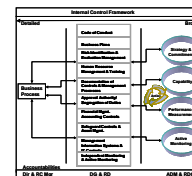


**Environment Canada
Internal Control Framework (ICF)**



**Environment Canada
Internal Control Framework (ICF)**

Final Draft Version 1c
March 2002
(Updated to July 2003)

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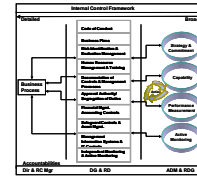
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Background and Purpose

The purpose of this document is to provide the framework for Internal Control within Environment Canada (EC). The *Report of the Independent Review Panel on the Modernization of Comptrollership in the Government of Canada* identified the imperative to modernize the approach to management, and to accelerate the achievement of results-oriented and value-based performance management.

The *EC Modern Management* action-plan called for the design and development of an Internal Control Framework (ICF) that would be an integral part of EC's plan to implement the tenets of modern management. The Internal Control Framework builds upon existing EC Guide on Financial Management Accountability and governance documents and is a critical pillar of Modern Management.

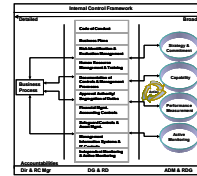
A system of effective internal controls is a critical component of organizational management and the foundation for safe and sound operations. A system of durable internal controls supports the achievement of organizational goals and objectives, long-term results targets, and the maintenance of reliable financial and managerial information and also helps to ensure that the organization will comply with laws and regulations as well as policies, plans, internal rules and procedures, and decrease the risk of unexpected losses or damage to the organization's reputation.

The development of the ICF was based upon research and best practices as recommended by central agencies and standards bodies ¹. This paper describes the essential elements of a sound internal control system, drawing upon principles from national and international standard setting bodies and how the ICF can be effectively implemented through active monitoring.

¹ Several national and international standards bodies and central government agency models have established a core body of internal control knowledge and pronouncements (as outlined in the Bibliography), including but not limited to:

- *Criteria on Control (CoCo) Model of the Canadian Institute of Chartered Accountants* • *Report of the Independent Review Panel on the Modernization of Comptrollership in the Government of Canada* • *Internal Control Standard of the Canada Deposit Insurance Corporation* • *Framework for Internal Control Systems by the Basile Committee on Banking Supervision* • *Treasury Board of Canada Secretariat (TBS) Policy on Active Monitoring* • *TBS Integrated Risk Management Framework* • *Financial Management Capability Model (FMCM) of the Office of the Auditor General of Canada.*

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Internal control is a *process* effected by executive management, senior management and all levels of personnel. It is not solely a procedure or policy that is performed at a certain point in time, but rather it is continually operating at all levels within the organization.

EC retained the services of icorp.ca inc. to develop the broad ICF, establish a detailed framework for internal controls at the business process level, and to develop financial internal control self-assessment checklists. Financial management controls, linked to business process controls, formed the initial model to guide the development of remaining business process control framework elements for the department.

Concepts of Internal Control

The approach to the development of the ICF was based upon a thorough review of control concepts, objectives and control standards², including the CICA Governance and Risk Management Board recommendations (*formerly the Criteria on Control CoCo Board*), which is a useful framework for making judgments required in the design, assessment and reporting on control.

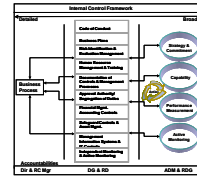
The CICA Governance and Risk Management Board defined control to be:

- all the elements of an organization (including its resources, systems, processes, culture, structure and tasks) that, taken together, support people in the achievement of the organization's objectives. By incorporating these interrelated elements, control is effective to the extent that it provides reasonable assurance that the organization will achieve its objectives reliably.

The Financial Administration Act (FAA) of Canada and the Office of the Auditor General of Canada (OAG's) Financial Management Capability Model (FMCM) established criteria for internal control based upon a control framework.

² OAG Annual Report – Chapter 13 October 2000 – Assessment of Financial Management Capabilities in Departments • Guide on Financial Management Accountability – Environment Canada • CICA Handbook Section 5200 on Internal Control • Internal Control Standard – CDIC Standards of Sound Business and Financial Practices • OAG Financial Management Capability Model (FMCM) • TBS Policy on Active Monitoring • Results for Canadians – TBS Management Framework for the Government of Canada • CICA Criteria on Control Board CoCo Model.

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These concepts of control, at a minimum, are focused on ensuring that:

- adequate resources are available, assets are safeguarded, information is reliable, operations are monitored, controlled and conducted with prudence and probity, and the organization meets statutory and regulatory reporting requirements.

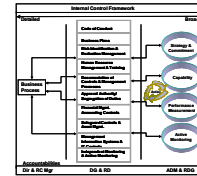
The design of the ICF reflects a stratified concept of internal control³, that includes:

- *The Internal Control Environment* - The internal control environment is the framework under which internal controls are developed, implemented and monitored. It consists of the mechanisms and arrangements that ensure internal and external risks to which the organization is exposed are identified, that appropriate and effective internal controls are developed and implemented to soundly and prudently manage these risks, and that reliable and comprehensive systems are in place to appropriately monitor the effectiveness of these controls. The internal control environment is supported by IC Policies and Procedures, and IC Processes.
- *Internal Control Policies and Procedures* - Internal controls are the policies and procedures established and implemented alone, or in concert with other policies or procedures, to manage and control a particular risk or business activity, or combination of risks or business activities, to which the organization is exposed or in which it is engaged.
- *Internal Control Processes* - the process, effected by an organization's executive management, senior management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operations, the reliability of management reporting and compliance with applicable laws and regulations.

Consistent with these concepts, a broad ICF design was established that is applicable at any functional or business line level within the organization, with related detailed links to business process internal controls.

³ Reference from the CDIC Internal Control Standard – updated as at October 2001

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Elements of the Internal Control Framework

The ICF is modular in design and comprises 3 cascading levels including:

Internal Control Framework Elements	Accountable Personnel
The Internal Control Environment	<ul style="list-style-type: none"> • Deputy Minister (DM) • Assistant Deputy Ministers (ADM's) and Regional Directors General (RDG's)
Organizational and Procedural Controls	<ul style="list-style-type: none"> • Regional Directors General (RDG's) • Directors General (DG's) and • Regional Directors (RD's)
Business Process Internal Controls	<ul style="list-style-type: none"> • Directors, Responsibility Centre (RC) Managers, and Personnel

The internal control environment establishes the organizational climate for ensuring that effective controls are developed and implemented to assist executive and senior management in the achievement of the organization's objectives – *the Broad perspective*. At the operational level, the ICF is focused at an Organizational and Procedural Control level to assist senior management and personnel in the effective delivery of services, linking the related business process internal controls to the broad internal control environment – *the Detailed perspective*.

Control standard setting bodies have adopted both perspectives, as identified below:

**Broad Perspective -
Internal Control Environment**
(controls to support achievement of organization's objectives)

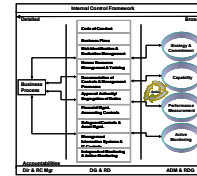
- CICA Handbook
- CICA Risk Management & Governance Committee
- US Treadway Commission on Governance & Risk Management
- TBS Modern Comptrollership Framework **
- CDIC Standards of Sound Business and Financial Practices

**Detailed Perspective -
Business Process Internal Controls**
(internal financial management controls *)

- OAG FMCM
- TBS Capacity Check
- * assets are safeguarded, information is accurate and reliable, operations are monitored, controlled and conducted with prudence and probity, transactions are processed and controlled in accordance with applicable legislative and/or regulatory requirements

** TBS Policy on Active Monitoring • Results for Canadians – TBS Management Framework for the Government of Canada • TBS Risk Management Framework • Report of the Independent Review Panel on Modernization of Comptrollership in the Government of Canada • OAG Financial Management Capability Model (FMCM) • TBS Comptrollership Modernization Office documentation • TBS Modern Comptrollership Capacity Check.

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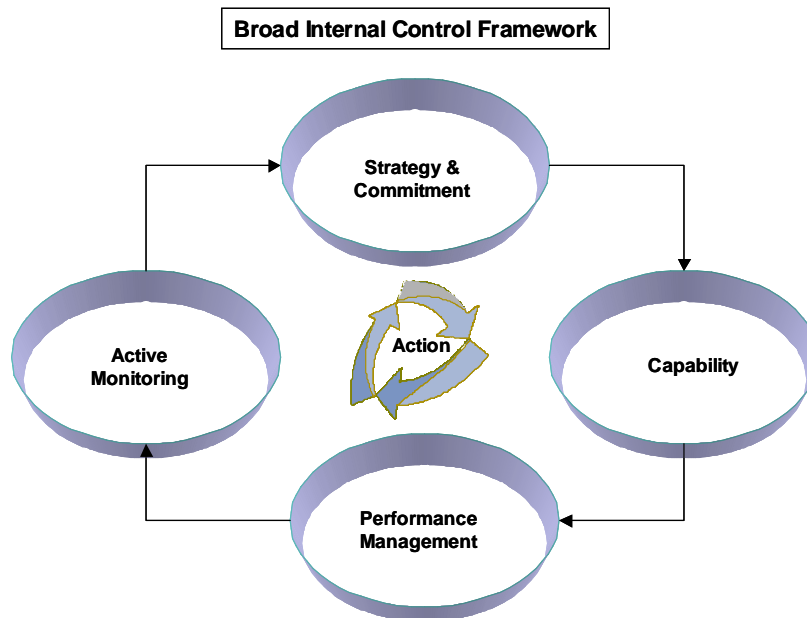


1. The Control Environment

The control environment establishes the organizational climate for ensuring that effective controls are developed and implemented to assist management in the achievement of the organization's objectives – *the Broad perspective*. The broad ICF includes four key elements comprising the *Control Environment*, including:

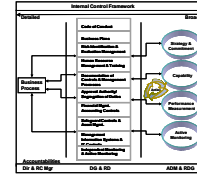
- Strategy and Commitment;
- Capability;
- Performance Management; and
- Active Monitoring.

Since control comprises all the elements of an organization, (including its resources, systems, processes, culture, structure and tasks) that taken together, a control framework will support people in the achievement of the organization's objectives. Thus, control is effective to the extent that it provides reasonable assurance that the organization will achieve its objectives reliably by taking action. The four elements taken together comprise the control environment, as depicted below.



Accountability rests with the DM, ADM's, and the RDG's to ensure that the proper control environment is established, durable and sustainable. Thus, the ICF establishes the organizational climate for ensuring that effective controls are developed and implemented to assist management in the achievement of the organization's objectives.

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The four essential control elements taken together comprise the *Control Environment*. The control environment is applicable to any Functional or Business Line service level within the organization.

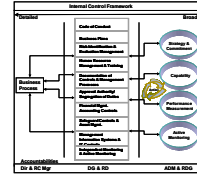
Appendix A provides a listing of the control instruments that an organization requires to support the four control environment elements.

ICF – Control Environment
<ul style="list-style-type: none"> • Strategy and Commitment refers to those criteria that provide a sense of the organization’s direction, including mission, vision, strategy, risk management, policies, planning and performance targets. Commitment sets out the identity and values and provides for senior’s management’s commitment to achieve objectives. It addresses ethical values, organizational policies and senior management support for operational activities. Thus, Executive management is actively concerned with sound corporate governance and understands and diligently discharges its responsibilities by ensuring that the organization is appropriately and effectively guided, managed and controlled.
<ul style="list-style-type: none"> • Capability refers to the ability to carry out the necessary business activities competently. It includes the adequacy of resources (human, technical, physical and financial); responsibility, authority and accountability; and training. Thus, Management plans, allocates resources, actively manages and operates the organization in a sound and prudent manner, and ensures human resources are appropriately skilled and trained.
<ul style="list-style-type: none"> • Performance Management refers to the ongoing management, measurement and analysis of information, activities and progress toward goals and objectives. Thus, organizational and procedural controls are in place, supported by an effective management information system, and measure performance and allow management to pursue any necessary remedial action against risk.
<ul style="list-style-type: none"> • Active Monitoring refers to the continuous learning, transformation and verification of controls to ensure business activities have been carried out in accordance with established policies and procedures. This would include independent verification (e.g. Internal Audit), management reviews and senior management oversight. This element thus supports the TBS requirement for “active” monitoring by departments of the effectiveness of organizational and procedural controls.

It is important to note that the Clerk of the Privy Council and the Secretary of the Treasury Board recently issued guidance on accountability and control, including:

- **Guidance for Deputy Ministers** - a framework of expectations for DM’s - <http://www.pco-bcp.gc.ca/default.asp?>
- **Management Accountability Framework (MAF)** – http://www.tbs-sct.gc.ca/maf-crg/index_e.asp

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3. Business Process Internal Controls

An ICF that provides a stable environment and ensures that control practices are durable and sustainable *must be instituted at the business process level*. Therefore, by linking specific Business Processes with the types of decisions to be made, and being mindful of the associated risks, specific internal controls can be targeted to satisfy the broader objectives of a sound Internal Control Environment.

The application of business processes for internal control purposes has been standardized, so that their use within the departmental ICF can be applied at either the Business Line, Regional, or Organizational levels.

An effective way to describe business processes across the department in a standardized way is to relate them to Activities. These activities are primarily defined in the EC “Blueprint” - consistent with results and activities as linked to the departmental Priorities Reporting Accountability Structure (PRAS), Business Line structure, and Activity structure as set out in the EC Report on Plans and Priorities (RPP).

Business processes can be articulated in a standardized way by utilizing the following cascading levels:

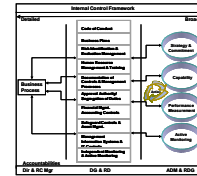
- **Business Line ***
 - **Result ***
 - **Activity**
 - **Key Business Processes**
 - **Business Process Internal Controls**

* Note: for purposes of the ICF, these levels have been predefined in conjunction with Central Agencies.

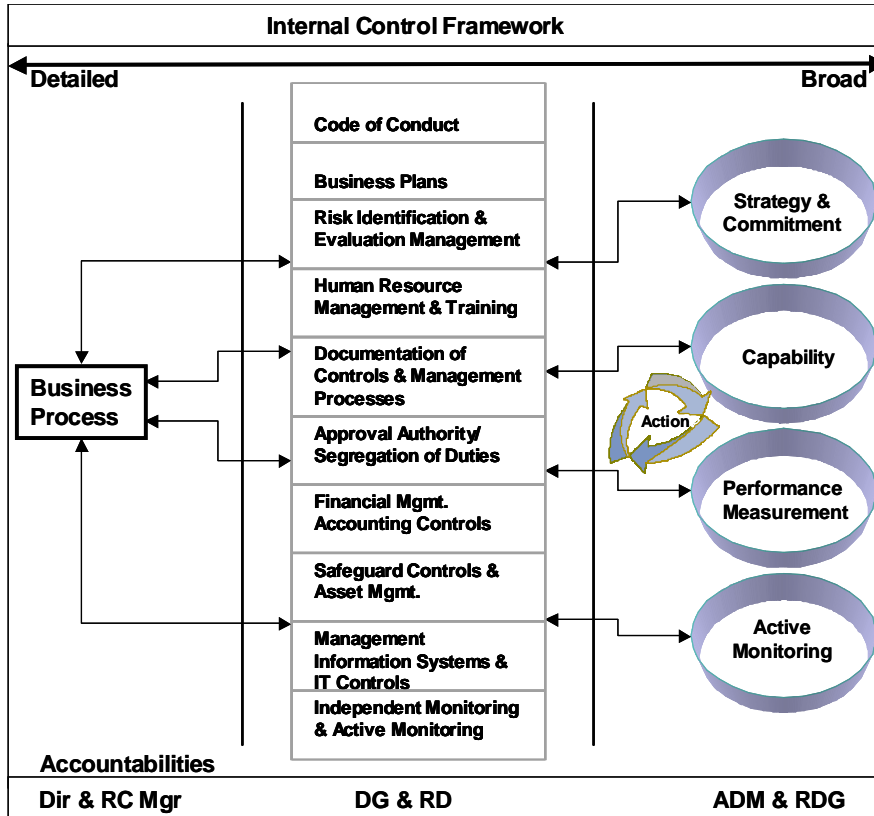
At a Broad ICF level, using the “BluePrint” framework provides a standardized approach to the EC Business Line Activity Structures, in relation to results, activities/ sub-activities, and key business processes.

At a Detailed ICF level, business process internal controls can be articulated to utilize the standardized approach for corporate and Regional groups, as implemented at the Business Line level, Corporate level and / or Regional levels.

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The design of the ICF reflects the continuum from a broad control environment to detailed business process controls, as depicted below.



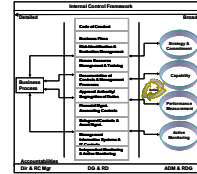
Accountability rests with Directors and RC Managers to ensure that business process internal controls are instituted at the operational levels.

Control Assessment Mechanism

A Control Assessment mechanism has been developed for accountable managers, to support the determination of how effectively business process internal controls have been embedded across the organization. The ICF Assessment mechanism addresses two fundamental questions concerning the use of internal controls – *Did we do it?* and *Can we do it better?*

The Control Assessment mechanism has been designed to provide the Deputy Minister (DM) and the Senior Financial Officer (SFO) with documentation and assurance that a system of IC's is in place in the department to support the effective and efficient utilization of Appropriated resources.

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To answer the question - **Did we do it?** - addresses the fundamental need to ensure that the department has a system of IC's in place and that in fact they are being used in accordance with the principles set out in the ICF.

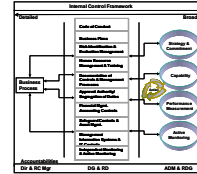
To answer the question – **Can we do it better?** - goes beyond Business Process IC's and speaks to the effectiveness of the embedded use of Organizational and Procedural controls across the department, within the context of the Control Environment, and challenges managers to actively identify areas where controls can be strengthened and broader management issues improved.

The Control Assessment mechanism has been framed by fundamental objectives to ensure that their use provides the assurance that managers and the executive need to manage Appropriated resources. These objectives are utilized to:

- answer the question - *Did we do it?*
- support managers and the executive in the broader question – *Can we do it better?*
- bring discipline to the implementation of IC's across the department
- provide documentary evidence that controls have been implemented and are in use
- create a self-assessment mechanism for the ICF through a hands-on checklist
- support active monitoring;
- imbed the consideration of risk in management decisions and in business process IC's; and
- to guide managers in their roles, responsibilities, and accountabilities.

The Control Assessment mechanism has been structured consistently with the ICF, providing a mechanism to assess the broad IC perspective, as well as the detailed Business Process internal controls perspective.

Appendix C provides an example of the Control Assessment mechanism for Finance, that has been developed on a pilot basis in concert with the development of the ICF and provides detailed business process internal controls, as linked to the broader organizational Activity and Business Line structure.



Standards of an Effective Internal Control System

To guide the effective use of the ICF, a number of fundamental standards of an effective internal control system have been developed, that set out the roles, responsibilities, accountabilities and supporting systems of controls for executive management, senior management and all other personnel. The development of these standards were based upon best-practices research ⁴.

There are 5 overarching standards of an effective internal control system that support the ICF, including:

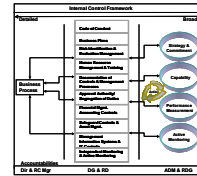
1. The control environment
2. Risk assessment
3. Control activities and segregation of duties
4. Information and communications; and
5. Active monitoring and correcting deficiencies.

It is important to note that the Standards of an Effective Internal Control System are also supported by two recently released documents by the Clerk of the Privy Council and the Secretary of the Treasury Board concerning guidance on accountability and control, including:

- **Guidance for Deputy Ministers** - a framework of expectations for DM's - <http://www.pco-bcp.gc.ca/default.asp?>
- **Management Accountability Framework (MAF)** – http://www.tbs-sct.gc.ca/maf-crg/index_e.asp

⁴ *Framework for Internal Control Systems by the Basile Committee on Banking Supervision • Internal Control Standard of the Canada Deposit Insurance Corporation • Criteria on Control (CoCo) Model of the Canadian Institute of Chartered Accountants • Report of the Independent Review Panel on the Modernization of Comptrollership in the Government of Canada • OAG Financial Management Capability Model (FMCM).*

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1. The Control Environment

Executive management should have responsibility for approving and periodically reviewing the overall business strategies and significant policies of the organization; understanding the major risks run by the organization, setting acceptable levels for these risks and ensuring that senior management takes the steps necessary to identify, measure, monitor and control these risks; approving the organizational structure; and ensuring that senior management is monitoring the effectiveness of the internal control system. The executive management is ultimately responsible for ensuring that an adequate and effective system of internal controls is established and maintained.

Senior management should have responsibility for implementing strategies and policies approved by the executive management; developing processes that identify, measure, monitor and control risks incurred by the organization; maintaining an organizational structure that clearly assigns responsibility, authority and reporting relationships; ensuring that delegated responsibilities are effectively carried out; setting appropriate internal control policies; and monitoring the adequacy and effectiveness of the internal control system.

The executive and senior management are responsible for promoting high ethical and integrity standards, and for establishing a culture within the organization that emphasizes and demonstrates to all levels of personnel the importance of internal controls. All personnel of the organization need to understand their role in the internal controls process and be fully engaged in the process.

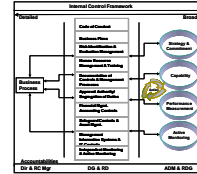
2. Risk Assessment

An effective internal control system requires that the material risks that could adversely affect the achievement of the organization's goals are being recognized and continually assessed. This assessment should cover all risks facing the organization and the consolidated organization (including but not limited to, financial risk, operational risk, asset and liability management risk, legal risk and reputational risk). Internal controls may need to be revised to appropriately address any new or previously uncontrolled risks.

3. Control Activities and Segregation of Duties

Control activities should be an integral part of the daily activities of an organization. An effective internal control system requires that an appropriate control structure is established, with control activities defined at every business

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line level. These should include: top level reviews; appropriate activity controls for different business lines and directorates; physical controls; checking for compliance with financial management regulations and follow-up on non-compliance; a system of approvals and authorizations; and, a system of verification and reconciliation.

An effective internal control system requires that there is appropriate segregation of duties and that personnel are not assigned conflicting responsibilities. Areas of potential conflicts of interest should be identified, minimized, and subject to careful, independent monitoring.

4. Information and Communications

An effective internal control system requires that there is adequate and comprehensive internal financial, operational and compliance information, as well as external information about events and conditions that are relevant to decision making. Information should be reliable, timely, accessible, and provided in a consistent format.

An effective internal control system requires that there are reliable information systems in place that cover all significant activities of the organization. These management information systems, must be secure, monitored independently and supported by adequate contingency arrangements.

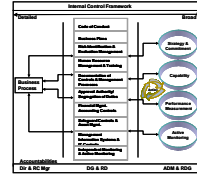
An effective internal control system requires effective channels of communication to ensure that all personnel fully understand and adhere to policies and procedures affecting their duties and responsibilities and that other relevant information is reaching the appropriate personnel.

5. Active Monitoring and Correcting Deficiencies

The overall effectiveness of the organization's internal controls should be monitored on an ongoing basis. Monitoring of key risks should be part of the daily activities of the organization as well as periodic evaluations by the business lines, directorates and internal audit.

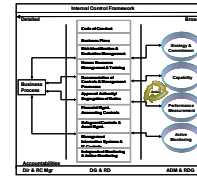
There should be an effective and comprehensive internal audit of the internal control system carried out by operationally independent, appropriately trained and competent staff. The internal audit function, as part of the monitoring of the system of internal controls, should report directly to executive management, and to senior management.

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Internal control deficiencies, whether identified by business line, directorate, internal audit, or other personnel, should be reported in a timely manner to the appropriate management level and addressed promptly. Material internal control deficiencies should be reported to senior and executive management.

Taken together, the standards of an effective internal control system and the Control Assessment mechanism provides the Deputy Minister (DM) and the Senior Financial Officer (SFO) with assurance that a system of IC's is in place and operational in the department.

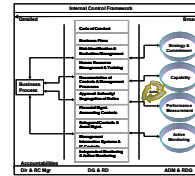


Appendix A - Internal Control Environment Control Instruments

The following table provides examples of **Strategy and Commitment** control instruments.

STRATEGY AND COMMITMENT - CONTROL INSTRUMENT	EXIST (to be confirmed)	IN PROGRESS
Management, Governance and Accountability Framework	V	
Internal Control Framework		V
Control Assessment Mechanism	V	
Risk Management Framework		V
Financial Management Framework	V	
Human Resources Framework	V	
Performance Measurement Framework		V
Code of Conduct, Values and Ethics	V	
Business Planning and Resource Allocation Framework	V	
Performance Targets and Controls		V
Policies and Procedures	V	
Information Security Framework		V

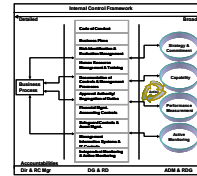
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The following table provides examples of **Capability** control instruments.

CAPABILITY - CONTROL INSTRUMENT	EXIST (to be confirmed)	IN PROGRESS
Human Resources Capacity and Core Competencies Assessment		V
Technical Resource Capacity Assessment	V	
Infrastructure Resource Capacity Assessment		V
Financial Resources Capacity Assessment	V	
Control Assessment Mechanism	V	
Financial Management and Accounting Controls	V	
Information Management Infrastructure	V	
Information Systems Management and Security	V	
Delegated Approval Authority & Segregation of Duties	V	
Roles and Responsibilities Controls	V	
Safeguard Controls and Asset Management		V
Documentation of Controls and Management Processes	V	
Training and Renewal Guidelines	V	

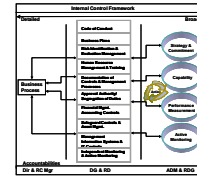
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The following table provides examples of **Performance Management** control instruments.

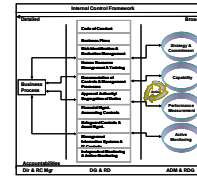
PERFORMANCE MANAGEMENT - CONTROL INSTRUMENT	EXIST (to be confirmed)	IN PROGRESS
Performance Measurement Against Agreements and Targets (e.g. Balanced Score Card tools)		V
Information and Performance Analytics	V	
Management Information – Internal & External	V	V
Financial Information – Internal & External	V	
Control Assessment Mechanism	V	
Performance-Based Decision-Making		V
Action-Based Risk Management		V
Financial Implications of Risk-Based Decisions	V	
Service Delivery Transformation Management		V
Business Transformation Management		V
eGovernment Transformation Management		V
Client Satisfaction Information	V	

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The following table provides examples of **Active Monitoring** control instruments.

ACTIVE MONITORING – CONTROL INSTRUMENTS	EXIST (to be confirmed)	IN PROGRESS
Active Monitoring of Governance and Process Controls		V
Active Monitoring of Performance		V
Independent Audit	V	
Active Monitoring of Control Systems		V
Control Assessment Mechanism	V	
Continuous Learning Management	V	
Process Improvements to Operationalize Strategy	V	
Service Delivery Transformation Assessment	V	
Business Transformation Assessment	V	
eGovernment Transformation Assessment		V

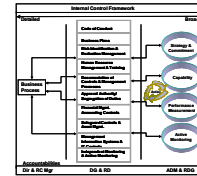


Appendix B - Organizational and Procedural Controls

The chart below depicts the mechanisms for ensuring that *Organizational Controls* are in place and operational.

Organizational Controls	Controls
<ul style="list-style-type: none"> Code of Conduct 	<ul style="list-style-type: none"> Establishing prudent and appropriate rules governing the proper business conduct and ethical behaviour of the organization and its executive and senior management and personnel with respect to: <ul style="list-style-type: none"> complying with applicable legislation, regulations and rules in jurisdictions where the organization operates; respecting the privacy of client and organizational information; transactions involving potential conflicts of interest; and implementing an effective mechanism to ensure that management and employees understand and adhere to the code of conduct.
<ul style="list-style-type: none"> Business Plans 	<ul style="list-style-type: none"> Outlining the organization`s current strategic positioning; identifying the organization`s business objectives, including the core business lines; developing short- and long-term strategies for achieving these objectives, including identifying potential risks to which the organization is exposed and assessing the key resources required to enable the organization to achieve these objectives; and establishing financial and other indicators against which the organization`s performance may be measured and assessed
<ul style="list-style-type: none"> Risk Identification and Evaluation Management 	<ul style="list-style-type: none"> Identifying and evaluating, on an on-going basis, the significant risks to which the organization is exposed and their potential impacts; ensuring that appropriate and effective organizational and procedural controls are developed and implemented to prudently manage and control these risks; regularly reviewing the department`s organizational and procedural controls implemented to manage and control risks to ensure that circumstances for which these controls originally were designed continue to apply and that they continue to be appropriate and effective; ensuring that effective and appropriate procedures are in place for planning, authorizing and commencing new types of business activities, evaluating the risks involved, and establishing the necessary

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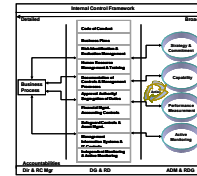


Organizational Controls	Controls
	<p>organizational and procedural controls - including the setting of sound and prudent exposure limits and risk management policies; and</p> <ul style="list-style-type: none"> • ensuring that the overall risk profile of the organization is sound and prudent.
<ul style="list-style-type: none"> • Human Resource Management and Training 	<ul style="list-style-type: none"> • The development and implementation of long-range human resource plans to ensure that the organization has enough experienced and skilled personnel to carry out its business activities in a prudent manner, including: <ul style="list-style-type: none"> • a recruitment strategy; • a program for training and developing employees; • selection criteria designed to ensure that personnel have skills commensurate with their responsibilities; and • a plan for management succession; and • the development and regular review of compensation programs to ensure, among other things, that the organization is not engaged in risk-increasing compensation policies; and • regular personnel evaluating and review.

The chart below depicts the mechanisms for ensuring that *Procedural Controls* are in place and operational.

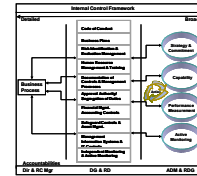
Procedural Controls	Controls
<ul style="list-style-type: none"> • Approval Authority / Segregation of Duties 	<ul style="list-style-type: none"> • The absolute and/or incremental general or specific authority being delegated; • the units, individuals, positions or committees to whom authority is being delegated; • the authority of recipients to further delegate authority; and • any restrictions placed on the use of the delegated authority • ensure that there exists a clear and distinct separation of duties between those persons who: <ul style="list-style-type: none"> • authorize, supervise, initiate or execute transactions; and • record and account for transactions.

**Environment Canada
Internal Control Framework (ICF)**

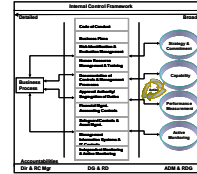


Procedural Controls	Controls
<ul style="list-style-type: none"> • Documentation of Controls and Management Processes 	<ul style="list-style-type: none"> • Documenting the organization's organizational and procedural controls: • provides the necessary guidance to individuals responsible for the organization's policies, procedures and controls; and • ensures that the controls used are authorized, adequate and current.
<ul style="list-style-type: none"> • Financial Management Accounting Controls 	<ul style="list-style-type: none"> • Establish and maintain sufficient appropriate controls over the accounting and other record-keeping process with respect to both on- and off-balance sheet assets and liabilities, including estate, trust and agency, to reasonably ensure: <ul style="list-style-type: none"> • the completeness of accounting information; • the accuracy of all amounts reported; • timeliness in the reporting of transactions/business activity; • the validity of transactions; and • the proper maintenance of records.
<ul style="list-style-type: none"> • Safeguard Controls and Asset Management 	<ul style="list-style-type: none"> • Appropriate and effective safeguards ensure that: <ul style="list-style-type: none"> • procedures exist for the safekeeping and protection of the organization's assets and those of its customers or other parties held in physical custody or on a book-based system of the organization or authorized depository; and • effective procedures exist for limiting access to the organization's accounting and other records of assets and liabilities to authorized personnel. • develop and implement sound and conservative valuation policies and procedures to: <ul style="list-style-type: none"> • regularly monitor, review and quantify the quality and value of its assets and liabilities (both on- and off-balance sheet) based on the risk of loss (including contingent losses) in the conduct of its business that will, or is expected to, be incurred; and • value these items by making and recording prudent provisions or other appropriate adjustments against these assets and liabilities in order to conform with the organization's valuation policies, regulatory requirements and accounting standards.

**Environment Canada
Internal Control Framework (ICF)**



Procedural Controls	Controls
<ul style="list-style-type: none"> Management Information Systems and IT Controls 	<ul style="list-style-type: none"> At a minimum, an effective comprehensive management information system needs to ensure that relevant, accurate and timely information is reported to appropriate persons within the organization to enable the organization to: <ul style="list-style-type: none"> identify, quantify, assess and monitor its business activities, exposure to risk, financial position and performance and take effective decisions related thereto; and monitor the effectiveness of, and compliance with, its organizational and procedural controls and report any exceptions related thereto. Comprehensive information technology security controls require the development and implementation of appropriate and effective: <ul style="list-style-type: none"> systems access security; and business interruption backup and recovery arrangements. Systems access security controls need to ensure: <ul style="list-style-type: none"> the integrity of the hardware, software and data; that physical access to systems hardware, software and data is restricted to authorized persons, and that security devices and logical systems access sufficiently minimize the risk of unauthorized access to systems programs and data. Business interruption controls need to ensure that: <ul style="list-style-type: none"> the organization has adequate systems backup and recovery procedures and standby arrangements in case of an interruption, destruction or other loss of systems facilities, data files, hardware, software and documentation; and these business interruption arrangements are periodically reviewed and tested.
<ul style="list-style-type: none"> Independent Monitoring and Active Monitoring 	<ul style="list-style-type: none"> The independent inspection/audit function must, at a minimum: <ul style="list-style-type: none"> have an appropriate mandate governing its duties and objectives; be independent of the functions and internal controls that it inspects; have sufficient resources to achieve this mandate; and be conducted through a professional inspection/audit program. The responsibility to actively monitor ongoing operations should be set against the policies and guidelines set out in the TBS Policy on Active Monitoring.



Appendix C - Control Assessment Mechanism at the Business Process Level

Consistent with the broad and detailed perspectives of the ICF, internal control assessment mechanism needs to be used to answer two fundamental questions about whether a system of internal controls is in place, including:

- **Did we do it?** and
- **Can we do it better?**

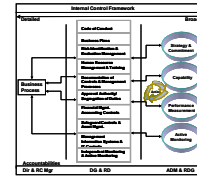
To answer the question - *Did we do it?* - addresses the fundamental need to ensure that the department has a system of IC's in place and that in fact they are being used in accordance with the principles set out in the ICF.

To answer the question – *Can we do it better?* - goes beyond Business Process IC's and speaks to the effectiveness of the embedded use of Organizational and Procedural controls across the department, within the context of the Internal Control Environment, and challenges managers to actively identify areas where controls can be strengthened and broader management issues improved.

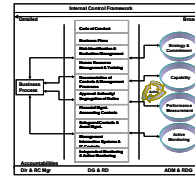
The Control Assessment mechanism has been structured consistently with the ICF, providing a mechanism to assess the broad IC perspective, as well as the narrow Business Process controls perspective.

An example Control Assessment mechanism for Finance at the detailed business process level is provided below.

Environment Canada Internal Control Framework (ICF)



Detailed Level Control Assessment Mechanism - Business Process Level					
Business Line - Management, Administration & Policy (MAP)					
Activity - Financial Services		Business Processes - All			
Activity - (As defined by the BluePrint and Business Line activity structures)	Business Processes	Business Process Internal Controls	Did We Do it?	Can we do it Better?	Delegated Authority & Action
Financial Services <ul style="list-style-type: none"> • <u>Financial planning, analysis and reporting</u> • Support to business planning and performance measurement activities; • Providing advice to senior management & Program Managers 	<ul style="list-style-type: none"> • <u>Planning Process</u> • ARLU • Fall & Winter Supp. Est. • Main Estimates • Report on Plans & Priorities • Performance Report 	<ul style="list-style-type: none"> • <u>Resource Allocation and Planning</u> • Stakeholders and decision-makers are consulted in setting business plan priorities & proposed results. • Plans are developed for all business lines and functional areas on an integrated basis, consistent with strategies, priorities, and planned results. • Appropriate and sufficient resources are provided across business lines and functional areas to enable the successful achievement of objectives, consistent with strategies, priorities, and planned results. • Plans are flexible to allow the organization to respond to unforeseen circumstances, and assumptions are challenged. 			



Appendix D - Glossary of Terms

Control - all the elements of an organization (including its resources, systems, processes, culture, structure and tasks) that, taken together, support people in the achievement of the organization's objectives. By incorporating these interrelated elements, control is effective to the extent that it provides reasonable assurance that the organization will achieve its objectives reliably.

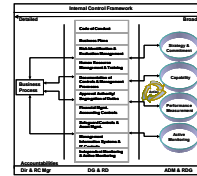
Control Framework - a mechanism of ensuring that: adequate resources are available, assets are safeguarded, information is reliable, operations are monitored, controlled and conducted with prudence and probity, and the organization meets statutory and regulatory reporting requirements.

The Internal Control Environment - The internal control environment is the framework under which internal controls are developed, implemented and monitored. It consists of the mechanisms and arrangements that ensure internal and external risks to which the organization is exposed are identified, that appropriate and effective internal controls are developed and implemented to soundly and prudently manage these risks, and that reliable and comprehensive systems are in place to appropriately monitor the effectiveness of these controls. The internal control environment is supported by IC Policies and Procedures, and IC Processes.

Internal Control Policies and Procedures - Internal controls are the policies and procedures established and implemented alone, or in concert with other policies or procedures, to manage and control a particular risk or business activity, or combination of risks or business activities, to which the organization is exposed or in which it is engaged.

Internal Control Processes - the process, effected by an organization's executive management, senior management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operations, the reliability of management reporting and compliance with applicable laws and regulations.

Environment Canada Internal Control Framework (ICF)



Appendix E - Bibliography

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