



Implementing the Policy on Internal Control (PIC)

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Outline of the Presentation

- Background
- Policy on Internal Control
- Roles and Responsibilities
- Implementation



Background

Federal Accountability Act and Action Plan

This policy is a foundational component of the new TB Financial Management policy suite:

- Policy on Financial Management Governance* (effective April 2009)
- Policy on Internal control* (effective April 2009)
- Policy on Stewardship of Financial Management Systems* (effective January 2010)
- Policy on Financial Resource Management, Information and Reporting* (draft)

25 new directives and 10 standards

Policy on Internal Control - Requirements

- Reaffirms the responsibility of Deputy Heads (DHs) as accounting officers for ensuring the maintenance of an effective systems of internal control
- Strengthens internal control over financial reporting (ICFR) - DHs and Chief Financial Officers (CFOs) to sign a revised annual *Statement of Management Responsibility (SMR)* that will acknowledge:
 1. Management's responsibility for maintaining effective departmental ICFR
 2. The completion of an annual risk-based assessment of the departmental system of ICFR to determine its on-going effectiveness
 3. The establishment of an action plan to address any necessary adjustments
 4. Inclusion of a summary of this information attached to the revised SMR

Canadian governmental approach to ICFR

- ✓ **Not a certification like *Sarbanes-Oxley***
- ✓ **No external audits**
- ✓ **Management self-assessment**
- ✓ **Demonstrates that controls are well managed**
- ✓ **Continuous improvement**

3. Comparison with *Sarbanes-Oxley* (SOX, USA)

- ✓ Certification of quality of financial statements
- ✓ Detailed standards
- ✓ External audits required
- ✓ Significant consequences

2. Under PIC after 2009

- ✓ Statement of Management Responsibility :
 - annual assessment of effectiveness of ICFR
 - Action plan
- ✓ Summary document disclosed

1. Canadian federal government before 2009

- ✓ Statement of management Responsibility :
 - maintenance of effective systems of ICFR
- ✓ No disclosure of evidence

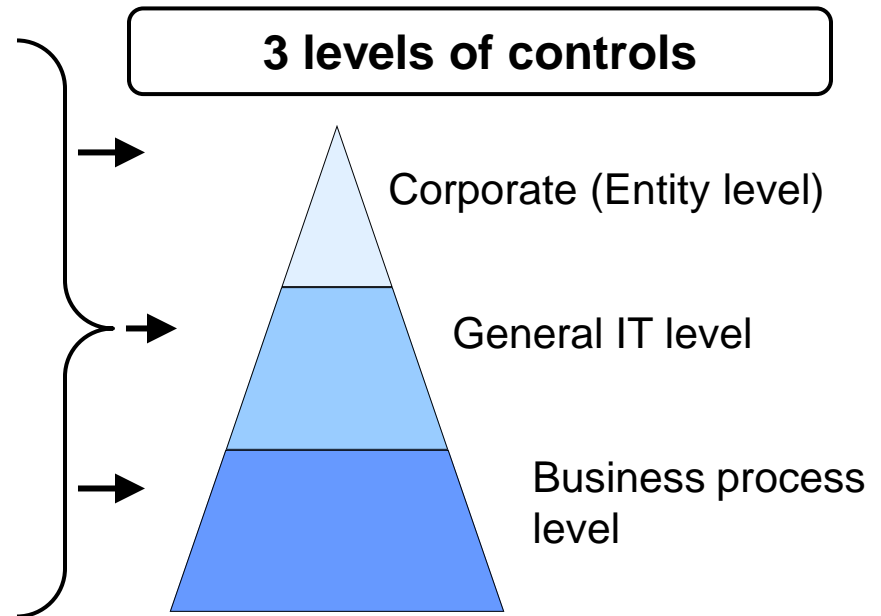


What it is and what it is not

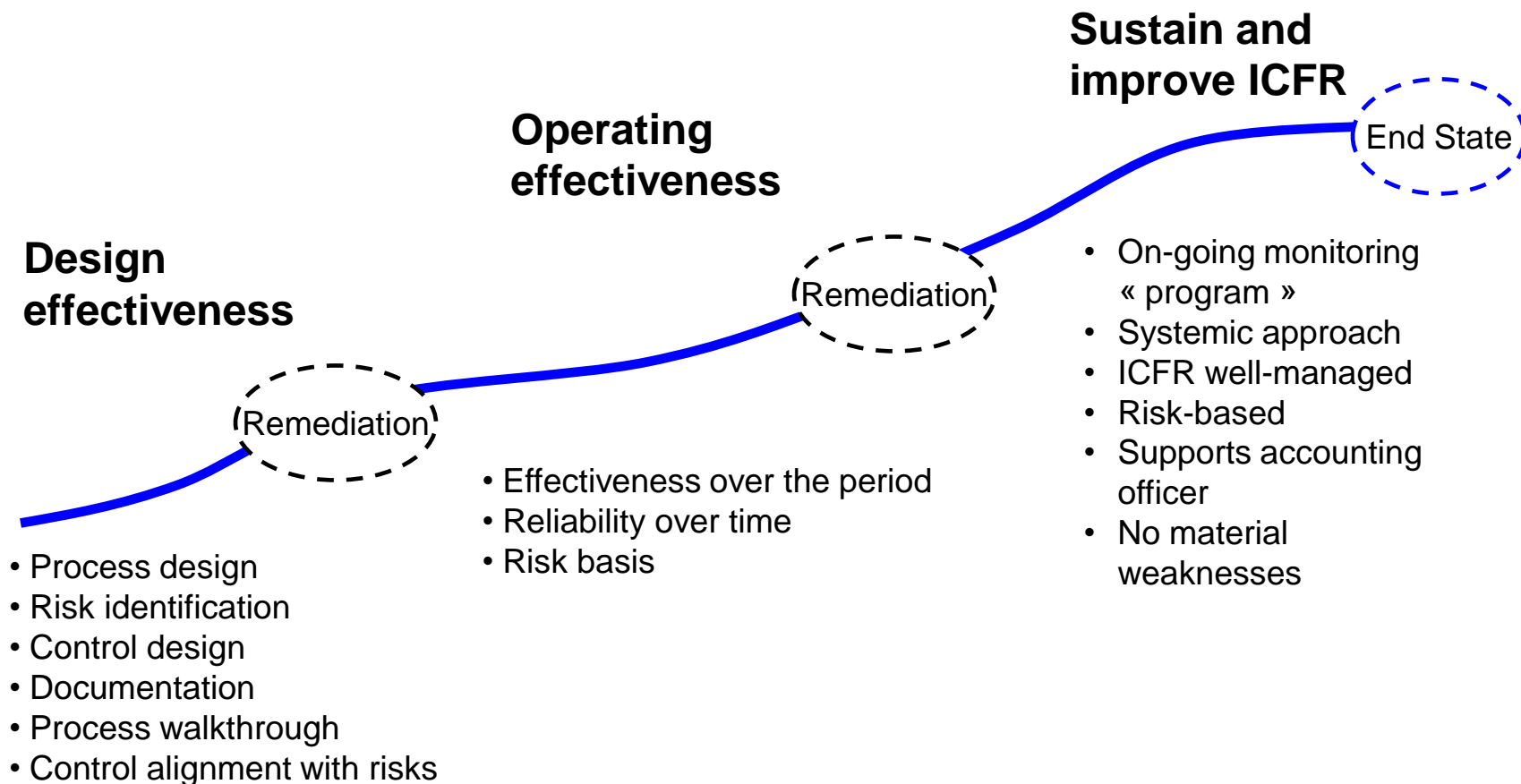
- Does not mandate new or more controls
- DHs have always:
 - been responsible for maintaining an effective system of internal control
 - signed an annual *SMR* (also signed by Chief Financial Officers)
- The key change is the rigour with which internal controls are to be managed with the provision of assurance/evidence
- Does not require that controls are bullet proof – rather that they are proportionate to the risks they aim to mitigate
- Does not require audits, even as it can leverage on past and future audits
- The revised *SMR* is not about certifying effectiveness of controls – rather acknowledging that they are well managed
- However, “well managed” also covers operating effectiveness

Scope of departmental assessments

1. Financial Statement decomposition
2. Identification of key account based on risks
3. **Design effectiveness** : key controls are
 - Identified and documented
 - in place as designed
 - aligned with risks
4. **Operational effectiveness** : key controls functioning over time



Maintaining effective systems of ICFR





Roles and responsibilities in departments

- **Deputy Heads (DH)**
 - Accountable to respond to questions before Parliamentary committees on measures taken to maintain effective systems of internal control
- **Chief Financial Officers (CFOs)**
 - Lead and coordinate the establishment and execution of the assessment plan
- **Senior Departmental Managers**
 - Maintain effective systems of ICs in the programs for which they are responsible
- **Chief Audit Executives (CAEs)**
 - As a member of the senior management team and as the lead responsible for the departmental internal audit function
 - Policy does not require annual *audits* of internal control over financial reporting
 - Discretion remains with CAE on Internal Audit plans
- **Departmental Audit Committees (DACs)**
 - Provide “..objective advice and recommendations to the deputy head regarding the sufficiency, quality and results of assurance on the adequacy and functioning of the department’s risk management, control and governance frameworks and processes.. ”



Implementation

- Effective April 1st 2009
- *Revised Statement of Management Responsibility* to be phased in over three years:
 - **2009-2010** for the 22 larger departments that have already assessed their system of internal control over financial reporting with an action plan to support control-based audits
 - **2010-2011** for all departments and agencies that already have audited financial statements
 - **2011-2012** for all other departments
- Multi-year assessment plans – pace and scope to be based on risks



Success Factors

1. Top down risk-based approach
2. Capacity and common knowledge base
3. Senior Management buy-in and role of CFO as champion and leader
4. Risk-based assessment planning
5. Engaging experts beyond the FM community
6. Learning from best practices



Key enablers for implementation

- Engagement of departments through the establishment of Advisory Committees for clusters of departments through transition to
 - Ensure policy and implementation clarity
 - Advise on tools and guidelines
 - Identify and share best practices and key lessons learned
 - Enable common understanding of ICFR and assessment

- Supporting tools being developed:
 - Draft Guideline under the Policy
 - Illustrative example of summary information document
 - Toolkit
 - Positioning of the PIC/ICFR with other government-wide management frameworks
 - Comparison to US & UK



Content of Annex to the Statement

The summary document (Annex) attached to the *Statement of Management Responsibility* to include:

- 1. *Introduction*** – departmental overview, financial highlights and key organizational changes
- 2. *Control Environment*** - *Key positions and responsibilities as well as measures taken to set the « tone from the top »*
- 3. *Assessment Approach*** - *Assessment scope and methodology*
- 4. *Assessment Results*** - *Significant findings*
- 5. *Action Plan*** - *Significant actions to be taken and timelines*



Expected benefits of the PIC

- Instrumental to support Deputy Heads as accounting officers
- Increase public confidence and trust through strengthened accountability and transparency
- Opportunity to showcase how well the department is being managed
- Opportunity to engage and collaborate at all levels in support of continuous improvements related to risk management
- Foundational to other initiatives such as quarterly financial statements and potential audits of financial statements
- More efficient departmental systems of internal controls



Questions?

- If any questions, please contact

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