Integrating Internal Audit’s Performance Measurement and Reporting Framework

IIA Ottawa Chapter Breakfast Session

December 12, 2013
Today’s Session

- Introduction
  - CFIA
  - IAD
  - The Case for Change
- Approach to Formalizing the PMF
  - Objectives and Principles
  - Steps
  - Developing and Evaluating Options
  - PMF Prototype
  - Integration into the QAIP
- The Resulting PMF
- Lessons Learned
- Closing remarks and Questions - Karen
Introduction
Overview of the Canadian Food Inspection Agency

• Canada’s largest science-based regulatory agency.

• Dedicated to safeguarding food, animals and plants, which enhances the health and well-being of Canada's people, environment and economy.

• Over 7100 employees, including over 4800 inspectors coast to coast.
Introduction
Overview of the CFIA (cont’d)

Some relevant attributes/context
- Very operationally focussed organization
- Science-based
- Significant public interest & impact

The Agency is in transition
- Changing food industry
- Globalization
- Fiscal constraints

A Comprehensive Transformation Agenda is a top priority of management.

Key implications for Internal Audit – We need to **aggressively demonstrate value** in a rapidly changing environment. Our Auditees expect us to demonstrate insight and knowledge of the Agency’s business operations.
Introduction
Overview of CFIA’s Internal Audit Directorate

IAD’s Vision
• Through the delivery of excellence in our audit services, we will be a strategic advisor and catalyst for change in support of the Agency’s achievement of its outcomes.

The IAD Team
• 8 Staffed positions plus the CAE, all based in Ottawa.
• 1 Director, 4 Managers, 3 Project Leaders and 1 admin.
• There is no dedicated professional practices unit.

Auditing Activities
• 5-7 planned assurance engagements, plus management requests, per year.
• Assurance engagements need to consider operational risks and context.
Introduction
Overview of CFIA’s IAD (Cont’d)

The Agency’s Approach to Governance:

• Processes implemented by the President
• The Agency’s Internal Audit Committee

➢ Internal Audit reports and recommendations are taken seriously.

Key Implications – Relatively small audit shop where Stakeholders are informed and engaged. IA expected to demonstrate performance & efficiency.
### Introduction
The Case for Change

<table>
<thead>
<tr>
<th>PMF Status at end of 2012/13</th>
<th>Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Practice Inspection completed.</td>
<td>• CAE commitment to develop a comprehensive PMF.</td>
</tr>
</tbody>
</table>
| Performance measurement and reporting was largely ad hoc. | • Ad hoc approach:  
  • Time consuming  
  • Reacting to external requirements  
  • Little/no ability to identify trends.  
  • IAD did not “own it”. |
| Existing measures did little/nothing to provide insight to IAD’s value or efficiency | • Reliance on informal information and evaluations.  
• Challenging for AC assess performance |
| IAD not clear about the need for performance measures and targets | • Formalizing a PMF will impact people and involves change management (i.e. communications, education, other tools/support). |
Introduction
The Case for Change (Cont’d)

Other Considerations:

• OCG had signaled that the IA community, like all internal services, must have useful performance measures.

• IAD expected comprehensive performance measurement frameworks from our Auditees, why not ourselves?

• IAD was in process of refreshing its Professional Practices documents and had recently developed its annual Business Plan – therefore, timing was ideal.

IAD needed to formalize its performance measurement and reporting framework as a 2013/14 priority.
The Approach to Formalizing the PMF
Some Initial Challenges

• Accounting for IAD’s relatively small size
• Maintaining stakeholder engagement
• Managing the change as it impacted people within IAD
• Sustainability in a cost constrained environment
The Approach to Formalizing the PMF
Objectives & Principles

• The PMF should reflect the Agency’s Internal Audit environment. Specifically measures should address the needs of stakeholders while being both sustainable and adaptable to potential changes within IA or its environment;

• The PMF should link with, and support, Internal Audit’s Quality Assurance and Improvement Program (as required by Audit standards); and

• The measures should reflect plain language to promote simplicity and common understanding.

The approach had to support and consider a variety of objectives and principles. Required management as a project.
The Approach to Formalizing the PMF

Steps

• Establish a Timeline
• Conduct Targeted Research
• Identify the Required Elements
• Develop Options
  • Performance Objectives
  • Metrics, Frequency, Targets
  • Implementation Period
• Seek and Respond to Feedback
• Develop an accepted Prototype
The Approach to Formalizing the PMF
Developing and Evaluating Options

1. Performance objectives – We settled on 4 “Pillars”: Effectiveness, Efficiency, Impact and Quality

2. Metrics/Indicators, frequency and targets
   • Started with metrics/indicators that aligned to performance objectives
     • 3 Options - basic, intermediate and deluxe
     • Defining the metrics
   • Frequency
   • Targets
The Approach to Formalizing the PMF

PMF Prototype

Description

• More than simply a draft of the measures and targets, etc.
• Short presentation designed for sharing with CAE and external members of AC

Purpose - Promote buy-in, consensus, a common understanding

Contents:

• Background
• **Objectives for the PMF**
• Positioning the PMF within the QAIP
• Proposed Performance Objectives
• Proposed Metrics/Indicators, Data Sources Measurement Frequency and Targets
• Solicitation of feedback
The Approach to Formalizing the PMF

Objectives for the PMF

Excerpt from the Prototype presentation:

- The PMF should reflect the Agency’s Internal Audit environment. Specifically measures should address the needs of stakeholders while being both sustainable and adaptable to potential changes within IA or its environment;
- The PMF should link with, and support, Internal Audit’s Quality Assurance and Improvement Program (as required by Audit standards); and
- The measures should reflect plain language to promote simplicity and common understanding.
The Approach to Formalizing the PMF
Positioning the PMF within the Reporting Framework

Excerpt from the Prototype Presentation:

The Performance Measurement framework is an integral part of Internal Audit’s Quality Assurance and Improvement Program. The PMF will serve to both track progress in meeting stakeholder requirements and inform a range of performance reporting.
The Approach to Formalizing the PMF
PMF Integration into the QAIP

**Level 1 – Engagement Level**
- Quality Control *(ongoing)*

**Level 2 – Internal Assessments**
- CAE Reviews/Annual Report *(at least annual)*
- Full Scope Internal Assessments *(periodically or over a period of years)*

**Level 3 – Independent QAs**
- Independent Practice Inspections *(at least every 5 years)*
Resulting PMF
IAD’s Performance Objectives – 4 “Pillars”

- **Effectiveness** - We do what we say we’re going to do, and the results are useful for our clients.
- **Efficiency** - We maximize our use of all resources, including people, technology and operations support (e.g. professional services, travel, training).
- **Impact** - The extent to which internal audit activities affect, support and add value to CFIA.
- **Quality** – Internal audit work is of high quality and audit personnel are both competent and professional.
# Resulting PMF

Prototype of Metrics, Targets & Definitions

<table>
<thead>
<tr>
<th>Objectives and Indicators</th>
<th>Frequency of Measurement</th>
<th>Frequency of Reporting</th>
<th>Data Sources</th>
<th>Targets</th>
<th>Definition of the Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Effectiveness</strong> - We do what we say we’re going to do, and the results are useful for our clients.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Delivery against Risk-Based Audit Plan</td>
<td>Semi-annual</td>
<td>Semi-annual</td>
<td>Monthly Status Reports</td>
<td>CAE Draft Report for XX% of planned FY engagements</td>
<td></td>
</tr>
<tr>
<td>b) Feedback from AC Annual Report</td>
<td>Annual</td>
<td>Annual</td>
<td>AC Annual Report</td>
<td>XX% of areas assessed by AC rated as “satisfactory” or better.</td>
<td>Audit Committee’s assessment of the IA function as reported in their annual report (e.g. Section 4 of the annual report based on 2011_12 OCG Template)</td>
</tr>
<tr>
<td>c) Related Post Engagement Performance Assessment Results</td>
<td>Each Engagement</td>
<td>Quarterly</td>
<td>Completed PEPAs</td>
<td>XX% of responses are “satisfied” or better.</td>
<td>PEPA - Value of audit Q2</td>
</tr>
<tr>
<td><strong>Efficiency</strong> - We maximize our use of all resources, including people, technology and operations support (e.g. professional services, travel, training).</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Duration of audit engagements</td>
<td>Each Engagement</td>
<td>Annual</td>
<td>Final Project Mgmt Closure Form</td>
<td>XX% of projects completed (from initiation Notification to Draft Report) in &lt;X months</td>
<td>Duration from notification e-mail to draft report Version 1.X (Director draft) released to OPI.</td>
</tr>
<tr>
<td><strong>Impact</strong> - The extent to which internal audit activities affect, support and add value to CFIA.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Percentage of audit recommendations implemented within agreed timeframes</td>
<td>Semi-annual</td>
<td>Semi-annual</td>
<td>Mgmt. Self-Assessments</td>
<td>XX% of outstanding recommendations self-assessed by management semi-annually are as “progressing as planned” or “fully implemented”.</td>
<td>Per the Audit Recommendation Follow-up Process. Follow-ups identified as obsolete to be excluded.</td>
</tr>
<tr>
<td>b) Related Post Engagement Performance Assessment Results</td>
<td>Each Engagement</td>
<td>Quarterly</td>
<td>Completed PEPAs</td>
<td>XX% of responses are “satisfied” or better.</td>
<td>PEPA - Value of audit Q1</td>
</tr>
<tr>
<td><strong>Quality</strong> - Internal audit work is of high quality and audit personnel are both competent and professional.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Professional development of audit staff</td>
<td>Annual</td>
<td>Annual</td>
<td>Year-end Assessments of ILP Status</td>
<td>&gt;XX% of staff prepared an Individual Learning Plan (ILP) &amp; staff completed 80% of their planned training</td>
<td>Planned training is to demonstrate progress against outstanding core training per the IA Learning Path.</td>
</tr>
<tr>
<td>b) Percentage of staff with relevant professional designations</td>
<td>Annual</td>
<td>Annual</td>
<td>Staff Survey &amp; ILPs</td>
<td>&gt;XX% of staff with a relevant designation (CA, CMA, CGA) or with pursuing relevant certification (CIA, CISA, CGAP, CFE).</td>
<td>At fiscal year-end, staff person must be enrolled in the professional program and have established, with their supervisor, a formal target for completing the required exam(s).</td>
</tr>
<tr>
<td>c) Post Engagement Performance Assessment Results</td>
<td>Each Engagement</td>
<td>Quarterly</td>
<td>Completed PEPAs</td>
<td>XX% of responses are “satisfied” or better.</td>
<td>PEPA – Professional Relations, Audit Communications and Management of the Audit – all questions</td>
</tr>
</tbody>
</table>
Next Steps

- Continue to test the prototype PMF
- Develop and refine reporting, i.e. Performance dashboards (version for illustration purposes only):
Lessons Learned
Updating the PMF

- Keep it simple
- One size does not fit all
- Address as a change management project
- Do not underestimate the challenge of gathering the data, defining measures, etc.
- Make sure targets are realistic and motivating the right behaviours
- Engage the key stakeholders in the process
Thank you!

Questions/Comments/Suggestions?
Today’s Presenters

Karen Crawford Byron, CMA, CFE
Canadian Food Inspection Agency
Tel (613) 773-5128
E-mail: karen.crawfordbyron@inspection.gc.ca

Darren Budd, CA, CPA, CIA, CISA, CRMA
Orbis Risk Consulting
Tel (613) 722-6724
E-mail: dbudd@orbisrisk.ca