



# Effective Internal Auditing in the Public Sector

A good practice guide

Bruce Turner AM and Stephen Horne

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As the chief advocate of the Internal Audit profession, the IIA serves as the profession's international standard-setter, sole provider of globally accepted internal auditing certifications, and principal researcher and educator.

The IIA sets the bar for Internal Audit integrity and professionalism around the world with its 'International Professional Practices Framework' (IPPF), a collection of guidance that includes the 'International Standards for the Professional Practice of Internal Auditing' and the 'Code of Ethics'.

## Production, Editing and Design

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# Foreword

The public sector plays a major role in society and in most jurisdictions, and the resulting public expenditure forms a significant part of gross domestic product (GDP).

In 2011 APEC (Asia-Pacific Economic Cooperation)<sup>1</sup> encouraged its member economies (which includes Australia) to explore how the audit profession could be advanced, reflecting ‘in all sectors internal audit can contribute to stronger organizations, more efficient and effective performance of organizations, organizations being better able to safeguard their assets, the reduction of the likelihood and severity of fraud and corruption, and the prevention of unexpected market shocks.’

The International Federation of Accountants (IFAC) and the Chartered Institute of Public Finance and Accountancy (CIPFA)<sup>2</sup> acknowledge that internal auditors working in the public sector face complex challenges to satisfy a complex range of political, economic, social and environmental objectives over the short, medium and longer term.

The Institute of Internal Auditors – Australia has developed this publication, *Effective Internal Auditing in the Public Sector: A good practice guide*, primarily for department heads, chief executives or their equivalents in local councils, boards and other governing bodies, members of audit committees, managers with responsibility for internal audit, and internal audit staff.

There is no comparative publication which addresses the complex range of issues faced by internal auditors practising in the Commonwealth, State or Local Government jurisdictions.

This publication focuses on those elements which are applicable to each sector, such as the role and mandate of the internal audit function, independence, resourcing and reporting lines, and conformance to the International Standards for the Professional Practice of Internal Auditing (‘the Standards’).

1 Policy Setting for Public Sector Auditing in Absence of Government Legislation, IIA Global 2014, p19 (citing an excerpt from APEC Business Advisory Council (ABAC) Report to Leaders).

2 International Framework: Good Governance in the Public Sector (July 2014), published by the International Federation of Accountants (IFAC) and Chartered Institute of Public Finance and Accountancy (CIPFA).

A 2015 global survey<sup>3</sup> of 2824 public sector practitioners from 107 countries conducted by the Institute of Internal Auditors analysed the conditions of public sector internal audit worldwide. The survey found that among the respondents worldwide, one in four internal auditors work in the public sector. Of these, 86 percent of respondents say they use some or all of the Standards. But in the Asia-Pacific region only 43 percent use the Standards.

There is sporadic adoption of the Standards across the public sector, even in Australia.

The Standards apply globally, and are the only applicable set of internal auditing standards in Australia (the Australian Auditing and Assurance Standards Board (AUASB) only sets standards for external auditors).

The survey also found that the public sector has fewer audit committees than other sectors, and the composition and expertise of the members vary.

Authors Bruce Turner AM and Stephen Horne are both experienced senior public sector internal audit practitioners and global leaders in the profession, and their combined expertise covers Commonwealth, State and Local Government sectors.

They make the point there is an urgent need for a uniform approach across the public sector to improve governance within departments, and across agencies at all levels of Government in Australia.

The authors rightly point out that the UK public sector, particularly HM Treasury, adopted a common set of Public Sector Internal Audit Standards (PSIAS) in April 2017. Yet in Australia, there has been little interest at Commonwealth level, in some States and in many Local Government jurisdictions.

As the authors point out, public sector entities must establish protections to ensure the head of internal audit is empowered to report significant issues directly to the audit committee of accountable authorities.

They must also have the resources and a degree of independence that ensures that the internal auditor has a direct reporting line to the audit committee, together with unfettered access to information to effectively perform their role.

As the IFAC publication<sup>4</sup> states, 'Good governance in the public sector encourages better informed and longer-term decision-making as well as efficient use of resources. It strengthens accountability for the stewardship of those resources.'

Internal audit is the key to more robust governance and that can only be good news for politicians, department heads, audit committee members and public servants, and the taxpayers of Australia.

I commend this publication to you.



Stephen Coates  
President & Chair of the Board  
Institute of Internal Auditors – Australia

January 2020

3 Arthur Piper, Auditing the Public Sector: Managing expectations, Delivering Results, published by the Institute of Internal Auditors Research Foundation (IIARF) Page 19 2015.

4 International Framework: Good Governance in the Public Sector (July 2014).

# Preface

## The unique challenges faced by internal auditors in the public sector

Internal auditors working in the public sector face a unique set of challenges, being accountable to internal and external stakeholders. Many of these internal auditors operate in a legislative and regulatory void: there are guidance documents (but no legislation) which recommend or reference internal audit standards in the Commonwealth; there is legislation and guidance in some States and some Local Governments; but there is no consistency in legislation, regulations or guidance documents regarding internal auditing across the three levels of Government in Australia. This situation exists in Australia despite the internal auditing profession having a single set of global standards, covering all countries, jurisdictions and sectors.

This publication draws on the experience of public sector internal audit experts across the Commonwealth, State and Local Government public sectors to deliver guidance that can be applied across all levels of Government in Australia. The content is relevant for key decision-makers and influencers in the public sector, audit committee chairs and members, chief executives, chief audit executives, internal auditors and members of IIA-Australia.

The Institute's Public Sector Guidance Committee recently issued a Practice Guide titled "Unique Aspects of Internal Auditing in the Public Sector" which explains how the internal audit activity may be affected by the purpose and governance structures of public sector organisations in democratic political system, as well as the legal/regulatory compliance and public scrutiny and accountability to which those organisations are subject. The general principles described in that supplemental guidance are complemented by the discussion and analysis in this publication, which focuses our situation and experience here in Australia on key issues for internal auditing in our specific public sector context.

### The six chapters of this publication have been designed to reflect the recognised pillars of good governance in relation to internal audit:<sup>5</sup>

- 1 Governance is essential to organisational success and requires an open, trusting relationship among the board, management and internal audit.
- 2 Internal audit is essential to governance and fosters trust, transparency and accountability.
- 3 Internal audit contributes to success, positive change and innovation by delivering assurance, insight and advice.
- 4 Internal audit is most effective when its resource level, competence and structure are aligned with organisational strategy, and follow IIA standards.
- 5 Internal audit contributes the most value when it is relevant, objective, attentive to risk and opportunity, and future-focused.
- 6 Internal audit must be free from undue influence and demonstrate its independence by reporting functionally to the board.

The detailed 'how to' of internal auditing is contained in a complementary publication produced by IIA-Australia called *Internal Audit in Australia*.

The following diagram illustrates the flow from the six pillars and the critical linkages between publications.

5 IIA-Global, Global Advocacy Platform, 2016

## IIA-Australia Policy Agenda

Structured on the six pillars of good governance

### The Why

The rationale for establishing a policy framework aligned to the six pillars

### The How

Applying the six pillars in practice: essential guidance for internal auditors

### The Publication

*Effective Internal Auditing in the Public Sector:  
A good practice guide*

### Complementary Publication

*Internal Audit in Australia*

Internal audit practices should align with the policies reflected in the Australian Inter-jurisdictional Comparison

Internal audit work should be compliant with the International Professional Practices Framework

### Contemporary Reference Materials for 'Why' and 'How'

Includes white papers, factsheets, 20 critical questions series, supplemental guidance, etc.

In some Australian jurisdictions, legislation is yet to be enacted in relation to internal audit activities, or the legislation that is in place is relatively narrow in its scope. In these cases, internal audit practitioners and their key public sector stakeholders can benefit from insights contained in Appendix B, which covers an approach to structuring appropriate policies for their jurisdiction or entity.

The IIA-Global Practice Guide 'Unique Aspects of Internal Auditing in the Public Sector' was issued in late-2019. The guide describes the characteristics that distinguish public sector organizations from those in the private sector including the purpose, governance structures, legal/regulatory compliance, public scrutiny, and accountability.

### **Meaning of 'the board'**

In the context of this publication, 'the board' refers to 'those charged with governance of the organisation'. That is, the highest level of a governing body assigned the responsibility to direct and/or oversee the activities and management of the organisation.

Typically, this includes an independent group of directors (for example, a board of directors, a supervisory board, or a board of governors or trustees), or in the Local Government sector the elected council.

If such a group does not exist, the board will likely refer to the head of the organisation, which, in the public sector, would be the secretary, director-general, chief executive or their equivalents in local councils.

The board, as the governing body, may delegate certain governance, risk, compliance and audit oversight functions to an audit committee (or audit and risk committee).

# Introduction

## The legislative and regulatory challenges across public sectors in Australia

**Across each level of Government in Australia, there is a need for a uniform approach to the establishment of internal audit. This includes the internal audit function complying with the International Professional Practice Framework of Internal Auditing.**

As mentioned in the Preface, there currently isn't consistency in legislation, regulations or guidance documents at any level that mandate the treatment of the internal audit function; there are guidance documents (but no legislation) which recommend or reference internal audit standards in the Commonwealth, and legislation and guidance in some States and Local Governments.

For example, most State Governments mandate the internal audit function, but only New South Wales, Tasmania and Western Australia require mandatory conformance to the International Standards for the Professional Practice of Internal Auditing (contained in the International Professional Practices Framework – IPPF). At the Local Government level, all states mandate the internal audit function except for South Australia and New South Wales (where it is currently voluntary but will be mandatory from 2021), with New South Wales, Queensland, Tasmania and Western Australia recommending (though not mandating) the use of the Standards (though there are movements in New South Wales to mandate the IPPF).

Australia may well be falling behind other jurisdictions, especially those of 'developed' countries.

The UK public sector, particularly HM Treasury, adopted a common set of Public Sector Internal Audit Standards (PSIAS) from April 2017. The PSIAS include the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), which includes a definition of internal auditing, a Code of Ethics and the International Standards for the Professional Practice of Internal Auditing.

In Canada, there is a Directive on Internal Auditing (2012) and Internal Auditing Standards for the Government of Canada (2012). On 1 April 2017 the Canadian Treasury Board, pursuant to sections 7 and 11.1 of the Financial Administration Act, approved \$300 million (Canadian) to establish an internal audit function. The requirements also ensure that chief audit executives must have an internal audit certification or professional accounting designation, and that they follow the IPPF.

In South Africa, the Public Finance Act, Act 1 1999 and Treasury regulations make it compulsory for national Governments in South Africa to establish an 'effective and efficient' internal audit function. These requirements also apply to Local Government under the Municipal Finance Management Act 2003.

In the Organisation for Economic Co-operation and Development (OECD), the audit architecture is enshrined in Financial Regulations, the highest form of legal instrument under the organisation's founding Treaties. Included is the internal audit function under Regulation 30, which has been established since 2003. Audit committees within the OECD monitor the 'independence and effectiveness of the internal and external audit functions'.

**All the jurisdictions named above follow the IPPF, and outline qualifications required by internal auditors to undertake the function.**

The same cannot be said of Australia.

Appendix J contains an inter-jurisdiction comparison of audit committees and internal audit across the different public sector jurisdictions in Australia.



## Leading policy arrangements

It is worth noting that the potential effectiveness of internal audit arrangements is impacted by the extent to which risk management practices are sufficiently robust and established to provide internal audit with the appropriate assurance framework. Similar to internal audit requirements, requirements for the establishment and good operation of a risk management function varies across jurisdictions and are still under development in some levels of Government.

The choice of resourcing model for internal audit is also an important consideration. The IIA has outlined the relative generic advantages and challenges of different models in IIA-Australia Factsheet: Internal Audit Resourcing Models, 2018 (online), and in the public sector resourcing options may bring in specific skill sets unavailable to generalist auditors and may also help to alleviate difficulties in attracting staff to regional and remote areas.

The NSW Treasury's Internal Audit and Risk Management Policy for the General Government Sector reflects a leading position in Australia and internationally in relation to risk management, internal audit and audit committees. It applies to a Government Sector Finance (GSF) agency in NSW, defined in the Government Sector Finance Act 2018.

The NSW policy reflects three core principles that describe the outcomes being sought.

- 1 The agency has a risk management framework in place that supports the agency to achieve its objectives by systematically identifying and managing risks to:
  - › increase the likelihood and impact of positive events
  - › mitigate the likelihood and impact of negative events.
- 2 The agency's internal audit function provides timely and useful information to management about:
  - › the adequacy of, and compliance with, the system of internal control
  - › whether agency results are consistent with established objectives
  - › whether operations or programs are being carried out as planned.
- 3 The agency head receives relevant and timely advice on the agency's governance, risk and control frameworks and its external accountability obligations from an independent audit and risk committee with appropriate expertise.

There are core requirements for each core principle. These are incorporated in relevant chapters of this guide (that is, risk management is dealt with in chapter 1; internal audit in chapter 2; and audit and risk committees in chapter 6).

The Auditor-General of Australia has previously developed and published through the Australian National Audit Office (ANAO) public sector internal audit better practice guides (the latest was in 2012, updating the 2007 edition).<sup>6</sup> The principles and practices outlined in the guides were developed to be generally applicable to all public sector entities. The Auditor-General has no immediate plans to review, update or maintain these better practice guides following a change in policy on issuing better practice guidance where they now see their role as auditing against better practices rather than developing guidance themselves. Appendix I contains a summary of the key points contained in previous better practice guides issued by the Auditor-General of Australia. It is expected that the better practices will already be embedded in most public sector entities, as these practices have been espoused for some years and are relevant for all public sector jurisdictions.

## Ten special considerations across public sectors in Australia

### All levels

- › Just as for the private and for-purpose sectors, boards and senior management in the public sector play an important role in articulating the desired culture of an organisation. They define the values and principles that promote sustainability, and model these through the 'tone from the top', and through the organisation's policy and procedure arrangements for governance, risk management, internal audit, remuneration and feedback (including complaints). While policies and procedures identify the internal controls that management expects employees to follow, it is the 'lived' culture across the organisation that dictates what internal control practices are actually applied in practice. There is an increasing global trend across all sectors for internal audit to be given a mandate to comment on the organisation's 'lived' culture, including the tone at the top, the soft controls, whether the desired culture has been defined, and whether the actual culture and desired state are in sync.

- › In the public sector, building culture requires a concerted effort to identify the cultural considerations specific to the public sector e.g. delivery of public policy (which brings different risks and focus); risk appetite (which may be different due to the use of public funds); the complexity of ministers, cabinet and councillors exercising their responsibilities; the oversight and responsibilities of various corruption authorities.

### Commonwealth (federal) level

- › APEC (Asia-Pacific Economic Cooperation) encouraged its member economies (including Australia) in 2011 to explore how the audit profession can be advanced, reflecting that this could be achieved by mandating or encouraging audit activity in relevant public sector institutions and other entities.<sup>7</sup> While internal audit is 'required' (mandatory) in most public sector jurisdictions in Australia (see Appendix J), it remains a 'guideline' (not mandatory) at the federal level.
- › Similarly, it is not mandatory for internal audit activities at the federal level to apply professional internal auditing standards – it is a 'guideline' (not mandatory) rather than 'required'. The establishment of an anti-corruption body designed to maintain the integrity of Commonwealth Government bodies seems imminent following announcements at the end of 2018. This comes on the back of surveys that suggest there may be serious corruption at a federal level. Agency heads, audit committees and internal auditors will need to ensure they have bullet-proofed the integrity safeguards of their own organisations, while accommodating the fresh oversight expected from an anti-corruption body.

### State level

- › While it is mandatory for internal audit activities in three states (New South Wales, Tasmania and Western Australia) to apply professional internal auditing standards, it is a 'guideline' (not mandatory) in three states or territories (the ACT, Queensland and Victoria), and there is no requirement at all in two states or territories (the Northern Territory and South Australia). The consistent requirement for professional internal auditing standards should be an aspiration for all states and territories (just as accountants are required to apply established accounting standards to their work).
- › Legislation has not always kept pace with State Governments that have established 'clusters' of agencies with a 'lead agency'. In some cases, other mechanisms exist or may be introduced to support clusters, covering governance arrangements such as delegations, information access and distribution of resources. There may also be opportunities for 'shared arrangements' for internal auditing. This also has relevance to Commonwealth and Local Government jurisdictions.
- › There is currently no state-wide consolidation of insights from cluster and/or agency audit and risk committees on sector-wide governance (unlike, say, the whole-of-government reporting on consolidated accounts).

### Local Government level

- › There are challenges for smaller, regional and rural councils in securing budget funding for an effective internal audit activity and in sourcing capable and credentialed internal audit resources. Periodic refreshing of internal audit staffing, say every seven to ten years, is difficult for remote regional councils (due to a supply/demand conundrum). Shared arrangements among councils can represent a cost-effective solution.
- › The audit universe (that is, the list of potential audits) should include entities controlled and associated with council, with a view to the internal audit activity periodically assessing the reasonableness of overarching and individual governance arrangements (and financial stewardship where council provides funding). This also has relevance to Commonwealth and State jurisdictions. The internal audit and audit committee charters approved by the elected council should clearly articulate boundaries (if any) to the audit coverage and audit committee oversight (that is, areas 'out of scope'). The results of the internal audit/s of controlled and associated entities should be reported to the audit committee.
- › Good corruption-prevention and fraud-control practices underpin financial stewardship and the reputational integrity of all forms of public sector activity, and have relevance for all levels of Government, enabling them to deliver the services, confidence and trust expected by the community. Fraud and corruption investigations undertaken by anti-corruption bodies and others show the damage that major fraud can cause. While fraud and corruption is an issue for all forms of organisations, councils have featured prominently in the reports of integrity bodies. While there is no clear picture of the overall level of corruption/fraud within councils, Local Governments remain overrepresented in fraud cases exposed by anti-corruption bodies across the public sector in Australia. Council leadership, audit committees and internal auditors need to broach the corruption/fraud risks of their council in a structured and systematic manner.

For-purpose organisations reflect a collection of people who have come together because they share a common goal for society (e.g. they include charities and not-for-profit entities).

<sup>7</sup> IIA Global, Policy Setting for Public Sector Auditing in the Absence of Government Legislation, 2014, page 19 (citing an excerpt from APEC Business Advisory Council (ABAC) Report to Leaders).

# Good governance is essential to organisational success

*'In too many countries, people are deprived of their most basic needs and go to bed hungry every night because of corruption, while the powerful and corrupt enjoy lavish lifestyles with impunity.'*

José Ugaz, Chair, Transparency International, 2016

**First pillar: Governance is essential to organisational success and requires an open, trusting relationship among the board, management and internal audit.**

- 1.1 All organisations require governance if they are to remain viable and continue meeting their objectives.
- 1.2 Organisational success is sustainable only if it serves the interests of all internal and external stakeholders.
- 1.3 Governance is exercised through various processes and structures with the aim of nurturing transparency, accountability and fairness, and maintaining a healthy balance among the interests of all stakeholders.
- 1.4 Governance requires an open, ethical culture.

## Key elements of good governance

### Outline

This chapter provides context for the publication by reflecting the overall intention of corporate governance, which is to promote confidence with stakeholders. The governing body of an organisation is ultimately responsible for an organisation's governance. In the public sector, where there is not a board of directors, governance arrangements are implemented by the head of the organisation, such as the secretary, director-general, chief executive, or their equivalents in local councils.

### **Meaning of 'corporate governance'**

The combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward achievement of its objectives.

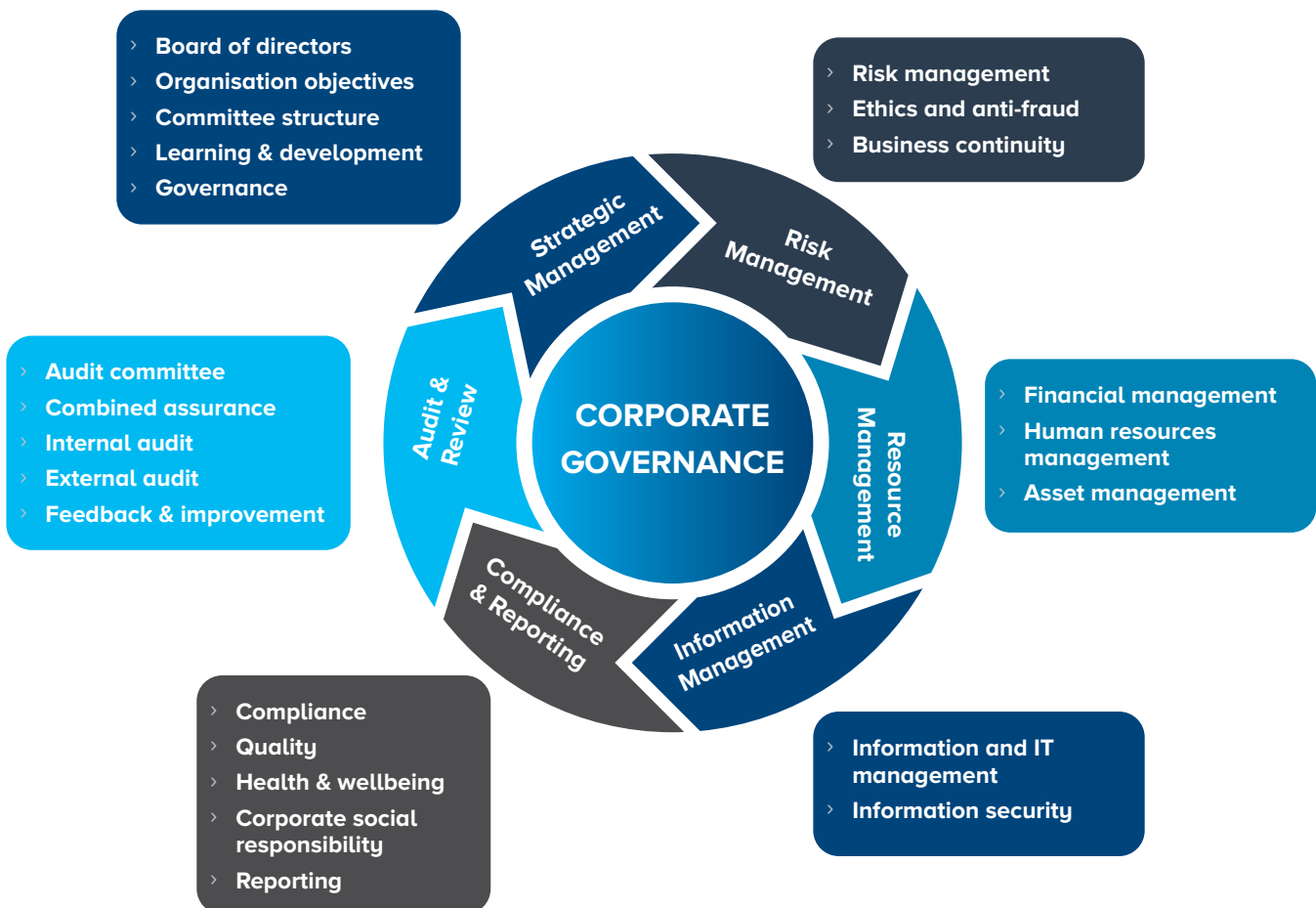
Source: IIA, International Professional Practices Framework

## Governance model

A mature governance model seeks to wrap up organisational activities holistically through an inter-connected approach so nothing is missed. This is illustrated in Figure 1-1. The different elements of the corporate governance model are summarised below:

- 1 **Strategic management** is the development and implementation of a plan by the board and management to help an organisation achieve its long-term objectives. The strategic planning process specifies the organisation’s mission, vision and measurable performance objectives, together with plans and projects designed to achieve the objectives, and then allocates resources to implement the plans and projects.
- 2 **Risk management** means anticipating and managing risks that may have an impact on achieving the organisation’s objectives. In setting risk appetite, risk management also has a significant impact on culture.
- 3 **Resource management** is the efficient and effective use of resources when they are needed for an organisation to achieve its objectives.
- 4 **Information management** refers to the collection, recording, processing, securing and distribution of information throughout an organisation that is essential for assisting management to make informed decisions.
- 5 **Compliance and reporting** – It is important for a public sector organisation to demonstrate compliance with laws if it is to be seen as ethical, and a good organisation for the community and taxpayers. Compliance and reporting is more than meeting statutory requirements. It includes compliance to sector-wide directives and with internal controls established by the organisation. There is also an expectation that public sector organisations have greater transparency, as they are funded/owned by the community. Reporting organisation performance and financial results is important to show transparency for the community and taxpayers.
- 6 **Audits and reviews** are evaluations of an organisation, system, process, project, product or service. They determine the validity and reliability of information and help improve the effectiveness and accountability of an organisation.

FIGURE 1-1 OVERVIEW OF A CORPORATE GOVERNANCE MODEL



Source: IIA-Australia Factsheet: Corporate Governance, 2018

## Corporatised and non-general-sector bodies

Most jurisdictions and most levels of Government have a complex mixture of governance models in concurrent operation. Boards and committees of a wide variety of types, and sometimes in considerable numbers, have been established in response to the wide array of functions and activities of the public sector.

In some jurisdictions, governance arrangements for such bodies may be set out in omnibus legislation (such as that for Government business/trading enterprises). However, in other cases, governance aspects may be contained in the enabling legislation for the particular entity – or it may be a mixture of both.

In some situations, such bodies may fall within the control of larger bodies such as ‘clusters’, ‘super-departments’ or ‘principal agencies’, making the governance and accountability aspects additionally complex.

Care needs to be taken to properly identify and understand the governance requirements for such bodies. Issues requiring clarification may include: whether the body exercises a governing or advisory role; delegations; financial control and independence; authority to make enforceable decisions and determinations; the authority and role of the Minister, and the authority and role of other overarching agencies.

Such matters present fundamental responsibility, accountability, transparency and control issues which are critical to the control environment – and hence of direct relevance and interest to internal audit.

## Serving the public interest through stronger public sector accountability

According to the *International Framework: Good Governance in the Public Sector* (published jointly in July 2014 by the International Federation of Accountants (IFAC) and the Chartered Institute of Public Finance and Accountancy (CIPFA)), ‘the public sector plays a major role in society. In most jurisdictions, public expenditure forms a significant part of gross domestic product (GDP), and public sector entities are substantial employers and major capital market participants ... To fulfil its wide range of functions, the public sector must satisfy a complex range of political, economic, social, and environmental objectives over the short, medium, and longer term. This subjects it to a different set of external and internal constraints and incentives than those found in the private sector, all of which affect its governance arrangements.’

### Meaning of ‘public interest’

IFAC defines public interest as the net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision, or policy.

The publication further reflects, ‘Good governance in the public sector encourages better informed and longer-term decision-making as well as the efficient use of resources. It strengthens accountability for the stewardship of those resources. Good governance is characterised by robust scrutiny, which places important pressures on improving public sector performance and tackling corruption. Good governance can improve organisational leadership, management, and oversight, resulting in more effective interventions and, ultimately, better outcomes. People’s lives are thereby improved.’

### Maturity levels

In most cases, governance is a journey for an organisation. It is not a static concept. It needs to continuously adapt to changes in the external environment, and also to almost ceaseless internal changes of policies, processes and personnel.

Maturity models are a useful way to assess individual elements of governance, as well as the overall situation. Assessing the level of maturity helps organisations to clarify their current state, and to logically map out a way forward to further improve governance in a controlled manner.

Appendix C contains excerpts from a corporate governance maturity matrix.

## Emerging practices

### Holistic assessment of an entity's governance arrangements

Audit committees and senior management need to know how an entity's governance arrangements stack up against good practice models.

The governance lighthouse provides a solid basis for

assessing the strength and effectiveness of a public sector entity's holistic governance framework, and is used by many entities as a basis for periodic assessment and reporting to the board.

The governance lighthouse was published by the Auditor-General of New South Wales and has eight principles and 17 key governance components, as illustrated in Figure 1-2.

FIGURE 1-2 GOVERNANCE LIGHTHOUSE



### CASE STUDY

#### Referencing governance lighthouse in an entity's published annual report

The fact that an entity is serving the public interest is demonstrated to the community through meaningful reporting on the effectiveness of its overarching governance. As an example, the award-winning annual reports of the NSW Auditor-General summarise the activities and performance of the Audit Office against the main goals and strategies in its strategic plan. The 'governance' section of the annual report uses the Governance Lighthouse as the basis for reporting on how the Audit Office develops, manages and reports on its governance arrangements (see pages 52–63 of the 2017/18 annual report).

Source: Audit Office of NSW – Auditor-General's Report to Parliament, Volume One, 2015, Areas of focus from 2014, page 21 – used with permission

# Internal audit is integral to good governance

*‘Good governance in the public sector is essential if Governments... are to play their proper role in the long-term development of our economies and societies, and in the protection of our natural environment.’*

Mervyn King, Chair Emeritus, International Integrated Reporting Council; Chairman, King Committee on Corporate Governance in South Africa

**Second Pillar: Internal audit is essential to governance and fosters trust, transparency, and accountability.**

- 2.1 All organisations benefit from internal audit.
- 2.2 Internal audit is increasingly important as organisations grow and develop, become more complex and mature, strive for improvement, and seek positive change.
- 2.3 Internal audit is essential for organisations that seek to contribute to economic and social well-being. This includes but is not limited to: Government departments; financial institutions; publicly traded companies and those seeking legitimacy in the capital markets; and public utilities (water, electricity, education, health care, etc.).
- 2.4 Internal audit builds trust through frequent and meaningful interactions with the board and management.

## Effective internal auditing in the public sector

### Outline

As will be discussed in chapter 4, there is no substantive reason preventing the application and implementation of internal audit in the public sector. However, there are a range of differences which impact on the nature and operation of internal auditing in the public sector.

Issues that have historically been cited as matters of significance affecting implementation of internal audit in the public sector include:

- > the concept of governance
- > serving the public interest
- > structural issues (macro and micro)
- > the role of auditors-general
- > the role of independent integrity bodies
- > delivering public services through third parties.



These are discussed below.

## Public sector governance

Internal audit is a cornerstone of good governance in organisations, and can play an important role in improving both financial and non-financial management and accountability.

In the public sector, it has sometimes been difficult to translate this notion of governance into practice, because of two issues:

- > the term 'governance' has not historically been commonly used in most parts of the public sector, with terms such as 'stewardship' and 'transparency' having a longer history; and
- > most parts of the public sector do not employ a 'board' structure over their operations, having instead a basis in the Westminster model, with an agency or entity head (director-general, secretary, chief executive) reporting to a Minister.

Regardless of structures, it has increasingly become common practice for the term 'governance' to be used in all sectors to refer to the system of how the organisation is oversighted and managed, and the checks and balances that are in place to monitor performance and achieve accountability and transparency.

## Serving the public interest

Under the Westminster Model, public sector accountability is provided through a complex set of checks and balances over public sector activities which separate policy-making from operations, and direct accountability through elected representatives in various arrangements through a body politic (such as a Parliament or council) to the community.

The term 'in the public interest' has developed to represent the notion that the public sector exists to serve the community (hence 'public service').

Internal audit must reflect the governance and risk contexts of the organisation it serves. However, such differences do not alter either the basic purpose or the basic methodology for internal audit, and the International Professional Practices Framework (IPPF) applies equally.

To assist in understanding how those differences may impact on the conduct of internal audit in the public sector, the IIA has published *Managing Culture: A good practice guide*, which complements the IIA's Internal Audit Capability Model for the Public Sector. It provides specific guidance on developing, implementing and sustaining a competency process to ensure that the organisation's audit function has the collective knowledge, skills and other competencies necessary to complete planned audits, and to support the audit function as it evolves (*Creating an Internal Audit Competency Process for the Public Sector*, IIA Global, 2015).

## Structures – macro

In the public sector where there is (often) not a board of directors, governance arrangements are implemented by the head of the organisation, for example the secretary, director-general, chief executive or their equivalents. The term 'those charged with responsibility for governance' is now used in the public sector to translate the term 'board' where it appears in guidance.

While public sector structures can at times be intertwined and complex, both the private sector (which pays profits back as dividends to shareholders or owners), and the for-purpose sector (which usually reinvests surplus/profit back into communities) can experience similar complexities (especially with multinational structures). Regardless of structures, governance obligations exist and require assistance and assurance activities to be properly acquitted. Internal audit is a key component of governance.

## Structures – micro

In areas where public sector operations are on a limited scale (such as smaller regional Local Government Councils), or where there are large agency cluster arrangements, it is now not uncommon for governance arrangements in the public sector to involve shared audit committee and/ or shared internal audit arrangements.

Operationally, the location of internal audit units in the public sector can vary considerably. The IPPF is not directive on the specific structural location for internal audit: the issue (principle) is independence from management, and guidance (for instance, IIA-Australia White Paper, Internal Audit Independence Arrangements) is available to address how this can be discharged regardless of structural arrangements.



## External audit (auditors-general)

The role of an auditor-general in the public sector is considerably different to the role of an external auditor in other sectors. This difference has a significant bearing on the governance framework for the public sector.

Auditors-General are independent statutory officers and are not selected by the agency being audited. They have a broader remit than external auditors outside the public sector. They often take a sector-wide view on matters of audit interest and, in some jurisdictions, they also undertake performance audits (efficiency/effectiveness/economy). Significantly, they not only report to the agency being audited, but also report publicly to Parliament.

The interaction between internal and external auditors in the public sector is necessary to effectively serve stakeholders' needs. The value of these interactions can be maximised if both parties understand the perspective from which the other is operating. The IIA has published guidance to shed light on the similarities and differences that exist between them (*The IIA and the International Organization of Supreme Audit Institutions (INTOSAI): A Comparison of Authoritative Guidance*, IIA Global). See <https://na.theiia.org/standards-guidance/leading-practices/Pages/The-IIA-and-INTOSAI-A-Comparison-of-Authoritative-Guidance.aspx>.

## Regulators (independent integrity bodies)

The role of other independent integrity bodies in the public sector is also somewhat different to the role of independent regulators in other sectors. This difference also has a significant bearing on the governance framework for the public sector.

Ombudsmen, anti-corruption bodies and other specialised integrity and monitoring bodies are part of the complex system of checks and balances that forms the governance framework for the public sector under the Westminster model, as opposed to a board-based structure in the private sector.

Regardless, as part of the governance framework, their impact upon, and relevance to, internal audit is similar to that of regulators in the private sector.

## Delivering public services through third parties

There has been a long history of the public sector engaging with the private sector and the for-purpose sector to deliver services that traditionally were directly operated by the public sector.

Outsourcing has typically involved high-volume and low-value transactional activities. This is now particularly significant in the human services sector, where the use of grants is common.

This is such a significant area for internal audit that the IIA has issued specific guidance (*Auditing Grants in the Public Sector*, IIA Global).

Over time, new methods of service delivery are being explored, such as commissioning, joint partnerships and strategic alliances. These different operating models present a range of challenges for internal audit, including the need to incorporate rights-to-audit clauses in contracts with service partners. Specific guidance has also been issued on this topic (*Auditing Third-Party Risk Management*, IIA Global).

## Maintaining independence and objectivity of internal auditing

There will be times where public sector internal auditors will require management and audit committee support to navigate real and emerging issues through the sensitivities of the political climate. Audit committees (and the chair in particular) should play a key role in helping internal auditors become more astute in their role without undermining their credibility, while remaining faithful to the purpose of internal audit.

In terms of the IPPF, independence is, 'The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner'. And being objective means 'An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product, and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.'

## Maturity levels

Appendix D includes a maturity matrix covering internal audit trust, transparency and accountability.

## Emerging practices

### Enhancing the features of the internal audit charter

Contemporary internal audit charters are increasingly incorporating the mission and definition of internal audit defined within the International Professional Practices Framework (IPPF).

The charters reflect that the internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

The charters are also embracing relevant IPPF core principles that reflect the organisation's strategic direction, particularly the principles relating to:

- › Aligning with the strategies, objectives and risks of the organisation.
- › Providing risk-based assurance.
- › Being insightful, proactive and future-focused.
- › Promoting organisational improvement.

Exemplar organisations will also promote their commitment to internal audit and good governance by:

- › Making the audit committee and internal audit charters available on the website and intranet.
- › The use of continuous control monitoring and the contemporary use of data analytics.
- › Publishing an assertion and statement of their commitment to maintaining an effective internal audit activity in the organisation's published annual report.
- › Providing a staff profile of the internal audit team to the audit committee at least annually.
- › Including a high-level comment on the results of the periodic external quality assessment review of internal audit in the organisation's published annual report (see the case study immediately below).

## CASE STUDY

### Case study – Reporting the results of a quality review of internal audit

It is in the public interest across all levels of Government to inform the community of the effectiveness of the internal audit activity in complying with professional auditing standards. In its 2015/16 annual report the Australian Prudential Regulation Authority (APRA) reported on the outcome of a mandatory external quality assessment review of its internal audit activities. It stated (on page 56), 'An external quality assessment, conducted by the Institute of Internal Auditors in February 2016, found that APRA's Internal Audit function had achieved "general conformance" with auditing standards, which is the highest possible rating level.'

# Internal audit delivers independent assurance and insights

*‘The future depends on what you do today.’*

**Mahatma Gandhi, Indian leader (1869–1948)**

**Third Pillar: Internal audit contributes to success, positive change and innovation by delivering assurance, insight and advice.**

- 3.1** By delivering insights on governance, risk and control, internal audit provides a robust challenge to organisational practices and provokes positive change and innovation.
- 3.2** Internal audit is best able to provide insight and advice when it combines independence and objectivity with a deep understanding of the organisation, its governance, and its operating environment, and by drawing on the power of data.
- 3.3** Internal audit encourages innovative thinking by maintaining an active awareness of developments in the profession and adopting leading-edge practices.
- 3.4** Through the provision of assurance on the effectiveness of governance, risk and control, internal audit inspires organisational confidence and enables competent decision-making.

## Key elements of assurance

### Outline

This chapter discusses internal audit’s role as part of the organisation’s overarching assurance framework, and the value that meaningful collaboration between assurance providers delivers for senior management.

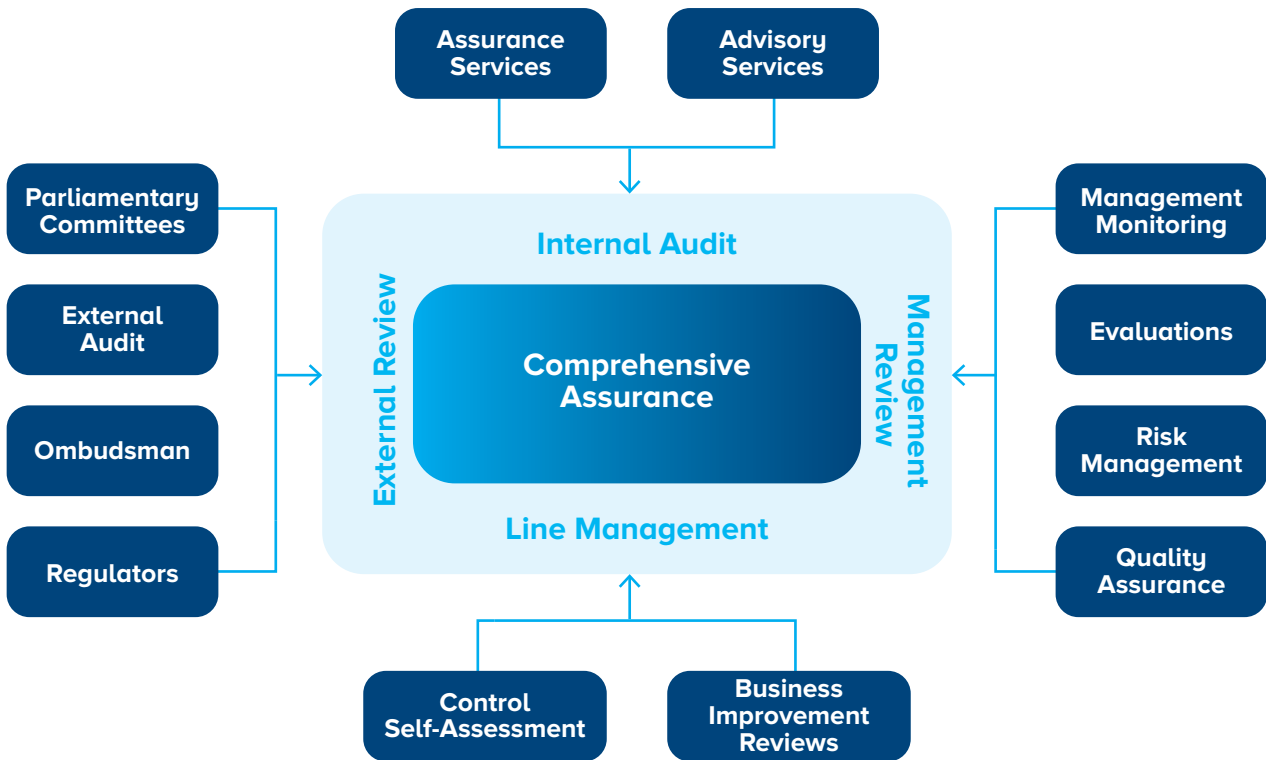
### Comprehensive assurance

Assurance providers need to think about the collaboration opportunities across their specialist areas with a view to implementing steps to strengthen their relationships and, ultimately, deliver enhanced assurance reporting to the audit committee, whose role and responsibilities continue to expand.

They are expected to apply modern techniques to produce insightful information that helps their audit committee fulfil its role. But this can’t be done by applying a ‘siloes’ approach.

Figure 3-1 illustrates the range of internal and external assurance providers that contribute to the overarching comprehensive assurance framework.

**EXHIBIT 3-1 COMPREHENSIVE ASSURANCE FRAMEWORK**



Source: ANAO Better Practice Guide – Public Sector Internal Audit, September 2012 – used with permission

**Strategic alignment**

Internal auditors are expected to align their work with the strategies, objectives and risks of the organisation, and promote organisational improvement. These requirements are reflected in the core principles for the professional practice of internal auditing that underpin the Standards.

The Global Internal Audit Common Body of Knowledge (CBOK) study in 2015 found that about 57 percent of chief audit executives report that their internal audit department is fully aligned or almost fully aligned with the strategy of their organisations; the remaining 43 percent are somewhat, minimally or not aligned.

Sharper audit planning, coupled with enhanced reporting practices (see Figure 3-2), will help public sector auditors close the gap in strategic alignment. This requires the organisation to employ contemporary risk practices and assurance maps. Assessing risk management maturity could be an area for internal audit to focus on to then allow more effective internal audit planning.

**Reporting practices**

Boards, audit committees and senior management are increasingly expecting chief audit executives to report on both the value of the insights the internal audit function delivers and the performance metrics that facilitate effective oversight of the internal audit function. Exhibit 3-2 illustrates examples of common reporting practices beyond the standard reporting on the results of individual internal audits.

The practices within the three upper boxes (the themes-based reporting; collaborative reporting; and annual report on internal audit) showcase assurance, insight and advice to the audit committee and senior management. This style of reporting also facilitates collaboration with second-line assurance functions.

FIGURE 3-2 EXAMPLES OF HIGH-LEVEL INTERNAL AUDITING REPORTING PRACTICES

INSIGHTS DEVELOPED BY INTERNAL AUDIT	Highest value	Themes based reporting	Collaborative reporting	Annual report on internal audit
		Standard internal audit report for each separate engagement	Internal audit staff competency profiling	Balanced scorecard reporting
	Limited value	Absence of KPIs and fluent reporting	Quality assurance and improvement program, including internal and external reviews and benchmarking	Well founded KPIs (with both qualitative and quantitative measures)
		Limited performance visibility		Effective performance oversight
<b>PERFORMANCE OF THE INTERNAL AUDIT FUNCTION</b>				

IIA-Australia White Papers cover several of the reporting practices illustrated in the above diagram (including themes-based reporting, collaborative reporting, annual report on internal audit, and balanced scorecard reporting, which is further discussed in chapter 4).

**Dynamic risk environment**

In terms of the IPPF, internal audit’s mission is, ‘To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.’

Boards, audit committees, management, internal auditors and other assurance providers need to grasp the rapidly changing environment which is the result of digital transformation through concepts and practices like artificial intelligence, big data analytics, biometrics, blockchain, conversational commerce, the Dark Web, the Internet of Things, and robotic process automation. These concepts and practices will invariably impact on worker productivity, storage capacity, identification arrangements, value transfer, voice-triggered action, unregulated and unpoliced environments, information and operational technology linkage, and a shift to automation rather than outsourcing and off-shoring.

**Practical meaning of ‘assurance’**

For internal auditors, ‘assurance’ is not just a matter of telling management verbally that ‘things are okay’. It is, in essence, the conclusion of a meaningful and systematic evaluation of credible information to deliver a well-informed level of comfort over the organisation’s governance, risk management and control arrangements (or elements of these arrangements). assurance could be provided internally within the organisation by operational managers and/or their staff, or by internal auditors. Where business processes are outsourced to a third-party contractor, there may also be assurance reporting requirements. For instance, to provide assurance over an organisation’s workplace health and safety arrangements an internal auditor might consider credible information on its purpose (for example, legislation; policies; procedures), capability (for example, results of staff awareness surveys; risk register; experts in key oversight and influencing roles), commitment (‘tone at the top’; meaningful engagement of worksite health and safety committees; availability of trained personnel; trends in key performance indicators; interviews), and monitoring and learning (for example, inspections; management reporting of lost time injuries, near misses and other common key performance indicators; induction arrangements; online training modules).

**Maturity levels**

Appendix E contains a maturity matrix for combined assurance.

## Emerging practices

### Serving the public interest through participatory auditing

In response to the desire of citizens in some parts of the world to hold their Governments to account for their performance for nationally significant activities, a contemporary style of risk-based auditing has emerged in some public sector jurisdictions. It is called participatory auditing, and has the potential to deliver powerful outcomes.

These types of audits have been used in countries as diverse as Argentina, India, Mexico, South Africa, South Korea and the Philippines. Areas covered include public projects (especially those plagued by allegations of corruption or waste), disease prevention programs (where misappropriations of Government funds were revealed), road infrastructure projects (to assess value-for-money), financial management practices (to strengthen arrangements), Government public works expenditures (identifying falsified invoicing and labour schedules), and human rights (to assess corrective action responsiveness).

The three main categories of participatory audits involve:

1. Citizens collaborating directly with public sector auditors through a shared team.
2. The public using the observations reported by public sector auditors to champion a higher level of accountability of Government agencies and entities.
3. The public conducting 'audits' of the Government in isolation from public sector auditors, perhaps by obtaining information through freedom of information laws.

Other approaches might seek the involvement of the general public (and/or employees) through public interest disclosures, referrals, whistleblower sources and complaints.

There is currently no consistent participatory auditing model, and because of the direct involvement of citizens it is difficult to conform to auditing standards (for example, independence and objectivity, proficiency, planning, communicating results and monitoring progress).

### Data analytics

Data analytics has the potential to transform the nature and extent of what internal audit does in the future.

'In the coming years, data analytics in internal audit will become widespread and mainstream. Internal audit professionals who hesitate to incorporate data analytics more fully into their operations will fall behind and risk becoming obsolete. The transformation will require a concerted effort to enhance people, process, and technology as the strategic drivers to realise the vision.' (*Data Analytics: Elevating Internal Audit's Value*, Warren W. Stippich Jr and Bradley J. Preber, Institute of Internal Auditors Research Foundation, Florida, USA, 2016, page 1)

The IIA notes that 'there is no established path to capture the benefits of data analytics, in part because internal audit departments run the gamut in size and maturity' (ibid., page vii). However, the IIA 'offers a Data Analytics Framework to help with assessing current and future states. The framework consists of four steps:

1. Develop a vision
2. Evaluate current capabilities
3. Enhance people, process and technology
4. Implement, monitor and evolve.' (ibid., page 1)

**The value proposition of internal auditing is explained in Figure 5-1.**

# Internal audit applies IIA standards

*'It is in difficult situations... the Institute of Internal Auditors comes to centre stage. Professional standards and support from the Institute can be a vital help in stiffening the spine of the internal auditors involved. On this score, we strongly commend the work of the Institute in Australia in improving the education and awareness of internal auditors and promoting the status of the internal audit function. That is work that, brick by brick, is helping to raise corporate governance standards in Australia, to the benefit of stakeholders and the community generally.'*

Dr John Laker, former Chair of the Australian Prudential Regulation Authority (APRA), 2006

**Fourth Pillar: Internal audit is most effective when its resource level, competence and structure are aligned with organisational strategy and follow IIA standards.**

- 4.1** Internal auditors have a professional responsibility to improve their proficiency and the effectiveness and quality of their services continually through education and development.
- 4.2** Internal audit's resourcing and its efficient and effective deployment must be aligned with organisational strategy to maximise the positive impact on organisational success.
- 4.3** The chief audit executive should possess a thorough understanding of IIA standards and ensure their adoption in internal auditing.

- 4.4** The credibility and trust of internal audit are significantly enhanced through continuous review and improvement.

## Foundations for internal audit effectiveness

### Outline

This chapter addresses three issues:

- › **Why** should we implement internal audit in our organisation?
- › **How** can we implement internal audit in our organisation?
- › **What** are the key elements and features of an effective internal audit function?

## Global standards

As a component of governance, and as a profession, a very significant feature of internal auditing is that it has truly global standards.

Most other professional areas have differing standards and practices in different parts of the world – even within countries (jurisdictions) and sectors (public, private, for-purpose). Examples include disciplines such as accounting, law, external audit and even medicine, engineering and so on. To address this issue, various global and regional bodies have been established to harmonise professional standards and collaborate on global interpretations and implementation.

However, **internal auditing has a single set of global standards, covering all countries, jurisdictions and sectors.** These Standards are titled the International Professional Practices Framework (IPPF), issued by the Institute of Internal Auditors (IIA). The key elements are illustrated in Figure 4-1.

Within this framework, the IPPF adopts a principles-based approach that sets out a range of mandatory components. The IPPF is designed as a living framework to use as leverage by those charged with governance, and employs a maturity model approach to implementation.

The IPPF includes implementation guidance and formal supplemental guidance, and is further supported with continuous informal guidance in a range of forms on emerging issues.

As part of establishing the governance framework and context, the IPPF should be formally adopted in every organisation by those charged with governance – including each public sector entity.

## Supporting effective governance

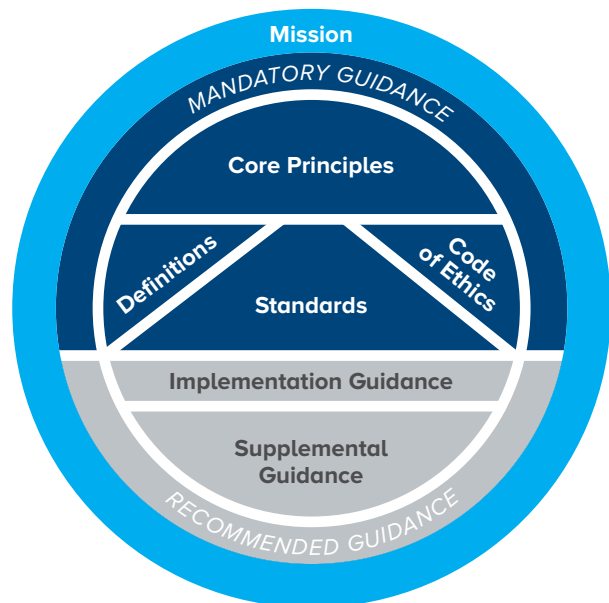
The mandatory elements of the IPPF are:

- > the core principles (of internal auditing)
- > a code of ethics
- > a definition (of internal auditing)
- > attribute standards, and
- > performance standards.

Using a principles-based approach (to provide implementation flexibility to suit varying scales of operations and governance contexts), each of these components of the IPPF sets out the key elements that, globally, are needed to provide the organisation with the level of professionalism required to support effective governance.

The IIA explains that internal audit is a key pillar of good governance for any organisation. Governance refers to the processes and structures implemented by organisations to inform, direct, manage and monitor activities.

**FIGURE 4-1 INTERNATIONAL PROFESSIONAL PRACTICES FRAMEWORK**



The IIA lists the four elements of governance as the audit committee, executive management, internal audit and external audit – see Figure 4-2.

Internal audit provides those charged with governance with an independent view on whether the organisation has an appropriate risk and control environment, while acting as a catalyst for a strong risk and compliance culture.

**Those charged with governance should establish internal audit as part of the governance framework, and in a manner consistent with the mandatory elements of the IPPF.**

## Key attributes of effective internal audit

The IPPF definition of internal audit is:

‘Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.’

To that end, the IPPF states that an effective internal audit function:

- > Demonstrates integrity.
- > Demonstrates competence and due professional care.
- > Is objective and free from undue influence (independent).
- > Aligns with the strategies, objectives, and risks of the organisation.
- > Is appropriately positioned and adequately resourced.



- › Demonstrates quality and continuous improvement.
- › Communicates effectively.
- › Provides risk-based assurance.
- › Is insightful, proactive and future-focused.
- › Promotes organisational improvement.

There is guidance within the IPPF on each of these mandatory core principles and their implementation.

**Implementing an internal audit function that achieves these core principles, and conforms to the IPPF, is likely to be one of a number of capability- building programs underpinning the organisation's 'governance journey'. It will take time, and hence a maturity model approach is recommended.**

**FIGURE 4-2 FOUR ELEMENTS OF GOVERNANCE**



Further guidance on this is available in *Applying the IPPF* (4th edition, Internal Audit Foundation, 2018). In addition, we have identified a range of 'frequently asked questions' about the nature, role and practical aspects of implementation of internal audit from those charged with governance here in Australia.

These have been distilled into *Internal Audit in Australia* (IIA Australia, 2016) which (inter alia) covers the following:

### Internal audit fundamentals

- › What is internal audit?
- › What are the core principles for internal audit?
- › Why is internal audit important?
- › What does internal audit do?
- › Whom does internal audit serve?
- › How can internal audit be independent?
- › What are appropriate reporting lines for internal audit?
- › Is internal audit mandated?
- › Does internal audit have standards?
- › What guides internal audit work?
- › What is the scope of internal audit work?
- › What is internal audit's role with fraud?

### Internal audit and other governance activities

- › Where does external audit fit in?
- › What about risk management?

### Internal audit delivery

- › What types of services can internal audit deliver?
- › How can internal audit services be resourced?
- › What tools and techniques can be used to shape the in-house capability?
- › Should internal audit have business rules?
- › How does internal audit plan its work?
- › What are the types of internal audit plans?
- › What is assurance mapping?
- › Can internal audit use subject matter experts?

### Internal audit performance and quality

- › What does good practice internal audit feature?
- › How does internal audit demonstrate its performance?
- › What is balanced scorecard reporting?
- › How is the quality of internal audit work assured?
- › How much does internal audit cost?

### Final points

- › Are internal auditors qualified?
- › What attributes should internal auditors have?
- › What questions should be asked of internal audit?
- › What is ISO auditing?
- › Where can I get more information?

The resourcing of internal audit could also focus on the impact on computerised data analysis of controls and transactions, which will require different internal auditor skills.

There is no substantive reason preventing the application and implementation of internal audit in the public sector. However, there are a range of differences which impact on the nature and operation of internal auditing in the public sector. These are discussed in chapter 2.

### Maturity levels

Appendix F contains a maturity matrix for internal audit resourcing and delivery.

## Emerging practices

### Measuring internal audit's performance through a balanced scorecard

Various reviews of public sector internal audit functions over the last decade by auditors-general and central Government agencies have pointed to inconsistencies in the internal audit performance across different public sector organisations. The requirement for chief audit executives to report on key performance indicators (KPIs) helps to showcase the performance of the internal audit function; using a balanced scorecard approach is well regarded.

## Balanced scorecards

Balanced scorecards are designed to translate internal audit strategy into action with the aim of helping to manage and measure the performance of the internal audit function. They are becoming an increasingly well-established means for reporting quantitative and qualitative KPIs to the audit committee in a balanced way.

There are typically four common elements of a balanced scorecard for internal audit, notably:

1. How well the internal audit function partners with the board.
2. How well the internal audit function supports management in achieving their business objectives.
3. How well the internal audit processes are managed.
4. The innovation and capabilities of the internal audit team.

There is also a trend for exemplar chief audit executives to specify the value proposition from each audit to confirm the audit cost was well-spent.

The Global Internal Audit Common Body of Knowledge (CBOK) study in 2015 found that there was a six-fold increase in the use by chief audit executives of balanced scorecard reporting between 2010 and 2015 (increasing from 4 percent to 26 percent). The upward trend is expected to continue.

The Victorian Auditor-General's August 2017 report on Internal Audit Performance recommended (among other things) that all departments review existing internal audit performance indicators to ensure they reflect a balanced scorecard approach and agree on a set of indicators, measures and reporting frequency with the audit committee.

# How internal audit provides value

*‘Change is the law of life. And those who look only to the past or present are certain to miss the future.’*

John F Kennedy (1917–1963)

**Fifth Pillar: Internal audit contributes the most value when it is relevant, objective, attentive to risk and opportunity, and future-focused.**

- 5.1** To be relevant, internal audit must support long- term viability and value protection and creation through an appropriate balance of assurance and advisory services that are aligned with organisational strategy and reflective of the operating environment.
- 5.2** Objectivity of internal auditors is ensured through a systematic and disciplined approach free from bias and undue influence.
- 5.3** Internal audit empowers management through concise communication of risk-based assessments of current and future conditions that test an organisation’s preparedness for enablers and inhibitors of success.
- 5.4** Internal audit makes a positive contribution to organisational value when its assurance, insight and advice are credible, trustworthy, well communicated and readily accepted by management.

## Key elements of internal audit delivery

### Outline

This chapter addresses key issues relating to public sector internal audit that are of relevance to those charged with governance, in seeking to consider the shape and direction of their internal audit function.

### Centralised versus decentralised

The size and complexity of the public sector, and its impact on the community, generates regular review and reconsideration of accountability arrangements. Structural changes, and changes in approaches towards centralisation or decentralisation are recurring features of the public sector governance landscape. As internal audit is a key component of governance (see chapters 2 and 3), approaches to structuring and resourcing internal audit also vary over time.

Governments around the world are regularly considering centralising or decentralising a range of functions and activities, including internal audit.

There are several factors that can impact an organisation's decision to make a shift in either direction, including political, fiscal, or organisational considerations. Generally, economy and efficiency are at the core of the centralisation argument and effectiveness remains centre stage in the decentralisation argument.

Each organisation has to look at its unique situation and decide what approach aligns best with its circumstances. The IIA has produced guidance to illustrate and describe the advantages and disadvantages of centralisation so that those with responsibility for governance can determine for themselves what works best for their individual needs (*Optimizing Public Sector Audit Activities*, IIA Global).

### **In house, outsourced, co-sourced**

Where decentralised approaches are used, at an individual organisation level, decisions then need to be made around whether they resource the internal audit function through an in-house operation, using an external service provider (outsourcing), or a combined approach (co-sourcing). There is guidance from the IIA to assist in this evaluation (IIA Australia Factsheet: Internal Audit Resourcing Models).

### **Shared arrangements**

In areas where public sector operations are on a limited scale (such as smaller regional Local Government Councils), or where there are large agency cluster arrangements, it is now not uncommon for governance arrangements in the public sector to involve shared audit committee and/or shared internal audit arrangements.

In 2016 NSW Treasury issued TPP 16-02: Guidance on Shared Arrangements and Subcommittees for Audit and Risk Committees to provide a framework for agencies to consider shared arrangements. It includes an overview of the prerequisites and the two types of shared arrangement (collaborative or Principal Department led) that can be formed in that jurisdiction, and facilitates the establishment and operation of subcommittees where appropriate.

## **Value proposition of internal audit**

The Victorian Auditor-General's August 2017 report on Internal Audit Performance reflected in part that, 'Internal audit... could add greater value by enhancing communication and sharing insights, identifying trends and systemic issues, and providing a more comprehensive view of department-wide assurance activities. This would provide greater assurance on risk management, controls and governance processes.'

To do so requires chief audit executives to maintain a robust planning process, effective fieldwork, meaningful reporting, and effective monitoring of open audit recommendations. Those efforts will translate into internal audit achieving the value proposition as outlined in Figure 5-1.

### **Maturity levels**

Appendix G contains a maturity matrix for the internal audit value proposition.

## **Emerging practices**

### **Determining the reasonableness of the internal audit budget**

The audit committee charter usually requires the committee to periodically assess the reasonableness of internal audit resourcing and its budget. Internal audit cost as a percentage of the total operating expenditure is one measure of the adequacy of internal audit resourcing.

It is difficult to precisely determine in isolation how much is enough for the internal audit budget because of the different sizes, scope, resourcing models and maturity of internal audit functions. This is influenced by the strength of the organisation's control environment, the size of its capital budget and the complexity of projects, the machinery of Government changes, and the stability of the organisation's leadership, staffing, structure and functions. Some relative data on internal audit budgets:

- › The Queensland Audit Office's Results of Audits: Internal Control Systems 2013–14 reported the average internal audit budget across 20 departments as a percentage of total operating expenditure for 2012–13 as 0.128 percent.
- › The NSW Department of Premier and Cabinet's Review of Internal Audit Capacity in the NSW Public Sector report of 2008 noted the average NSW Government internal audit budget for 2007–08 was 0.1 percent of expenditure.

The audit committee should ask the chief audit executive to periodically provide analysis of the internal audit budget and like-for-like comparatives to help it determine the reasonableness of the budget.

The IIA has produced guidance on what chief audit executives should report on in respect to internal audit resourcing (*The 20 Critical Questions Series: What Directors should ask about internal audit resourcing, January 2020; and White Paper: Resourcing Internal Audit, January 2020*).

**EXHIBIT 5-1 THE VALUE PROPOSITION OF INTERNAL AUDITING**

<b>The value proposition of internal auditing is based on three core elements of value delivered by internal audit to an organisation:</b>	
<b>ASSURANCE</b>	Governance, Risk and Control. Internal audit provides assurance on the organisation's governance, risk management and control processes to help the organisation achieve its strategic, operational, financial and compliance objectives.
<b>INSIGHT</b>	Catalyst, Analyses and Assessments. Internal audit is a catalyst for improving an organisation's effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business process.
<b>OBJECTIVITY</b>	Integrity, Accountability and Independence. With commitment to integrity and accountability, internal audit provides value to governing bodies and senior management as an objective source of independent advice.

Governing bodies and senior management rely on internal audit for objective assurance. And insight on the effectiveness and efficiency of governance, risk management and internal control processes.

# Internal audit must be free from undue influence

*'It always seems impossible until it's done.'*

Nelson Mandela, South African leader (1918–2013)

**Sixth Pillar: Internal audit must be free from undue influence and demonstrate its independence by reporting functionally to the board.**

- 6.1** Management is responsible for designing and operating an effective system of governance, risk and control.
- 6.2** Internal audit is responsible for evaluating the design, efficiency and effectiveness of governance, risk and control.
- 6.3** As articulated by its charter, internal audit requires full, free and unrestricted access to any function or activity under review, with no organisational function or activity considered to be outside of its scope.
- 6.4** The chief audit executive must report functionally to the board to allow internal audit to fulfil its responsibilities independently, and for it to be recognised as an authoritative voice.

## Key elements of internal audit independence

There is a symbiotic relationship between the audit committee and internal audit. The chief audit executive draws their strength from an effective audit committee. The key elements of effective audit committee delivery are illustrated in Figure 6-1.

Within Australian public sector jurisdictions, the NSW policy for audit committees (which is a key part of the NSW Treasury's Internal Audit and Risk Management Policy for the General Government Sector) is representative of leading practice public sector directions (in this case, under the Government Sector Finance Act 2018). The core requirements of the policy include:

- › An independent audit and risk committee with appropriate expertise has been established.
- › The audit and risk committee is an advisory committee providing assistance to the agency head on the agency's governance processes, risk management and control frameworks, and its external accountability obligations.
- › The audit and risk committee has a charter that is consistent with the content of the 'model charter'.

It should be noted that practice in some jurisdictions is moving away from always having a combined audit and risk committee. This may be as a result of significant organisational risks and/or the different skill sets required. Where they are separated there should be sufficient reporting between the two committees.

**FIGURE 6-1 KEY ELEMENTS OF EFFECTIVE AUDIT COMMITTEE DELIVERY**



Source: IIA-Australia Audit Committee Maturity Assessment (unpublished)

Notes on Figure 6-2:

1. While risk is incorporated into 'roles and responsibilities', this is not always the case and only specific risk responsibilities might need to be incorporated.
2. 'Governance and reporting' states that an effective secretariat independent of management should be in place; this could be achieved for employees by appointing someone with secretarial qualifications (for example, governance institute, institute of chartered secretaries); some organisations use internal audit staff as their secretariat.
3. Action items under 'governance and reporting' should incorporate the monitoring of the length of time to close action items from internal and external audit.

**Maturity levels**

Appendix H contains a maturity matrix covering audit committees.

**FIGURE 6-2 SIX PILLARS OF 'BEST IN CLASS' AUDIT COMMITTEES.**

<p><b>Membership and Capability</b></p> <ul style="list-style-type: none"> <li>&gt; External chair and members; no internal members.</li> <li>&gt; Equipped to think and operate strategically.</li> <li>&gt; Limited term appointments which are staggered.</li> <li>&gt; Members collectively have skills and experience of the organisation's risk areas and business functions.</li> <li>&gt; One member is a financial statements expert.</li> </ul>	<p><b>Role and Responsibilities</b></p> <ul style="list-style-type: none"> <li>&gt; Role (and boundaries with related entities) clearly defined.</li> <li>&gt; Defined responsibilities comprehensive and aligned to all strategic and risk areas – not limited to financial statements.</li> <li>&gt; Covers governance, risk and compliance frameworks.</li> <li>&gt; Attuned to emerging risk areas and business practices.</li> <li>&gt; Scope encourages innovation and improvement of practices.</li> </ul>
<p><b>Professional Practices</b></p> <ul style="list-style-type: none"> <li>&gt; Written charter approved by the governing body; reviewed and updated annually.</li> <li>&gt; Clear independence of mind and practice.</li> <li>&gt; Positioning promotes independence and agility.</li> <li>&gt; Regular scheduled meetings with the governing body, chief executive officer, external auditor and head of internal audit.</li> </ul>	<p><b>Performance and Accountability</b></p> <ul style="list-style-type: none"> <li>&gt; Defined performance measures.</li> <li>&gt; Annual review of audit committee performance.</li> <li>&gt; Proactive approach that uses experience of members to improve organisation governance and performance.</li> <li>&gt; Models the values and desired culture of the entity.</li> <li>&gt; Aligned to strategic mission of the entity.</li> <li>&gt; Delivers annual report on outcomes to the governing body.</li> </ul>
<p><b>Organisation Relationships</b></p> <ul style="list-style-type: none"> <li>&gt; Audit committee independence promoted.</li> <li>&gt; Access to the governing body, chief executive officer and senior management.</li> <li>&gt; Wisdom and counsel provide mentoring to C-suite.</li> <li>&gt; Offers strategic solutions as a trusted partner.</li> <li>&gt; Audit committee promoted in entity-wide communiqués.</li> </ul>	<p><b>Governance and Reporting</b></p> <ul style="list-style-type: none"> <li>&gt; Effective secretariat independent of management.</li> <li>&gt; Written and approved forward work plan, including comprehensive program of activities, which is reviewed and updated annually.</li> <li>&gt; Written minutes circulated promptly after meetings.</li> <li>&gt; Action items clearly articulated and followed-up.</li> </ul>

Source: IIA-Australia Audit Committee Maturity Assessment (unpublished)

## Emerging practices

### Serving the public interest through transparency

An IIA-Global public sector study reflected that as transparency practices continue to evolve across the world, public sector leaders have an opportunity to position themselves for potential changes to transparency arrangements within their own jurisdiction. Transparency is a term that describes openness through availability and accessibility.

The study drew on feedback gained from five continents around the world to ensure that internal audit leaders can drive or support discussions on the transparency of audit reporting. It consolidated feedback from 160 respondents from 14 countries.

This study provides insights on global transparency practices related to internal audit reports in the public sector. It is useful to boards, audit committees, senior management, chief audit executives, legislators, information controllers, and other governance professionals.

The survey insights include:

- › 85 percent of respondents said that their organisation aims to be transparent.
- › There is a high level of transparency in internal audit reports provided to the highest oversight authority, typically the Supreme Audit Institution (SAI) of the country.
- › In a small number of cases (10 percent), respondents reported making their internal audit reports available to the media.
- › It is unusual for internal audit reports to be made available on the organisation's intranet for easy access. Just 25 percent of respondents indicated that this practice is currently embraced within their organisation.

- › Even fewer internal audit reports are made available to the general public on the Internet (website). Only 14 percent of respondents reported this practice.
- › Of the organisations that make internal audit reports available to the public, most release the reports within one month to ensure timeliness.
- › Some jurisdictions have laws granting public access to Government information; 60 percent of respondents indicated that their organisation must follow a legal mandate to make information available for public inquiries.
- › The public entities that had a public information law were more likely to publish the report.
- › Audit work papers are subject to public information laws for 22 percent of study respondents.

Chief audit executives are encouraged to monitor transparency developments in their own jurisdictions and position themselves for the challenge that may be just over the horizon. Some steps they can take now include (i) understanding the information transparency laws for their jurisdiction and monitoring any changes; (ii) establishing appropriate transparency policies and arrangements for internal audit reports for their organisation; and (iii) training their staff to write clearly and comprehensibly, so as to be understood by any potential reader.

Before any public sector organisation makes internal audit reports transparent, they should consider any potential negative impacts on the function of internal audit and the behaviour of management if they are aware a report will be made public. It may in fact lead to a less open and honest relationship.

## CASE STUDY

### Case study – Audit committee reporting to a local council

Penrith City Council was an early adopter in creating contemporary Audit, Risk and Improvement Committee (ARIC) arrangements to promote good corporate governance at the council, to serve the public interest. The councillors recognised that good corporate governance ensures the people of Penrith receive the services they need in an effective and efficient manner, delivered with honesty and integrity. The ARIC has an independent chair, a majority of independent members, and councillor members. At each meeting the ARIC articulates 'five key take-outs' from the meeting for the councillor members to take back to the council, minutes of the meeting are published on the website, an annual ARIC report and an Internal Audit annual report are presented by the chair at an open session of council. The annual ARIC report includes key achievements, key action points, and commentary on the oversight of internal audit, external audit, enterprise risk management and corporate governance. (Used with permission.)



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# Appendices

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## Appendix B

### Steps for implementing effective policy

The following are edited and condensed excerpts from a global IIA Global Public Sector Insight publication released in 2014, *Policy Setting for Public Sector Auditing in the Absence of Government Legislation*.

#### Background

Audit activities that have competent, qualified professional staff with sufficient authority, stature, independence, resources and high-level access to discharge their duties can strengthen public sector accountability, risk management and control. Support for the development and maintenance of effective auditing activities will help to better ensure sound public sector accountability and governance.

In some jurisdictions, legislation is yet to be enacted in relation to audit activities, or the legislation that is in place is relatively narrow in its scope. In these cases, audit practitioners and their key stakeholders in public sector entities can benefit from the following insights on an approach to structuring appropriate policies and procedures for their entity.

#### Closing the gap in governance

Having an audit activity that is a separate and distinct service from external assurance providers is strongly encouraged by many public sector participants and governance experts. For instance, in 2011 the Asia-Pacific Economic Cooperation (APEC) forum encouraged its member economies to explore how the audit profession could be advanced, and to consider if advancing the profession could be achieved by mandating or encouraging audit activities in relevant public sector institutions and other entities.

According to an APEC Business Advisory Council report to leaders, '[g]ood governance and risk management are central to the effective performance and sustainability of economies' public and private sector institutions. Internal audit is a major component of an institution's governance system and its capacity to manage risk and internal control systems.'

The following excerpts present basic principles for entity-based policies and procedures in the absence of legislation and attendant regulations that mandate audit activities in the public sector. These insights are intended to help public sector practitioners to develop coherent and consistent policies and procedures for auditing across public sector entities.

#### Business significance

Around the world, accountability provides the foundation for responsible Government. It is fundamental in assuring society that Governments – in particular, public sector entities and officials – are using public resources efficiently, effectively and in the public's best interests.

There is growing global recognition that audit activity is a value-added service that underpins sound governance and public welfare. For example, Canada's Federal Accountability Action Plan states that 'Independent, objective, and timely internal audit services within departments provide assurance to deputy ministers and reinforce good stewardship practices and sound decision making.'

Audit activities play a pivotal role in strengthening public sector accountability, as illustrated by its position as the third line of defence in effective risk management and control. Many good examples across intercontinental jurisdictions suggest that well-defined audit activities are helping to strengthen public sector governance.

### A five-step process

Policies covering the audit activity are typically the high-level requirements that are established by the board (or Government legislators).

Separate procedures reflect the more detailed requirements that management requires to be established to put the board policy into practice. Policies are typically more difficult to change than procedures.

Figure B-1 illustrates a five-step process for any entity considering policies and procedures covering the audit activity. Figure B-2 illustrates typical steps in the process. Each entity will have its own unique processes for introducing policies and procedures.

FIGURE B-1 FIVE-STEP PROCESS FOR SETTING POLICY



Source: IIA Global, Policy Setting for Public Sector Auditing in the Absence of Government Legislation, 2014, page 11

FIGURE B-2 POLICY DEVELOPMENT PROCESS

Policy Development Process	
Step	Activities
<b>Needs Analysis</b>	<ul style="list-style-type: none"> <li>a. The board identifies need for a policy, and depending on your geographic location, may possibly be influenced by regional economic forums.</li> <li>b. The board determines its policy aspiration.</li> <li>c. Broad policy and procedural requirements are determined through bench-marking.</li> </ul>
<b>Drafting and Approval</b>	<ul style="list-style-type: none"> <li>a. Policy is drafted.</li> <li>b. Procedures are drafted.</li> <li>c. Consultation of draft policy and procedures occur.</li> <li>d. Policy is considered and passed by the board.</li> <li>e. Procedures are approved by relevant senior management authority.</li> </ul>
<b>Implementation</b>	<ul style="list-style-type: none"> <li>a. Entity is informed of changes.</li> <li>b. Entity management and staff receive guidance on implementation.</li> <li>c. Entity establishes appropriate internal structures.</li> <li>d. Entity implements requirements.</li> </ul>
<b>Reporting</b>	<ul style="list-style-type: none"> <li>a. Entity establishes and maintains enhanced governance, risk and control mechanisms.</li> <li>b. Entity introduces enhanced governance, risk, and compliance reporting into their published annual reports, including relevant assertions and information on audit committee operations.</li> </ul>
<b>Compliance</b>	<ul style="list-style-type: none"> <li>a. A compliance review is conducted by an appropriate board-appointed authority within 12-18 months of implementation.</li> <li>b. Compliance review results are reported to the board.</li> <li>d. If policy enhancements are required, they are recommended in the reviewer’s report and considered by the board.</li> </ul>

Source: IIA Global, Policy Setting for Public Sector Auditing in the Absence of Government Legislation, 2014, page 12

## Appendix C

### Maturity matrix – corporate governance

IIA-Australia uses a corporate governance maturity matrix as a basis for determining the maturity level of an entity's corporate governance model across five distinct levels – optimising (best), managed, defined, repeatable, and initial (greatest scope for improvement). In this context 'optimising' means continual enhancement is sought and implemented (whereas 'optimised' means as effective as possible).

#### Board

As explained within the introduction, the 'board' (in the context of this publication) refers to the highest level of a governing body assigned the responsibility to direct and/or oversee the activities and management of the organisation.

The following features are illustrative of corporate governance at the 'optimal' level.

#### Strategic management

- › Board comprising non-executive directors has been appointed and is operating effectively, with performance evaluated annually.
- › Entity's objectives are defined and performance against objectives continually tracked.
- › Key board subcommittees have been established and are operating effectively; these subcommittees include external expertise.
- › Board policies are clearly defined and implemented.
- › Comprehensive strategic plan is approved by the board.
- › Organisation policies have been established and disseminated, with active oversight to minimise duplication.
- › Learning and development is a focus.
- › A clear, integrated and co-ordinated governance structure is in place, covering all activities.
- › Related party transactions are declared and transparent.
- › The project management office actively monitors and reports on organisation projects.

#### Risk management

- › The risk management approach is clearly defined and embedded into all activities.
- › Risk appetite and risk tolerances are defined and disseminated.
- › A risk management training program is maintained across the organisation, with a high take-up rate.
- › Strategic risks are identified and continually tracked.
- › Risk management is embedded into operational and project activities.

- › An active ethics and anti-fraud program is in place and disseminated.
- › A gift and entertainment policy is in place, with active oversight.
- › Ethics and fraud awareness training is mandatory for all employees and business partners, with periodic refresher training.
- › A proactive investigation program is in place.
- › Sanctions are applied where allegations are proven.
- › Business continuity planning is embedded into all activities, with periodic testing and results reported.

#### Resource management

- › A formal delegations of authority policy is in place, and is tested and reviewed on an ongoing basis.
- › Segregation of duties is defined, tested and reviewed on an ongoing basis.
- › Annual budgets are approved and continuously monitored by the board.
- › Unqualified financial statements are produced and audited annually.
- › Procurement activities use a formal mandated tender process, with strong oversight.
- › Vendor performance is continually evaluated against contract terms.
- › Financial management controls are actively reviewed and audited; the external audit management letter contains no improvement recommendations.
- › Automated continuous control monitoring of systems is in place.
- › The workforce plan has been approved and is monitored by the board.
- › A code of conduct is in place, including an annual employee declaration process.
- › The capital plan has been approved and is monitored by the board.
- › There is a formal approach to assure comprehensive identification and protection of assets.

#### Information management

- › The IT plan has been approved and is monitored by the board.
- › An effective management structure is in place for the IT environment, including hardware, software and information.
- › IT governance arrangements are clearly defined and assigned.
- › Shadow IT in business units is identified and minimised.
- › Effective processes are in place to protect information and IT systems from unauthorised access, use, disclosure, disruption, modification or destruction.

- › Data integrity is independently confirmed.
- › Periodic penetration testing is conducted, with recommendations implemented in a timely way.
- › IT disaster recovery plans are in place, periodically tested and results reported.

### Compliance and reporting

- › A comprehensive compliance program is in place for legal compliance.
- › There is compliance with all applicable laws and regulations, with strong formal confirmation from assurance activities.
- › A comprehensive compliance program is in place for policy compliance.
- › Quality activities are in place and operating effectively, with results driving continuous improvement.
- › The health and wellbeing of employees and customers is a priority.
- › Corporate social responsibility is a focus.
- › There is effective and forward-focused management reporting to decision-makers, including analysis, forward projections, options and risks.

### Audit and review

- › An independent audit committee has been established and is operating effectively.
- › Combined assurance across organisation is documented, including the three lines of defence and the effectiveness of each element.
- › An assurance strategy across the three lines of defence has been developed.
- › Plans are established to implement improvements across the three lines of defence where deficiencies are identified.
- › An internal audit department has been established that is independent of management.
- › An independent external auditor has been appointed and is periodically rotated (where the Supreme Audit Organisation / Auditor General is not mandated).
- › Feedback is actively sought and actioned as input to continuous business improvement.
- › Periodic independent review of assurance activities is conducted against recognised standards and good practice.
- › There is a high rate of timely audit recommendation close-out, and minimal overdue audit recommendations.

## Appendix D

### Maturity matrix – internal audit trust, transparency and accountability

IIA-Australia uses an internal audit maturity matrix as a basis for determining the maturity level of an entity's internal auditing arrangements across five distinct levels – optimising (best), managed, defined, repeatable, and initial (greatest scope for improvement). Part of this relates to the elements of managing the internal audit activity, and ethics.

The following features are illustrative of internal audit trust, transparency and accountability arrangements at an 'optimal' level. These features should be read in conjunction with Appendix F, and are based on the premise that a clear mandate has been established in the form of an internal audit charter.

#### Managing the internal audit activity

- › Internal audit policies and procedures are in place.
- › Internal audit plans are linked to corporate objectives.
- › Effective internal audit reporting arrangements are in place.
- › Audit client feedback is sought.
- › Performance measures are in place and used to drive continuous improvement.

#### Code of ethics

- › An organisation code of conduct is established and championed by internal audit.
- › The IIA Code of Ethics is embedded in internal audit policies.
- › Ethics training is conducted for internal auditors.
- › Internal audit staff complete an annual code of ethics declaration.

## Appendix E

### Maturity matrix – combined assurance

IIA-Australia uses a combined assurance maturity matrix as a basis for determining the maturity level of an entity's combined assurance arrangements across five distinct levels – optimising (best), managed, defined, repeatable, and initial (greatest scope for improvement).

The following features are illustrative of combined assurance at the 'optimal' level.

#### Combined assurance

- › There is a common understanding of combined assurance and three lines of defence (or similar) across the organisation.
- › There is an organisation-wide policy approach to combined assurance built around strategic imperatives and business compliance objectives.
- › The organisation-specific three lines of defence are clearly identified and regularly reviewed.
- › There is a comprehensive risk management and assurance process.
- › The combined assurance coverage provides assurance against realisation of key risks.
- › A continuous improvement focus with gap analysis is built into the combined assurance process.

#### Effectiveness

- › Assurance mapping is undertaken and informs forward audit plans and assurance activities.
- › There is an organisation-wide continuous focus on minimising duplication of assurance effort.
- › A continuous focus on minimising cost is associated with assurance activities.
- › Stakeholders proactively facilitate discussion around combined assurance at lower cost without compromising effectiveness.
- › Combined assurance results are quantified.
- › The organisation demonstrates effective performance through a diminishing rate of issues identified by assurance activities and external assurance such as external audit and regulators.

#### Accountability

- › The organisation's risk appetite is defined, understood and applied.
- › Combined assurance is fully aligned with organisation processes and individual performance measures.
- › A central function co-ordinates combined assurance.
- › Processes and individual incentives are linked to organisation risk management and assurance strategies.

- › Accountability for risk management and assurance activities is clearly defined and understood.
- › There is a strong values-based compliance culture.
- › There are periodic written combined assurance assessments.

#### Knowledge and skills

- › People possess a high level of knowledge and skills related to combined assurance concepts.
- › There are proactive stakeholder discussions around combined assurance.
- › Combined assurance knowledge and skills are continuously upgraded.
- › Training in combined assurance concepts is readily available, with a high take-up rate.

## Appendix F

### Maturity matrix – internal audit resourcing

IIA-Australia uses an internal audit maturity matrix as a basis for determining the maturity level of an entity's internal auditing arrangements across five distinct levels – optimising (best), managed, defined, repeatable, and initial (greatest scope for improvement). Part of this relates to the elements of proficiency and due professional care, and quality assurance and improvement arrangements.

The following features are illustrative of internal audit structural reporting (independence), resourcing, and delivery arrangements at an 'optimal' level.

#### Independence and objectivity

- › Internal audit reporting arrangements are defined in an internal audit charter, which specifies good practice reporting arrangements.
- › Independence and objectivity requirements are defined by internal audit policy.
- › There is a requirement for conflict of interest disclosure.
- › Internal audit staff must attest annually to compliance with standards.

#### Purpose, authority and responsibility

- › An internal audit charter is in place, reviewed and approved by the audit committee on an annual basis.
- › The charter is clearly linked to corporate governance objectives.

#### Communicating the acceptance of risks

- › Escalation protocol is defined where management accepts risks identified by internal audit, with the process clearly understood by internal audit and management.



- › There is a collaborative approach to the resolution of risk acceptance situations.
- › There is a clear definition of the level of risk that can be assumed by management that precludes the need for the escalation protocol to be enacted.

### Proficiency and due professional care

- › Internal audit resources are credentialed.
- › Specialist resources are available when required.

**Note: Each proposed audit is assessed to determine whether appropriately skilled resources are available within the audit team. Where necessary, they are supplemented by and supported by people with specialised skill sets.**

- › Annual risk assessment conducted.
- › Ongoing and periodic quality assurance processes are in place.
- › Training programs reinforce internal audit credentials and support the execution of internal audit work.

### Quality assurance and improvement

- › A documented ongoing and periodic standards-based quality assurance program is in place.
- › Quality assurance activities occur for internal audit engagements.
- › Internal assessment is conducted annually.
- › External assessment is conducted at least every five years.

## Appendix G

### Maturity matrix – internal audit value

IIA-Australia uses an internal audit maturity matrix as a basis for determining the maturity level of an entity's internal auditing arrangements across five distinct levels – optimising (best), managed, defined, repeatable, and initial (greatest scope for improvement). Part of this relates to the elements of nature of work, engagement planning, performing the engagement, communicating results, and monitoring progress.

The following features are illustrative of adding value at the 'optimal' level.

#### Nature of work

- › Internal audit focuses on controls, risk and governance.
- › Internal audit plans are clearly linked to the enterprise-wide view of risk, and plans are periodically adjusted.
- › Internal audit uses recognised control frameworks in its work.

### Engagement planning

- › Planning is performed in collaboration with stakeholders.
- › Planning is adjusted for differing circumstances.
- › Planning is documented.
- › A consistent methodology is applied to internal audit engagements; the methodology applied is better practice and complies with relevant standards.
- › Supervisory review and sign-off occurs.

### Performing the engagement

- › Internal audit policies and procedures clearly define the internal audit engagement process.
- › Audit work plans are tailored for each engagement.
- › Supervisory review and sign-off occurs.
- › An automated audit working paper system is in place (for larger internal audit functions).
- › Computer-assisted audit techniques and other relevant audit techniques are actively used.

### Communicating results

- › A reporting protocol has been established for communicating results.
- › Reporting is done consistently from a content and format perspective.
- › The chief audit executive reviews and signs off on audit reports before issue.
- › Management input to reporting is actively sought.
- › Reports contain management comments and agreed actions.
- › Internal audit prepares reports that show systemic issues found through its work.

### Monitoring progress

- › Follow-up protocol has been established.
- › Follow-up on implementation of audit recommendations is performed consistently.
- › Reporting to audit committee on status of audit recommendations which 'tells the story' (that is, there is analysis and commentary on the overall status of recommendations, and clarity on how management proposes to address the situation if lapses have occurred in implementing recommendations in line with the original target dates).
- › There is an automated system for receiving progress updates from management (for larger internal audit functions).
- › There is a high rate of audit recommendation clearance.



## Appendix H

### Maturity matrix – audit committee

IIA-Australia uses an audit committee maturity matrix as a basis for determining the maturity level of an entity's audit committee arrangements across five distinct levels – optimising (best), managed, defined, repeatable, and initial (greatest scope for improvement).

The following features are illustrative of audit committees operating at the 'optimal' level. The elements of internal audit independence and objectivity, and purpose, authority and responsibility, were covered under chapter 4.

#### Membership and capability

- › Membership (voting) comprises only experienced and well-credentialed non-executive members, chair and deputy chair.
- › Members collectively have skills, experience, expertise and strategic nous matched to business activities.
- › Appointments are staggered to ensure continuity and clear succession of leadership.
- › There is a blended induction process for new members (discussions, presentations, site visits, documentation).
- › There is a cap on membership duration.

#### Roles and responsibilities

- › Role and responsibilities are well-defined in a charter approved by the governing body (if applicable) and chief executive officer.
- › The charter is reviewed and updated annually.
- › There are clear boundaries for the coverage of related or subsidiary entities.
- › Role and responsibilities are comprehensive, aligned to organisational strategies; innovation and improvement ideals; and emerging risks and business practices; and cover financial and non-financial operations.
- › There is coverage of governance, risk and compliance frameworks.
- › There are no executive or managerial powers.

#### Professional practices

- › At least four meetings are held per year.
- › An attendance of close to 100 percent is expected.
- › There is a comprehensive, well-structured committee forward work plan.
- › Members operate collegially, and their interactions are underpinned by agility and independence of mind and practice.
- ›

- › Private meetings are scheduled at least annually with the head of internal audit without management present, complemented with periodic informal meetings with the chair.
- › Private meetings are scheduled at least annually with the external auditor without management present.
- › Private meetings are scheduled with executive managers/ C-suite members without other management present.

#### Performance and accountability

- › Meeting minutes are prepared and disseminated quickly.
- › Attendance is monitored.
- › Action items are proactively followed up and addressed promptly.
- › Accountability requirements are defined in the charter, including qualitative and quantitative performance measures.
- › Annual self-assessment is undertaken by members.
- › There is periodic, independent assessment of committee performance.
- › The committee models the values and desired culture of the entity through its behaviour and messaging.
- › Activities are aligned to the strategic mission of the organisation.
- › There are specific code of conduct requirements that are adhered to.

#### Organisational relationships

- › The committee chair has open access to the governing body chair (if applicable), and they meet regularly.
- › The committee chair has open access to the chief executive officer, and they meet at predetermined intervals.
- › Committee access to executive management is encouraged.
- › The committee has access to independent, expert advice.
- › Development of C-suite members is provided incidentally through wisdom and counsel style of mentoring.
- › The committee acts as a strategic partner to offer strategic solutions.
- › Organisational awareness of the committee's role is maintained through periodic staff publications.

#### Governance and reporting

- › Independence safeguards are maintained.
- › There is a conflict of interest procedure.
- › The committee has open access to organisation personnel.
- › The committee has dedicated secretariat resources provided who are trained and/or credentialed in the role.

- › Clearly articulated action items and important auditor recommendations are dealt with thoroughly.
- › A formal report on key issues arising from meetings is delivered to the governing body (if applicable) and chief executive officer after each meeting.
- › An annual report on committee outcomes is delivered to the governing body (if applicable) and chief executive officer.

## Appendix I

### Internal auditing practices

The Australian (Commonwealth) Auditor-General has previously developed and published through the Australian National Audit Office (ANAO) public sector internal audit better practice guides (the latest was 2012, updating the 2007 edition)<sup>8</sup>. The principles and practices outlined in the guides were developed to be generally applicable to all public sector entities. The Auditor-General has no immediate plans to review, update or maintain these better practice guides following a change in policy on issuing better practice guides.

With the ANAO's permission, we include a summary of the key points contained in the better practice guides (based on the breakout boxes contained in the 2012 guide). As these practices have been espoused for some years, it is expected that the better practices will already be embedded in most public sector entities.

#### Summary of better practice attributes of internal audit function

A better practice internal audit function:

- › Has the confidence and visible support of key stakeholders including the chief executive, the board (where applicable), the audit committee and senior management.
- › Is operationally independent: that is, internal audit is independent from the activities subject to audit.
- › Has a well-developed strategy that clearly identifies internal audit's role and responsibilities and contribution to the entity's broader assurance arrangements.
- › Has sufficient financial resources and staff and access to contractors when appropriate, with the necessary skills, experience and personal attributes to achieve the contribution expected of internal audit.

Operationally the function:

- › Is business-focused and has audit plans that are comprehensive and balanced, and are aligned with the entity's risks.
- › Undertakes all audits in accordance with specified professional standards.
- › Provides an annual assessment, based on internal audit work undertaken, of the effectiveness of the entity's

system of internal controls.

- › Advises the audit committee and entity management of patterns, trends or systemic issues arising from internal audit work.
- › Disseminates lessons learnt from its work, and from external audit, to relevant areas of the entity to contribute to organisational learning.
- › Regularly informs the audit committee of progress in the implementation of agreed internal and external audit and other relevant report recommendations.
- › Facilitates communication between external audit and entity management, where appropriate.
- › Actively manages any external service providers.

Other considerations:

- › Internal audit is an important element of the range of resources and mechanisms available to public sector managers to assist them to meet their responsibilities.
- › A better practice internal audit function should have access to and be accountable to the chief executive or board.
- › The principles and practices outlined in this appendix are generally applicable to all public sector entities.

#### Roles and responsibilities of internal audit

- › Operational independence is a defining feature of better practice internal audit arrangements.
- › Objectivity is a required attitude for the delivery of internal audit services.
- › Better practice internal audit arrangements provide for the head of internal audit (that is, the chief audit executive) to be directly accountable to the chief executive or board.
- › It is important that internal audit work is conducted in accordance with recognised professional standards.
- › Internal audit is one of a number of assurance and review activities within an entity.
- › Assurance mapping can help an audit committee obtain the necessary confidence in the entity's governance, risk, management and control processes.
- › Internal audit's effectiveness should also be safeguarded by ensuring that its resourcing is commensurate with its responsibilities.
- › Better practice internal audit functions direct their activities to the most significant risks of the entity and the controls in place to manage them.
- › Internal audit could usefully play a number of roles in relation to an entity's Certificate of Compliance/ Compliance Report responsibilities (at the Commonwealth level).
- › Internal audit can be well placed to undertake an analysis of the results of reviews conducted by other internal and external assurance providers.

<sup>8</sup> ANAO Better Practice Guide – Public Sector Internal Audit, September 2012

- › Internal audit can be well placed to assist management to improve business performance.
- › In providing advice to management, care should be taken to maintain the operational independence of internal audit.
- › Internal audit can be well placed to assist the entity to develop and monitor its risk management framework.
- › It is important that internal audit has a predominant focus on the conduct of assurance and advisory work.
- › When internal audit is engaged in non-audit activities, it is important that operational independence is maintained.
- › The relationship between internal audit and the external auditor is an important one and has benefits to both parties.
- › There can be mutual benefits for entities, and the external auditor, in internal audit conducting work that can be relied on by the external auditor.
- › An internal audit charter formalises the position of internal audit in the entity's governance framework.
- › The charter should be reviewed at least annually to maintain confidence that the role of internal audit continues to meet the needs of the entity.
- › The internal audit charter outlines internal audit's authority to access all records, assets, personnel and premises.
- › The internal audit strategy should align with the entity's strategic direction.
- › The entity's current and future risk profile will be an important influence on the internal audit strategy and the types and level of internal audit activity.
- › It is important that internal audit coverage complements, rather than duplicates, other assurance and review activities. An assurance map assists internal audit to identify any gaps or duplication and to develop its work plan.
- › The size of the investment the entity wishes to make in internal audit would normally be determined by the chief executive or board, on the advice of the audit committee.
- › The use of a co-sourced or outsourced model will require strategies and plans to help ensure appropriate quality and accountability is maintained.
- › A detailed internal audit work plan should be prepared, specifying the proposed internal audit coverage over the planning cycle.
- › A comprehensive internal audit work plan will generally include audits of major information technology systems and audits of major projects.
- › The internal audit work plan should include provision for undertaking audit quality assurance activities.
- › The risk tolerance and the risk profile of the entity will affect the size and nature of the internal audit work plan.

### Relationships with key stakeholders

- › To be effective, internal audit must have the confidence and trust of its key stakeholders.
- › The head of internal audit (that is, the chief audit executive) generally formally reports to the board on the effectiveness of the internal audit function.
- › It is important that both formal and informal lines of communication be maintained between internal audit and the audit committee.
- › Better practice internal audit functions increasingly are periodically reporting on the patterns, trends and systemic issues identified as a result of internal audit activities.
- › One measure of the effectiveness of internal audit is the extent to which managers seek out internal audit to assist them in managing their business.
- › A constructive relationship between external audit and internal audit can assist in the conduct of external audits.

### Planning internal audit activities

- › Better practice internal audit functions align their focus and activities with the entity's risks.
- › An internal audit strategy helps in focusing internal audit effort where it is most useful and effective.
- › The time and resources involved in developing the internal audit strategy should be commensurate with the size and complexity of the entity.

- › The size of the internal audit work plan will also be influenced by the level of resourcing of the internal audit function.
- › The internal audit work plan should be sufficiently detailed to satisfy the audit committee and the chief executive or board that the proposed coverage is adequate.
- › There are benefits in aligning the timing of internal audit planning to the entity's business planning process.

### Resourcing the internal audit function

- › It is important that the internal audit function has an adequate budget and access to the necessary skills and experience.
- › The audit committee's attention should be drawn to the impact that any budget shortfall might have on the ability of internal audit to meet the expectations of stakeholders.
- › A periodic review of the service delivery model will help to ensure the internal audit services match the entity's needs.
- › Many internal audits require access to special technical audit skills that may be either not available or not cost-effective to maintain in-house.
- › For some small entities there may not be the critical mass to make an inhouse internal audit function viable and sustainable.
- › The head of internal audit is responsible for internal audit and is vital to the success of the function.

- › It is appropriate that the chair of the audit committee advise the chief executive or board on the appointment of the head of internal audit.
- › Secondment of staff to internal audit can be a useful way of supplementing internal audit resources.
- › Some entities see merit in rotating senior managers through internal audit for set periods as part of their career development.
- › In situations where there is an extensive audit plan and a broad range of skills are required, it may be appropriate to establish a panel of service providers.
- › Service delivery requirements should be outlined in a contract with the internal audit service provider.
- › Even though the internal audit function may be completely outsourced, responsibility for the overall efficiency and effectiveness of the internal audit function remains with the entity.
- › The effectiveness of an outsourced provider will be enhanced by appointing an appropriate staff member as an in-house liaison officer for the provider.
- › Audit reports should also include an action plan and a realistic timeframe, agreed with management, for the implementation of the recommendations.
- › The benefits of an internal audit report are reduced, and risks remain, if recommendations are not implemented within the agreed timeframes.

### **Performance assessment and quality assurance**

- › Measuring performance is a means whereby internal audit is held accountable for its use of resources and service improvements can be demonstrated.
  - › Key performance indicators (KPIs) for internal audit should be aligned with the entity's internal audit strategy and work plan.
  - › Measurement of the effectiveness or the value added by individual reports and the internal audit function itself is generally best measured by seeking the views of key stakeholders.
  - › The audit committee should be involved in providing regular feedback on the quality and cost-effectiveness of audit reports and other services provided by internal audit.
  - › An external quality assurance review is also an important tool in demonstrating internal audit's commitment to quality and external scrutiny.
  - › The timing of the conduct of an external quality assurance review should be factored into the internal audit strategy.
- ### **Efficient and effective work practices**
- › To maintain stakeholder confidence it is important that internal audit processes are efficient and effective.
  - › The internal audit manual should provide local procedures consistent with applicable standards.
  - › It is important that, in planning and scoping audits, audit effort and resources are directed to the more significant issues.
  - › The audit approaches selected should be the most time- and cost-effective, given the objectives and scope of the audit.
  - › Effective communication with stakeholders throughout the audit process is essential for a successful audit outcome.
  - › The progress of an audit and the findings and conclusions emerging from it should be regularly monitored.
  - › Much of the work of internal audit is judged on the quality of the final audit report.
  - › Each audit report should include an overall audit conclusion and rating related to the audit objective.
  - › Feedback and comments on the draft report should be weighed carefully and the draft report amended, if necessary, before being finalised.
  - › It is better practice for the head of internal audit to prepare an annual report of activity.
  - › Arrangements should be made to transfer relevant examples of better practice and lessons learnt to other parts of the entity.
  - › To encourage management buy-in and commitment, it is important that recommendations are developed in consultation with management.

## Appendix J

### Inter-jurisdiction comparison – Commonwealth, State and Local Government

Audit committees and internal audit summary – as of May 2020

Jurisdiction	Audit Committee				Internal Audit	
	Audit Committee	Independent Chair	Independent Members	Knowledge and Experience	Internal Audit	IIA Standards <sup>^</sup>
<b>Corporate Sector</b>						
Listed	R*	R*	R*	R*	R*	G
Non-Listed	G	G	G	G	G	G
Financial	R	R	R	R	R	G
NFP						
<b>Australian Government</b>						
Federal	R	G	R	R	G	
<b>State and Territory Governments</b>						
ACT	R	R	R	R	R	G
NT	R		R	R	R	
NSW	R	R	R	R	R	R
QLD	R**	G	G	G	R**	G
SA	R#	R#			R#	
TAS	R	R	G	R	G	G
VIC	R	R	R	R	R	R
WA	R	R	G	G	R	R
<b>State and Territory Local Government</b>						
ACT	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
NT	R	R	R	R		R
NSW	G	G	G	G	G	G
QLD	R+	R	~	R	R	G
SA	R		R	R		
TAS	R	R	R	R	G	G
VIC	R	R	R	R	R*	G
WA	R	R	R	G	G	

R = required (mandatory)

Blank = no expectation

\* = if not, why not

+ = Large Councils Only

\*\* = R for departments, G for statutory bodies

G = guideline (not mandatory)

# = public corporations only

<sup>^</sup> = International Standards for the Professional Practice of Internal Auditing

~ = CEO cannot be a committee member

## Audit committees and internal audit

### References

Jurisdiction	Audit Committee				Internal Audit	
	Audit Committee	Independent Chair	Independent Members	Knowledge and Experience	Internal Audit	IIA Standards <sup>1</sup>
<b>Corporate Sector</b>						
Listed	<p><b>Corporate Governance Principles &amp; Recommendations (4<sup>th</sup> Ed. 2019)</b> <i>Recommendation 4.1 (a)</i></p> <p>The board of a listed entity should have an audit committee.</p>	<p><b>Corporate Governance Principles &amp; Recommendations (4<sup>th</sup> Ed. 2019)</b> <i>Recommendation 4.1 (a)(2)</i></p> <p>The board of a listed entity should have an audit committee which is chaired by an independent director, who is not the chair of the board.</p>	<p><b>Corporate Governance Principles &amp; Recommendations (4<sup>th</sup> Ed. 2019)</b> <i>Recommendation 4.1 (a)(1)</i></p> <p>The board of a listed entity should have an audit committee which has at least three members, all of whom are non-executive directors and a majority of whom are independent directors.</p>	<p><b>Corporate Governance Principles &amp; Recommendations (4<sup>th</sup> Ed. 2019)</b> <i>Recommendation 4.1 (a)(4)</i></p> <p>The board of a listed entity should have an audit committee and disclose the relevant qualifications and experience of the members of the committee.</p>	<p><b>Corporate Governance Principles &amp; Recommendations (4<sup>th</sup> Ed. 2019)</b> <i>Recommendation 7.3</i></p> <p>A listed entity should disclose: (a) if it has an internal audit function, how the function is structured and what role it performs; or (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</p>	<p><b>Corporate Governance Principles &amp; Recommendations (4<sup>th</sup> Ed. 2019)</b> <i>Recommendation 7.3</i> <i>Commentary Footnote:</i></p> <p>Listed entities that have or wish to have an internal audit function may find the International Standards for the Professional Practice of Internal Auditing published by the International Internal Audit Standards Board helpful in understanding how that function should perform.</p>
Non-listed	<p><b>AS8000-2003 Good Governance Principles – AUS Standard</b> <i>3.2.11 Audit Committees</i></p> <p>The board should create an audit committee.</p>	<p><b>AS8000-2003 Good Governance Principles – AUS Standard</b> <i>3.2.10.2 Companies</i></p> <p>Board committees should generally be constituted with a majority of independent directors.</p>	<p><b>AS8000-2003 Good Governance Principles – AUS Standard</b> <i>3.2.11 Audit Committees (b)</i></p> <p>The audit committee should be comprised entirely of non-executive directors a majority of whom are independent.</p>	<p><b>AS8000-2003 Good Governance Principles – AUS Standard</b> <i>3.2.11 Audit Committees (b)</i></p> <p>Members of the Audit Committee should be financially literate.</p>	<p><b>AS8000-2003 Good Governance Principles – AUS Standard</b> <i>3.2.11 Audit Committees (b)</i></p> <p>The audit committee should approve and monitor policies for reporting, risk management and internal audit.</p>	<p><b>ASIC Information Sheet 221 Internal Audit</b></p> <p>References the Standards for more information.</p>

<sup>1</sup> The International Standards for the Professional Practice of Internal Auditing. Issued by the International Internal Auditing Standards Board – (if not, why not)

Jurisdiction	Audit Committee				Internal Audit	
	Audit Committee	Independent Chair	Independent Members	Knowledge and Experience	Internal Audit	IIA Standards <sup>1</sup>
<b>Corporate Sector</b>						
Financial Institutions	<p><b>Prudential Standard CPS 510 Governance D (July 2019)</b> <i>Audit arrangements Board Audit Committee 73</i></p> <p>An APRA-regulated institution (excluding foreign ADIs and Category C insurers but including EFLICs) must have a Board Audit Committee, which assists the Board by providing an objective non-executive review of the effectiveness of the regulated institution's financial reporting and risk management framework.</p>	<p><b>Prudential Standard CPS 510 Governance D (July 2019)</b> <i>Audit arrangements Board Audit Committee 76 &amp; 77</i></p> <p>Board committees should generally be constituted with a majority of independent directors.</p>	<p><b>Prudential Standard CPS 510 Governance D (July 2019)</b> <i>Audit arrangements Board Audit Committee 75</i></p> <p>The audit committee should be comprised entirely of non-executive directors a majority of whom are independent.</p>	<p><b>Prudential Standard CPS 510 Governance D (July 2019)</b> <i>Governance Arrangements The Board &amp; Senior Management 19</i></p> <p>The Board must ensure that directors and senior management of the regulated institution, collectively, have the full range of skills needed for the effective and prudent operation of the institution, and that each director has skills that allow them to make an effective contribution to Board deliberations and processes. This includes the requirement for directors, collectively, to have the necessary skills, knowledge and experience to understand the risks of the institution, including its legal and prudential obligations, and to ensure that the institution is managed in an appropriate way taking into account these risks.</p>	<p><b>Prudential Standard CPS 510 Governance D (July 2019)</b> <i>Internal audit 90</i></p> <p>An APRA-regulated institution must have an independent and adequately resourced internal audit function. If a regulated institution does not believe it is necessary to have a dedicated internal audit function, it must apply to APRA to seek an exemption.</p>	<p><b>ASIC Information Sheet 221 Internal Audit</b></p> <p>References the Standards for more information.</p>

Jurisdiction	Audit Committee				Internal Audit		
	Audit Committee	Independent Chair	Independent Members	Knowledge and Experience	Internal Audit	IIA Standards <sup>1</sup>	
<b>Australian Government</b>							
Federal	<p><b>Public Governance, Performance and Accountability Act 2013</b> <i>Section 45</i> <i>Audit committee for Commonwealth entities</i></p> <p>(1) The accountable authority of a Commonwealth entity must ensure that the entity has an audit committee.</p> <p><i>Section 92—Audit committee (for Commonwealth companies)</i></p> <p>(1) The directors of a wholly-owned Commonwealth company must ensure that the company has an audit committee.</p>	<p><b>Resource Management Guide No. 202<sup>2</sup></b> <b>Audit committees for Commonwealth entities and Commonwealth companies (2015)</b> <i>Independence of Audit Committee Members</i></p> <p>(10) Other measures to strengthen the committee's actual or perceived independence include appointing an independent chair.</p> <p><b>Resource Management Guide No. 202 (2018)</b> <b>A guide for non-corporate Commonwealth entities on the role of audit committee</b></p> <p>2.1 The accountable authority may appoint an external chair who can perform his or her role free of any management responsibilities.</p> <p>2.8 It is better practice to appoint an audit committee chair from among the external committee members.</p>	<p><b>Public Governance, Performance and Accountability Rule 2020<sup>3</sup></b> <i>Membership of the audit committee</i></p> <p>S17 (4) If the entity is a non corporate Commonwealth entity:</p> <p>(a) all of the members of the audit committee must be persons who are not officials of the entity; and</p> <p>(b) a majority of the members must be persons who are not officials of any Commonwealth entity.</p> <p>S17 (4AA) If the entity is a corporate Commonwealth entity all of the members of the audit committee must be persons who are not employees of the entity.</p> <p>(5) The following persons must not be a member of the Audit Committee:</p> <p>(a) Head of the Accountable Authority</p> <p>(b) Chief Financial Officer</p> <p>(c) Chief Executive Officer.</p>	<p><b>Public Governance, Performance and Accountability Rule 2014</b> <i>Membership of the audit committee</i></p> <p>(3) The audit committee must consist of at least 3 persons who have appropriate qualifications, knowledge, skills or experience to assist the committee to perform its functions.</p>	<p><b>Resource Management Guide No. 202</b> <b>Audit committees for Commonwealth entities and Commonwealth companies (2015)</b> <i>4. Functions of the Audit Committee</i></p> <p>Advising the accountable authority about the internal audit plans of the entity.</p> <p><b>Resource Management Guide No. 202 (2018)</b> <b>A guide for non-corporate Commonwealth entities on the role of audit committee</b> <i>3.2.3 Internal Audit</i></p> <p>The internal audit function supports the accountable authority in discharging its duties and requirements under the PGPA Act.</p>		

<sup>2</sup> Resource Management Guides are not binding.

<sup>3</sup> Made under the authority of the Public Governance, Performance and Accountability Act 2013 (Commonwealth) S.101

NB: S17(4) and S17(\$AA) apply on or after 1 July 2021.



Jurisdiction	Audit Committee				Internal Audit	
	Audit Committee	Independent Chair	Independent Members	Knowledge and Experience	Internal Audit	IIA Standards <sup>1</sup>
<b>State and Territory Governments</b>						
ACT	<p><b>Framework for Internal Audit Committee &amp; Function 2020<sup>4</sup></b>  <i>4.1 Audit Committee Structure</i></p> <p><i>Principle</i>  The Governing Body of each agency is responsible for establishing the Audit Committee and the Committee is accountable to the Governing Body. Each agency shall establish an Audit Committee as a separately constituted body where it is practicable and cost effective to do so.</p>	<p><b>Framework for Internal Audit Committee &amp; Function 2020</b>  <i>4.1.2 Membership</i></p> <p><i>Principle</i>  ... with the chairperson also not an ACT Government employee.</p>	<p><b>Framework for Internal Audit Committee &amp; Function 2020</b>  <i>4.1.2 Membership</i></p> <p><i>Principle</i>  At a minimum an audit committee must have the following:  • three member audit committee with at least one of the members (the chairperson) is to be an independent external member and not an ACT Government employee; and  • more than three member audit committee which has at least two members. The chairperson and the deputy chairperson are to be independent external members, and the chairperson is not an ACT Government employee.</p>	<p><b>Framework for Internal Audit Committee &amp; Function 2020</b>  4.1.3 Skills &amp; Experience</p> <p><i>Principle</i>  Audit committee members will have the necessary skills and experience in order to discharge their responsibilities. This includes, for example, appropriate experience in financial accounting and auditing.</p>	<p><b>Framework for Internal Audit Committee &amp; Function 2020</b>  <i>5.1 Structure of Internal Audit Function</i></p> <p><i>Principle</i>  The governing body of each agency is responsible for establishing the internal audit function. Each agency must establish an internal audit function where it is cost effective to do so.</p> <p><i>5.1.1 Head of Internal Audit</i>  Each agency will appoint a HIA responsible for the internal audit function. The HIA will be accountable functionally for operations to the audit committee through the chair; and to the governing body and/or the delegated/nominated officer.</p>	<p><b>Framework for Internal Audit Committee &amp; Function 2020</b>  <i>5.1 Structure of Internal Audit Function</i></p> <p><i>Guideline</i>  Each Agency with an audit committee will appoint a HIA to:  • develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.</p> <p>Independent external review should be undertaken of the internal audit function services at least once every five years</p>

<sup>4</sup> Established by S113 Public Sector Management Standards 2016 which applies to S13 Fraud & Corruption Prevention in the Public Sector Management Standards 2006 (repealed).

Jurisdiction	Audit Committee				Internal Audit	
	Audit Committee	Independent Chair	Independent Members	Knowledge and Experience	Internal Audit	IIA Standards <sup>1</sup>
<b>State and Territory Governments</b>						
NT	<p><b>Treasurer's Directions L4/01<sup>5</sup> Part 3 Responsible and Accountable Officers – Section 3 Audit Committees</b> <i>Establishing an Audit Committee</i></p> <p>3.3.3 Accountable Officers may establish and maintain an audit committee to assist in discharging their responsibilities under the Act.</p>		<p><b>Treasurer's Directions L4/01 Part 3 Responsible and Accountable Officers – Section 3 Audit Committees</b> <i>Composition</i></p> <p>3.3.8 Ideally, an audit committee would normally consist of three to six members.</p> <p>3.3.9 Accountable Officers should appoint members to an audit committee, ensuring senior level representation from a cross section of the Agency, and where appropriate, members external to the Agency.</p> <p>3.3.11 An Agency's auditors should not be members of that Agency's audit committee, however, they could attend committee meetings as observers.</p>	<p><b>Treasurer's Directions L4/01 Part 3 Responsible and Accountable Officers – Section 3</b> <i>Audit Committees</i> <i>Composition</i></p> <p>3.3.10 Members should be appointed to an audit committee for specified terms on a staggered basis such that a core of experienced members is retained.</p>	<p><b>Financial Management Act Part 3 Section 15(1)</b> <i>Internal audit</i></p> <p>The Accountable Officer of an Agency shall ensure that the Agency has an adequate internal audit capacity to assist the Accountable Officer in the performance of his or her functions under this Act.</p>	
NSW	<p><b>TPP 15-03 Internal Audit and Risk Management Policy for the NSW Public Sector<sup>6</sup></b> <i>Part B Audit &amp; Risk Committee</i></p> <p>3.1.1 The agency head must establish an Audit and Risk Committee to oversee and monitor governance, risk and control issues affecting the operations of the agency.</p>	<p><b>TPP 15-03 Internal Audit and Risk Management Policy for the NSW Public Sector</b> <i>Part B Audit &amp; Risk Committee</i></p> <p>3.1.4 The agency head must appoint only 'independent members' (including an 'independent chair') to the agency's Audit and Risk Committee from the pre-qualified individuals maintained by NSW Treasury (NSW Procurement). 'Independence' requirements are listed in clause 3.1.5.</p>	<p><b>TPP 15-03 Internal Audit and Risk Management Policy for the NSW Public Sector</b> <i>Part B Audit &amp; Risk Committee</i></p> <p>3.1.4 The agency head must appoint only 'independent members' (including an 'independent chair') to the agency's Audit and Risk Committee from the pre-qualified individuals maintained by NSW Treasury (NSW Procurement). 'Independence' requirements are listed in clause 3.1.5</p>	<p><b>TPP 15-03 Internal Audit and Risk Management Policy for the NSW Public Sector</b> <i>Part B Audit &amp; Risk Committee</i></p> <p>3.1.9 When selecting Audit and Risk Committee members, the agency head must consider their suitability to the specific needs of the agency but also take reasonable steps to ensure that members collectively develop, possess and maintain, the following skills and knowledge: (see listing for more detail).</p>	<p><b>TPP 15-03 Internal Audit and Risk Management Policy for the NSW Public Sector</b> <i>Part B Internal Audit Function</i></p> <p>2.1 An internal audit function has been established and maintained.</p>	<p><b>TPP 15-03 Internal Audit and Risk Management Policy for the NSW Public Sector</b> <i>Part B Internal Audit Function</i></p> <p>2.2 The operation of the internal audit function is consistent with the International Standards for the Professional Practice of Internal Auditing.</p>

Jurisdiction	Audit Committee				Internal Audit	
	Audit Committee	Independent Chair	Independent Members	Knowledge and Experience	Internal Audit	IIA Standards <sup>1</sup>
<b>State and Territory Governments</b>						
QLD	<p><b>Financial and Performance Management Standard 2019<sup>7</sup></b></p> <p>30(1) A department's accountable officer must, and a statutory body may, establish an audit committee ...</p> <p>35(3) In establishing an audit committee, the accountable officer or statutory body must have regard to the audit committee guidelines document.</p>	<p><b>Audit Committee Guidelines 2012 Improving Accountability and Performance</b></p> <p><i>3.3 Composition of Audit Committee</i></p> <p>The Chair should be independent, i.e. someone external to the agency or a person internal to the agency who, in the opinion of the accountable officer or statutory body, has sufficient independence and expertise, to discharge the following responsibilities [listed].</p> <p>It is recommended that the accountable officer or Chair of the statutory body should not also undertake the role of Chair of the audit committee.</p>	<p><b>Financial and Performance Management Standard 2019 30(4)</b></p> <p>The audit committee for a statutory body must include members of the statutory body or, if the statutory body has a governing body, members of the governing body.</p> <p><b>Audit Committee Guidelines 2012 Improving Accountability and Performance</b></p> <p><i>3.1 Appointment Criteria for Audit Committee Members</i></p> <p>Committee members to maintain independence.</p> <p><i>3.3 Composition of the Audit Committee</i></p> <p>Members of the board of the statutory body are not employees of the statutory body. Consequently, appointees from the board are considered to be independent members of the audit committee.</p>	<p><b>Audit Committee Guidelines (2012) Improving Accountability and Performance</b></p> <p><i>3.1 Appointment Criteria for Audit Committee Members</i></p> <p>An audit committee should consist of members who have an appropriate mix of skills and experience which will enable the committee to perform all of its functions effectively.</p> <p><i>3.3 Composition of the Audit Committee</i></p> <p>Where it is not possible to have individual members with specific expertise, the committee may consider engaging specialists such as legal or information and communication technology advisers as and when required.</p>	<p><b>Financial Accountability Act 2009 S.78(1)</b></p> <p>Each accountable officer must nominate either of the following to be responsible for internal audit activities</p> <p>(i) An appropriately qualified employee</p> <p>(ii) With approval of the Treasurer – an appropriately qualified person.</p> <p><b>Financial and Performance Management Standard 2019</b></p> <p>24 (1) A department's accountable officer must establish an internal audit function...</p> <p>24 (2) A statutory body must establish an internal audit function ... if (a) the statutory body is directed by the appropriate Minister... or, (b) the statutory body considers it is appropriate to establish the function.</p>	<p><b>Audit Committee Guidelines 2012 Improving Accountability and Performance</b></p> <p><i>4.5 Internal Audit</i></p> <p>The need to periodically review the effectiveness of the internal audit function is a particularly important task of the audit committee. To facilitate this, the audit committee should have regard to the following:</p> <ul style="list-style-type: none"> <li>› Queensland Treasury's Financial Accountability Handbook, and</li> <li>› Professional standards issued by The Institute of Internal Auditors.</li> </ul> <p><b>Financial Accountability Handbook Vol.2 Governance</b></p> <p>The Internal Audit Charter should include any other issues that may be required by the International Professional Practices Framework.</p>

5 Made under the authority of the Financial Management Act 1995 (NT) S.38

6 Made under the authority of the Public Finance and Audit Act 1983 (NSW) S.11 – (Treasury Policy Papers)

7 Made under the authority of the Financial Accountability Act 2009 (Qld). Departments are mandated but statutory bodies are not.

Jurisdiction	Audit Committee				Internal Audit	
	Audit Committee	Independent Chair	Independent Members	Knowledge and Experience	Internal Audit	IIA Standards <sup>1</sup>
<b>State and Territory Governments</b>						
SA	<p><b>Public Corporations Act 1993 Section 31(2)</b></p> <p>A public corporation must, unless exempted by the Treasurer, establish an audit committee.</p>	<p><b>Public Corporations Act 1993 Section 31(3)</b></p> <p>The audit committee will comprise—</p> <p>(a) the board of the corporation, or such members of the board, as the board may from time to time determine; and</p> <p>(b) such other person or persons as the board may from time to time appoint;</p> <p>but may not include the chief executive officer of the corporation.</p>			<p><b>Public Corporations Act 1993 Section 31(1)</b></p> <p>A public corporation must establish and maintain effective internal auditing of its operations and the operations of its subsidiaries.</p>	
TAS	<p><b>Treasurer's Instruction July 2019<sup>8</sup></b></p> <p>2.6 The Accountable Authority must ensure that the Agency has an Audit Committee</p> <p><b>Government Enterprises Act 1995</b></p> <p>S16 (1)(a) A Board must establish an audit committee.</p>	<p><b>Government Enterprises Act 1995 Schedule 7 Committees</b></p> <p><i>1 Membership of Committees</i></p> <p>(2) The chief executive officer of a Government Business Enterprise may not be a member of its audit committee</p> <p>(3) The Chairperson of an audit committee must be a director.</p>	<p><b>Financial Management – Better Practice Guidelines (Aug 2019)</b></p> <p><i>Audit Committee</i></p> <p>The Audit Committee may include one or more members from outside the Agency.</p>	<p><b>Treasurer's Instruction July 2019</b></p> <p>2.7 The Audit Committee must comprise at least three persons that have appropriate qualifications, knowledge, skills or experience to enable the Committee to perform its functions.</p>	<p><b>Financial Management – Better Practice Guidelines (Aug 2019)</b></p> <p><i>Introduction</i></p> <p>The internal audit function should have the visible and active support of the Accountable Authority, Audit Committee and Agency management</p>	<p><b>Financial Management – Better Practice Guidelines (Aug 2019)</b></p> <p><i>Introduction</i></p> <p>The internal audit function should be undertaken in accordance with the standards promulgated by the Institute of Internal Auditors – Australia.</p>

8 Made under the authority of the Financial Management Act 2016 (Tas)

Jurisdiction	Audit Committee				Internal Audit	
	Audit Committee	Independent Chair	Independent Members	Knowledge and Experience	Internal Audit	IIA Standards <sup>1</sup>
<b>State and Territory Governments</b>						
VIC	<p><b>Standing Directions 2018 of the Minister for Finance under the Financial Management Act 1994<sup>9</sup></b></p> <p><i>3.2.1 Audit Committee</i> The Responsible Body must establish an Audit Committee.</p> <p><i>3.2.2 Responsible Body role where Agency exempt from Audit Committee</i> Where the Agency is exempt from the requirement to maintain an Audit Committee under these Directions, the Responsible Body must: (a) actively assume the responsibilities of an Audit Committee set out in these Directions; and (b) take appropriate steps to ensure these responsibilities are fully discharged.</p>	<p><b>Standing Directions 2018 of the Minister for Finance under the Financial Management Act 1994</b></p> <p><i>3.2.1 Audit Committee</i> <i>The Audit Committee must:</i> (f) be independent, with: (ii) an independent member as Chair (this must not be the Chair of the Responsible Body).</p>	<p><b>Standing Directions 2018 of the Minister for Finance under the Financial Management Act 1994</b></p> <p><i>3.2.1 Audit Committee</i> The Audit Committee must: (f) be independent, with: (i) at least three members, the majority being independent members (where the Responsible Body is a statutory board, at least three members must be non-executive directors of the board).</p>	<p><b>Standing Directions 2018 of the Minister for Finance under the Financial Management Act 1994</b></p> <p><i>3.2.1.3 Audit Committee charter, skills and independence</i> The Audit Committee must: (c) be constituted by members with appropriate skills and experience to discharge the Audit Committee's responsibilities, with at least one member having appropriate expertise in financial accounting or auditing.</p>	<p><b>Standing Directions 2018 of the Minister for Finance under the Financial Management Act 1994</b></p> <p><i>3.2.2.1 Internal Audit Function</i> (a) The Responsible Body must establish and maintain, and may dismiss, the internal audit function. (b) The internal audit function may be sourced internally or externally.</p>	<p><b>Standing Directions 2018 of the Minister for Finance under the Financial Management Act 1994</b></p> <p><i>3.2.2.2 Internal Audit Function</i> The Internal Audit function must: (h) apply relevant professional standards relating to internal audit.</p>

Jurisdiction	Audit Committee				Internal Audit	
	Audit Committee	Independent Chair	Independent Members	Knowledge and Experience	Internal Audit	IIA Standards <sup>1</sup>
<b>State and Territory Governments</b>						
WA	<p><b>Treasurer's Instruction Part XII –1201 (2019)<sup>10</sup></b></p> <p>(3) The accountable authority of an agency shall ensure that the agency has an Internal Audit Committee ....</p>	<p><b>Treasurer's Instruction Part XII –1201 (2019)</b></p> <p>(3) .... Which is independently chaired by a suitably qualified person who is not employed within the agency.</p>	<p><b>Treasurer's Instruction Part XII –1201 (2019) Guidelines</b></p> <p>The appointment of the Internal Audit Committee members must be undertaken with a view to achieve independence from the day-to-day management of the agency.</p>	<p><b>Treasurer's Instruction Part XII –1201 (2019) Guidelines</b></p> <p>Suitably Qualified Subparagraphs (3) and (4)(ii) of this instruction require the Chair of the Audit Committee and the head of internal audit to be "suitably qualified".</p>	<p><b>Financial Management Act 2006 Part 4 – Accountable authorities</b></p> <p>53. <i>Functions of accountable authorities</i></p> <p>(1) an accountable authority of an agency has the functions of –</p> <p>(d) unless otherwise directed in writing by the Treasurer, developing and maintaining an effective internal audit function for the agency.</p> <p><b>Treasurer's Instruction Part XII - 1201 (2019) Structure of the Internal Audit function</b></p> <p>(2) The role of the internal audit function shall be defined in accordance with the Professional Practices Framework of The IIA.</p> <p>(4) The internal audit function of an agency shall have independent status within the agency.</p>	<p><b>Treasurer's Instruction 1202 (2019)</b></p> <p>(2) ... the audits shall be carried out in accordance with the most recent Standards for the Professional Practice of Internal Auditing issued by The Institute of Internal Auditors (IIA Standards) from time to time.</p> <p><i>(Two exceptions are then listed re inconsistent with legislation or TI or where agreed between the head of internal audit or the Audit Committee and an external professional services firm to the extent that their methodologies differ in their application of the IIA Standards).</i></p>

<sup>10</sup> Made under the authority of the Financial Management Act 2016 (WA) S.78 – see also the Financial Administration Bookcase

Jurisdiction	Audit Committee				Internal Audit	
	Audit Committee	Independent Chair	Independent Members	Knowledge and Experience	Internal Audit	IIA Standards <sup>1</sup>
<b>State and Territory Local Government</b>						
ACT	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
NT	<p><b>Local Government (Accounting) Regulations<sup>11</sup></b>  <i>2014 Part 4 Regulation 10 – Internal Controls (3)</i></p> <p>The CEO must establish and maintain an audit committee.</p>	<p><b>Local Government (Accounting) Regulations</b>  <i>2014 Part 4 Regulation 10 – Internal Controls (3)</i></p> <p>The CEO must establish and maintain an audit committee: (b) whose Chairperson must not be a member of council or a member of the council's staff.</p>	<p><b>General Instruction No 3 (30/3/15) Audit Committees</b>  <i>Audit Committee Membership</i></p> <p>The Local Government Act provides that council committee members are appointed by the council.</p> <p>Council committees may have members who are not elected members of the council.</p>	<p><b>General Instruction No 3 (30/3/15) Audit Committees</b>  <i>Audit Committee Membership</i></p> <p>Factors to consider include:</p> <ul style="list-style-type: none"> <li>› level of understanding of Local Government and the council's operations and the environment in which it operates;</li> <li>› level of knowledge and practical exposure on governance and financial management practices;</li> <li>› depth of knowledge of regulatory and legislative requirements; and</li> </ul> <p>In order to ensure the work of the audit committee is value adding, collectively as a group, the audit committee should have the relevant skills and knowledge of council and an understanding of its finance and governance arrangements. There is no mandated requirement for audit committee members to be formally qualified in accounting or a related field.</p>	Not applicable	<p><b>General Instruction No 3 (30/3/15) Audit Committees</b>  <i>Example Audit Committee Charter 6. Standards</i></p> <p>The audit committee activities will also be conducted in accordance with intent of relevant professional standards deemed appropriate and applicable including:</p> <p>6.1. International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.</p>

11 Made under the authority of the Local Government Act 1978 (NT) S.259

Jurisdiction	Audit Committee				Internal Audit	
	Audit Committee	Independent Chair	Independent Members	Knowledge and Experience	Internal Audit	IIA Standards <sup>1</sup>
<b>State and Territory Local Government</b>						
NSW	<p><b>Internal Audit Guidelines 2010<sup>12</sup></b> 2. <i>Audit Committees</i></p> <p>Establish an audit committee, with a majority of members who are external (independent) to council.</p> <p><b>Local Government Amendment (Governance and Planning) Act 2016 Section 428<sup>13</sup></b> A(1) Audit Risk &amp; Improvement Committee.</p> <p>A council must appoint an Audit, Risk and Improvement Committee.</p>	<p><b>Internal Audit Guidelines 2010</b> 4.2 <i>Independence and objectivity</i></p> <p>Ideally the audit committee should consist of at least three and preferably no more than five members comprised of independent external members, who should be in the majority, and councillors other than the Mayor (or an Administrator). Staff should not be members of the audit committee.</p> <p>Audit committee chair – The chair of the committee should be independent and should not be the mayor or a member of council.</p>	<p><b>Internal Audit Guidelines 2010</b> 2. <i>Audit Committees</i></p> <p>Establish an audit committee, with a majority of members who are external (independent) to council.</p>	<p><b>Internal Audit Guidelines 2010</b> 4.2. <i>Independence and Objectivity</i></p> <p>When appointing members: Individuals should have: - Knowledge of Local Government - Strong communication skills - High levels of personal integrity and ethics - Sufficient time available to devote to their responsibilities as a committee member - High levels of financial literacy and, if possible accounting; financial; legal compliance and/or risk management experience or qualifications.</p> <p>The audit committee as a whole should have: - At least one member with financial qualifications and experience - Skills and experience relevant to discharging its responsibilities, including experience in business, financial &amp; legal compliance, risk management.</p>	<p><b>Internal Audit Guidelines 2010</b> 1.3. <i>How does internal audit fit in with other governance functions and activities?</i></p> <p>Key components of good governance include the use of: Internal &amp; external audit.</p> <p>2. <i>Establishing an Internal Audit Function</i></p> <p>Key strategies aimed at ensuring that internal audit services conform with good practice: &gt; Set up an independent reporting structure for internal audit (i.e. report functionally to the audit committee and administratively to the General Manager) and define its functions and responsibilities with an internal audit charter.</p>	<p><b>Internal Audit Guidelines 2010</b> 2.2. <i>Professional Standards</i></p> <p>Internal auditors in NSW Local Government should comply with appropriate professional standards, such as the Institute of Internal Auditors (IIA) Standards and Code of Ethics.</p>

<sup>12</sup> Guidelines under section 23A of the Local Government Act 1993 (NSW) – are not binding but must be taken “into consideration”

<sup>13</sup> Amendment not yet commenced but is expected before Sept 2020. Transitional provisions require an Audit Risk and Improvement Committee by March 2021 at the latest.



Jurisdiction	Audit Committee				Internal Audit	
	Audit Committee	Independent Chair	Independent Members	Knowledge and Experience	Internal Audit	IIA Standards <sup>1</sup>
<b>State and Territory Local Government</b>						
QLD	<p><b>Local Government Act 2009 Chapter 4 Part 3 Section 105 (2)</b> <i>Auditing, including Internal Auditing</i></p> <p>Each large<sup>14</sup> Local Government must also establish an audit committee.</p>	<p><b>Local Government Regulations 2012<sup>15</sup></b> (Chapter 5 Part 11 Division 1) <b>Section 210</b> <i>Audit committee composition</i></p> <p>(2) The chief executive officer cannot be a member of the audit committee but can attend meetings of the committee.</p> <p>(3) The Local Government must appoint 1 of the members of the audit committee as chairperson.</p>	<p><b>Local Government Regulations 2012<sup>15</sup></b> (Chapter 5 Part 11 Division 1) <b>Section 210</b> <i>Audit committee composition</i></p> <p>(1) The audit committee of a Local Government must— (a) consist of at least 3 and no more than 6 members; and (b) include— (i) 1, but no more than 2, councillors appointed by the Local Government.</p>	<p><b>Local Government Regulations 2012<sup>15</sup></b> (Chapter 5 Part 11 Division 1) <b>Section 210</b> <i>Audit committee composition</i></p> <p>(1) The audit committee of a Local Government must— (a) consist of at least 3 and no more than 6 members; and (b) include— (ii) at least 1 member who has significant experience and skills in financial matters</p>	<p><b>Local Government Act 2009 Chapter 4 Part 3 Section 105 (1)</b> <i>Auditing, including Internal Auditing</i></p> <p>Each Local Government must also establish an efficient and effective internal audit function.</p>	<p><b>Local Government Bulletin 08/15</b> <i>Internal Audit &amp; Audit Committees - Compliance with professional standards</i></p> <p>All internal audit activity should be conducted in accordance with the IPPF.</p>

<sup>14</sup> A “large” Local Government is also defined in the Local Government Regulations 2012 S.209

<sup>15</sup> Made under the authority of the Local Government Act 2009 (Qld) S.270

Jurisdiction	Audit Committee				Internal Audit	
	Audit Committee	Independent Chair	Independent Members	Knowledge and Experience	Internal Audit	IIA Standards <sup>1</sup>
<b>State and Territory Local Government</b>						
SA	<p><b>Local Government Act 1999 Section 126</b> <i>Audit committee</i></p> <p>(1) A council must have an audit committee.</p>		<p><b>Local Government Act 1999 Section 126</b> <i>Audit committee</i></p> <p>(2) The membership of an audit committee— (a) may include persons who are not members of the council; and (b) may not include an employee of the council (although an employee may attend a meeting of the committee if appropriate); and (c) may include, or be comprised of, members of an audit committee for another council; and (d) must otherwise be determined in accordance with the requirements of the regulations.</p> <p><b>Local Government (Financial Management) Regulations 2011<sup>16</sup></b> <i>Part 5 Audit Committees</i> <i>17. Membership</i></p> <p>(1)(b) The audit committee of a council must include 1 person who is not a member of the council.</p>	<p>Local Government (Financial Management) Regulations 2011 Part 5—Audit committees 17—Membership</p> <p>(1) The audit committee of a council— (b) must include at least 1 person who is not a member of the council and who is determined by the council to have financial experience relevant to the functions of an audit committee.</p>		

16 Made under the authority of the Local Government Act 1999 (SA) S.27

Jurisdiction	Audit Committee				Internal Audit	
	Audit Committee	Independent Chair	Independent Members	Knowledge and Experience	Internal Audit	IIA Standards <sup>1</sup>
<b>State and Territory Local Government</b>						
TAS	<p><b>Local Government Act 1993 Division 4 Section 85</b> <i>Audit panels</i></p> <p>(1) A council is to establish an audit panel in respect of the council.</p>	<p><b>Local Government (Audit Panels) Order 2014<sup>17</sup> Order 6</b> <i>Chairperson of audit panel</i></p> <p>(1) The chairperson of an audit panel may only be an independent person who is a member of the audit panel.</p>	<p><b>Local Government (Audit Panels) Order 2014 Order 5</b> <i>Membership of audit panel</i></p> <p>(1) The audit panel of a council is to be constituted by a minimum of 3 and a maximum of 5 members of whom –</p> <p>(a) if the panel has 4 or 5 members, at least 2 must be independent persons;</p> <p>(b) if the panel has 3 members, at least one must be an independent.</p> <p>(2) The following persons are eligible to be members of an audit panel:</p> <p>(a) a councillor, other than the mayor, of the relevant council;</p> <p>(c) a member of an audit panel of another council</p> <p>(2A) A councillor, or employee of a council is not eligible to be a member of an audit panel of another council.</p> <p>(3) A person who is an employee, or the general manager or the mayor, of a council is not entitled to be a member of the audit panel of that council.</p>	<p><b>Local Government (Audit Panels) Order 2014 Order 5</b> <i>Membership of audit panel</i></p> <p>(5) In appointing an independent person as a member of an audit panel, the council -</p> <p>(a) is to ensure that the person possesses good business acumen and sound management and communication skills; and</p> <p>(b) may take into account any other relevant knowledge, abilities and skills of the person including, but not limited to</p> <p>(i) knowledge and expertise in the areas of audit practices and financial management; and</p> <p>(ii) knowledge of and experience in relevant industries; and</p> <p>(iii) experience with governance processes including, but not limited to, risk management.</p>	<p><b>Good Governance Guide 2018</b> <i>Effective Strategic Planning and Monitoring Performance - Financial Management</i></p> <p>Your council must ensure that the following staff, systems and functions are in place:</p> <p>Suitably qualified and appropriately independent internal audit functions, including an audit panel.</p>	<p><b>Local Government Audit Panels - A Practice Guide 2018</b> <i>Appendix A – Relevant legislation, standards and other guides</i></p> <p>International Standards for the Professional Practice of Internal Auditing.</p>

17 Made under the authority of the Local Government Act 1993 (Tas) S.85B

Jurisdiction	Audit Committee				Internal Audit	
	Audit Committee	Independent Chair	Independent Members	Knowledge and Experience	Internal Audit	IIA Standards <sup>1</sup>
<b>State and Territory Local Government</b>						
VIC	<p><b>Local Government Act 2020 - Section 53 (1)</b> <i>Audit and Risk Committee</i></p> <p>A Council must establish an Audit and Risk Committee.</p>	<p><b>Local Government Act 2020 - Section 53 (4)</b> <i>Audit and Risk Committee</i></p> <p>The chairperson of Audit and Risk Committee must not be a Councillor of the Council.</p> <p><b>Audit Committees A Guide to Good Practice For Local Government 2011</b> <i>Audit Committee Chair</i></p> <p>The chair of the audit committee must be independent.</p>	<p><b>Local Government Act 2020 - Section 53 (3)</b> <i>Audit and Risk Committee</i></p> <p>An Audit and Risk Committee must –</p> <p>(a) Include members who are Councillors of the Council, and</p> <p>(b) Consist of a majority of members who are not Councillors of the Council ...</p> <p>(c) Not include any person who is a member of Council staff of the Council</p>	<p><b>Local Government Act 2020 - Section 53 (3)</b> <i>Audit and Risk Committee</i></p> <p>(b) ... and who collectively have –</p> <p>(i) expertise in financial management and risk, and</p> <p>(ii) experience in public sector management ...</p>	<p><b>Local Government (Planning and Reporting) Regulations 2014</b> <i>Part 4 Annual Report</i></p> <p>Refers to Schedule 1 as the 'prescribed governance and management checklist (re 131(3) (a)(ii) of the Act)</p> <p><b>Schedule 1 Annual Report - Governance and Management Checklist in Report of Operations:</b> <i>Item 15 - Internal audit</i></p> <p>Independent accounting professionals engaged by the Council to provide analyses and recommendations aimed at improving Council's governance, risk and management controls.<sup>18</sup></p>	<p><b>Audit Committees A Guide to Good Practice For Local Government 2011</b> <i>Internal audit</i></p> <p>Ensure that internal audit complies with appropriate standards – [footnote refers to IIA standards].</p>

<sup>18</sup> Must show whether engaged or not and reasons if not in the annual report.

Jurisdiction	Audit Committee				Internal Audit	
	Audit Committee	Independent Chair	Independent Members	Knowledge and Experience	Internal Audit	IIA Standards <sup>1</sup>
<b>State and Territory Local Government</b>						
WA	<p><b>Local Government Act 1995 - Section 7.1A</b> <i>Audit committee</i></p> <p>(1) A Local Government is to establish an audit committee of 3 or more persons to exercise the powers and discharge the duties conferred on it.</p>	<p><b>Local Government Act 1995 - Section 7.1A</b> <i>Audit committee</i></p> <p>(3) A CEO is not to be a member of an audit committee and may not nominate a person to be a member of an audit committee or have a person to represent him or her as a member of an audit committee.</p> <p>(4) An employee is not to be a member of an audit committee.</p>	<p><b>Local Government Act 1995 - Section 7.1A</b> <i>Audit committee</i></p> <p>(2) The members of the audit committee of a Local Government are to be appointed* by the Local Government and at least 3 of the members, and the majority of the members, are to be council members. <i>* Absolute majority required.</i></p> <p>(3) A CEO is not to be a member of an audit committee and may not nominate a person to be a member of an audit committee or have a person to represent him or her as a member of an audit committee.</p> <p>(4) An employee is not to be a member of an audit committee.</p>	<p><b>Local Government Operational Guidelines – Audit in Local Government 2013</b> <i>Operation of Audit Committees Membership</i></p> <p>If the Local Government wishes to appoint one or more persons other than elected members to the committee, which is recommended, it should ensure that they have the requisite knowledge and skills to provide benefit to the committee.</p>	<p><b>Operational Guidelines – Audit in Local Government 2013</b> <i>Appendix 1 - Internal Audit</i></p> <p>While it is recognised that smaller councils may not be able to justify a full time internal auditor, a small size of operation does not justify forgoing internal audit altogether. If audit committee or management is of the view that the employment of an independent internal auditor either full-time or part-time is not warranted, it may request the council to have the internal audit function undertaken as necessary by an external contractor, or expand the role of its external auditor.</p>	

# About the authors

## Bruce Turner AM

**PFIIA CGAP CRMA CISA CFE MAICD FFIN FIPA FFA  
FIML JP**

Bruce is an active company director and audit committee chair. He was appointed a Member of the Order of Australia (AM) in the Queen's Birthday Honours of 2015 in recognition of his significant service to public administration through governance and risk management practices, and to the profession of internal auditing.

Bruce's board and audit committee roles over the last decade spans 30 diverse public and private sector organisations. He is a past chair of the IIA Global Public Sector Committee 2014–2015, spent six years on the IIA-Australia Board, to mid-2018, and remains an active executive coach, mentor and white ribbon ambassador. He has been an IIA member for 35 years.

Bruce has over 40 years' practitioner and leadership experience in internal auditing spanning three levels of Government in Australia, with his career traversing the energy, financial services (commercial, merchant and central banking), Government, manufacturing and transport sectors. He held chief audit executive roles with StateRail, Integral Energy and the Australian Taxation Office prior to his retirement in 2012.

## Stephen Horne

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Stephen spent 38 years in the NSW public sector. His executive roles included Assistant Auditor-General for New South Wales, looking after performance audits, and chief executive of IAB, a Government trading enterprise (GTE) undertaking internal audits and misconduct investigations for NSW State Government and Local Government bodies.

In 2015, Stephen established himself as a professional non-executive director and a specialist in the fields of integrity and culture, probity, fraud control, risk, governance and internal audit.

Stephen also currently serves as an independent member on 15 audit and risk committees across State and Local Government bodies in New South Wales and Victoria, and chairs five of these.

Stephen has been in the IIA for 35 years. He served as a director on the Australian Board 2008–2017; was Australian president 2013–2015; and Australia's delegate on the IIA Global Board 2015–2019. Like Bruce, Stephen also served as global chair of the IIA's Public Sector Guidance Committee, his term being 2016–2018.





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