strong Foundation*, Report of the Task Force on Public Service Values and Ethics (the “Tait Report”), Ottawa, December 1996.

Exhibit 8: Values and Culture



4.7 Responsible Spending

4.7.1 Obstacles

Resourcing—Results for Canadians addresses risks associated with the level and use of financial resources through its responsible spending component and through the Program Integrity and Modern Comptrollership initiatives. Obstacles include insufficient resourcing to protect program integrity and lack of appropriate controls and support systems necessary to ensure responsible spending. They also include difficulties in linking costs and results in order to make intelligent choices among alternative use of resources.

Comptrollership—Mature implementation of the pillars of modern comptrollership is critical to responsible spending. If program managers in federal departments and agencies do not embrace the principles and practices of modern comptrollership, this would be a serious setback for responsible spending.

4.7.2 Implementation Risks

Resource Constraints—Risks arise in seeking to devolve decision-making while promoting a focus on results. This is especially so if devolution has been accompanied by downsizing on the front lines of service delivery. These risks can be further exacerbated if devolution has outpaced the introduction of risk management strategies and tools as well as new smart controls, particularly those that capitalize on new technological enablers and are less resource-intensive. It becomes a question of appropriately balancing service and control objectives.

Program Integrity—The issue here is how to determine the essential attributes of program integrity in each situation and the resource levels necessary to safeguard it. Ideally, such resourcing should factor in asset depreciation. This is being addressed on the cost side through the Financial Information Strategy, but not yet on the budgeting side.

Costs and Results—The issue is how to link costs and results to support responsible spending. For many government programs, this is far from straightforward. As previously noted, the chain of causality between government action and outcomes is often complex, involving interaction among individual programs at different levels of government, environmental factors and the actions of various players in the private sector and civil society.

Balanced Control—There is a need to develop control systems that ensure responsible spending without stifling innovation, initiative and, ultimately, effectiveness.

The Financial Information Strategy and Accrual Accounting—Five years of American experience at the federal level have highlighted the difficulty in generating “clean” financial statements. The Australian National Audit Office has recognized that inexperience with a new accrual accounting regime poses a risk area. Challenges remain to fully exploit the considerable investment in accrual accounting. There are technical challenges in such aspects as asset reporting, capitalization thresholds, valuation methodologies and funding of depreciation. However, and more importantly, it will be necessary to engage Parliamentarians to ensure that reporting improvements are realized. Similarly, it will be necessary to fully explore the positive (incentive-based) implications of accrual accounting as well as the unintended (disincentives) impacts.

Timing—The timing of a move to accrual-based budgeting is important. The annual lapsing of funding can pose limitations, some warranted, on effective long-term commitments to partners and alliances. This may also perpetuate dysfunctional incentives for year-end spending. A move to the depreciation of assets will impose a funding burden relative to existing asset bases, and necessary adjustments in reporting

may, in the short-term, complicate a clear picture of budgetary and expenditure history and trends. In a knowledge-based economy, and with an understanding of the importance of human capital and public confidence, a failure to account for intellectual property and intangibles may affect the effectiveness of reporting and decision-making.

Costing and Investment Analysis—The current priority and timelines for implementing accrual-based systems may well detract from progress in the implementation of internal costing systems critical to the analysis of costs and benefits (to compare competing programs) and cost-effectiveness (to assess alternative delivery means for programs). An understanding of the economic implications of risk transfer, or sharing, and other interventions to leverage the private sector will be dependent on sound costing, investment analysis and business cases.

Major Procurements—Large capital procurements (including IT-related acquisitions), especially those designated as Major Crown, pose significant risk on their own merit. They may involve substantial discretionary expenditure, regional economic benefits, downstream costs, commitments and support infrastructures. Large-scale government procurement can be sufficiently complex to warrant state-of-the-art management expertise, systems and strategies.

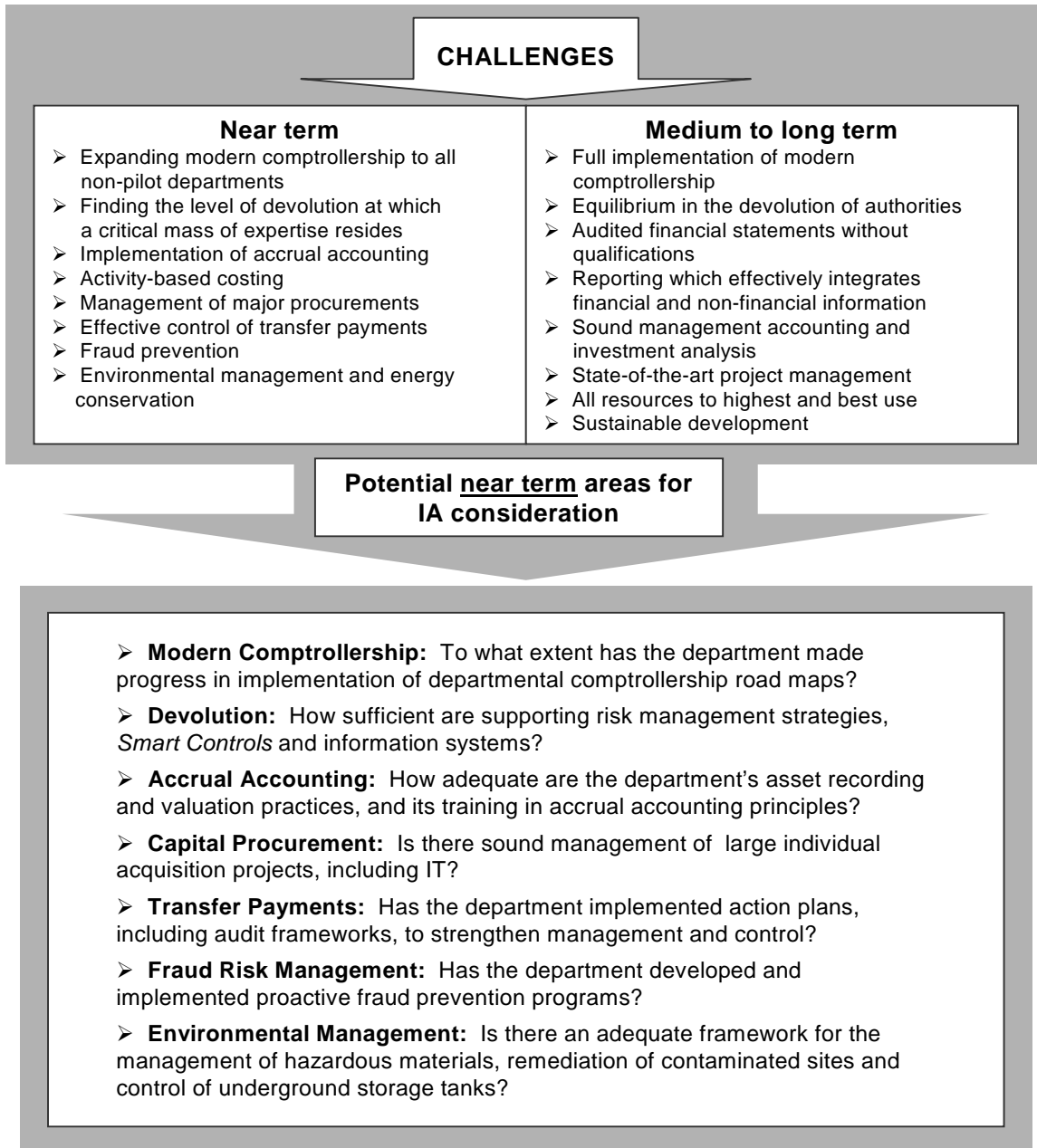
Transfer Payments—Recent events as well as public concern and expectations, warrant special attention to the responsible management of transfer payments (grants and contributions). This is an area where there is extremely limited risk tolerance, and therefore, a requirement that the balance of control and service err on the side of control. Corrective action plans will require attentive follow-through and validation.

Devolution—*Results for Canadians* recognizes the importance of ensuring that decision-making occurs sufficiently close to the delivery points for services to the public. This is essential to innovation and responsiveness. At the same time, there must be corporate visibility of, and guidance to, the conduct of public business at all levels within the public service. Guidance, enablers and monitoring must be in place. In addition, delivery systems will typically have fewer resources to deploy. Accordingly, the timely and effective implementation of new control philosophies, as reflected in modern comptrollership, will be critical. Smart controls must also be designed to exploit the capabilities of enterprise management systems. For example, new interfaces between people and IT can achieve more effective controls than those that were more resource intensive and existed previously (e.g., segregation of duties). IT systems, and smart edit functions which learn with each transaction processed, can flag high risk/abnormal transactions and contribute to effective quality control. The danger is that during the period of transition, longstanding controls may be set aside before new controls are in place. Enterprise management systems have much capability, but this sophistication is accompanied by complexity and associated risks.

Fraud, Waste and Abuse—The public is intolerant of the abuse of public resources by those in whom they have been entrusted. Ethics programs are gaining stride. Heavy emphasis on fraud awareness and prevention programs can erode trust and undermine the work environment. At the same time they cannot be ignored.

Environmental Management—There is a risk relationship between environmental management and responsible spending. Public business should be conducted in a manner that respects, protects and sustains the environment. In this, the public service needs to set an example. Reduced resource bases and a focus on results could, however, potentially diminish the attention given to environmental management. Hazardous materials may be accumulated, insufficient safeguards to protect personnel may not be in place, expensive contaminated site remediation may be deferred, new infrastructure may not include sufficient investment in energy conservation, and the same could apply to vehicle acquisition and fleet management.

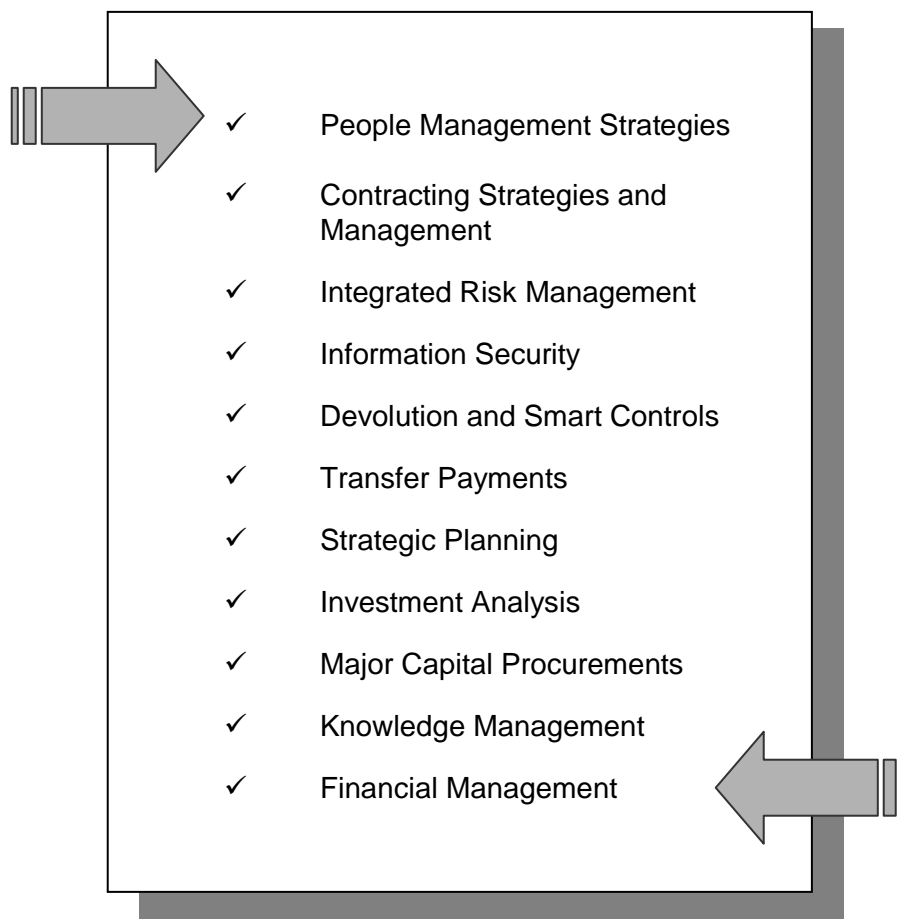
Exhibit 9: Responsible Spending



V High-Risk Areas for Potential Consideration by Internal Audit

Considering the criteria for identifying risks mentioned in Section 3.1, and taking into account strategic and management dimensions discussed in Chapter IV, the following could be considered high-risk areas that lend themselves to a contribution by Internal Audit within a one-to-two year timeframe.

Exhibit 10: List of High-Risk Areas *



* This list is not ranked.

5.1 People Management Strategies

The delivery of services and results is heavily contingent on the availability of a skilled and motivated workforce. It is clear that there is an intention that action be taken to address many of the rigidities in public service human resources (people) management.

Notwithstanding, departments will have to undertake innovative approaches to recruitment and retention. Internal Audit can give attention to the adequacy of HR planning, including identification of required core competencies, gap analyses and the application of a full spectrum of options for addressing such gaps. This would include attention to best practices operating within the existing policy and regulatory framework, and not at odds with the merit principle. The planning, targeting and delivery of training, development and career management are additional key areas that can be assessed.

5.2 Contracting Strategies and Management

Contracting strategies and management, particularly for professional and technical services, warrant attention given their key role as a foundation for effective collaboration and alliances with the private sector. The suitability of contracting policies and regulations should be considered relative to future HR strategies and access to expertise.

5.3 Integrated Risk Management

Risk management is one of the pillars of comptrollership and a key enabler to focusing on results and engaging partners in the management of risks in which they may have particular expertise. The new Treasury Board policy on Integrated Risk Management, as approved, provides a frame of reference for assessing the risk management capabilities in departments. The results of a related TB-sponsored “needs analysis” will be instructive when available.

5.4 Information Security

Policies, processes and practices pertaining to information security warrant attention. Information security will be critical to progressing Government On-Line. An attendant topic that could be examined is that of the framework for records management and how it may be affected, positively or otherwise, by information technology.

5.5 Devolution and Smart Controls

Smart controls are effective controls that are less resource intensive. The effective delivery of services and results requires that people on the “front lines” be appropriately empowered and have the capacity to implement smart controls. Most departments have experienced downsizing at the same time that authorities were being increasingly devolved. At the same time, new Enterprise Management Systems have been put in place, which should be examined to ensure that their capacity to contribute to smart controls are fully exploited.

5.6 Transfer Payments

Closely related to the above comments is the control framework associated with transfer payments. It will be important to validate that action plans are progressing to achieve an improved balance between client service and control. Similarly, it will be necessary to consider action taken, or at least preparedness, relative to the “Audit Frameworks” now being developed by the Treasury Board Secretariat.

5.7 Strategic Planning

Strategic planning processes, and particularly, environmental scanning, are critical to the identification of opportunities for collaboration and alliances. Strategic planning processes are also crucial to the definition of linkages between measurable outputs, and relatively less measurable outcomes. These processes warrant attention for their indispensable contribution to enabling program design and delivery as well as establishing a foundation for the measurement and analysis of results achieved.

5.8 Investment Analysis

The adequacy of investment analysis techniques and capabilities, as well as guidance and practices for the development of sound business cases, are critical to ensuring responsible spending of capital funds, including those expended on large IT projects.

5.9 Major Capital Procurements

Major capital procurements particularly associated with major Crown projects involve significant outlays of public funds. These procurements normally generate downstream operating costs and need to be designed to make a significant contribution to the delivery of results for Canadians. They involve inherent risk and warrant attention for suitable project management. This includes risk management, smart control and information management for decision-making.

5.10 Knowledge Management

Knowledge management is a keystone of continuous learning and the improvement of government operations. It requires the definition of principles and structures such that best practices, lessons learned and other such information is actively shared within organizations. It requires that corporate memory be preserved, that intellectual property be treated as a valuable asset, that technology be exploited and that internal communications be effective.

5.11 Financial Management

It will be important to examine the extent of harmonization between operational and business processes and the requirements of accrual accounting. A great deal of effort is being afforded the introduction of accrual accounting. Attention will be required to ensure that it adds value to management and improves the quality of reporting to Parliament. At the outset, departments should assess the specific implications of capitalization thresholds and the design of financial statements. There are considerable lessons learned which can be gleaned from other jurisdictions which have more experience with implementation of these practices in a government context.

VI Conclusions

To reiterate, this document is intended to initiate a dialogue and a process in support of audit planning across the federal government of Canada, and specifically to identify high-risk areas in which the IA community could potentially provide a meaningful contribution for strategic and management decision-making.

6.1 Timeliness of this Initiative

This initiative is timely in that several related major government initiatives are coincidentally at play. These include deployment of new Treasury Board Internal Audit and Evaluation policies, and implementation of modern comptrollership practices, program integrity and integrated risk management across government departments and agencies. All these initiatives, and others, are aimed at evolving government in a very progressive way that has been captured well in the framework and agenda set out in *Results for Canadians*. The opportunity is ripe for the Internal Audit community to make significant contributions in an environment of change that is receptive to innovative delivery mechanisms for improving government services.

6.2 A Connected and Coherent Perspective on Risk

In order to be effective in contributing to the realization of the principles and commitments set out in *Results for Canadians*, the IA community needs to develop a connected, coherent perspective on risk. This presumes a level of interaction (connectedness) between auditors with program and senior managers, and with clients and stakeholders of federal government services. It also presumes that the IA community is coherent, with a focused and common basis for considering risk areas that generally impact on a government-wide basis. At the same time, IA must be able to address specific risks that bear on individual government departments or agencies, or on particular government programs and activities.

6.3 Contribution of Internal Audit

To contribute, the IA community needs to evolve its capacities to deliver audits and assurances in a highly dynamic and increasingly risk-fraught environment. The federal government IA community is not alone in this challenge. Other jurisdictions and governments (e.g., Australia, U.S.A.) have preceded Canada in taking a risk management perspective for internal auditing, basically because this approach can assist auditors to form a balanced view and perspective of the complexity of issues facing government program and senior managers. The new Internal Audit Policy demands renewed methodological rigour for the internal audit process. It also calls upon Internal Auditors

to provide substantiated assurances relative to risk management, control and information for decision-making.

6.4 Approach and Process for Internal Audit

This document has proposed that a process be developed to guide annual audit planning by departments. This process would consider high-level trends and influences and, broad-based risks, leaving it to individual departments to interpret the implications and risks within their particular environments. This approach would differ from the prior mechanism whereby the Government Internal Audit Plan did not involve cyclical coverage of central policy, particularly as these related to risk and the agenda for change promulgated by *Results for Canadians*. Potential topics would be suggested for audit attention relative to the identified high-risk areas, and relative to specific criteria such as the potential for IA to make an effective contribution. An annually updated analysis of key risk areas would provide guidance to the development of departmental internal audit plans, helping to demonstrate relevance and better situating audit results.

6.5 Product: List of High-Risk Areas

There are many challenges ahead for the IA community to build capacity and to deliver the kind of audit and assurance services required to manage and mitigate risk. This report has discussed some near and long term challenges and suggested key areas for consideration by IA over the next one-to-two years. The specific product evolving out of this work is a list of high-risk areas that are based on a broad consultation with the federal government IA community, and on an analysis of strategic and management dimensions related to these risk areas. The list of government-wide high-risk areas discussed in this document is presented as a prototype list for consideration, and for updating or customizing to be timely and relevant to individual auditors in their respective departments or agencies.

Appendix: References

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