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***Evaluation Framework:  
Revised Internal Audit Policy***

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**August 24, 2001**

This document was sponsored by Treasury Board Secretariat's Centre of Excellence. It was championed by Subhas Roy, Manager, Audit and Evaluation Branch, Industry Canada, and was authored by Hussein Rostum, associate of KPMG Consulting, with contributions from Janak Shah, Director, Internal Audit Branch, Consulting and Audit Canada. It incorporates, and profits from, input from the federal internal audit community.

# TABLE OF CONTENTS

Executive Summary.....	i
<b>I Introduction .....</b>	<b>1</b>
1.1 Policy Background.....	1
1.2 Challenges .....	2
1.3 Scope of the Evaluation Framework .....	3
1.4 Inputs to the Framework Study.....	3
<b>II Profile of Revised Internal Audit Policy .....</b>	<b>5</b>
2.1 Objective .....	5
2.2 Legislative Authorities .....	5
2.3 Requirements and Accountabilities.....	6
2.4 Revised IA Policy Resources .....	6
2.5 Small Departments and Agencies .....	7
2.6 Activity Structure and Logic Model.....	7
2.7 Policy Implementation Constraints .....	11
<b>III Evaluation Issues .....</b>	<b>12</b>
3.1 Building IA Capacity–Federal Departments and Agencies .....	12
3.2 Contributing to Capacity Building, Monitoring–Centre of Excellence .....	13
3.3 Rationale–Need for the New IA Policy and Assurance Services.....	14
3.4 Impacts–Results of the New IA Policy Activities.....	16
3.5 Impacts–Program Delivery, Alternatives, Unintended Effects.....	17
<b>IV Evaluation Approach .....</b>	<b>19</b>
4.1 Methods and Information Sources .....	19
4.2 Performance Indicators .....	20
4.3 Ongoing Information Collection.....	20
<b>V Evaluation Priorities.....</b>	<b>26</b>
5.1 Prioritizing the Issues.....	26
5.2 Evaluation Timeframe.....	26
<b>VI Recommendations .....</b>	<b>30</b>
6.1 Conducting a Formative Evaluation.....	30
6.2 Comprehensive Evaluation (Within Four Years).....	30
6.3 Performance Indicators .....	31
<b>Appendix A: List of People Consulted.....</b>	<b>33</b>
<b>Appendix B: List of References.....</b>	<b>35</b>

## **Executive Summary**

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The Evaluation Framework report for the revised Internal Audit Policy provides a discussion of the issues that should be addressed by the evaluation, and presents detailed evaluation indicators to be used for measuring the effectiveness of implementation and the impacts of the revised IA Policy.

### **Evaluation Strategy**

The recommended evaluation strategy is to undertake a two-phased evaluation. The first phase is to conduct a formative evaluation within eighteen months of the deployment of the revised IA Policy. The Centre of Excellence, Treasury Board Secretariat (TBS), is the lead responsibility centre for implementing the evaluation study, with the participation of respective government departments.

**Formative Evaluation:** The focus in the formative evaluation is on:

- **Capacity**—assessing the extent to which government departments have built capacity (including leadership commitment, qualified personnel and budgets) to deliver the requirements of the revised IA Policy. This also includes the Centre of Excellence, TBS, developing the capacity to judge the IA work done in relation to recognized quality assurance standards.
- **Reporting**—identifying whether a new IA reporting standard has been developed and adopted by federal government IA groups.
- **Human resources strategy**—determining whether a human resources strategy has been implemented, and how effective it has been in introducing measures for training and development of IA staff, recruiting new staff, and retaining existing staff. This also includes identifying to what extent a competency profile and demographic survey of the IA community has been instrumental in identifying gaps and contributing to the process of IA capacity building.
- **Monitoring process**—determining if an effective monitoring process has been established by the Centre of Excellence, TBS, and by Deputy Ministers within departments, to provide timely information on significant issues of risk, control, or other problems with management practices in departments.

**Comprehensive Evaluation (Within Four Years):** The second phase of the evaluation is to undertake a comprehensive (summative) evaluation, focused on the results and impacts of the revised IA Policy. Details about the issues and methodology of the comprehensive evaluation are provided in the Evaluation Framework report.

### **Baseline Data**

Current activities associated with the deployment of the revised IA Policy include the preparation of business cases for departmental IA resource requirements; IA reporting guidelines; an assurance service model; a demographic survey of the internal audit community; a competency profile for internal auditors; and an IA human resources strategy. The results of these initiatives are expected to create a set of descriptive data of the current situation of internal audit in the federal government, and policy requirements, that can be used as a baseline against which to make evaluative comparisons eighteen months and four years hence.

## Performance Indicators

It is recommended that all departments participate in the demographic survey, to identify the current situation with respect to human resources capacity, competencies, reporting standards and practices, and other related baseline information (e.g., capability of staff to undertake assurance services) as identified in Exhibit 2 of the Evaluation Framework.

It is also recommended that the business cases being developed by departments identify their respective targets in terms of the following indicators, against which they would be evaluated.

### ➤ **Capacity building:**

- Qualifications of IA staff to conduct assurance studies.
- Number of qualified staff recruited, trained, retained (based on professional certifications, technical knowledge and expertise, human relations skills and communications skills—measured on the basis of required competencies being profiled by TBS and against recognized standards such as those of the Institute of Internal Auditors).
- IA Committee activities—leadership and membership of committee, relevance of agenda, frequency of meetings, consistency of roles and responsibilities with revised IA Policy requirements.
- Identification and allocation of appropriate funding to respond to requirements of revised IA Policy.

### ➤ **Reporting:**

- Adoption of reporting standards, and implementation of these standards in audit reports.
- Extent of corrective actions taken as a result of assurance advice and action plans.

### ➤ **Human resources strategy:**

- Implementation of a human resources strategy (including, for example, extent to which HR strategy has resulted in positive changes to IA function – e.g., staff recruitment, retention, training programs; reform in job classifications; and extent to which expectations of management and personal goals of staff have been identified and achieved).
- This also includes identifying to what extent a competency profile and demographic survey of the IA community has been instrumental in identifying gaps and contributing to the process of IA capacity building.

### ➤ **Monitoring process:**

- Effectiveness of monitoring process in providing timely information on significant issues of risk, control, or other problems with management practices in departments. This includes measuring the extent to which the monitoring system is effective as an early warning system, to effect changes in policy implementation, and is used by TBS and departmental IA and management committees to adjust processes and priorities within government. The extent to which departments follow-up on action plans in their own audit reports should also be monitored.

Details related to the above performance requirements, and other indicators, are provided in Exhibit 2 of the Evaluation Framework report, for both the shorter-term formative evaluation and the longer-term comprehensive evaluation.

# I Introduction

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This document presents a framework that forms a basis for an evaluation of the revised *Policy on Internal Audit* of the Government of Canada.<sup>1</sup> The framework outlines what the evaluation should include and describes the information to be collected prior to and during the evaluation. It also includes a discussion of the issues that should be addressed by the evaluation, and presents evaluation indicators to be used for measuring the effectiveness of implementation and impacts of the revised IA Policy. Recommendations for evaluating the policy and data collection requirements are also presented in this report.

The evaluation framework for the revised IA Policy is consistent with the guidelines for program evaluation as specified by Treasury Board Secretariat (TBS).<sup>2</sup> The process for developing this framework, and the framework itself, are intended to comply with the new *Evaluation Policy*<sup>3</sup> of the Government of Canada. In particular, the formative and comprehensive evaluations described in this report are intended to embed the discipline of evaluation into the lifecycle management of the revised IA Policy, and to support management in the design and improvement of the internal audit function as it is deployed within federal government departments.

## 1.1 Policy Background

As part of its initiative to strengthen the internal audit function, the Government of Canada has adopted a new *Policy on Internal Audit*.<sup>4</sup> Both the revised IA Policy and its companion *Evaluation Policy* can be linked to *Results for Canadians: A Management Framework for the Government of Canada*,<sup>5</sup> which was tabled before Parliament in March 2000. The IA policy revision, building on the 1997 *Report of the Independent Review Panel on Modernization of Comptrollership in the Government of Canada*,<sup>6</sup> is a first step in the process of fulfilling the government's commitment to have a better positioned and strengthened internal audit function.

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<sup>1</sup> This document was sponsored by Treasury Board Secretariat's Centre of Excellence. It was championed by Subhas Roy, Manager, Audit and Evaluation Branch, Industry Canada, and was authored by Hussein Rostum, associate of KPMG Consulting, with contributions from Janak Shah, Director, Internal Audit Branch, Consulting and Audit Canada. It incorporates, and profits from, input from the federal internal audit community.

<sup>2</sup> See Office of Comptroller General (OCG), *Guide on the Program Evaluation Function*, and *Working Standards for the Evaluation of Programs in Federal Departments and Agencies*, Treasury Board Secretariat.

<sup>3</sup> *Evaluation Policy*, Treasury Board Secretariat, February 1, 2001.

<sup>4</sup> *Policy on Internal Audit*, Treasury Board Secretariat, February 1, 2001.

<sup>5</sup> *Results for Canadians: A Management Framework for the Government of Canada*, Treasury Board Secretariat, 2000.

<sup>6</sup> *Report of the Independent Review Panel on Modernization of Comptrollership in the Government of Canada*, Treasury Board Secretariat, 1997.

An exhaustive *Study of Internal Audit in the Federal Government*<sup>7</sup> was sent to Deputy Ministers of departments and Heads of agencies in January 2000 from the Treasury Board Secretariat. This study found that the IA function was not generally seen as being in step with modern management requirements: there was a need for better quality IA products (e.g., assurance services); there was uneven delivery of IA services across government; and there was a need to distinguish between IA and evaluation functions. In addition, the *Study of Internal Audit* pointed out the importance of developing strong TBS leadership for the federal government's community of IA practitioners. The results of the *Study of Internal Audit* were a confirmation of earlier findings by the *Review Panel on Modernization of Comptrollership*.

Historically, the internal audit function in the federal government has primarily focused on reporting on identified problems and providing recommendations for remedial action. While these will continue to be important elements of internal audit, the revised IA Policy is intended to reposition the function as a provider of assurance services to departmental senior management. The IA Policy defines assurance services as "objective examinations of evidence for the purpose of providing an independent assessment of the soundness of risk management strategies and practices, management control frameworks and practices, and information used for decision-making and reporting." It is expected that an effective internal audit function across government will contribute significantly to the achievement of the government's management framework, and support key objectives such as the implementation of modern comptrollership and results-based management. The new policy also responds to the needs for a new integrated risk management approach within government departments, as identified in a recent TBS document on this matter.<sup>8</sup>

## 1.2 Challenges

The internal audit function has experienced a number of challenges over the past decade. To begin with, there has been a significant reduction in the government's overall investment in this function. During the early 1990's the government's combined IA resources constituted approximately 700 auditors with a budget of \$57 million.<sup>9</sup> Today, there are approximately 240 auditors with a budget of \$34 million allocated to the IA function across government.<sup>10</sup> [Note that these figures are based on the information in the reference reports indicated in the footnotes below. Some departments have suggested that there are other government personnel that can "loosely" be termed auditors.]

There is also a relatively uneven capacity for conducting internal audits between departments and agencies. The limited capability of some departments and agencies partly stems from reduced resource allocations, but it is also due to a lack of qualified personnel. The challenge of hiring and retaining qualified auditors is seen as a critical issue for the IA function. Related to this human resources issue, which is similar to the

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<sup>7</sup> *Study of Internal Audit in the Federal Government*, Treasury Board Secretariat, January 2000.

<sup>8</sup> *Integrated Risk Management Framework*, Treasury Board Secretariat, January 8, 2001.

<sup>9</sup> See *Study of Internal Audit in the Federal Government*, Treasury Board Secretariat, January 2000.

<sup>10</sup> See *Revised Policy on Internal Audit*, presentation by Richard Neville, Deputy Comptroller General, Treasury Board Secretariat, February 1, 2001.

situation in other professions within the public service, is the issue of identifying appropriate classifications and salary levels that are at least competitive with other jurisdictions (e.g., industry or other private organizations, public institutions in other jurisdictions, and academia).

Another challenge facing the IA community in the Government of Canada is the particular auditing environment that requires the public sector to be compliant with the *Access to Information Act*. The requirement for transparency and public access to government documents often puts auditors in a sensitive situation when presenting their findings and recommendations to senior managers, knowing that their audit reports will be under public scrutiny.

Currently, the federal government focuses on compliance and value-for-money auditing. There is generally very little capacity for assurance services. Some departmental IA reporting systems are too new for delivery of assurance audits. Introducing assurance as an IA service within the federal government, therefore, constitutes another significant challenge for the revised IA Policy.

### **1.3 Scope of the Evaluation Framework**

This evaluation framework report is intended to provide the basis for an evaluation study that will address the implementation process of the revised IA Policy as well as the impacts of the policy. Two phases of the evaluation study are outlined in this report: a formative evaluation phase (scoped to address policy deployment activities evolving over the next eighteen months); and a comprehensive evaluation study (scoped to address policy impacts and achievement of objectives over the next four years).

The evaluation framework report provides a description of the policy and helps prioritize the evaluation issues and performance indicators, so that meaningful analysis can be performed at the appropriate times. One of the purposes of the framework is to provide recommendations regarding the data that should be collected for the purpose of management and for an eventual evaluation of the program. It is anticipated that some of the data requirements identified will be built into departmental activities as they implement the revised IA Policy.

### **1.4 Inputs to the Framework Study**

The evaluation framework builds on information provided by the Treasury Board Secretariat, on interviews with senior managers in several government departments, and on consultations and feedback provided during a retreat of Heads of Audit of departments and agencies in Kingston, Ontario (March 6-7, 2001). In addition, a discussion group made up of audit officials met to provide comments and suggestions to revise an initial draft of this report.

The following steps were followed in developing this framework report:

- Interviews on potential evaluation issues were done with members of the Senior Advisory Committee for the revised IA Policy; with TBS officials; with the

Office of Auditor General; and with Heads of Audit and Evaluation in six large departments.

- Feedback was obtained on some key issues concerning the evaluation framework study during five break-out sessions at the Kingston retreat for Heads of Audit.
- A review of relevant documents, listed below and in Appendix A, was done.
- A logic model was developed to describe the rationale, activities, and intent of the IA Policy.
- Evaluation questions were identified and priorities discussed with senior audit officials.
- Information sources and methods needed to address the evaluation questions were identified.
- Plausible options for collecting and analyzing the data were formulated.
- Recommendations for all of the above are included in this report, including a recommended timetable for a phased evaluation study (to provide a formative evaluation and a comprehensive evaluation).<sup>11</sup>

In addition to the documents identified above, several other references were examined during the course of this study, from Canadian, United States, and other jurisdictions. These other references, listed in Appendix A, contain information that was useful in developing appropriate performance indicators for the evaluation.

The names of persons consulted for this study are listed in Appendix B. The evaluation framework team thanks them all for their frank and valuable comments, and for their contributions in the development of this document.

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<sup>11</sup> The “formative” evaluation is so-called because it is focused mainly on issues of building IA capacity and deployment of the revised IA Policy – and is to be carried out within the short-term (i.e., within 18 months).

## **II Profile of Revised Internal Audit Policy**

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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.

### **2.1 Objective**

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 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.

### **2.2 Legislative Authorities**

The legislative elements of a government-wide control framework include statutes, regulations and Orders in Council. Paramount among these are the *Financial Administration Act*, the *Official Languages Act*, the *Access to Information Act*, and the *Privacy Act*. Together, these delineate a managerial role for deputies and underline the fact that deputies are the chief administrative officers of departments and agencies. Examination of departmental policies, systems and activities for compliance with legislative authorities is a fundamental responsibility of the audit group.

The revised *Policy on Internal Audit* applies to organizations considered to be departments within the meaning of Section 2 of the *Financial Administration Act*. The revised policy is issued pursuant to paragraph 7(1)(a) of the *Financial Administration Act*.

## 2.3 Requirements and Accountabilities

Under the new *Policy on Internal Audit*, Deputy Ministers are accountable for establishing an appropriately resourced internal audit function that operates in accordance with the policy and related professional standards for internal auditing within the Government of Canada.<sup>12</sup> Deputy Ministers must also:

- establish an active audit committee that is chaired by a senior departmental executive and meets the intent of the guidelines contained in the policy statement;
- ensure that their head of internal audit has an unimpaired ability to carry out his or her responsibilities, including reporting audit findings to the deputy head and, as appropriate, to the Deputy Comptroller General, TBS;
- ensure that their internal and audit function has unlimited access to all relevant departmental documents;
- ensure that the IA function meets recognized professional standards for the practice of IA;
- ensure that their internal audit function in its operations respects the spirit and intent of the *Access to Information* and *Privacy Acts*;
- ensure that management action plans that adequately address the recommendations contained in internal audit reports are developed and included as part of the completed internal audit report; and
- establish monitoring systems to ensure that management action plans responding to internal audit observations are successfully implemented.

Deputy Ministers must also ensure that the Treasury Board Secretariat is:

- informed on a timely basis of significant issues of risk, control, or other problems with management practices following their being reported to senior management;
- provided in a timely manner with electronic copies in both official languages of all completed internal audit reports;
- provided with copies of annual internal audit plans that describe internal audit activities, as approved by the departmental audit committee; and
- provided with access to internal audit working papers upon request.

## 2.4 Revised IA Policy Resources

The resources estimated for the deployment of the new IA policy are as follows:

- A government-wide target of \$48 million, representing a cumulative increase required to base resources, over a four-year period.
- An allocation of \$3.2 million for each of the first two years, for a TBS Centre of Excellence for Internal Audit.

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<sup>12</sup> An outline of these standards is appended to the *Policy on Internal Audit*.

- Funding roll-out for departments and agencies based on the following strategy:
  - \$7.2 million in fiscal 2001-2002 and \$15.0 million in fiscal 2002-2003;
  - no funding identified for subsequent years pending review of options by TBS.

The results of the formative evaluation, to be done within eighteen months into the new policy initiative, will contribute to the review of options by TBS.

## 2.5 Small Departments and Agencies

Treasury Board Secretariat is conducting an analysis of Internal Audit needs of the small departments and agencies and, based on this analysis, will arrive at recommendations on how these needs can be effectively addressed. The analysis is expected to:

- confirm what is the universe of small departments and agencies;
- identify key risks faced by these agencies in the context of their environment, and how these risks impact on the risks faced by the government as a whole;
- based on the target population, and the risk assessment from both the departmental and government-wide perspectives, determine what the reasonable needs are and how available funding should be utilized.

Funding of up to \$1.5 million has been identified to address the needs of small departments and agencies.

## 2.6 Activity Structure and Logic Model

In order to determine what policy issues need to be evaluated and the approaches for evaluating these issues, it is helpful to first identify the activities associated with the deployment of the revised IA Policy.

Treasury Board Secretariat is making resources available to government departments and agencies to implement a number of deployment activities. These resources are a cumulative increase over base resources already available to departments and agencies. It is assumed that all departments and agencies will deploy the new policy with the full complement of resources available to them.

Exhibit 1 shows how the deployment activities for the revised IA Policy are expected to lead to the accomplishment of the policy's objectives. This "logic model" links the policy's major activities to the expected outcomes and impacts and the ultimate achievement of objectives of the policy.

The *policy activities* are the major work tasks, functions and responsibilities that characterize the revised IA Policy and that are performed or administered by the IA community. The *policy (expected) outcomes* are the outputs directly controlled by or derived from the policy and its related activities. The *policy impacts* and the achievement of objectives are the results of the policy activities and outcomes—they are the chain of results that occur within federal government departments and agencies within and

without the IA community itself. Listed below are these various components and stages of the IA Policy deployment process:

**Policy activities (major work tasks):**

- planning
- building capacity
- assurance and risk assessment
- activities of Internal Audit committees
- activities of Centre of Excellence for Internal Audit

These activities are intended to lead to government-wide capacity to conduct audits in accordance to recognized professional standards. Detailed activity areas related to each of these components are listed in Exhibit 1.

**Policy outcomes (directly controlled by or derived from policy activities):**

- departmental business cases for revised IA Policy established and resources committed
- new departmental IA policies in place
- departmental IA committees are active
- effective IA human resources strategy in place
- qualified staff are hired, trained, retained
- audit reports are completed in accordance with new IA policy requirements and reporting standards, and action plans in audit reports are followed up on
- capacity for assurance services are in place and have broad scope and coverage of relevant risk areas
- annual plans are based on integrated risk assessments
- departmental management has “bought-into” revised IA policy and process
- Centre of Excellence is effectively supporting departments and monitoring revised IA Policy process
- IA groups in government are able to pass an independent third-party quality assurance review.

**Policy impacts (results which occur within the IA community itself, and generally within government departments):**

- confidence in IA function
- transparency in program delivery
- effective continuous improvement process for delivery of departmental programs
- appropriate levels of assurance assigned to risks
- effective management control mechanisms established
- significant contributions by IA to prioritization and decision-making processes within departments
- effective accountability of results to Parliament and Canadians
- IA function meets recognized professional standards (such as those of the Institute of Internal Auditors).

**Policy objective achieved:**

- departmental managers provided with objective assessments, and information about design and operation of management practices and control systems.<sup>13</sup>

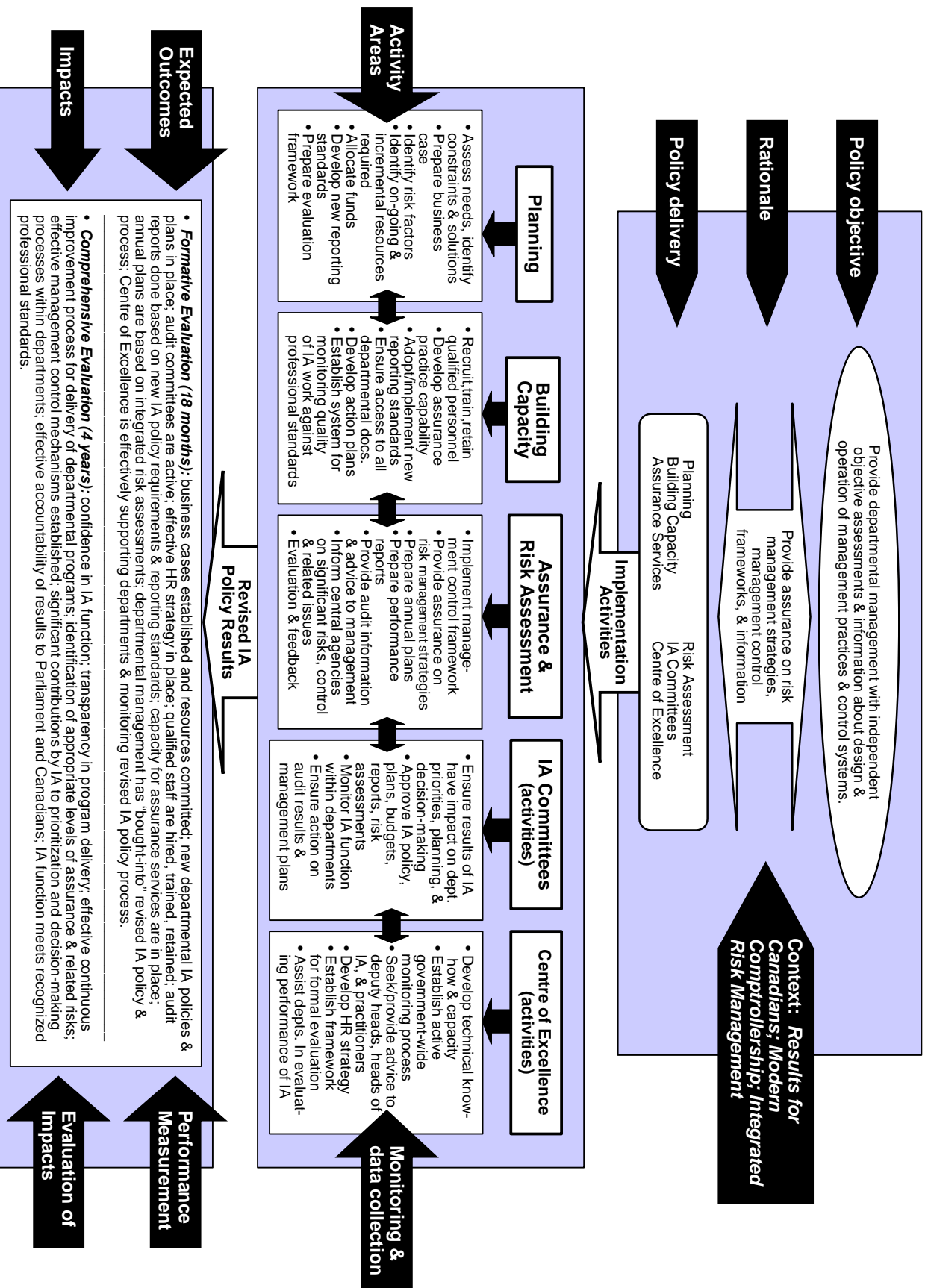
As can be seen from the logical connections in Exhibit 1, the causal relationships shown are plausible enough to allow for a meaningful evaluation to be done.<sup>14</sup> However, as discussed later in this report, a two-phase evaluation is contemplated. To begin with, a first-phase formative evaluation is intended to determine the success of the program in building capacity and demonstrating some initial positive results from the new policy. This will act as an early warning mechanism on performance and effectiveness of departments and agencies in deploying the new policy. The second-phase evaluation is more comprehensive in that it will focus on impacts of the policy, and identify the success of the policy in achieving its objectives.

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<sup>13</sup> This is the stated, specific objective of the policy. Other achievements from the policy are also expected.

<sup>14</sup> While the logic model, for simplicity in presentation, suggests a very orderly and sequential process in the deployment of the revised IA Policy, in reality of course most of the activities listed will be intermingled and are likely to occur concomitantly.

**Exhibit 1: Revised Internal Audit Policy Logic Model**



The linkages shown in Exhibit 1 serve as a basis for the discussion of evaluation issues contained in the next section of this report.

## 2.7 Policy Implementation Constraints

There are some anticipated difficulties and challenges related to the implementation of the revised IA Policy that could hinder the successful deployment of the policy. These issues need to be monitored during the first phase of policy implementation.

**Ability for departments and TBS to absorb and manage the change:** The tasks involved to implement the new policy are significant. These changes come at the heel of the mid-1990s post-Review period within the federal government, when cutbacks were the order of the day. Some senior departmental managers have also come to perceive the IA function as an overhead not necessarily required to be fully or effectively integrated within management's decision-making structure.

**Increased IA capacity has significant impact on program areas:** The implications of some of the requirements of the new IA Policy suggest that there will be a spillover into program delivery areas, challenging program managers to produce data with new approaches for risk management, and for public scrutiny and disclosure.

**Need for TBS to provide strong and immediate leadership:** Treasury Board Secretariat is called upon to build its own capacity to deliver effective support to departments and agencies. In many ways this means developing new working relationships and goodwill between the agency and its departmental partners within government, but it also means developing a high level of technical expertise to contribute to the IA function.

**Retooling of existing IA community and recruitment of new capacity:** This may prove to be the biggest challenge for the deployment of the new IA Policy. New skills are required and training for delivering assurance services needs to be provided. Professional qualifications of existing staff in departments and at TBS need to be upgraded, and a new recruiting strategy is required. Added to this, is the challenge of attrition of qualified, experienced personnel due to retirement or early exit from public service positions to seek opportunities in other jurisdictions – e.g., private sector, academia.

**Resource requirements are significant:** The various federal government departments and agencies have not yet prepared their business cases for deploying the new IA Policy. An initial estimate of \$22 million for the first two years has been assessed. However, this may prove less than what is deemed necessary by all departments and agencies, combined, to implement the new policy. These resources are to be made available through Treasury Board Secretariat and unknown (at this time) investments to be made by departments and agencies.

**Need buy-in from DM/ADM community:** Finally, without leadership support and commitment it is not likely that the implementation of the new policy would be successful. The buy-in from Deputy Ministers and Assistant Deputy Ministers is a necessary condition for success.

### III Evaluation Issues

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The evaluation issues presented in this section of the report were identified through consultations with departments and agencies. These consultations focused on discussions involving the following:

- rationale of the revised IA Policy and related expectations
- scope and targeting of policy implementation activities
- issues and constraints related to policy implementation
- success criteria for the revised policy.

The results of the interviews and a review of relevant documents led to the following general evaluation issue areas to consider in an evaluation of the revised *Policy on Internal Audit*:

- policy implementation and building capacity – including reporting, HR strategy, and internal audit committees;
- TBS Centre of Excellence – contribution to capacity building and monitoring;
- policy rationale – need for the new IA Policy and assurance services;
- impacts – results of the new IA Policy activities;
- impacts – improved program delivery, alternatives, and unintended effects.

Substantiation of specific evaluation questions related to each of these issue areas is presented below. These areas and evaluation questions respond to requirements from a public sector accountability perspective, and from within a context of appropriate government program evaluation guidelines, as set out by Treasury Board Secretariat (including compliance with the elements of the new *Evaluation Policy*). In addition to this, the *Office of Auditor General* would likely examine whether departments meet the test of recognized professional IA standards, for example, as evidenced by successfully completing an independent, third-party quality assurance review.<sup>15</sup>

#### 3.1 Building IA Capacity—Federal Departments and Agencies

Since internal audits are essentially communicated through written reports, an appropriate standard of reporting is essential to ensure that IA has the intended impacts on management, leading to appropriate corrective actions. The current retooling of the IA function includes an important initiative towards establishing more adequate reporting

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<sup>15</sup> The IIA's GAIN program, for example, conducts such third-party reviews that address questions such as: "are department costs reasonable for an organization of your size...?"; "is your training adequate and are costs for training in keeping with what other organizations your size are spending?"; "does your auditing department do short- and long-range planning?"; "how do your auditing staff's professional certifications compare to those in other organizations?"; "is management as effective as it could be in implementing auditing controls?".

standards that reflect recent developments in the IA function in general. These standards should also reflect both desirable content and process (including recognition of requirements of the new Government Online initiative of the Federal Government, and recognition of the need for transparency to comply with the requirements of the *Access to Information Act*). The relevant evaluation questions in this context are:

*Question 1: Has the new reporting standard been effectively implemented across government? What has been the impact of the Access to Information Act on the IA process and results?*

Qualified people are critical to the success of any internal audit organization. Major changes in the practices for staffing internal audit are needed if people with top potential are to be attracted, and retained, to work in internal auditing. The TBS Centre of Excellence for Internal Audit is responsible for the development of an HR strategy to address the issue of qualified internal audit staff within the federal government, but particularly “to support departments in implementing [the new IA] policy.” Included in this initiative is establishing required competency profiles, and assessing classification requirements. It is anticipated that some 250 additional qualified audit staff will be recruited across government, as part of the new internal audit initiative. Relevant evaluation questions, related to capacity building in this context, are as follows:

*Question 2: How effective is the new human resources strategy for Internal Audit?*

*Question 3: Have qualified personnel been recruited, trained, and retained?*

*Question 4: Is an appropriate training and development program for auditors in place?*

The new IA Policy calls for an active IA committee to be in place within each department and agency. “Active” means that the committee contributes to the departmental priorities, planning, and decision-making, and sees to it that IA-related action plans are implemented. The following two questions relate to this policy requirement.

*Question 5: Is there an active IA committee in each department and agency providing input to departmental priorities, planning and decision-making?*

*Question 6: Are management corrective action plans followed-up on and implemented?*

### **3.2 Contributing to Capacity Building, Monitoring—Centre of Excellence**

The new IA Policy specifically identified a role for TBS, to demonstrate leadership, and to provide a positive and visible contribution to the IA function within the federal government. Answering the following two evaluation questions will help evaluate the contribution of the TBS Centre of Excellence to the government’s internal audit function.

*Question 7: To what extent has the TBS Centre of Excellence contributed to building IA capacity within departments (e.g., in developing HR strategy, competency profiles, training and development, technical guidance and funding)? To what extent has the Centre developed its own technical competencies and the quality of its advice and support?*

*Question 8: Has the Centre implemented a monitoring system?*

“Monitoring” in Question 8 is intended to refer to the responsibility of TBS, as stated in the IA Policy, to “establish an active monitoring process that provides timely information to Treasury Board on significant issues of risk, control, or other problems with management practices in departments.”

### **3.3 Rationale—Need for the New IA Policy and Assurance Services**

The government’s overall agenda for renewing management practices within departments and agencies includes several initiatives that aim at modernizing the public service. These include developing a focus on results, integrating risk management strategies within departments, and basing comptrollership on modern management practices. The climate for change is ripe, and the timing of the revised IA Policy seems appropriate. During the past few years, a number of government studies and external consultations have pointed to the need for change of the government’s internal audit function. The Auditor General (AG) reports of 1993 and 1996 identified deficiencies in the IA function within the Government of Canada. In 1993, the Auditor General concluded that:

*Thirty years of effort to establish effective internal auditing have not resulted in a uniformly high standard of internal audit throughout the government. All the major stakeholders - central agencies, departmental management and departmental internal audit units - need to change their views on internal audit and to look for more innovative and effective ways of using the resources associated with it before the full benefits of internal auditing can be realized.*

Then, in 1996, the Auditor General subsequently concluded that:

*While some internal audit units have improved their performance since 1993, we found that, overall, there has been little improvement since our 1993 audit. Of the seven departmental internal audit units we reviewed in detail, four do not meet established standards for the practice of internal audit.*

The AG also took exception with the 1994 *Internal Audit and Program Evaluation Review* policy, which grouped both the IA and evaluation functions into one umbrella policy, contributing to the creation of a merged environment with cutbacks to these two distinct functions of accountability and control.

Treasury Board’s own *Study of the Evaluation Function in the Federal Government* concluded that the 1994 Review policy, rather than clarifying the distinct roles of evaluation and internal auditing, had the opposite effect by not clearly distinguishing between these two functions.

Furthermore, the more recent *Study of Internal Audit in the Federal Government* (January 2000) indicated that there has been an erosion of audit resources dedicated to the internal audit function.

The situation characterized by the series of studies identified above, and others, leads to a compelling rationale for change within the internal audit function of government departments and agencies. Hence, it is appropriate that the following question be addressed during the course of the evaluation of the revised *Policy on Internal Audit*:

**Question 9:** *Is there a continuing need for change in the internal audit function?*

Addressing this question will be necessary to reaffirm the rationale of the new policy, and to assess related progress in the implementation of change. It is recognized within the federal government IA community that different departments are at different stages of development in terms of implementing new IA policy approaches, including, for example, assurance services. The need for change in the internal audit function will therefore be a question of degree from one department to another.

In terms of internal auditing practices and concepts, there has been a steady evolution towards a broader and more cogent role for IA in addressing risks and control within organizations.<sup>16</sup> The nature of internal audit has now evolved to include the provision of more adequate assurance services, and assessments based on levels of assurance, to the clients of internal audit reports, namely Deputy Ministers and program delivery managers.<sup>17</sup> As a result, a significant new addition in the revised IA Policy is the reintroduction of assurance as an explicit function of IA in the federal government. The following evaluation question is therefore very pertinent:

**Question 10:** *To what extent have departments and agencies established an effective assurance capability?*

It is reasonable to expect that IA groups would have made progress towards establishing assurance capabilities within their respective departments or agencies over the next four years that, for example, adhere to recognized professional standards. This then is a relevant evaluation question to address within that timeframe.

The Auditor General in his 1996 report wrote that:

*An effective internal audit unit is a fundamental management tool. It can provide Deputy Ministers with assurances about the efficiency and effectiveness of key*

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<sup>16</sup> For example, the Canadian Institute of Chartered Accountants (CICA) tasked its Criteria of Control Committee (CoCo) to define risk and control. Assessing risks and effecting control are integral elements of the internal audit assignment.

<sup>17</sup> The Institute of Internal Auditors (IIA), a professional body recognized to represent the internal auditing profession in most countries, redefined internal auditing as follows: "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations."

*financial, administrative and operational activities and departmental management practices, along with suggestions for improvement.*

Unless Deputy Ministers and managers buy into this fundamental role of IA, it is difficult to see how the new IA Policy can effect changes. The relevant evaluation question in this context is:

**Question 11:** *To what extent have departmental senior managers and program managers “bought into” the revised IA policy and assurance services?*

### **3.4 Impacts–Results of the New IA Policy Activities**

The expected impacts of the policy are quite explicit in the policy statement, and were confirmed in consultations with the parties affected and with officials of Treasury Board Secretariat. The new reporting standards are seen as a driver for change, contributing to the process of deployment of the policy. Reporting could become a focal point around which to develop improved IA practices within departments. Ensuring that there is transparency, probity, and integrity in program delivery are part of the control function of IA. These are all closely related to, or impacted by, reporting practices.

It is expected that a renewed internal audit function, resulting from the new policy, will engender a continuous management improvement system, and that the results of audit work will effectively contribute to setting priorities, planning and decision-making within departments. Overall, the policy initiative should result in improving accountability of departments to Parliament and to Canadians in general.

**Question 12:** *To what extent has the revised IA policy contributed to:*

- *more effective audit reporting?*
- *supporting management in setting priorities, planning and decision-making?*
- *fostering a continuous management improvement system?*
- *improving confidence in the IA function?*
- *providing greater transparency in program delivery?*
- *ensuring accountability of departments to Parliament and to Canadians?*

As stated earlier, a significant contribution of the new IA Policy is the introduction of assurance as a primary function of internal auditing. The relevant evaluation question in this context is:

**Question 13:** *How effective have the revised assurance services been in:*

- *providing improved assurance on risk management strategies, management control frameworks, and information?*

- *better identifying risks and risk management requirements within appropriate levels of assurance?*

There are difficulties anticipated in the implementation of assurance levels to risk management. There is not a clear consensus on the issue of what constitutes a high assurance level in IA reporting, particularly when this applies to IA assignments involving high risks encountered in certain program delivery environments.<sup>18</sup> The IA community will have to address this challenge during the deployment phase of the new policy.

**Question 14:** *To what extent has the TBS Centre of Excellence been successful in:*

- *providing advice to Deputy Ministers and IA practitioners?*
- *developing an HR strategy for the departmental audit function?*
- *developing the necessary capacity (technical expertise) for the Centre?*

Question 14 is intended to focus on the role and contribution of the TBS Centre of Excellence in achieving a high level of IA competency in the federal government. An internal audit advisory committee, comprised of government and private-sector senior executives, will be established to provide advice to TBS on internal auditing and government-wide performance in meeting the objectives of the new policy. The effectiveness of this advisory committee should also be subject to evaluation.

**Question 15:** *Is there an effective monitoring system in place for the revised IA function?*

Question 15 is similar to Question 8. However, Question 8 is focused simply on determining the success in establishing the monitoring system over the next eighteen months as an implementation target. On the other hand, Question 15 is concerned more with the effectiveness of this system in meeting its intended purpose. Deputy Ministers of departments and Heads of agencies will be responsible for monitoring the performance of their departments in respect of the policy. In monitoring the effectiveness of this policy, TBS will be guided by the requirements of the IA Standards for the Government of Canada (which are appended to the Policy on Internal Audit), and with guidelines for departmental internal audit committees and departmental internal audit management practices (also respectively appended to the IA Policy).

### **3.5 Impacts–Program Delivery, Alternatives, Unintended Effects**

A desirable general impact of internal audit is to improve program delivery within federal government departments. Modern definitions of management control encompass the achieving of an organization's overall goals. Since management control is one of the fundamental contributions of auditing, and since control is a prerequisite to effective

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<sup>18</sup> See discussion in *Internal Audit Assurance Services*, presentation to Internal Audit Community by Norman Steinberg, Kingston, March 6, 2001.

program delivery, this should be a question for the comprehensive evaluation (i.e., within four years of implementation of the new policy).<sup>19</sup>

***Question 16:*** *How effective has the revised IA policy been in contributing to improved program delivery of departments?*

In his 1993 report, the Auditor General indicated that his Office had identified “best practices” in the internal auditing profession, based on a study of forty organizations in the public and private sectors. The study resulted in a publication entitled *Internal Auditing in a Changing Management Culture*. It is fairly standard in evaluation studies to conduct benchmarking comparisons, to examine existing programs and policies against alternative mechanisms and service delivery best practices. Therefore, a value-added component of a future evaluation of the policy (in four years) would be to conduct a new benchmarking comparison study, to determine if there are better ways to deliver the IA function than that espoused by the new policy. This would provide a frame of reference to determine whether there is potential for enhancing the quality of service, adapting to changing needs and continuously improving the IA function by introducing fresh ideas from benchmarked organizations. The relevant evaluation question to address in this context is:

***Question 17:*** *Are there better ways of delivering the Internal Audit function within the federal government?*

Finally, very often programs and policies produce results that may or may not have been intended. These could be positive or negative results. For example, increased administrative burden for program managers, resulting from the requirements of the new IA Policy, is a negative effect that may not have been intended. Improved public image and media coverage of federal government departmental activities is a positive effect.

***Question 18:*** *What, if any, unintended effects (positive or negative) have resulted from the new IA Policy?*

Question 18 is intended to capture and assess the implications of any unintended effects that may result from the deployment of the new policy. To the extent that these unintended effects occur, this question could be of low or high importance in the evaluation.

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<sup>19</sup> Evaluating this issue sooner would not provide sufficient time for departments to reposition their IA function based on the new policy.

## IV Evaluation Approach

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Presented in this section of the framework report are the evaluation indicators needed, the types of analyses recommended, and information gathering methods for the evaluation.

### 4.1 Methods and Information Sources

The evaluation of the *Policy on Internal Audit* involves a combination of study components to obtain and analyze the information required. A combination of methods is proposed for the evaluation to increase the reliability and validity of the results, and to ensure that results are received in time to respond to policy milestones and central agency requirements.

Exhibit 2 provides a detailed listing of the different methods and indicators for the evaluation study, as they relate to each evaluation issue to be addressed.

The recommended methods for collecting information are as follows:

- Interviews with key persons in the internal audit community, including members of the IA Committees, Heads of Audit, members of the public-private sector advisory committee, and internal audit staff.
- Interviews with representatives from TBS, OAG, and members of Parliament.
- Survey of users of IA products and services, including senior management within departments, and operational and program delivery managers. This should include an identification of the adequacy of coverage of the IA function, and the independence of government IA groups.
- Case studies from selected departments across government, focused on reporting, monitoring, and human resources issues.
- Gap analysis for HR strategy, based on a “before and after” demographics study, and comparisons of achievements against goals stated in business cases prepared at the start of the IA Policy deployment.
- Review of relevant documents—e.g., examples of IA reports written according to the new standard for reporting, business plans for the new IA policy, competency profiles, action plans, and performance reports.
- Benchmarking study to highlight alternative internal audit practices compared to other jurisdictions, to identify lessons learned and best practices.<sup>20</sup>

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<sup>20</sup> The IIA’s GAIN program, for example, conducts such third-party benchmarkings that address questions such as: “are department costs reasonable for an organization of your size...?”; “is your training adequate and are costs for training in keeping with what other organizations your size are spending?”; “does your auditing department do short- and long-range planning?”; “how do your auditing staff’s professional certifications compare to those in other organizations?”; “is management as effective as it could be in implementing auditing controls?”.

## 4.2 Performance Indicators

Data that will be available from other initiatives, related to deployment of the revised IA Policy (e.g., demographic survey, competency profiles, reporting standards), and from secondary sources (e.g., business case reports), meet only some of the information requirements for a complete evaluation of the policy. The remaining information needed can be collected by means of special efforts, such as interviews with operating managers, surveys of audit customers, case studies, and benchmarking, or other relevant methods as listed in Exhibit 2.

Detailed evaluation indicators to be collected are also listed in Exhibit 2. This Exhibit provides a convenient way to demonstrate the need for specific information, based on issues being addressed and methods of gathering this information.

The *Office of Auditor General* would also likely examine whether the IA function in departments meets the test of recognized professional IA standards, for example, as evidenced by successfully completing an independent quality assurance review against IIA standards.

## 4.3 Ongoing Information Collection

Activities associated with the deployment of the revised IA Policy currently include the following:

- Preparation of business cases for departmental resource submissions under the new policy and evaluation thereof.
- A catalyst paper setting out the assurance service model.
- Reporting guidelines under the new policy, including examples.
- A demographic survey of the internal audit community.
- A competency profile for internal auditors.
- Human resources strategy for community-wide recruitment and development.

The results of these initiatives will create a set of data that can be used as a baseline against which to make evaluative comparisons in the eighteen-month formative evaluation, and in the longer-term comprehensive evaluation (within four years).

**Exhibit 2: Methods and Indicators to Address the Evaluation Issues**

ISSUES & RESEARCH QUESTIONS	PERFORMANCE INDICATORS	METHODS & DATA SOURCES
<p><b>ISSUE: Building IA Capacity – Federal Departments and Agencies</b></p>		
<p><b>REPORTING</b></p> <p><b>Question 1:</b> Has the new reporting standard been effectively implemented across government? What has been the impact of the Access to Information Act on the IA process and results?</p>	<p>Availability of appropriate and consistent reporting criteria for IA reporting.</p> <p>Whether reporting standards are adopted in terms of content &amp; process.</p> <p>Degree to which standards are used by departments in reporting on IA findings and recommendations.</p> <p>Quality of reports compared to benchmarks in other jurisdictions, private &amp; public sectors, &amp; extent to which reports stack up against recognized standard.</p> <p>Clarity of reports with respect to conclusions &amp; recommendations, and to whom the recommendations are directed, &amp; with respect to levels of assurance &amp; any related reservations.</p> <p>Timeliness in which relevant reports are produced—&amp; level of accuracy &amp; reliability of data &amp; information published within &amp; outside the department.</p> <p>Accessibility of reports to public &amp; Parliament in both official languages, with minimal formality.</p>	<p>Case studies from selected departments across government.</p> <p>Survey of operational users of IA products &amp; services.</p> <p>Survey of deputy ministers &amp; senior management.</p> <p>Interviews with members of Parliament and officials of OAG.</p> <p>Review of relevant documents &amp; standards.</p> <p>Review by TBS of audit reports against the reporting standard established for the government.</p>
<p><b>HUMAN RESOURCES STRATEGY</b></p> <p><b>Question 2:</b> How effective is the new human resources strategy for Internal Audit?</p>	<p>Extent to which HR strategy has resulted in positive changes to IA function – e.g., staff recruitment, retention, training programs effectively deployed.</p> <p>Pace of change in HR issues compared to benchmarks.</p> <p>Impact of HR strategy on reform in job classifications of IA community—compared to benchmarks in private sector &amp; other public sector jurisdictions.</p> <p>Extent to which expectations of management &amp; personal goals of staff members are achieved.</p> <p>Compliance of members of auditing staff with policies, plans, &amp; procedures of the department, applicable laws, regulations, &amp; ethical standards, &amp; IA standards of practice (e.g., IIA standards).</p>	<p>Survey of IA staff &amp; heads of audit.</p> <p>Survey of deputy ministers &amp; senior management.</p> <p>Interviews with departmental IA Committee members.</p> <p>Benchmarking study.</p>
<p><b>Question 3:</b> Have qualified personnel been recruited, trained, and retained?</p>	<p>Number of qualified IA personnel recruited, trained (based on professional certification, technical knowledge &amp; expertise, human relations &amp; communications skills—measured on the basis of required competencies being profiled by TBS and against recognized standards such as those of the Institute of Internal Auditors).</p> <p>Degree of success in retaining staff – e.g., compared to benchmark turnover data, &amp; “before and after” data from within federal departments.</p> <p>Demographic comparison of IA personnel, based on competency profiles before &amp; after new IA Policy established.</p> <p>Percent of staff that are certified.</p>	<p>Gap analysis based on demographics study.</p> <p>Survey of IA staff.</p> <p>Benchmarking study &amp; best practices.</p>

**Exhibit 2 (continued): Methods and Indicators to Address the Evaluation Issues**

<b>ISSUES &amp; RESEARCH QUESTIONS</b>	<b>PERFORMANCE INDICATORS</b>	<b>METHODS &amp; DATA SOURCES</b>
<p><b>Question 4:</b> Is an appropriate training and development program for auditors in place?</p>	<p>Extent to which training programs instituted compare with appropriate benchmarks – e.g., compared to other government jurisdictions or to programs in private sector. Frequency &amp; quality of external training done by government IA personnel. Enrollment of IA personnel in recognized training programs. Number of graduates from recognized training programs.</p>	<p>Benchmarking study &amp; recognized best practices. Review of relevant documents. Survey of IA staff &amp; heads of audit.</p>
<p><b>INTERNAL AUDIT COMMITTEES</b> <b>Question 5:</b> Is there an active IA committee in each department and agency, providing input to departmental priorities, planning and decision-making?</p>	<p>Frequency of meetings &amp; relevance of agenda of IA committees. Committee membership in terms of management levels &amp; representation. Consistency of roles &amp; responsibilities, &amp; mandate, of the IA committees compared to IA Policy requirements (e.g., degree to which IA committees ensure that action plans from IA reports are being carried out). Chairmanship of committee – i.e., by a senior departmental executive.</p>	<p>Interviews with IA Committee members. Survey of deputy ministers &amp; senior management.</p>
<p><b>ACTION PLANS</b> <b>Question 6:</b> Are management corrective action plans followed-up on and implemented?</p>	<p>Impact of action plans on initiating corrective actions.</p>	<p>Interviews with IA Committee members. Survey of IA staff &amp; heads of audit. Review of relevant documents.</p>
<p><b>ISSUE: Contributing to Capacity Building, Monitoring – TBS Centre of Excellence</b></p>		
<p><b>CAPACITY</b> <b>Question 7:</b> To what extent has the TBS Centre of Excellence contributed to building IA capacity within departments (e.g., in developing HR strategy, competency profiles, training and development, technical guidance, funding, evaluation framework)? To what extent has the Centre developed its own technical competencies and the quality of its advice and support?</p>	<p>Extent to which Centre provides appropriate &amp; timely advice to deputy ministers, heads of internal audit, &amp; internal audit practitioners. Recognition by peers &amp; decision-makers, senior executive staff within government, of the Centres role &amp; impact, and the quality of its advice and technical guidance. Level of success of HR strategy in bringing about desired changes in IA community.</p>	<p>Interviews with TBS representatives. Interviews with IA Committee members. Survey of IA staff &amp; heads of audit. Interviews with deputy ministers.</p>
<p><b>MONITORING</b> <b>Question 8:</b> Has the Centre implemented a monitoring system?</p>	<p>Extent to which monitoring system provides appropriate and timely information to Treasury Board on significant issues of risk, control, or other problems with management practices in departments. Extent to which monitoring information is effective as an early warning system, to effect changes in IA Policy implementation, &amp; is used by TBS, &amp; IA committees to adjust process where needed. Extent to which public-private sector advisory committee plays a role in advising TBS on IA policy, standards, community development strategies.</p>	<p>Interviews with TBS representatives. Survey of deputy ministers &amp; senior management, &amp; heads of audit. Interviews with members of public-private sector advisory committee.</p>

**Exhibit 2 (continued): Methods and Indicators to Address the Evaluation Issues**

ISSUES & RESEARCH QUESTIONS	PERFORMANCE INDICATORS	METHODS & DATA SOURCES
<p><b>ISSUE: Rationale – Need for the New IA Policy and Assurance Services</b></p>		
<p><b>Question 9:</b> Is there a continuing need for change in the internal audit function?</p>	<p>Assessment of success of related initiatives in bringing about change &amp; modernization of management practices—e.g., integrated management framework; modern comptrollership—and assessment of role of IA function with respect to these initiatives. Degree to which new IA Policy is integrated with these other initiatives and contributes to their deployment. Consensus among managers on rationale of new IA Policy &amp; its relevance to government initiatives to improve management practices.</p>	<p>Environmental scan of management reform agenda. Situation analysis of IA in context of overall government agenda for management improvements. Survey of deputy ministers &amp; senior management. Interviews with members of public-private sector advisory committee.</p>
<p><b>Question 10:</b> To what extent have departments and agencies established an effective assurance capability?</p>	<p>Qualifications of IA staff to provide assurance services. Receptiveness by senior &amp; program delivery managers to results of assurance work. Extent of corrective actions taken as a result of assurances, advice &amp; reporting.</p>	<p>Case studies on deployment of assurance services. Survey of operational users of IA products &amp; services. Interviews with departmental IA Committee members &amp; heads of audit.</p>
<p><b>Question 11:</b> To what extent have departmental senior managers and program managers “bought into” the revised IA policy and assurance services?</p>	<p>Level of commitment and support by deputy ministers &amp; senior management for IA function, &amp; level of understanding of the concept of assurance. Evidence of senior management commitment to IA action plans (e.g., as documented in internal memos, business plans, performance agreements). Mechanisms in place to ensure IA policy goals &amp; practices are disseminated to managers. Evidence of executives &amp; decision-making managers integrating results of IA reports into the planning and decision-making process. Degree to which IA activities are considered a priority &amp; necessary resources appropriately committed. Degree to which authorities &amp; responsibilities of heads of audit &amp; IA staff understood by managers.</p>	<p>Survey of deputy ministers &amp; senior management. Review of relevant departmental documents (business plans, performance agreements, etc.). Survey of operational users of IA products &amp; services. Interviews with departmental IA Committee members &amp; heads of audit.</p>

**Exhibit 2 (continued): Methods and Indicators to Address the Evaluation Issues**

ISSUES & RESEARCH QUESTIONS	PERFORMANCE INDICATORS	METHODS & DATA SOURCES
<p><b>ISSUE: Impacts – Results of the New IA Policy</b></p> <p><b>Question 12:</b> To what extent has the revised IA policy contributed to:</p> <ul style="list-style-type: none"> <li>○ more effective audit reporting?</li> <li>○ supporting management in setting priorities, planning and decision-making?</li> <li>○ fostering a continuous management improvement system?</li> <li>○ improving confidence in the IA function?</li> <li>○ providing greater transparency in program delivery?</li> <li>○ ensuring accountability of departments to Parliament and to Canadians?</li> </ul>	<p>Degree of compliance of reports to established reporting standards – e.g., to IIA reporting criteria.</p> <p>Extent to which audit reports integrate management action plans that clearly identify, for each recommendation, actions to be taken, &amp; their timing.</p> <p>Degree of confidence in the IA function &amp; the IA community—opinions of deputy ministers &amp; senior managers regarding the IA function.</p> <p>Opinions of selected members of Parliament regarding IA audit reports &amp; results.</p> <p>Opinion of representatives of OAG: Nature and extent of reliance of OAG on the results of work by departmental IA groups.</p> <p>Degree to which IA has become a strategic tool for management.</p> <p>Visibility of IA in the departmental management process.</p>	<p>Case studies from selected departments across government.</p> <p>Survey of deputy ministers &amp; senior managers</p> <p>Peer review—interviews with members of public-private sector advisory committee.</p> <p>Interviews with members of Parliament &amp; officials of OAG.</p> <p>Survey of users of IA products &amp; services.</p> <p>Review of relevant documents &amp; standards.</p> <p>Interviews with TBS officials.</p>
<p><b>Question 13:</b> How effective have the revised assurance services been in:</p> <ul style="list-style-type: none"> <li>○ providing improved assurance on risk management strategies, management control frameworks, and information?</li> <li>○ better identifying risks and risk management requirements within appropriate levels of assurance?</li> </ul>	<p>Degree to which IA contributes to the identification of risk management strategies prior to implementation.</p> <p>Following implementation, the degree to which IA groups provide reliable assurances to senior management on risk management strategies &amp; practices.</p> <p>Contributions of IA groups in helping departments effectively manage risk.</p> <p>Incidence of success in averting problems in high-risk situations.</p> <p>Credible assurance levels are given to indicate that measures taken are appropriate to balance the risks.</p> <p>Quality of tools &amp; methods used by IA community in assessing &amp; managing risks, compared to benchmarks in other jurisdictions—e.g., other governments or private sector.</p>	<p>Case studies from selected departments across government.</p> <p>Benchmarking study.</p> <p>Peer review—interviews with members of public-private sector advisory committee.</p> <p>Survey of deputy ministers &amp; senior managers.</p> <p>Interviews with members of Parliament &amp; officials of OAG.</p> <p>Survey of users of IA products &amp; services.</p> <p>Review of relevant documents &amp; standards.</p> <p>Interviews with TBS officials.</p>

**Exhibit 2 (continued): Methods and Indicators to Address the Evaluation Issues**

ISSUES & RESEARCH QUESTIONS	PERFORMANCE INDICATORS	METHODS & DATA SOURCES
<p><b>Question 14:</b> To what extent has the TBS Centre of Excellence been successful in:</p> <ul style="list-style-type: none"> <li>○ providing advice to deputy ministers and IA practitioners?</li> <li>○ developing an HR strategy for the departmental audit function?</li> <li>○ developing the necessary capacity (technical expertise) for the Centre?</li> </ul>	<p>Opinions of deputy ministers, heads of audit, &amp; audit practitioners about TBS Centre's role &amp; contributions. Effectiveness of HR strategy in effecting positive changes across government IA community—in terms of competency building.</p>	<p>Survey of deputy ministers &amp; senior managers. Interviews with IA Committee members. Survey of users of IA products &amp; services. Interviews with TBS officials.</p>
<p><b>Question 15:</b> Is there an effective monitoring system in place for the revised IA Policy?</p>	<p>Extent to which monitoring system in place ensures action plans that respond to internal audit observations are successfully implemented. Degree to which IA monitoring function acts as an early warning system regarding risk, management control, &amp; performance.</p>	<p>Survey of deputy ministers &amp; senior managers. Interviews with IA Committee members. Survey of users of IA products &amp; services. Interviews with TBS officials.</p>
<p><b>ISSUE: Impacts – Improved Program Delivery, Alternatives, Unintended Effects</b></p>		
<p><b>Question 16:</b> How effective has the revised IA policy been in contributing to improved program delivery of departments?</p>	<p>Impacts of new policy on program delivery—in terms of mitigating risks, financial &amp; non-financial reporting, external performance reporting, &amp; efficiency (i.e., resources of the department are acquired &amp; used efficiently). Operations management's perceptions of the department's performance &amp; role of IA in creating a climate of continuous improvement. Adequacy in safeguarding the resources of the department, with an emphasis on people &amp; materials.</p>	<p>Case studies from selected departments across government. Review of relevant documents. Survey of deputy ministers &amp; senior managers. Interviews with IA Committee members. Survey of users of IA products &amp; services.</p>
<p><b>Question 17:</b> Are there better ways of delivering the Internal Audit function within the federal government?</p>	<p>Strategic benchmarking information from other public &amp; private sector organizations—with respect to IA organization &amp; management, staffing, standards used, reporting mechanisms, costs of delivery, impacts &amp; results achieved.</p>	<p>Benchmarking comparisons with selected public &amp; private organizations. Interviews with OAG and OAG counterparts in other jurisdictions.</p>
<p><b>Question 18:</b> What, if any, unintended effects (positive or negative) have resulted from the new IA Policy (e.g., increased administrative burden for program managers, a negative unintended effect; or improved public image and media coverage of federal departments, a positive effect)?</p>	<p>Depends on the unintended effects that occur.</p>	<p>Depends on the unintended effects that occur.</p>

## **V Evaluation Priorities**

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This section of the report provides a perspective on priorities for an evaluation of the revised IA Policy and timing of the evaluation.

### **5.1 Prioritizing the Issues**

The evaluation study of the IA Policy is intended to focus on several key issue areas that relate primarily to the results expected from the policy, but they also include questions about the deployment of the policy over the short term. Continued funding for this initiative beyond the first eighteen months is contingent on successful deployment.

Exhibit 3 provides recommended priorities for the evaluation of issues. These recommended priorities are derived from a synthesis of opinions discussed during the interviews done for this framework study, and from subsequent consultations with the parties affected by the new policy. Only one of the eighteen research questions is deemed of “low” priority. In fact, all the research questions have been selected and recommended in this framework report because they were considered to be important questions that require evaluation from an accountability perspective, and from within the context of appropriate government program evaluation practices. However, several of the evaluation questions are deemed of a “high priority”, or higher than others, in that they are directly focused on the immediate results of the program, particularly in terms of building capacity.

A “high” priority means that the issue is generally perceived to be an important area for investigation by those who were consulted for this study, whether this be during the short-term formative evaluation, or during the more comprehensive evaluation within four years. A “medium” priority means that the issue is considered to be potentially significant, and requires investigation to determine its consequence. Finally, a “low” priority means that the issue was not seen as a vital concern by those consulted for this study. The one question that falls in this category is that of “unintended effects”. However, this issue could easily be upgraded to “medium” or “high”, depending on the significance of the “unintended effects”.

### **5.2 Evaluation Timeframe**

The recommended “phase of the evaluation”, in the right-hand column of Exhibit 3, is based on a consideration of what constitutes a fair timeframe within which to expect results from the revised IA Policy initiative. The issues that are to be evaluated within the first eighteen months are evaluated specifically in relation to capacity building. Some elements of these capacity-building issues are again dealt with in the comprehensive evaluation, but are addressed, in this case, in terms of the actual results and impacts of the policy.

### Exhibit 3: Prioritization and Timing of Research Questions

ISSUES & RESEARCH QUESTIONS	IMPORTANCE OF ADDRESSING THIS ISSUE IN THE EVALUATION			PHASE OF EVALUATION
	High	Medium	Low	
<b>FORMATIVE EVALUATION (18 MONTHS)<sup>21</sup></b>				
<p><b>Issue: Building IA Capacity – Federal Departments and Agencies</b></p> <p>➤ <b>Reporting</b>  <b>Question 1:</b> Has the new reporting standard been effectively implemented across government? What has been the impact of the <i>Access to Information Act</i> on the IA process and results?</p> <p>➤ <b>HR Strategy</b>  <b>Question 2:</b> How effective is the new human resources strategy for Internal Audit?  <b>Question 3:</b> Have qualified personnel been recruited, trained, and retained?  <b>Question 4:</b> Is an appropriate training &amp; development program for auditors in place?</p> <p>➤ <b>IA Committees</b>  <b>Question 5:</b> Is there an active IA committee in each department and agency, providing input to departmental priorities, planning and decision-making?</p> <p>➤ <b>Action Plans</b>  <b>Question 6:</b> Are management corrective action plans followed-up on and implemented?</p>	√			18 months
	√			18 months
	√			18 months
	√			18 months
<p><b>Issue: Contributing to Capacity Building and Monitoring – TBS Centre of Excellence</b></p> <p>➤ <b>Capacity</b>  <b>Question 7:</b> To what extent has the TBS Centre of Excellence contributed to building IA capacity within departments? To what extent has the Centre developed its own technical competencies and the quality of its advice?</p> <p>➤ <b>Monitoring</b>  <b>Question 8:</b> Has the Centre implemented a monitoring system?</p>	√			18 months
	√			18 months
<b>COMPREHENSIVE EVALUATION (WITHIN 4 YEARS)</b>				
<p><b>Issue: Rationale – Need for the New IA Policy and Assurance Services</b></p> <p><b>Question 9:</b> Is there a continuing need for change in the internal audit function?</p> <p><b>Question 10:</b> To what extent have departments and agencies established an effective assurance capability?</p> <p><b>Question 11:</b> To what extent have departmental senior managers and program managers “bought into” the revised IA policy and assurance services?</p>	√			4 years

<sup>21</sup> While the issues listed in the formative evaluation are to be examined after eighteen months, it might also be useful to revisit this list at the time of the comprehensive evaluation in four years.

### Exhibit 3: Prioritization and Timing of Research Questions

ISSUES & RESEARCH QUESTIONS	IMPORTANCE OF ADDRESSING THIS ISSUE IN THE EVALUATION			PHASE OF EVALUATION
	High	Medium	Low	
<p><b>Issue: Impacts – Results of the New IA Policy</b></p> <p><b>Question 12:</b> To what extent has the revised IA policy contributed to:</p> <ul style="list-style-type: none"> <li>o more effective audit reporting?</li> <li>o supporting management in setting priorities, planning and decision-making?</li> <li>o fostering a continuous management improvement system?</li> <li>o improving confidence in the IA function?</li> <li>o providing greater transparency in program delivery?</li> <li>o ensuring accountability of departments to Parliament and to Canadians?</li> </ul> <p><b>Question 13:</b> How effective have the revised assurance services been in:</p> <ul style="list-style-type: none"> <li>o providing improved assurance on risk management strategies, management control frameworks, and information?</li> <li>o better identifying risks and risk management requirements within appropriate levels of assurance?</li> </ul> <p><b>Question 14:</b> To what extent has the TBS Centre of Excellence been successful in:</p> <ul style="list-style-type: none"> <li>o providing advice to deputy ministers and IA practitioners?</li> <li>o developing an HR strategy for the departmental audit function?</li> <li>o developing the necessary capacity (technical expertise) for the Centre?</li> </ul> <p><b>Question 15:</b> Is there an effective monitoring system in place as a result of the revised IA Policy?</p>	√			4 years
	√			4 years
	√			4 years
	√			4 years
<p><b>Issue: Impacts – Improved Program Delivery, Alternatives, Unintended Effects</b></p> <p><b>Question 16:</b> How effective has the revised IA policy been in contributing to improved program delivery of departments?</p> <p><b>Question 17:</b> Are there better ways of delivering the Internal Audit function within the federal government?</p> <p><b>Question 18:</b> What, if any, unintended effects (positive or negative) have resulted from the new IA Policy (e.g., increased administrative burden for program managers, a negative unintended effect; or improved public image and media coverage of federal departments, a positive effect)?</p>		√		4 years
		√		4 years
			√ <sup>22</sup>	4 years

<sup>22</sup> This priority could be upgraded, depending on the extent of unintended effects.

The timing of the evaluation is important, because the results of the initial phase of deployment are needed to introduce any required policy modifications, or changes in direction based on initial outcomes. In order for the formative evaluation (first phase) to contribute to the decision-making process of government, the results of the study need to be timely.

The first phase of the evaluation should therefore be concluded within eighteen months, to allow for decisions about the appropriate next steps beyond fiscal year 2002-2003. To this end, all evaluation tasks related to building capacity (including establishing reporting standards, an HR strategy, departmental IA Committees, a TBS Centre of Excellence, and a monitoring system) should be completed within the first phase.

It will be too early to judge the results on impacts of the policy initiative within the first eighteen months. However, to the extent that some departments and agencies would have progressed to a more mature level of deployment, some substantive results could be demonstrated within this initial period. This largely depends on the extent to which these departments or agencies are already currently developed, in compliance with the new policy.

The assessment of timing indicated in Exhibit 3 will need to be reviewed over the next year or so, to determine whether policy implementation indeed is materializing as originally expected within an eighteen-month period.

## VI Recommendations

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This section of the report presents the recommended strategy for conducting an evaluation of the *Policy on Internal Audit*.

### 6.1 Conducting a Formative Evaluation

The recommended evaluation strategy is to undertake a two-phased evaluation. The first phase is to conduct a formative evaluation within eighteen months of the deployment of the revised IA Policy. The Centre of Excellence, TBS, is the lead responsibility center for implementing the evaluation study, with the participation of respective government departments. The focus in the formative evaluation is on:

- **Capacity**—assessing the extent to which government departments have built capacity (including leadership commitment, qualified personnel and budgets) to deliver the requirements of the revised IA Policy. This also includes the Centre of Excellence, TBS, developing the capacity to judge the IA work done in relation to recognized quality assurance standards.
- **Reporting**—identifying whether a new IA reporting standard has been developed and adopted by federal government IA groups.
- **Human resources strategy**—determining whether a human resources strategy has been implemented, and to what extent it has been effective in introducing measures for training and development of IA staff, recruiting new staff, and retaining existing staff. This also includes identifying to what extent a competency profile and demographic survey of the IA community has been instrumental in identifying gaps and contributing to the process of IA capacity building.
- **Monitoring process**—determining if a monitoring process has been established by the Centre of Excellence, Treasury Board Secretariat, and by deputy ministers within departments, to provide timely information on significant issues of risk, control, or other problems with management practices in departments.

### 6.2 Comprehensive Evaluation (Within Four Years)

The second phase of the evaluation is to undertake a comprehensive (summative) evaluation, focused on the results and impacts of the revised IA Policy, with emphasis on:

- **Assurance services**—evaluating the level of success that new assurance products and services have had in fostering a continuous management improvement environment; supporting management in setting priorities, managing risks, control and decision-making; and generally strengthening the confidence in the IA function by departments and central agencies.

- **Reporting**—identifying how effective the new IA reporting standard actually is, and determining the impacts of IA reports on departmental priorities and decisions, including successful follow-ups to corrective action plans.
- **Contribution of IA function to departmental program delivery**—determining the general impacts of the revised IA Policy in contributing to program delivery of departments, e.g., in mitigating risks, financial and non-financial reporting, external performance reporting, and efficiency (i.e., resources of the department acquired and used efficiently).
- **Alternatives**—assessing to what extent alternative means of delivering IA products and services would add value to the IA function within federal departments.
- **TBS Centre of Excellence**—evaluating to what extent the TBS Centre of Excellence has actually contributed to building IA capacity (e.g., training and development, human resources strategy), and to developing an effective monitoring system for IA.

### 6.3 Performance Indicators

It is recommended that all departments participate in the demographic survey, to identify the current situation with respect to human resources capacity, competencies, reporting standards and practices, and other related baseline information (e.g., capability of staff to undertake assurance services) as identified in Exhibit 2 of this report.

It is also recommended that the business cases being developed by departments identify their respective targets in terms of the following evaluation performance indicators:

- **Capacity building:**
  - Qualifications of IA staff to conduct assurance studies.
  - Number of qualified staff recruited, trained, retained (based on professional certifications, technical knowledge and expertise, human relations skills and communications skills—measured on the basis of required competencies being profiled by TBS and against recognized standards such as those of the Institute of Internal Auditors).
  - IA Committee activities—leadership and membership of committee, relevance of agenda, frequency of meetings, consistency of roles and responsibilities with revised IA Policy requirements.
  - Identification and allocation of appropriate funding to respond to requirements of revised IA Policy.
- **Reporting:**
  - Adoption of reporting standards, and implementation of these standards in audit reports.

- Extent of corrective actions taken as a result of assurance advice and action plans.
- **Human resources strategy:**
  - Implementation of a human resources strategy (including, for example, extent to which HR strategy has resulted in positive changes to IA function – e.g., staff recruitment, retention, training programs; reform in job classifications; and extent to which expectations of management and personal goals of staff have been achieved).
  - This also includes identifying to what extent a competency profile and demographic survey of the IA community has been instrumental in identifying gaps and contributing to the process of IA capacity building.
- **Monitoring process:**
  - Effectiveness of monitoring process in providing timely information on significant issues of risk, control, or other problems with management practices in departments. This includes measuring the extent to which the monitoring system is effective as an early warning system, to effect changes in policy implementation, and is used by TBS and departmental IA and management committees to adjust processes and priorities within government. The extent to which departments follow-up on action plans in their own audit reports should also be monitored.

Details related to the above performance requirements, and other indicators, were provided earlier in Exhibit 2 of the Evaluation Framework report, for both the immediate, formative evaluation and the longer-term comprehensive evaluation.

## ***Appendix A: List of People Consulted***

## List of People Consulted

Jim Van Adel, Director General Review Services, Department of National Defence.

Cameron Dawson, Director of Audit and Evaluation, Canadian Heritage.

Fred Jaakson, Director General, Audit, Consulting and Audit Canada, PWGSC.

Lena Koiv, Internal Audit Division, Canada Customs and Revenue Agency.

Nancy McMahon, Program Evaluation and Review, Treasury Board Secretariat.

James Martin, Director General, Internal Audit and Risk Management Services, Human Resources Development Canada.

Nicole Mendenhall, Director, Audit, Canadian International Development Agency.

Elizabeth Murphy-Walsh, Director, Environment Canada Review, Environment Canada.

Subhas Roy, Manager, Audit and Evaluation Branch, Industry Canada.

Anne Scotton, Director General, Corporate Review, Canadian Heritage.

Tom Scrimger, Director, Treasury Board Secretariat.

Janak Shah, Director, Internal Audits Branch, Consulting and Audit Canada, PWGSC.

Bruce Sloan, Director, Financial Management/Internal Audit, Office of the Auditor General of Canada.

Norman Steinberg, Director General, Audit and Review Branch, Public Works and Government Services Canada.

Owen Taylor, Director General, Audit and Evaluation Branch, Industry Canada.

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In addition to the above people, participants in a Heads of Audit retreat in Kingston, Ontario (March 6-7, 2001), provided feedback and opinions on evaluation questions, and on the IA Policy logic model contained in this report.

## ***Appendix B: List of References***

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