

UNCLASSIFIED



FRAMEWORK FOR INTERNAL AUDIT COMMITTEE AND FUNCTION

CHIEF MINISTER, TREASURY AND
ECONOMIC DEVELOPMENT
DIRECTORATE

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Review and Authorisation

The Framework for Internal Audit Committee and Function is to be endorsed by the Head of Service.

This is an Open Access Document.

Kathy Leigh
Head of Service

Date

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1 INTRODUCTION

1.1 Purpose

This document provides a framework for establishing and maintaining an effective audit committee and internal audit function in an ACT Government agency.

The relevant legislative authority for this framework is included under section 13 – Fraud and Corruption Prevention of the Public Sector Management Standards 2006 (repealed). This requirement continues to apply under section 113 of the Public Sector Management Standards 2016.

The framework is concerned with the relationship and key processes of the following structures and functions:

- Governing Body of an agency;
- Audit Committee; and
- Internal Audit Function.

The framework has been formulated as a set of mandatory principles followed by guidelines to assist all agencies in understanding how they can meet these principles.

Agencies are required to compare their current practices and approaches to the framework and take necessary action to comply with the stated principles. Agencies may require some transitional arrangements in order to comply with the principles in this framework. The transition approach to implementing this framework is as follows:

- In general, agencies have 12 months to make amendments and align with the principles. However, where there is a current contractual arrangement that does not align with a principle, the agency will comply with stated principle/s when the contractual arrangement comes up for renewal or at the end of the contractual arrangement.
- Agencies with an Audit Committee that does not currently contain independent and external member/s (see 2 Definitions and 4.1.2 Membership) and/or Head of Internal Audit (see 5.1.1 Head of Internal Audit) with the appropriate professional certifications and qualifications and/or demonstrated relevant high-level experience have 24 months to comply.

2 DEFINITIONS

Agency: for the purposes of this document an ‘agency’ includes:

- an administrative unit of the Territory Government such as a Directorate; and
- a Territory Authority prescribed by the financial management guidelines (part 8 of the *Financial Management Act 1996* (FMA)).

(Refer definitions in *Legislation Act 2001*, *Public Sector Management Act 1994* and FMA (Dictionary).

Audit Committee: for this document audit committee covers an oversight committee established by the agency including the internal audit function. Across agencies the naming conventions and the scope of responsibilities may vary.

Audit Committee Charter: sets out the role, composition, authority, responsibilities and operation of the audit committee.

External Member: a person appointed to an audit committee who is:

- not an ACT Government employee. They will sign a contract that includes a confidentiality clause and conflict of interest declaration; or
- an appropriate person from another ACT Government agency who has neither a direct operational connection nor any perceived or actual conflict of interests with the appointing agency.

All external member/s must have an independent perspective and be free from the agency business or other relationships that could materially interfere with the exercise of their judgment (see independent definitions).

External Audit: refers to audits, or the auditor/s as a group, conducted by the ACT Auditor-General.

Governing Body: refers in this document to the most senior recognised level of authority of an agency. Examples of governing bodies are:

- For a Directorate (Administrative unit), it is the Director-General (DG).
- For a Territory Authority:
 - with a Board, it is generally the Board; or
 - with no Board (for example where there is an advisory board only) the governing body would be the Chief Executive Officer (CEO) (or equivalent).

Head of Governing Body (agency): refers in this document to the person (however described) who is responsible for managing the affairs of the agency (Refer to definitions in *Legislation Act 2001* s163; *Public Sector Management Act 1994* s19; FMA Dictionary). For example, DG of a Directorate or Board Chair/Chief Executive Officer (CEO) of a Territory Authority.

Internal Audit: as defined by the Institute of Internal Auditors (IIA) under the globally accepted International Professional Practices Framework (IPPF) defines 'internal auditing' as:

- (... 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). Source: International Professional Practices Framework (IPPF), the Institute of Internal Auditors Research Foundation. Florida, USA, January 2017.

Internal Audit Charter: sets out the role, authority, responsibilities and operation of internal audit.

Head of Internal Audit (HIA): also known as Internal Audit Senior Director/Assistant Director/Manager in the ACT. Outside of the ACT the HIA is also known as a Chief Audit Executive (CAE) (Refer to International Professional Practices Framework (IPPF), the Institute of Internal Auditors Research Foundation. Florida, USA, January 2017).

The HIA within an agency is responsible for managing the internal audit which includes the conduct of the internal audit function and is accountable functionally to the audit committee and administratively accountable to the governing body.

Independent Member: will at a minimum be objective, impartial, free from perceived or actual conflict of interest, inherent bias or undue external influence. For the ACT government the following are examples of when an audit committee member would not be considered an independent member:

- were employed in a senior management role in the appointing agency or related agency within the last three years;
- have been employed in a role that can exert direct and significant influence over a service provider to the appointing agency, within the last three years;
- currently perform, or have performed any services, including advisory roles, for an agency, which directly affects the subject matter of the Audit and Risk Committee of the appointing agency, within the last three years;
- have a material business or other contractual relationship, or any other direct financial interest or material indirect financial interest with the appointing agency, or a related agency, which could reasonably be perceived to materially interfere with the individual's ability to act in the best interests of the appointing agency;
- currently act, or have acted as an advocate of a material interest on behalf of the appointing agency, or a related agency, or currently are, or have been, engaged in litigation or in resolving disputes between the appointing agency and third parties; or
- have an immediate family member or close family member who is employed in a senior management role of the appointing agency, or a related agency, or are employed in any other role which can exert direct and significant influence over the subject matter of the Audit and Risk Committee of the appointing agency.

This list prescribes the minimum key relationships that must be avoided but is not exhaustive (refer also to the: Auditing and Assurance Standards Board, Australian Institute of Company directors and The Institute of Internal Auditors – Australia - <https://www.iaa.org.au/Audit-Committees-A-guide-to-good-practice-2017>).

Independence of Audit Activity: '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. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the CAE has direct and unrestricted access to senior management and the Committee. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organisational levels'. Source: International Professional Practices Framework (IPPF), the Institute of Internal Auditors Research Foundation. Florida, USA, January 2017.

Independence of the Organisation (agency/entity): 'The internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results. The CAE must disclose such interference to the board and discuss the implications'. Source: International Professional Practices Framework (IPPF), the Institute of Internal Auditors Research Foundation. Florida, USA, January 2017.

Independence – Objectivity of Internal Auditors: 'Objectivity is 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 judgement on audit matters to others. Threat to objectivity must be managed at the individual auditor, engagement, functional and organisational levels. Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest'. Source: International Professional Practices Framework (IPPF), the Institute of Internal Auditors Research Foundation. Florida, USA, January 2017.

3 GOVERNING BODY

Principle

The 'governing body' of an agency (see Definitions) is responsible for its governance, including the design and operation of risk management and internal control frameworks.

Guideline

The governing body is responsible to the relevant Minister and accountable to the Legislative Assembly through the Minister. It is acknowledged that the Minister also has responsibilities for an agency, including responsibility for their financial and operational performance.

Internal audit (see 2 Definitions) supports this process by assisting the governing body and management in their roles. It does this by providing them with assurance and advisory services through monitoring and reporting on the effectiveness of governance processes that management has implemented.

4 AUDIT COMMITTEE

4.1 Audit Committee Structure

Principle

The governing body of each agency is responsible for establishing an audit committee. The audit committee is accountable to the governing body. Each agency will establish an audit committee as a separately constituted body unless it is not practicable and not cost effective to do so. For some Territory Authorities the audit committee will be a sub-committee of the board.

Guideline

Small Territory Authorities

- **With a Board:** In the case of a small Territory Authority with a board it may not be practical to establish a separately constituted audit committee as a sub-committee of the board. In these cases, it would be appropriate for the full board to act as the audit committee. It would be important for the board to set aside time specifically for separate consideration of matters ordinarily reviewed by an audit committee. Where a board member has a conflict of interest in a particular matter (see the definition of independent member for conflict of interest) they shall stand aside and also not be present in decisions on that matter.
- **With No Board:** In the case of a small Territory Authority with no board, the governing body may elect not to delegate their compliance responsibilities and functions to a committee. However, this decision should be balanced against the benefits afforded by the independent view and support able to be afforded by a well constituted audit committee. If the agency elects not to have an audit committee this decision is to be documented. The document should summarise why there is no audit committee and detail the processes for evaluating and continually improving the effectiveness of the agency's governance, risk management and internal control.

Shared Audit Committee

Shared audit committee and/or shared internal audit arrangements may be practical for example two or more small entities operating in a similar context. Across the same portfolio or across different ACT agencies where entities perform similar functions. Governance arrangements for a shared audit committee do need to ensure there are adequate mechanisms for input and oversight of the committee for all entities involved in the shared arrangement.

Audit Committee

The creation of an audit committee is an important way in which the governing body is able to obtain the necessary support to fulfil their role and discharge their responsibilities.

The governing body determines the scope of the audit committee operations as defined in the Audit Committee Charter (see 2 Definitions). The creation of an audit committee does not abrogate the governing body from its overall responsibility for the functions that are delegated to the audit committee.

The audit committee is directly accountable to the governing body for its effectiveness. An audit committee does not focus solely on internal audit activities or financial issues. It should take on broader roles and responsibilities, such as governance, risk and internal control issues.

Key Responsibilities

The key responsibilities of an audit committee include overseeing:

- an effective and efficient internal audit program;
- the policies and practices and the operation of the internal control system are effective;
- that the relationship and work of the external and internal auditors is positive and efficient;
- that actions are taken to address the implementation of internal and external audit recommendations;
- the risk management framework policies, practices and processes for risk management are in compliance with the relevant Australian standards;

- that the annual financial statements and statement of performances are compliant with ACT legislation, ACT treasury guidance and relevant accounting standards and policies, and are to provide recommendations to the governing body on the annual financial statements; and
- the policies and practices to ensure compliance and monitoring of compliance with laws, regulations, reporting requirements and related matters are adequate.

Internal Audit Committee Oversight

In the oversight of the internal audit function, the responsibilities of audit committees include ensuring:

- that internal audit activity is structured to achieve organisational independence;
- the internal audit charter (see 2 Definitions) permits full and unrestricted access to the governing body, top management and the audit committee;
- unrestricted access by internal auditors to records, personnel, and physical properties where required; and
- the internal audit function is appropriately resourced and is operating effectively.

Other Responsibilities

In relation to its other roles in assisting the entity to fulfil its corporate governance and oversight responsibilities, the audit committee responsibilities could include but are not limited to:

- governance;
- financial management, accounting policies;
- compliance framework;
- implementation of audit recommendations;
- fraud and corruption control;
- conduct of risk assessments;
- business continuity management, including business continuity planning and ICT disaster recovery arrangements;
- security, including physical security, cyber-security, and ICT logical security;
- complaint management;
- entity performance and management reporting;
- work health and safety;
- major projects and business initiatives; and
- other considerations in relation to ethics and organisation culture and legal issues.

4.1.1 Audit Committee Written Charter

Principle

A written audit committee charter (see 2 Definitions) for the operation of the audit committee must be developed and approved by the governing body.

Guideline

A written charter of the roles and responsibilities of the audit committee must be clearly defined and approved by the governing body and provided to each member of the audit committee. A written charter provides a clear mechanism to establish the authority and powers of the audit committee.

The charter is to stipulate matters including:

- the purpose, structure and authority of the audit committee;
- the requirements for membership of the audit committee including tenure and reappointment;
- the nature and scope of the audit committee's duties and responsibilities;
- the processes and access to records to be used by the audit committee in discharging its duties including frequency, quorums and records of meetings; induction for new members; and
- its performance review and reporting.

The charter is to be reviewed annually for continued relevance.

4.1.2 Membership

Principle

The audit committee is to have a minimum of three members and usually a maximum of five members. All members should be independent external members (see 2 Definitions) with the chairperson also not an ACT Government employee. 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.

Guideline

To be effective, the audit committee should comprise of:

- at least three members. This requirement recognises the broader mix of skill, knowledge and experience required of an audit committee to discharge its responsibilities; and
- a maximum of five members. Five members is usually the upper limit on membership beyond which the operation of the audit committee may become inefficient and ineffective. This upper limit is dependent on the size of the agency and the range of functions undertaken and can be increased as needed.

Independence Assurance

The distinguishing feature of an audit committee is its perceived and actual independence (see 2 Definitions – independent member). The audit committee's independence from the day-to-day activities of management helps to ensure that it acts in an objective, impartial manner, free from perceived or actual conflict of interest, inherent bias or undue external influence. To support audit committee independence the following is required, and the head of the governing body must ensure that:

- appropriate safeguards are in place to eliminate or reduce significant threats to independence;
- adequate procedures are in place to preserve the independence of the chair and members of the audit committee; and

- the chair and members of the audit committee must notify the head of the governing body immediately if a real or perceived threat to their independence arises.

Appointing Members

The audit committee members including the chairperson and deputy chairperson are to be appointed by the responsible governing body.

External Membership Appointment

Where external members are not employed by the ACT Government such as the roles of chair and deputy chair, a procurement process is to be followed.

- A list of possible candidates can be obtained from relevant professional body membership and competencies as for example outlined below in Section 5.1.4 Internal Auditors – Skills, Competencies and Professional Membership.
- Request for service documents should be completed and following evaluation a contract should be signed by the employing agency and successful candidate.
- Contract terms should align to appointment terms below.

Chairperson Appointment Term

- The chair of the audit committee must be appointed for one term only for a period of at least three years, with a maximum period of five years.
- Extending the term of appointment for the chair must not cause the total term to exceed five years as chair of the audit committee.
- Chairs and Members of audit committees may be appointed as a chair either prior to or subsequent to a term as a Member. However, the member's total term as chair must not exceed five years and the member's total term on the audit committee (inclusive of a term as chair and a term as a member) must not exceed a total of eight years. For example, a member might be appointed for an initial term of three years as a member and then be appointed as chair of the audit committee for a period of five years or vice versa.

Deputy Chairperson Appointment Term

Are in accordance with member appointment term above.

Membership Restrictions

The following position holders are not to be a member of the audit committee, except where the governing body is under Small Territory Authorities:

- Head of the governing body (see Definitions);
- Head of Internal Audit (HIA) (see Definitions);
- Chief Financial Officer (CFO);
- Chief Operating Officer (COO);
- External Audit (see Definitions); and
- Senior Executive Responsible for Business Integrity Risk (SERBIR) – person at Senior Executive level within the agency who can investigate areas of alleged fraud and corruption within the agency. The SERBIR reports to the audit committee on matters brought to the SERBIR's attention and any required outcomes to reduce the potential for fraud and corruption. The SERBIR can be an observer in audit committee meetings.

These position holders are able attend committee meetings as observers refer to Non-Member Meeting Attendees.

Member Appointment Term

- Appointment to the audit committee in a single role is to be for a minimum period of three years and up to a maximum of five years.
- Members can be reappointed or extended for further term(s) but the total period of continuous membership on the audit committee must not exceed eight years (inclusive of any term as chair of the audit committee).
- Any reappointment or extension of membership on the audit committee must be approved only after the head of the governing body has made a formal assessment of the member's performance as a committee member.

Supplementary Appointment Term

- Individuals who have served a term of eight years (including a term as chair as relevant) on the audit committee of an agency may be reappointed for a further eight year term with the same agency provided that the individual has:
 - served a period of three years during which they have not been appointed to the agency's audit committee; and
 - the reappointment is subject to the individual meeting independence and external member requirements and formal assessment.

4.1.3 Skills and Experience

Principle

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.

Guideline

The members of the audit committee should comprise a range of skills and experience such as understanding of governance, risk management, financial statements, external audit, internal audit, fraud control, information technology, business continuity, safety, marketing, etc. to ensure ability to meet oversight responsibilities. Ideally, this would include at least one independent member who is a financial statements expert.

Given the financial focus of the audit committee, all members should have basic financial literacy (see definition below) and be able to understand and actively challenge information presented.

Basic financial literacy is defined as:

- the ability to read, comprehend and analyse financial information and financial statements, including a statement of financial position, a statement of comprehensive income, a statement of changes in equity and a statement of cash flows; and
- an understanding of the fundamental accounting issues facing the agency and the impact of these issues on information reported by, and policies adopted by, the agency.

Members who do not have at the time of their appointment the basic financial literacy should undertake training within the first six months of membership of that Committee to enhance their competency.

External Advice

The audit committee has the power to seek advice and explanations from experts both within and outside the agency.

4.2 Audit Committee Processes

4.2.1 Induction and Training

Principle

Audit committee members are to be provided with all necessary and relevant information regarding the Committee's responsibilities and the agency's operations and background.

Guideline

Audit committee members need to understand the agency, their duties and their responsibilities. When appointed they should take appropriate and timely action to ensure they have the requisite understanding of the agency's structure, operations and risks. They should also have access to current versions of the audit committee and internal audit charters.

The agency should support all audit committee members by providing relevant training and advice relevant to the agency which could include:

- training in the understanding and interpretation of financial statements, risk management, internal audit and internal control; and
- advice to the audit committee on significant changes in agency functions, structures and processes; changes to accounting standards and external reporting requirements; and budgeted and actual financial and operational results.

4.2.2 Succession Planning

Principle

Membership of the audit committee is to be reviewed by the governing body on a periodic basis and, as a minimum, at least every two years.

Guideline

Orderly succession planning with consideration of maximum appointment time frames (see Membership), will assist in ensuring the ongoing effectiveness of the audit committee. A policy of staged rotation of membership is appropriate factoring in the knowledge and skill requirements of members this would include:

- rotating the audit committee membership across government in order to introduce new skills and new perspectives to committee deliberations; and
- staggering the committee membership renewal dates to enable new knowledge and experience to be introduced to the committee while retaining some continuity. Ideally, no more than one member should leave the Committee because of rotation in any one year.

Audit committee members on multiple audit committees needs to be balanced against the ability to understand the issues and operating context of a specific entity and maintaining appropriate independence.

4.2.3 Meetings

Principle

The audit committee should meet formally at least four times each year with one meeting allocated to review of the annual financial statements.

Guideline

Operational effectiveness is enhanced where the audit committee meets regularly throughout the year.

An appropriate degree of formality is required of meetings to provide a structure and process for the operation of the audit committee (refer also to Audit Charter). At a minimum formal requirements could include:

- the makeup and quorum necessary for each meeting;
- agenda preparation detailing the number, date, time and key matters for attention at each meeting;
- agenda circulation in advance of each meeting in a timely manner;
- papers and material supporting agenda items are provided to members in advance of the meeting;
- a record of deliberations and decisions is maintained; and
- that all members and advisors, with reference to the meeting's agenda, must declare any actual or perceived conflicts of interest or make a nil declaration. All declarations will be recorded in the Minutes. The members and advisors with the conflict of interest should also leave the room when agenda items regarding the conflict of interest are discussed.

Non-Member Meeting Attendees

Advisors/observers may attend audit committee meetings for all or part of meetings at the invitation and discretion of the Chairperson based on their judgement about the knowledge/advice/expertise required at any given meeting (to assist the committee to discharge its responsibilities).

These advisors/observers may include:

- HIA
- COO
- CFO
- External Audit
- Head of Governing Body
- SERBIR

4.2.4 Acting Chairperson

In the absence of the chairperson and where a deputy chairperson has not been appointed by the governing body to act as chairperson, the audit committee is authorised to appoint a person who will act as chairperson in situations, for example, when the chairperson is not available to attend an audit committee meeting.

4.2.5 Committee Oversight – Internal Audit

Principle

The audit committee oversees the internal audit functions and is responsible, on behalf of the governing body, for ensuring its effectiveness.

Guideline

In relation to the independence and competency of internal audit, the audit committee should review and endorse the internal audit charter for approval by the governing body.

In relation to the effective operation of internal audit, the audit committee should:

- endorse or approve the internal audit programs (for example Strategic Internal Audit Plan (SIAP) or Annual Internal Audit Plan (AIAP));
- monitor progress of the internal audit program and/or plan/s (see above);
- review internal audit reports and monitor and critique management's responses to findings and the extent of and timeliness of recommendations that have been implemented to ensure the desired outcomes have been achieved; and
- review and monitor at each ordinary meeting, the progress of open or recently completed internal and external audit recommendations including from the recommendations register.

On an annual basis, or as needed due to emerging circumstances, the audit committee should:

- review the internal audit function against their key performance indicators;
- review the interrelationship of the work of the internal and external audit and the scope for synergies;
- take steps to confirm that the internal audit function has not been unduly influenced by, or experiencing any problems with, management;
- meet separately and privately with the HIA to ensure free, frank discussions;
- ensure the HIA has unrestricted access to the governing body;
- review internal audit function and report on how it conformed to standards and quality requirements; and
- review the internal audit function resourcing considering whether it is reasonable and adequate.

4.2.6 Committee Oversight – External Audit

Principle

The audit committee should review and assess key areas relating to the external audit of the agency.

Guideline

The broad duties and responsibilities of an audit committee in oversight of external audit are to include:

- communication with external audit, including meeting specifically with the external auditors at least annually to ensure all significant issues and concerns have been raised;
- review external audit reports and management's responses to these reports;
- review and assess external financial and other key reports of the agency;
- review and monitoring key management personnel related party transactions and assess their propriety; and
- the Chairperson establishing strategic communication with the ACT Audit Office on current and future planned audits to assist both the governing body and the Audit Office's audit planning.

4.2.7 Management Liaison with Committee

Principle

The audit committee is to establish processes whereby issues can be represented directly to the audit committee by management.

Guideline

Issues relating to the audit committee's functions may from time to time be raised by management outside of the internal and external audit planning and review processes. A protocol should be established to provide for managers to make representations to the audit committee and if required, attend meetings.

The chairperson of the audit committee would be the appropriate point of contact usually via the HIA.

4.2.8 Reporting to the Governing Body

Principle

The audit committee will report regularly to the governing body.

Guideline

The audit committee is responsible and accountable to its governing body. It should report to the governing body on significant governance, risk, fraud and internal control issues when and as required but at least annually in the audit committee annual report.

Specific issues that could be reported include:

- key risks or observations that may need attention;
- significant control weaknesses or breakdowns in critical controls;
- fraudulent or illegal activities;
- disagreements between the external and internal auditors and management; and
- evaluation of the effectiveness of the internal and external audit functions.

4.2.9 Evaluation of Committee

Principle

The audit committee is to undertake an annual evaluation of its performance and report their conclusions to the governing body.

Guideline

The performance of the audit committee as a whole is reviewed annually. This could include a self-assessment by the committee members via a survey or a more formal process. The Chairperson should report the findings to the governing body.

4.2.10 Reporting to the Minister

Principle

The audit committee chairperson may report to the relevant Minister on significant and/or exceptional circumstances arising if required, following review by the governing body for comment.

Guideline

The governing body has responsibility for the agency and the establishment of the audit committee and is accountable to the responsible Minister for the efficient and effective financial management of the public resource for which they are responsible, see *Financial Management Act 1996* Section 31 (Directorates) or Sections 55/56 (Territory Authorities).

Where an audit committee operates, in its supporting role to the governing body, it will be well placed to provide the Minister with information on key governance, risk and control issues. In the following circumstances the chairperson of the audit committee may provide a report if needed to the Minister:

- on any significant issues that have been reported to the governing body; and
- in exceptional circumstances. This may occur where there have been major breakdowns in controls that management has declined to address or where there have been or suspected to be fraudulent or illegal activities.

Any report to the Minister from the audit committee chairperson or the audit committee should be provided to the governing body for comment prior to its transmittal. Comments from the governing body may be inserted into the body of the report and its source noted.

4.2.11 Relationship with Shared Services

Principle

Audit committees will have access to internal audit reports for Shared Services, as well as reasonable access to key Shared Services officers for answering questions. Access to Shared Services will be coordinated by the HIA of the agency responsible for the provision of Shared Services functions.

Guideline

The HIA of the agency responsible for the Shared Services functions will coordinate and ensure access to Shared Services staff by other agency auditors and audit committees relating to possible internal audits of Shared Services.

As Shared Services processes certain transactions and prepares financial statements for agencies, the results of internal audits of Shared Services are likely to prove useful information for agency audit committees. All reports will be made available through Shared Services.

Apart from the results of Shared Services internal audits, agency audit committees can also request attendance of an officer or officers from Shared Services at relevant audit committee meetings.

5 INTERNAL AUDIT FUNCTION

5.1 Structure of Internal Audit Function

Principle

The governing body of each agency is responsible for establishing the internal audit function (see 2 Definitions). Each agency must establish an internal audit function where it is cost effective (see guideline below) to do so.

Guideline

The governing body is responsible for determining the need for and scope of internal audit activity, and the internal audit function and the performance should be reviewed annually by the audit committee.

Unless the cost of establishing an internal audit function significantly outweighs the possible governance benefits to be derived, an internal audit function is to be established. There may be a case where size, risks, complexity, geographical distribution or materiality do not justify the associated cost and these should be documented. The considerations for determining the need for an internal audit function should include:

- size and scale of the organisation;
- organisation's complexity and diversity;
- organisation's overall risk profile;
- history of past issues and incidents;
- cost benefit; and
- existence of alternative mechanisms to provide adequate assurance on compliance and the operation of internal controls.

If an internal audit function is not warranted, the governing body must take alternative steps to obtain an appropriate level of assurance from an equivalent function. The alternative in-house assurance activities and/or compliance functions are required to be sufficiently robust and rigorous so as to be regarded as an 'equivalent function'.

External Review

Independent external review should be undertaken of the internal audit function services at least once every five years. Source: International Standards for the Professional Practice of Internal Auditing (Standards) (2017), Section 1312 External Assessment.

5.1.1 Head of Internal Audit (HIA)

Principle

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.

Guideline

The HIA should preferably have appropriate professional certifications and qualifications but must have demonstrated relevant experience for the oversight of an effective internal audit function and as a source of expert professional support to agencies (see Internal Auditors –Skill, Competencies and Professional Membership).

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. Source: International Standards for the Professional Practice of Internal Auditing (Standards) (2017) Section 1300 – Quality Assurance and Improvement Program;
- it is expected the HIA will include in the performance development plans the:
 - internal audit program;
 - management of the Recommendations Register – the Recommendations Register should be established in the internal audit function to track the implementation of recommendations including those for example from internal audit, external audit, senior committees and regulators where applicable. The register should include all, recommendations, together with initial management responses, that have yet to be implemented or where implementation is in progress.
 - facilitation of audit committee meetings; and
 - Internal Audit development and implementation of a system of qualitative and quantitative performance indicators to measure the internal audit functions own performance with results reported annually to the audit committee. Indicators should include outcomes, not just measurement of the efficiency of resource use;
- oversee the internal audit function and coordinate its effective operation within an agency and report regularly on the operations of the internal audit function to the audit committee; and
- administratively report on a regular basis to the governing body on the operation of the internal audit function and in the administrative role such as approval of expenditure, travel, leave and other similar functions reporting to an officer nominated by the governing body.

5.1.2 HIA Independent Function

Principle

The internal audit is an independent function therefore the HIA within an agency will have sufficient positional authority within the agency to be able to effectively undertake the role.

Guideline

The HIA should, to maintain independence, have no executive or managerial powers, authorities, functions or duties except those relating to the management of the internal audit function as far as possible. If not possible then the internal audit charter is to have safeguards in place where the HIA also performs non-audit roles.

5.1.3 Internal Audit Written Charter**Principle**

A written charter for the internal audit function will be developed and approved by the governing body and the Audit Committee.

Guideline

The internal audit charter is to provide the necessary authority for the internal audit activity to undertake its responsibilities. Internal Audit Charters should:

- establish internal audit activity's independent position and role within the organisation;
- authorise access to records, personnel and physical properties relevant to the performance of engagements;
- establish the HIA as a liaison officer with the ACT Audit Office;
- define the scope of internal audit activities;
- set out the reporting lines of internal audit; and
- consider the relevant International Professional Practices Framework (IPPF) standards for an internal audit charter.

The charter should be reviewed and updated annually for continued relevance and endorsed by the Audit Committee and approved by the governing body.

5.1.4 Internal Auditors – Skill, Competencies and Professional Membership**Principle**

Internal auditors must have the necessary knowledge, skill and other competencies needed to perform their responsibilities.

Guideline

Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities.

The Agency's internal auditors may have membership of a relevant professional body with continued professional development requirements to enhance their competencies. This should be supported and encouraged by the governing body and the audit committee.

Internal auditors should have relevant professional body membership and competencies including, for example:

- Membership of the:
 - PMIIA (Professional Membership of the IIA (Institute of Internal Auditors-Australia));
 - CA (Chartered Accountants Australia and New Zealand);
 - CPA (CPA Australia); or

- MIPA or FIPA (Member or Fellow Institute of Public Accountants (IPA)).
- Certified Internal Auditor (CIA);
- Certified Information Systems Auditor (CISA);
- Professional Internal Audit qualifications from a recognised academic institution; or
- qualifications from an overseas body that are recognised by at least two of the above bodies as having equivalent membership.

5.2 INTERNAL AUDIT FUNCTION PROCESSES

5.2.1 Planning

Principle

Where a defined internal audit function is in place, an internal audit program and/or plan/s are to be developed to address relevant elements of the agency's risk profile.

Guideline

The HIA should establish risk-based plans to determine the priorities of the internal audit activity that are consistent with the agency's goals.

This planning is performed on an annual basis and for future strategic plans, for example three yearly to inform the development of the internal audit program and is reviewed by the audit committee and endorsed by the governing body.

The endorsed internal audit program is to be reviewed six monthly by the HIA and the audit committee.

Internal Audit Plan/Program

The internal audit plan/program identifies proposed audit topics and sets out how internal audit resources are to be used over twelve months or for future periods if required.

The scope of the proposed audits, timing of audit engagements and resource allocations are set out together with the rationale for the audit. The required resources may include subject areas specialists whose proposed use should be made clear.

Based upon the resource constraints and the risk profiles of the areas under review the audit committee and the governing body will decide on the audits to be undertaken and endorse the audit plan.

The internal audit plan/program should include a summary for each audit review to be conducted. This summary could encompass:

- a short description of the area to be reviewed;
- a statement of the type of review to be conducted and what it is to achieve;
- the risk factors that prompt the choice of this review; and
- indication of resource allocation in days and dollars.

When planning internal audits, duplication is to be avoided by agency internal auditors of audit work being undertaken by the internal audit of the agency responsible for Shared Services. The planning should also consider the scope of the annual financial statements audit and published performance audit programs of the Audit Office for the current and future years to ensure duplication is avoided wherever possible. If duplication is unavoidable, the HIA should liaise with the Audit Office to minimise the duplication where possible and share resources and information.

5.2.2 Access to Information

Principle

The internal audit function is to have access to all records and information of the agency when required for internal audit work.

Guideline

The ability to perform an internal audit is not to be restricted due to lack of access to relevant information. For example, Internal audit staff and service providers are authorised to have full, free and unrestricted access to all functions, premises, assets, personnel, records, and other documentation and information necessary to enable internal audit to fulfil its responsibilities.

If any difficulties are experienced during an audit in regard to access to information, the issue is to firstly be discussed with senior management of the area, and if not resolved, with the Chair of the audit committee and HIA.

Access to any records or information required by agency's internal auditors held by Shared Services will be coordinated by the HIA of the agency responsible for Shared Services or by the appropriate executive at Shared Services.

5.2.3 Conduct during an Audit

Principle

Areas being audited are to assist with the conduct of the audit.

Guideline

Assistance from the area being audited is to be provided in a timely manner and could include:

- assist in development of audit scope;
- review and provision of feedback on the proposed scope;
- providing a contact officer(s);
- attendance at entry and exit meetings and providing input into the accuracy and benefit of the reports;
- discussion of relevance of recommendations;
- providing management comments;
- approving the final audit report; and
- attending audit committee meetings if invited.

If assistance is not provided by the auditee/s or a difference of opinion exists between the service provider or HIA and management of the audit area in relation to any aspect of the audit the matter is to be resolved by the HIA and the responsible Executive. If resolution is not possible then the HIA is to consult with the Audit Committee Chair who will consult with the governing body if required.

5.2.4 Internal Audit Reporting to Audit Committee

Principle

Internal audit will report regularly on its functions to the audit committee. Internal audit will also report in accordance with the Annual Report Directions (see Resources) on the activities of the Audit Committee and the Internal Audit function.

Guideline

Annual Reporting

Internal audit will report annually on internal audits and committee attendance as part of the agency's Annual Report in accordance with the Annual Report Directions (see Resources). Internal audit will report annually in the Annual Report on the internal audit function and committee attendance.

Reporting to the Audit Committee

Internal audit is to have direct communication with the audit committee through attendance at, and participation in, meetings of the audit committee and any other bodies with oversight responsibilities for auditing, financial reporting, organisational governance and control.

Internal audit should report at each audit committee meeting on the adequacy and effectiveness of internal controls, including the results of audit engagements.

Reporting should also include significant risk exposures, corporate governance issues, and other matters needed or requested by the governing body and senior management.

The internal auditor should identify any differences between the management view of the risk profile of the organisation and the internal audit assessment.

To measure its own performance, it is expected internal audit will include in their performance plans:

- delivery of the internal audit program;
- management of the recommendations register; and
- facilitation of audit committee meetings.

RESOURCES

ACT Legislation includes Legislation Act 2001, Financial Management Act 1996 and Public Sector Management Act 1994: <https://www.legislation.act.gov.au>

Annual Reports (Government Agencies) Notice 2019:
<https://www.legislation.act.gov.au/ni/2019-296/>

Note: Refer to current Notifiable Instrument (NI) in the ACT Legislation Register

Auditing and Assurance Standards Board, Australian Institute of Company directors and The Institute of Internal Auditors – Australia: <https://www.iaa.org.au/> *Audit Committees: A guide to good practice 2017*

Institute of Internal Auditors (North America): [International Standards for the Professional Practice of Internal Auditing \(Standards\) \(2017\)](#)

Institute of Internal Auditors (Australia) (IIA): [Internal Audit in Australia 2016](#)

Institute of Internal Auditors (Australia) (IIA): Effective Internal Auditing in the Public Sector – A good practice guide (refer to the <https://www.iaa.org.au/technical-resources>)

Australian Securities Exchange Corporate Governance Council: [ASX Corporate Governance Principles and Recommendations 3rd edition](#) Corporate Governance Principles and Recommendations 3rd Edition ASX Corporate Governance Council March 2014

Standards Australia: <https://www.standards.org.au/search-for-a-standard> ISO 31000:2009 Risk Management

Auditing and Assurance Standards Board: <https://www.auasb.gov.au> *Auditing Standard ASA 610 Using the Work of Internal Auditors (November 2013)*

Australian National Audit Office (ANAO): <https://apo.org.au/sites/default/files/resource-files/2012/09/apo-nid31264-1192046.pdf> *Public Sector Internal Audit Better Practice Guide September 2012*

Commonwealth Department of Finance: <https://www.finance.gov.au/government/managing-commonwealth-resources/managing-risk-internal-accountability/duties/risk-internal-controls/audit-committees>

Commonwealth Department of Finance *Public Governance, Performance and Accountability Act 2013*: <https://www.finance.gov.au/government/managing-commonwealth-resources/pgpa-legislation-associated-instruments-policies>

NSW Treasury: [https://www.treasury.nsw.gov.au/sites/default/files/pdf/TPP15-03 Internal Audit and Risk Management Policy for the NSW Public Sector.pdf](https://www.treasury.nsw.gov.au/sites/default/files/pdf/TPP15-03%20Internal%20Audit%20and%20Risk%20Management%20Policy%20for%20the%20NSW%20Public%20Sector.pdf) Internal Audit and Risk Management Policy for the NSW Public Sector Policy & Guidelines Paper Tpp 15-03 July 2015

NSW Treasury: [https://www.treasury.nsw.gov.au/sites/default/files/2017-01/TPP16-02 Guidance on Shared Arrangements and Subcommittees for Audit and Risk Committee s.pdf](https://www.treasury.nsw.gov.au/sites/default/files/2017-01/TPP16-02%20Guidance%20on%20Shared%20Arrangements%20and%20Subcommittees%20for%20Audit%20and%20Risk%20Committees.pdf) NSW TPP 16-02 Guidance on Shared Arrangements and Subcommittees for Audit and Risk Committees

Department of Treasury and Finance Victoria Standing Directions 2018 under the *Financial Management Act 1996* :
<https://www.dtf.vic.gov.au/sites/default/files/document/Standing%20Directions%202018%20%28revised%20March%202019%29%20V2.pdf>



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