



IMPROVED PROCESS TO DEVELOP A RISK-BASED AUDIT PLAN AT EMPLOYMENT & SOCIAL DEVELOPMENT CANADA (ESDC)

Value-added risk-based audit planning leveraging business architecture and business intelligence

Context

With fewer resources, government internal audit functions are increasingly being asked to focus on the essentials: (i) conducting audits that add value to senior management and audit committees; and (ii) helping their organizations move forward with greater agility to address areas of high risk exposure.

Employment & Social Development Canada (ESDC) is the department of the Government of Canada responsible for developing, managing and delivering social programs and services. As part of its expansive mandate, ESDC is responsible for disbursements of over \$128 B to Canadians through social programs such as Employment Insurance (EI), Canada Pension Plan (CPP) and Old Age Security (OAS). In addition, the Department is responsible for Passport delivery and Social Insurance Number (SIN) issuance.

With a diverse, dynamic and expansive risk landscape, ESDC's Internal Audit function recognized the need for better risk intelligence, a re-architecture of the audit universe, and a process to drive greater value and risk insight for the Department. As a result, the Department launched its new risk-based audit planning initiative in the Fall of 2013. The objective of this initiative was to create a two-year Risk-Based Audit Plan (RBAP) that responds strategically to the needs of the Department, through better identification of areas of high risk exposure from an internal audit perspective. The initiative was a collaborative effort between ESDC's Internal Audit function and A Hundred Answers.

The key innovation was the creation of a depiction of the Department's activities – an audit universe – using a *business architecture* approach, resulting in an “architecture-driven risk framework”.

Architecture-driven risk framework

At the heart of the architecture-driven risk framework (“the framework”) are cross-functional views of the Department's different business lines. With the new approach, these business lines are viewed in a holistic and comprehensive manner: individually, in groupings, or horizontally.

This framework complements existing methods, tools, and techniques employed by risk professionals, but is novel in its use of *The Open Group Architecture Framework (TOGAF)*. TOGAF is an industry-recognized open source (free to use, free to adapt, and free to share) methodology recommended for use by the Treasury Board of Canada. TOGAF provides an industry standard for *business architecture*, helping organizations align business objectives and business activities in a logical manner.

Leveraging the *business architecture* approach to defining the audit universe resulted in a framework with implications and use cases beyond those initially defined by Internal Audit. In particular, the framework provides a sound basis and foundation for enterprise risk management, as it leverages the existing risk information and business intelligence across the Department. The framework also allows for

both the Internal Audit function as well as management to share a common vision, vocabulary, and approach with structured flexibility, adaptability, and agility.

Internal Audit use case and outcomes

Defining an audit universe on the basis of *business architecture* has also enabled Internal Audit to focus on the value-delivery chain, as seen conceptually in Figure 1. As a result, Internal Audit is now better equipped to redirect its limited resources to strategic audit engagements on areas that have a greater cascading affect throughout the Department. This redefinition of the audit universe has led to Internal Audit having better coverage of risk areas of interest to the Department, through greater rigour and objectivity in the evidence-based selection of audits and, consequently, more value-added and timely insights for senior management. In addition, the *business architecture* audit universe is resilient to change, as it is organizationally neutral and covers all areas under ESDC’s Program Alignment Architecture¹.

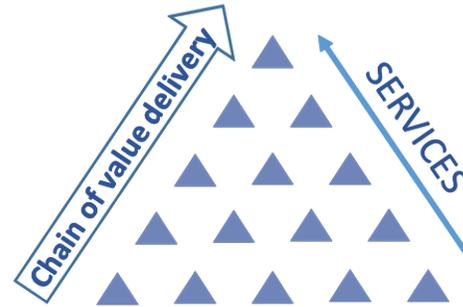


Figure 1 – Value-delivery chain concept diagram

As part of the value-delivery chain, to ensure a more strategic focus, the re-defined audit universe reflects how ESDC delivers value to individuals and organizations, much like a supply chain. In addition to being consistent with best practices and industry standards, this approach allows for vertical, horizontal and matrix views of the universe, enabling the examination of interdependencies. Internal Audit is now better equipped to direct its limited resources to strategic audit engagements that impact multiple business lines and address Departmental risks. For instance, the audit of Delegation of Authorities (DoA)² within SAP allowed Internal Audit to provide reasonable assurance to senior management on the DoA across many programs and business operations using PeopleSoft and SAP.

The *business architecture* approach to developing an audit universe for risk-based planning is driven by evidence, which is assembled to allow for analysis of risks to and across business lines. Each business service is assigned key objectives and associated risks. These business objectives and their corresponding risks are confirmed through a validation exercise with management. The practice of using

¹ The Program Alignment Architecture (PAA) is tool used by federal government organizations. ESDC’s PAA depicts programs offered by the Department and the Strategic Outcomes that the programs are designed to achieve for Canadians. It also includes programs for services that are internal to the Department and are important in supporting the achievement of the four Strategic Outcomes.

² Delegation of Authorities is a Government of Canada instrument that specifies the types and limitations of authorities delegated to a specific position. The Minister and Deputy Minister grant these delegations to officers of the Department on the condition that the authority so delegated be applied only within the delegated officer’s area of responsibility. For example, the Minister’s office is the only position given power through legislation to approve contracts and requisition payments. Therefore, the Minister is ultimately accountable for all financial and contractual actions of the Department. Where the Minister has delegated this authority to officers of the Department, the objective is to provide authority commensurate with their operating needs.

There are four key parameters to the delegations of authorities which affect the domain and the scope of their application. Specifically, the delegations: are made to specific levels of positions; have specific transaction limits attached and are subject to restriction by management; are subject to any additional limitations defined in statutes, regulations, policies and directives, receiver general directives and other directives; and are restricted to those activities allowed by legislation and as approved by the Deputy Minister and which are described in official departmental documents in terms of mandates, operational plans, and budgets.



existing risk information and business intelligence allows for management to address risk areas identified by Internal Audit in real-time, in advance of potential audits, thus possibly even eliminating the need for the audits. An information management tool has been leveraged to enable the consolidation and continued use of this risk information and business intelligence.

In summary, adopting this leading practice of *business architecture* and an industry-standard IM tool known as *TeamRisk*® has helped the Internal Audit function to better rely on an audit universe that is:

1. **Adaptable** - comprising defined interdependent business lines, which are logically organized to permit analysis in many dimensions - from the bottom-up or top-down, vertically or horizontally, and by risk type or delivery model;
2. **Comprehensive** - based on rigorous analysis of the legislative and regulatory mandate for the Department, resulting in over 200 identifiable auditable business lines; and
3. **Organizationally neutral and resilient to change** - not dependent on *who* delivers the business but rather *how well* the programs and services are being delivered. As a result, the audit universe is not affected by ongoing organizational change and restructuring.

As a result, Internal Audit has better coverage of risk areas of importance to senior management; more rigour and objectivity in the identification of risk areas; and, consequently, more value-added and timely insights (through audits) to senior management and the audit committee.

Validation of methodology applied

The approach and methodology that led to the innovative architecture-driven risk framework at ESDC has been reviewed by an independent third party and subjected to peer-review by other internal audit functions across government. Both the independent and peer reviews concluded that the approach and methodology:

- is **defensible**, as it is founded in recognized industry standards and frameworks, such as TOGAF, Committee of Sponsoring Organizations of the Treadway Commission (COSO), Control Objectives for Information and Related Technologies (COBIT), Generally Accepted Privacy Principles (GAPP), and Generally Accepted Accounting Principles (GAAP), among others;
- is consistent with **industry trends** toward horizontal, integrated operational risk management to account for evolving risk events;
- leverages principles of **structured flexibility and objective inheritance** for adaptability to change and more comprehensive risk views aligned to departmental priorities;
- is **data-driven**, which is consistent with leading best practices; and
- uses a **standardized vocabulary and approach**, built-in with the ability to aggregate risk information.

ESDC has been recognized as a leader in the internal audit community across the federal government. The Internal Audit group has also been sharing its best practice with other departments and agencies through presentations and learning events organized by the Institute of Internal Auditors.



Key takeaways

Leveraging a business architecture approach within internal audit can drive a common vision, vocabulary and approach: Leveraging the business architecture approach can provide a holistic and comprehensive view of the business and enable the effective usage of existing risk information and business intelligence across the organization. In addition to providing a basis for an adaptable, comprehensive and change-resilient audit universe, the approach can deliver a sound basis and foundation for enterprise risk management. Furthermore, it allows for a common vision, vocabulary, and approach between Internal Audit and management, with structured flexibility, adaptability, and agility.

Rethinking the audit universe can drive higher-value audit activities: Defining an audit universe on the basis of *business architecture* can enable Internal Audit to better focus on the organizational value-delivery chain, and more easily direct limited resources to strategic audit engagements, addressing objectives and risks with greater cascading affect throughout the organization.

Establishing a framework to harness existing risk intelligence can promote greater rigour and objectivity: Establishing a framework conducive to the collection, interpretation and continued leveraging of risk information and business intelligence (or “risk intelligence”) enables more rigorous and objective risk-based planning. The practice of using existing risk intelligence also allows management to address risk areas identified by Internal Audit in real-time, helping maximize value-for-money in the context of limited internal audit resources.

Presentation

Topic: Doing more with less: Maximizing internal audit’s value with better risk intelligence

Track: Perspectives in Public Sector Auditing

Date/time: 26 September 2016, 15:00 - 16:00

Location: Halifax Ballroom A

Presenters:

- Dean Shivji, Senior Advisor, Internal Audit Services Branch, ESDC
- François-Michel Brière, IT Auditor, Internal Audit Services Branch, ESDC
- Sarah Lyons, Principal, A Hundred Answers Inc. (AHA)
- Hassan Qureshi, Principal, A Hundred Answers Inc. (AHA)