Implementing a Continuous Audit Framework

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Introduction

- Both Private and Public Sector IA functions are continuously striving to maximizing their value-added to stakeholders through the provision of relevant and timely advice.

- Traditional audit can be time consuming resulting in findings formally presented to management several months after tests were conducted.

- As a result the value of audit recommendations can be reduced to due the lack of timeliness, particularly on transaction based audits.

- In many cases, the audit work may be complete in a timely manner; however, clearing the audit report, particularly if they are public documents, can be time consuming.

- The end result are often delays to management action plans required to address issues identified.
Introduction

- For transactional subjects such as Contracting, Travel, Pay and other management processes the solution for value-added services may be the implementation of a Continuous Audit Framework.

- Continuous Audit is broadly defined from data analytics to regular assurance services on a particular process.

- It can be used to assess control effectiveness, identify control deficiencies and detect fraud.

- Ultimately the goal of continuous auditing is to strengthen monitoring and core controls through the provision of timely assurance.
Overview

The discussion today will focus on:

- Establishing a continuous auditing framework;
- Buy-In from DAC, CFO and other Stakeholders;
- Continuous Auditing at Natural Resources Canada (NRCan) including an overview of the NRCan Framework; Value-added of Continuous Auditing, Lessons Learned; and, detailed example from 2014-15 Continuous Audit Activities.

An open dialogue and questions throughout the presentation are welcome!
Establishing a continuous auditing framework

- The audit branch needs to have a clear understanding of its goals and what it aims to achieve. Specifically:
  - Is the desired outcome to develop analytical tests to transfer to management?
  - Is the desired outcome to provide assurance on core controls on a regular basis?

- By understanding the outcome management hopes to achieve, it enables the appropriate processes and systems to be put in place by the Audit Branch to achieve them.

- Other key elements include:
  - Appropriate tools for analytics (such as data analytic software);
  - Commitment from senior management within and outside the audit branch; and,
  - Internal auditors with the appropriate skills and training to achieve desired results.
Buy-in From Audit Committee, CFO and other Stakeholders;

- Conducting audit work, in general, can be challenging and requires expertise in both technical skills and human relations.

- With Continuous Auditing this is particularly true as we are going back to the same auditee on the same subject on a regular basis.

- Buy-in is required by ensuring:
  - The DM & Audit Committee members support the process and approach;
  - CFO and Finance Branch were engaged in RBAP when selecting Continuous Audit Subjects;
  - Frequent dialogue is maintained to ensure mandate of engagement is clear; and,
  - Internal Audit works as a collaborative partner with a commitment from all levels towards a ‘no-surprises’ approach.
Continuous Audit at NRCan - Overview

The Three Lines of Defence

Governing Body / Audit Committee

Senior Management

1st Line of Defence

Management Controls

Internal Control Measures

2nd Line of Defence

Financial Controller

Security

Risk Management

Quality

Inspection

Compliance

3rd Line of Defence

Internal Audit

External audit

Regulator

VALUE-ADDED OF CONTINUOUS AUDITING
Continuous Audit at NRCan: Our Framework

- Collaboration and support from CFO and Finance Branch was essential to establish a Continuous Auditing Framework at NRCan.

- Established common goal with management to provide assurance that focuses on strengthening monitoring and core controls for a given process.

- During RBAP we select three subjects for continuous auditing, based on risk and senior management input.

- Continuous Audits are conducted within 3-4 months, concluding on key controls established in collaboration with management at the onset of the audit.

- Findings and recommendations are summarized in a Continuous Audit deck

- An annual continuous audit report is prepared summarizing continuous audit activity and posted on the website, in accordance with GoC Policy on IA.
Value-added through continuous auditing

- NRCan has had a Continuous Auditing Framework in place for three years.

- Strengthened monitoring and core controls in areas such as acquisition cards, contracting and supplier payments, travel and hospitality, pay and management of personal information.

- In areas where key controls are not effective or inherent risks are greater, continuous auditing is conducted annually until framework is deemed sound and senior management is confident no additional assurance is required.

- Value added through continuous auditing has been near real-time audit results on the effectiveness and efficiency of key controls; enhanced internal control processes within NRCan; and a reduction of duplicate or redundant controls.
Lessons Learned

Challenges faced in the 1st year of implementing the framework:

- Different directors were responsible for different elements of Continuous Auditing and different managers were assigned to lead each continuous audit resulting in:
  - Process had to be learned by manager and audit team each time a continuous audit was conducted (limited continuity of knowledge with client);
  - New relationships with each continuous audit; and,
  - A different style/approach for each continuous audit conducted.

- A lack of consistency in the presentation of each deck impacting messaging and purpose.

- Ensuring internal auditors assigned had the appropriate direction to ensure focus in planning and reporting was on core controls, rather than analytical testing to identify anomalies.

For the second year these were addressed by centralizing continuous audit activity under one director and one manager; standardized templates for planning and reporting; and providing a clear vision on the desired outcome.
Detailed Examples

- For 2014-15, NRCan’s continuous audit activities conducted in 2014-15 included providing assurance on core controls for the following three areas:
  - Travel and Associated Events;
  - Pay; and,
  - Contracting and Supplier Payments.

- Examples of key controls assessed as part of the Continuous Audit of Contracting and presented in the initial deck include:

<table>
<thead>
<tr>
<th>Key Controls Tested</th>
<th>Central Transactions: Effective (Y/N)</th>
<th>Decentralized transactions: Effective (Y/N)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Compliance to Policy: PRB reviews and endorses the procurement strategy for sole source contracts over $25,000</td>
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<td>2. Appropriate Authority: Sec. 34 approval through the E-Payment system is appropriate</td>
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<tr>
<td>3. Appropriate Authority: Sec. 33 approval is appropriate</td>
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<td>4. Tests are undertaken to identify duplicate payments when Quality Assurance reviews of low risk payments are undertaken</td>
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<td>5. A Standards document governing the Procurement Policy Analysis and Reporting (PPAR) Unit’s monitoring and reporting functions exists and is reviewed for relevance.</td>
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<td>6. Compliance to Policies: Documented evidence exists that the report for proactive disclosure of contracts greater than $10,000 has been reviewed for accuracy and completeness prior to posting on the NRCan Internet website.</td>
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<td>7. PPAR has the appropriate process in place for the list of contracts to be disclosed on the NRCan Internet website.</td>
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<td>8. Transactional Contract Monitoring and the Departmental Risk-Based Contract Monitoring Reports are submitted to PRB.</td>
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<td>9. PPAR conducts test sampling on issued contracts to ensure data integrity and data entry accuracy, and any noted deficiencies are reported and corrected.</td>
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<td>10. Appropriate Authority: Sec. 32 approval thru E-Procurement is appropriate.</td>
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<td>11. Compliance to policies: Thresholds are respected and key supporting documentation is present.</td>
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<td>12. Appropriate Authority: Authorities in PSUs respect the different levels of procurement approval and signing authority.</td>
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<td>13. Compliance to policies and FAA: Post-payment verification is completed for low risk payments.</td>
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<td>14. Compliance to policies and FAA: Pre-payment verification is completed for high risk payments.</td>
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<td>15. Compliance to policies and FAA: Post-contract verification is completed as per the PPAR Standards document.</td>
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- 2014-15 Annual Report can be found online at http://www.nrcan.gc.ca/audit/reports/2015/17841
Discussion

Questions or Comments?

Presenter

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