

# Internal Audit: New Directions

Overview of the Review of Internal Audit  
Capacity in the NSW Government  
29 April & 8 May 2008

Jointly hosted by  
NSW Treasury & Department of Premier and Cabinet

# Seminar Program

## 1. Welcome & Presentation of Key Findings & Recommendations of the Review

Peter Connelly, Executive Director, Performance Review Unit, DPC

## 2. Overview of Implementation

Philip Mussared, Deputy Secretary, Operations, Treasury

## 3. Questions and Comments

## 4. Compliance with IA Better Practice Framework

Peter Aichtersaat, Auditor General

## 5. Institute of Internal Auditors Australia

Gary Anderson, President

## 6. Department of Commerce

John Lee, Director General

## 7. Internal Audit Human Resource Strategy

Martina Nightingale, Director, Workforce Strategy, Public Sector Workforce Office, DPC

## 8. Practitioners Network

Stephen Horne, Chief Executive, Internal Audit Bureau

## 9. Questions and Comments

# Objectives and Scope

## Objectives

- Assess current arrangements and operations
  - Legislation and policy
  - Audit committees
- Focus on the efficient delivery of internal audit services and identify opportunities for cost savings
- Examine linkage between IA and risk management
- Identify areas for improvement

## Scope

- Covered all budget sector agencies and SOCs/GBEs
- Excluded the results of external audits and the performance of entities undertaking such audits

# Our research approach

## Desktop research

## Surveys

- 1. Whole-of-Government: *Internal Audit Costs***  
All NSW agencies and government businesses  
(89% response rate representing 99% of expenditure.)
- 2. Agency: *Internal Audit Resources and Practices***  
Surveys of 24 agencies CAEs and IA chairs  
(63% of total NSW Public Sector expenditure.)

**Interviews** (public/private sector; profession bodies)

# What we found

- IA resources match global benchmark
    - spend of \$50 million pa average of 0.1%
    - 400 Audit FTE staff 1:1000
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- Core audit services \$ 7.9 m (16%)
  - Operational audit \$42.1 m (84%)
    - Internal focus \$30.5 m (61%)
    - External focus \$11.6 m (23%)
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- External audit \$29.3 m

(Data 05-06)

# What we found

- Opportunities to improve effectiveness without increasing direct costs
- IA performance levels vary across agencies compared with best practice
- NSW lagged behind other jurisdictions in governance and guidance
  - No requirement for IA function (only controls)
  - No mandates for IA committees (independence)
  - No mandated standards or reporting
  - No linkage to enterprise risk management



# What we found

- IA not mandated - occurs 'wherever practicable'
- Greater independence of Audit & Risk Committee is required (SoCs better than Budget Sector).
- Uneven IA capacity across the sector to mitigate service delivery failure and other risks
- Smaller agencies require greater assistance for more effective/efficient IA services
- Policy and practice guidance does not reflect best practice - needs updating

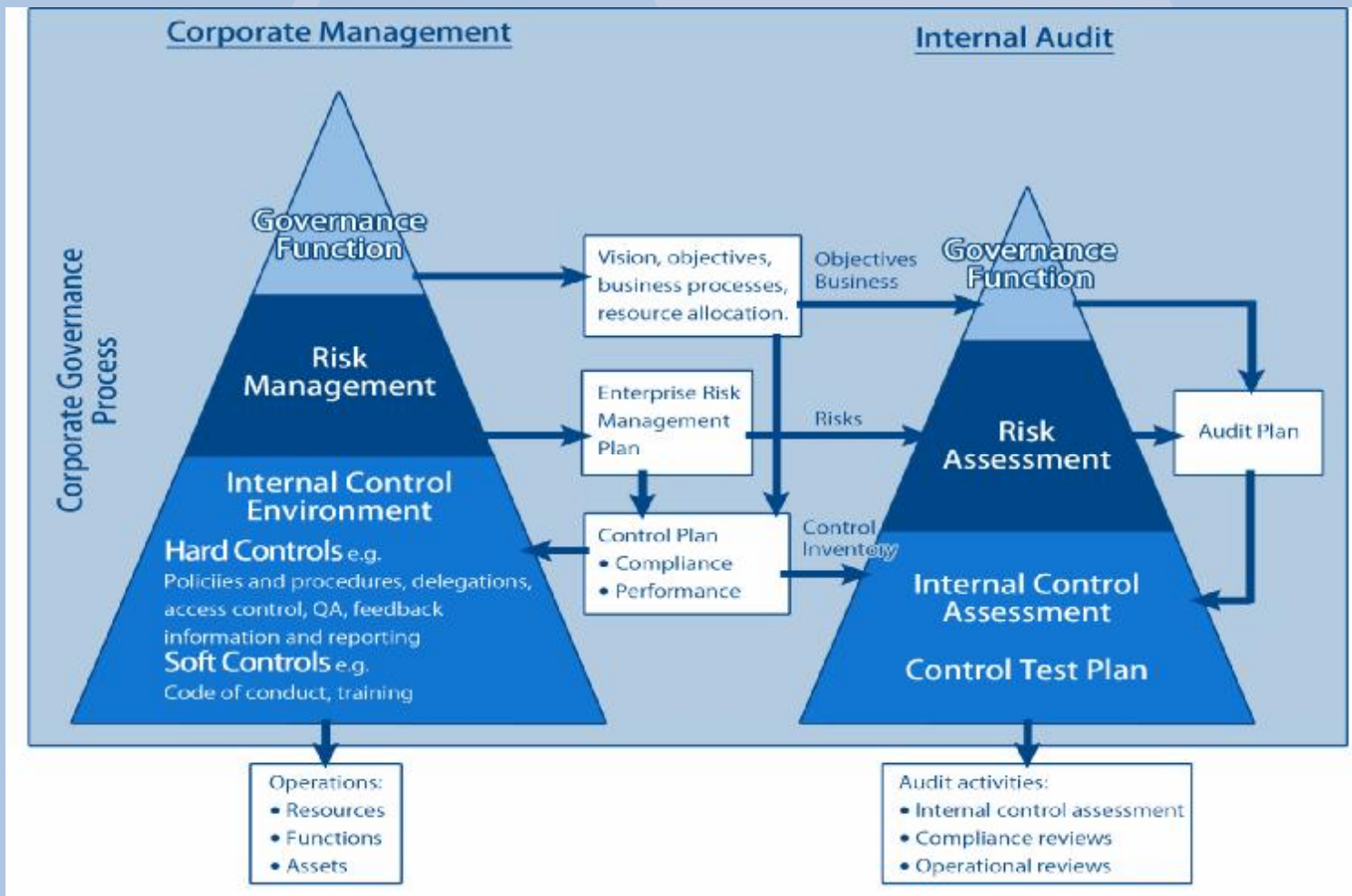
# Better IA functions:

- Strategic focus on higher risk areas
- Enterprise-wide risk management
- Open and trusting relationships with management while retaining regulatory posture
- Strong interpersonal and communication skills
- Effectively manage outsourced audit assignments
- Consult with management on solutions and actions
- Risk rating on audit finding to prioritize management action

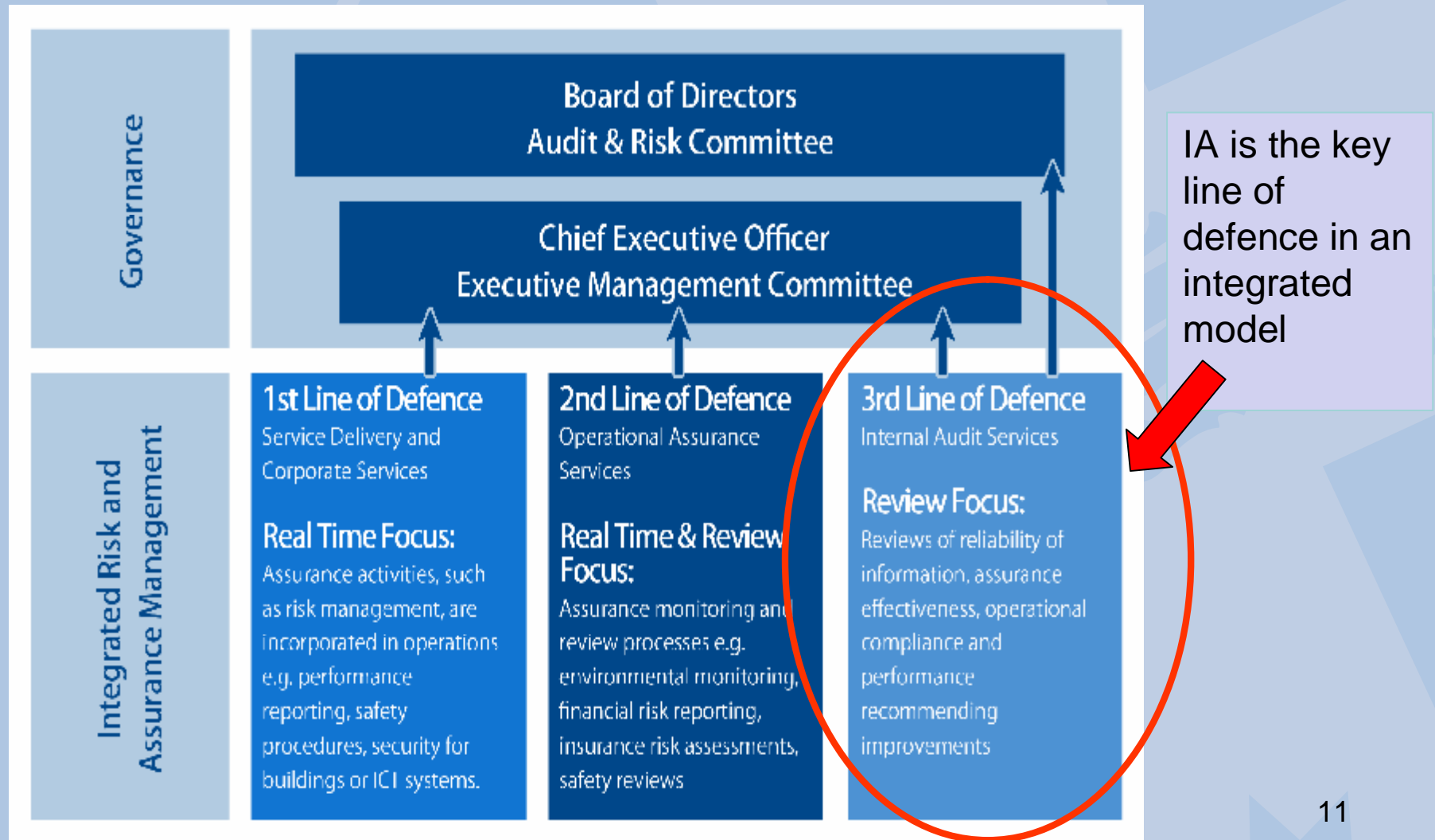
## Better IA functions:

- Track audit outputs to ensure implementation
- Effectively use of technology in internal audit
- Work collaboratively with external auditor (AO)
- Have strong links with other assurance functions
- Implement effective fraud and corruption prevention strategies
- Shift to a strategic/risk focus rather than compliance
- Procedures based on recognised standards and guides

# Governance Business Model



# Integrated assurance model



# Best Practice Framework

<b>Whole-of-Government</b>	
<b>1. Governance</b> (internal audit policy and regulation)	<b>1. Internal audit policy and regulatory expectations</b> <b>2. Compliance assurance</b>
<b>Agency</b>	
<b>2. Governance</b>	<b>1. Independent audit committee</b> (Chair and members) <b>2. Independence of the internal audit function from operational management</b> <b>3. Internal audit reporting and active monitoring</b>
<b>3. Risk management</b>	<b>4. Risk management oversight</b> <b>5. Integrated risk management practices</b> <b>6. Risk based audit</b>
<b>4. Control audit</b>	<b>7. Audit activities</b> <b>8. Audit resources</b> <b>9. Audit processes and systems</b> <b>10. Currency of audit knowledge</b>

# What's new?

1. Minimum governance for A&R Committee with independent Chair and members
2. A&RCs oversight 'enterprise' risk including corruption and fraud prevention
3. A&RCs recommend appointment of Chief AE
4. Dispute resolution with arbiter of last resort
5. Management agreed action plans for each internal audit report
6. Tracking implementation of audit action plans by management to A&RCs and CEO/Board
7. Auditor General compliance audits from 09-10

# What assistance?

1. New guidance being developed (Treasury)
2. New pre-qualified panel for Audit committee chairs and members (Commerce/DPC)
3. New Internal Audit and Risk Management practitioner network, including e-network (Treasury)
4. New cluster pilot for shared governance and IA resources (PRU, DPC)
5. New workforce management strategy (PSWO, DPC)
6. New audit technology (Commerce)
7. Release of review report & seminars (DPC)