

THE ROLE OF INTERNAL AUDIT AND RISK MANAGEMENT IN DELIVERING GOOD GOVERNANCE

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Overview

1. Background to the NSW Review of Internal Audit Capacity
2. Findings of the Review
3. A Better Practice Framework for Internal Audit for the NSW Public Sector
4. Implementation of a New Internal Audit and Risk Management Policy
5. Observations



Background to the Review of Internal Audit

- **Increasing concern about the quality of internal audit and risk management in the NSW public sector.**
- **Review conducted by the Performance Review Unit of DPC during 2007**
- **Recommendations approved by the NSW Government in November 2007**
- **Final Report released in March 2008.**



Findings of the Review

The Review found that:

- IA was not mandated - occurred 'wherever practicable'
- Greater independence of Audit & Risk Committees required
- Uneven IA capacity across the sector to mitigate service delivery failure and other risks
- Smaller agencies required greater assistance to provide more effective/efficient IA services
- Policy and practice guidance did not reflect best practice - needed updating



Findings of the Review

The Review also found:

- Opportunities exist to improve effectiveness
- IA performance levels vary across agencies
- NSW lagged behind other jurisdictions in governance and guidance:
 - No requirement for IA function
 - No mandates for IA committees
 - No mandated standards or reporting
 - No linkage to enterprise risk management



Findings of the Review

The Review found in relation to Internal Audit Guidance:

- IA related guidance was fragmented
- Different organisations provide guidance on various issue (but not consistently):
 - Treasury: legislation, risk management and role of IA
 - NSW Audit Office: governance and a range of other issues
 - ICAC: corruption prevention
 - IIA: practice standards
- No consistent guidance on all IA issues



Findings of the Review

The Review found in relation to Governance:

- 100% of SOCs' audit committees were a subset of the independent board
- 74% of other agencies had at least one independent audit committee member
- 63% of other agencies had an independent chair
- Most audit committees have the “right people” and “operate well”
- But 26% had a management based committees
- And 4% of agencies had no committee
- Most Chairs wanted more regular meetings of the committee



Findings of the Review

Better Internal Audit functions require

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



Findings of the Review

Better Internal Audit functions also require

- Track audit outputs to ensure implementation
- Effective use of technology in internal audit
- Work collaboratively with the external auditor
- 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



Better Practice Framework

Better Practice Framework for Internal Audit

Twelve key better practice requirements

Whole-of-Government level - governance (policy and regulation)

1. Internal audit policy and regulatory expectations
2. Compliance assurance



Better Practice Framework

Agency Level

Governance

3. Independent audit committee
4. Independence of the IA function
5. Internal audit reporting and active monitoring

Risk management

6. Risk management oversight specified in A&R Committee charter
7. Integrated risk management practices
8. Risk based audit



Better Practice Framework

Control audit

9. Audit activities

10. Audit resources

11. Audit processes and systems

12. Currency of audit knowledge



Inter-Jurisdictional Comparison

	VIC	QLD	Cwth	NSW
1. Mandatory requirement for IA function	Yes	Yes	Yes	No
2. Mandatory Audit Ctee	Yes	No	Yes	No
3. Mandatory minimum governance requirements for A&R Committees	Yes	Yes	Yes	No
4. Standards for IA activities	Some	Yes	Yes	No
5. IA related reporting	Yes	Yes	Yes	No
6. Linkage with risk management	Yes	Yes	Yes	No

Towards A New Internal Audit and Risk Management Policy

The Review proposed an implementation strategy directed at three aspects of internal audit and risk management

A. Getting the governance right

1. A strengthened NSW policy and regulatory framework for internal audit and risk management
 - Update policy and guidance
 - Better Practice Framework
 - Prequalification Scheme
2. Internal audit compliance assurance
3. Pilot cluster with shared governance and delivery



Getting the practices right

4. Update practice guidance for internal audit
5. Establish a practitioner networks

Getting the resources right

6. Develop a strategy for access to and use of IA technology
7. Develop an internal audit human resource strategy

Implementation Steering Committee with membership from:

- Central agencies
- General Government sector agencies
- State Owned Corporations
- NSW Audit Office

Consultation with professional bodies

Terms of Reference of the Implementation Steering Committee:

“To drive the implementation of the recommendations in the *Report on the Review of Internal Audit Capacity in the NSW Public Sector*, including the update of the IA policy and guidance”.



Actions

Getting the Governance Right

- 1. Strengthen the NSW policy for internal audit and risk management**
 - ❑ Adopt the Better Practice Framework
 - ❑ Update policy and guidance
 - ❑ Require independent chairs and majority of independent members
 - ❑ Prequalification Scheme for Independent Chairs and Members
- 2. Introduce an internal audit compliance assurance framework**
- 3. Provide option of cluster with shared governance and delivery**



Actions

Getting the Practices Right

4. Update practice guidance for internal audit
5. Establish practitioner networks

Getting the Resources Right

6. Develop strategies for access and use of IA technology
7. Investigate internal audit human resource development options



Core Requirements

The new Policy requires six “core” requirements to be met by agencies:

1. An internal audit function that is operationally independent
2. The designation of a Chief Audit Executive
3. An A&R Committee with an independent Chair and a majority of independent members
4. Application of a “model Charter” for the A&RC
5. Adoption of current standards for enterprise risk management
6. Adoption of current standards for professional practice in internal audit



Progress

Progress

- Report on Internal Audit Capacity in the NSW Public Sector published
- Better Practice Framework for IA adopted by NSW Government
- Pre-qualification Scheme for Independents established in April 2009
- Practitioners Network established
- Model charters for IA function and A&R Committees developed
- Attestation and reporting requirements included in Policy
- Internal Audit and Risk Management Policy promulgated August 2009



Super Departments

- Announcement in 2009 State Budget of move to super agencies
- Over 300 General Government agencies to move to 13 super agencies
- Potentially, this could mean only 13 A&R Committees for the NSW General Government sector
- In the meantime, until budget, governance and reporting arrangements are finalised, there is a degree of uncertainty and ambiguity



Observations

Some observations about the changes:

All Committees will be chaired by an independent, independents will be the majority of members and A&R Committees will be smaller.

However, the Independents (especially chairs) will need to focus on a number of elements, including:

- the relationship with the Director-General or governing board
- the role of the A&R Committee in the corporate governance of the agency
- the profile and adequate resourcing of the IA function
- ensuring a channel of communication between the auditors and the Director-General or governing board
- ensuring a robust approach to understanding, reviewing and questioning the material that comes before the A&R Committee





Observations

Other outcomes sought from these reforms include:

- greater consistency in using internal audit to mitigate business risk
- a greater focus in agencies on risk identification
- strengthened assurance and accountability
- more effective use of internal audit resources
- more reliable financial statements
- an approach to IA that is based on a robust risk assessment of the agency
- an appropriate balance between the traditional focus on the agency accounts and the need to champion risk management and internal controls, and
- regular assessment of the Internal Audit function's performance, including the performance of the A&R Committee and its members



Observations

New policy represents significant change but offers improved outcomes for stakeholders:

- Ministers and the Government through less likelihood of adverse outcomes and negative media coverage
- Director-General's and boards of statutory authorities through a more robust assurance regime
- members of A&R Committees through a clearer definition of roles and responsibilities
- IA and risk management practitioners through a “better practice” framework
- taxpayers from a greater certainty that public funds are being applied efficiently and effectively.



References

Reference Material

Google:

Review of Internal Audit Capacity in NSW Public Sector

for quick access to:

- Review report
- NSW Internal Audit and Risk Management Policy
- Details of prequalification scheme for independents
- website of the NSW Public Sector Audit & Risk Practitioner Network

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