



The Institute of Internal Auditors
L'Institut des auditeurs internes
Canada

Institute of Internal Auditors Canada
2026 Federal Pre-Budget Submission

2026 IIA Canada Recommendations

Recommendation No. 1

The Institute of Internal Auditors Canada (IIA Canada) recommends that the Government of Canada provide sustained and adequate funding for internal audit functions across the public sector. Maintaining or increasing current budgetary levels will ensure a strong and independent internal audit function that protects Canadian taxpayers by promoting accountability, transparency, and responsible stewardship of public funds. Internal audit provides assurance that resources are used as intended and supports trust in the effective management of public programs and services.

Recommendation No. 2

IIA Canada recommends that the Government of Canada develop a comprehensive *Directive on Internal Audit for Artificial Intelligence*. Such a directive will ensure that the Government's use of artificial intelligence is grounded in strong independent assurance that can identify and mitigate emerging risks while implementing proactive safeguards to protect Canadians.

Introduction

IIA Canada believes that internal audit lies at the heart of effective risk management and good governance. When properly structured and implemented, internal audit strengthens operations and supports the long-term success of both public institutions and private organizations.

The recommendations provided in the IIA Canada 2026 Pre-Budget Submission are intended to ensure that internal audit continues to operate as an essential component of the Government's assurance structure. Achieving this objective requires aligning internal audit activities with the [Global Internal Audit Standards](#)TM, as well as establishing clear frameworks to promote public trust in the use of emerging technologies.

An internal audit function – operating in conformity with The IIA's [International Professional Practices Framework](#)[®] (IPPF[®]), including the Global Internal Audit Standards – provides federal government departments and agencies with objective assurance over governance, risk management, and internal control processes. The work of internal audit promotes confidence among stakeholders and taxpayers due to its direct reporting relationship to deputy heads of federal departments.¹

Providing sufficient resources for internal audit strengthens its impact and extends far beyond individual departments. It instills confidence in public systems and processes, safeguards taxpayer dollars, and promotes the foundation of effective government.

This submission outlines how internal audit strengthens public sector performance and supports the Government's mission, articulated by Prime Minister Mark Carney, to "become much more productive...by focusing on results over spending...[.]"² Collectively, these recommendations position the Government of Canada to advance to the forefront of internal audit practices.

Recommendation 1

As the Government considers cost-saving measures across the federal public service, internal audit offers a strategic tool to drive efficiency, streamline processes, and ensure that measures are implemented effectively and responsibly. In an era where public trust and fiscal prudence are paramount, internal audit serves as a cornerstone of responsible governance. It ensures that every dollar spent delivers value to Canadians, while reinforcing the integrity of public institutions.

¹ Treasury Board of Canada Secretariat, "Policy on Internal Audit." October 24, 2023. <https://www.tbs-sct.canada.ca/pol/doc-eng.aspx?id=16484>

² Carney, Mark. "Mandate Letter." May 21, 2025. *Office of the Prime Minister*, <https://www.pm.gc.ca/en/mandate-letters/2025/05/21/mandate-letter>

To ensure internal audit continues delivering meaningful results, IIA Canada strongly encourages the Government to **maintain sustained and adequate funding for internal audit across all federal departments in Budget 2026**.

Protecting internal audit capacity will advance government transparency and accountability by:

- Providing effective independent assurance over departmental internal controls and risk management
- Strengthening oversight of the expenditure of taxpayer dollars
- Enhancing collaboration between departmental leadership and internal audit to improve operational efficiency

At its core, internal audit leverages a deep understanding of an organization to provide meaningful assurance and strategic advice. This approach is effective because it ensures the professionals performing assessments possess an intimate knowledge of an organization's strategic goals, culture, and risk appetite. These insights produce internal audits that provide deputy heads – and by extension, Parliament – with substantive and prescriptive information.

As the Government continues to adjust departmental expenditures and operations to reflect budgetary efficiencies, sustained investment in well-resourced internal audit functions will advance the following objectives:

- Strengthen oversight
- Enhance performance
- Reduce government inefficiencies

The outcome is a government that is more transparent, more productive, and more accountable.

Across the Canadian public sector, internal audit functions have consistently demonstrated their ability to identify opportunities for efficiency, cost avoidance, and strengthened internal controls. This pattern is reflected in publicly available departmental internal audit reports, as well as in observations made by federal and provincial Offices of the Auditor General, which routinely highlight the importance of strong internal oversight. These findings reinforce the well-established role of internal audit as a practical, cost-effective contributor to sound administration.

Recommendation 2

The rapid proliferation of emerging technology, including artificial intelligence, has the potential to fundamentally transform government and industry. In his mandate letter to

Cabinet in the spring of 2025, Prime Minister Carney acknowledged this paradigm shift, stating that the Government of Canada will “become much more productive by deploying AI at scale.”³

As the Government seeks to leverage the advantages of new technologies, it must also implement appropriate measures to manage the corresponding increase in organizational risk.

IIA Canada recommends the development of a dedicated **Directive on Internal Audit for Artificial Intelligence** to establish consistent, independent assurance over the deployment of artificial intelligence across government. Such a directive would supplement the existing Policy on Internal Audit promulgated by the Treasury Board of Canada, and would ensure that internal audit functions are systematically leveraged to:

- Identify and mitigate AI-related risks
- Ensure the presence of appropriate internal controls and independent oversight of AI systems

Given the significant impact AI will have on government operations, it is essential that the Government establish clear and measured safeguards governing the application of these technologies. IIA Canada supports a balanced approach that enables innovation while ensuring appropriate guardrails are in place to protect Canadians from potential AI-related risks.

As the Government develops a comprehensive AI strategy, it should emphasize good governance, robust internal controls, and risk management. Integrating a formal internal audit directive for AI will help ensure these elements are consistently applied in accordance with globally recognized best practices.

Internal audit plays a pivotal role in addressing the unique risks associated with AI systems. Because AI relies on large datasets and complex algorithms, it can introduce risks related to data quality, bias, model accuracy, and unintended outcomes if not properly governed.

Internal auditors assess the integrity and completeness of data used to train AI models, evaluate controls over model development and deployment, and review governance frameworks to ensure clear accountability, validation processes, and ongoing performance monitoring. They also examine cybersecurity and privacy risks, helping ensure that sensitive data is protected in compliance with applicable laws and policies.

In addition, internal audit supports transparency and explainability, enabling AI-driven decisions to be understood and justified. Through continuous monitoring techniques, auditors can help detect anomalies or unexpected model behavior, reducing the likelihood of significant failures.

³ Carney, Mark. “Mandate Letter.” May 21, 2025. *Office of the Prime Minister*, <https://www.pm.gc.ca/en/mandate-letters/2025/05/21/mandate-letter>

Internal audit also plays a key role in challenging management on ethical considerations, including fairness and unintended consequences of AI utilization. This strengthens trust in AI systems and supports alignment with organizational risk appetite and regulatory expectations.

A directive on internal audit for AI would enhance compliance, protect sensitive information, and support ongoing monitoring to detect issues such as model drift or performance degradation over time.

As the Government opts to leverage new technologies to ensure efficient operations, the protection of Canadians must be at the forefront of any strategy. Strengthening internal audit requirements for AI will help ensure that these technologies are deployed responsibly, ethically, and effectively while reducing risk and building public trust.

Conclusion

Internal audit should not be considered a discretionary function. Far more than a compliance mechanism, it is the cornerstone of responsible and transparent governance that drives:

- Organizational value
- Operational excellence
- Fiscal discipline and stewardship
- Independent assurance

Well-resourced internal audit functions empower federal departments and agencies to make better-informed decisions, eliminate inefficiencies, reduce risks, and direct resources to where they are needed most. Internal auditors provide the independent assurance and risk-based recommendations that drive smarter spending and improve service delivery for Canadians.

In developing Budget 2026, the Government must uphold internal audit as a valuable strategic asset. By maintaining and enhancing internal audit capacity and guidance, the Government will be better equipped to deliver on its commitments to Canadians – with greater efficiency, transparency, and accountability.

Should you have any questions regarding the material presented in this submission, please contact Ryan Singh, IIA Director of Advocacy (Canada and the Caribbean), at Ryan.Singh@TheIIA.org.

About The Institute of Internal Auditors Canada

The Institute of Internal Auditors (The IIA) is an international professional association that serves more than 265,000 global members and has awarded more than 200,000 Certified Internal Auditor® (CIA®) certifications worldwide. Established in 1941, The IIA is recognized throughout the world as the internal audit profession's leader in standards, certifications, education, research, and technical guidance.

The Institute of Internal Auditors Canada (IIA Canada), as part of the global organization, represents more than 8,200 members across the country. Through its partnership with 12 local chapters, IIA Canada delivers training, professional development, research, and essential services to internal auditors while advocating on behalf of the profession with governments, regulators, and key stakeholders.