

12.4 It is important to realize that what we strongly recommend here is a totally new concept of the internal audit function. Until now it has been largely a fragmented function operating at relatively low levels without much recognition by senior management. A comprehensive approach to internal audit, like that outlined in the previous Chapter, when properly organized and led, can be one of the sharpest and most effective tools available to management. In this Chapter, we first examine how the present situation developed and then describe what needs to be done.

Evolution of Auditing Within Government

12.5 **Situation before the Glassco review.** Internal auditing was minimal in the Government of Canada until 1962 when the Glassco Commission reported. Departmental managers apparently saw little to be gained from an internal audit when the Comptroller of the Treasury could "be likened to a policeman patrolling the departments to ensure financial rectitude", as Glassco described it. The relatively few internal audit groups existed only in such departments as National Defence, where operations were decentralized and investigations had revealed weaknesses in controls, or National Revenue, where operations were chiefly financial in nature.

12.6 During the war years, the Comptroller of the Treasury established a Cost Inspection and Audit Division. By the time of the Glassco review in 1961, this unit was called the Audit Services Division (later the Audit Services Bureau) although it continued to be primarily engaged in verifying the accuracy of contractors' records. It also carried out internal audits as a service to some departments.

12.7 **Glassco recommendations and their implementation.** The Glassco Commission saw a greater need for internal audit as a corollary to its proposal to eliminate the independent pre-audit of the Comptroller of the Treasury; it favoured departmental audit groups rather than a central service; and it called for an interdepartmental committee to develop audit personnel and to improve audit standards and procedures.

12.8 In 1966, the Treasury Board, as part of the process of implementing the Glassco Commission recommendations, stated a policy on operational auditing and incorporated it in the Guide on Financial Management. Operational auditing differs from financial auditing in that management controls are examined not just financial controls. This policy was a constructive step, but it began the proliferation of internal audit activities because many departments, in seeking to implement the policy and give internal audit a higher profile, established operational audit groups separate from those conducting financial audits.