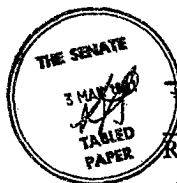


DEPARTMENT OF THE SENATE
PAPER No. 629
DATE PRESENTED
- 3 MAR 1981
Clerk of the Senate



Internal Audit in
The Australian Public
Service
— A Discussion Paper

Report

184

Joint Committee of
Public Accounts

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

184th REPORT

INTERNAL AUDIT IN THE
AUSTRALIAN PUBLIC SERVICE
- A DISCUSSION PAPER -

Australian Government Publishing Service

CANBERRA 1981

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

184th REPORT

INTERNAL AUDIT IN THE
AUSTRALIAN PUBLIC SERVICE
- A DISCUSSION PAPER -

Australian Government Publishing Service

CANBERRA 1981

© Commonwealth of Australia 1981
ISBN 0 642 06501 2

Printed by C.J. THOMPSON, Commonwealth Government Printer, Canberra

(ii)

JOINT COMMITTEE OF PUBLIC ACCOUNTS

THIRTEENTH COMMITTEE

D.M. CONNOLLY, M.P. (Chairman)

SENATOR G. GEORGES (Vice-Chairman)

Senator M.E. LAJOVIC

Senator J.O.W. WATSON

K.C. BEAZLEY, M.P.

J.M. BRADFELD, M.P.

A.G. CADMAN, M.P.

M.J. DUFFY, M.P.

G.E.J. TAMBLING, M.P.

DR A.C. THEOPHANOUS, M.P.

(iii)

DUTIES OF THE COMMITTEE

Section 8.(1) of the Public Accounts Committee Act 1951 reads as follows:

- 8.(1) Subject to sub-section (2), the duties of the Committee are:
- (a) to examine the accounts of the receipts and expenditure of the Commonwealth including the financial statements transmitted to the Auditor-General under sub-section (4) of section 50 of the Audit Act 1901;
 - (aa) to examine the financial affairs of authorities of the Commonwealth to which this Act applies and of intergovernmental bodies to which this Act applies;
 - (ab) to examine all reports of the Auditor-General (including reports of the results of efficiency audits) copies of which have been laid before the Houses of the Parliament;
 - (b) to report to both Houses of the Parliament, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;
 - (c) to report to both Houses of the Parliament any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in the mode of receipt, control, issue or payment of public moneys; and
 - (d) to inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question,

and include such other duties as are assigned to the Committee by Joint Standing Orders approved by both Houses of the Parliament.

(iv)

PREFACE

1. This report on Internal Audit in the Australian Public Service is presented as a discussion paper. It has not resulted from a specific reference or inquiry. Instead, it is a product of the Committee's long standing interest in public administration, particularly those aspects of management which have a significant impact on the quality of administration within the Public Service.

2. Although this is an innovation for the Public Accounts Committee, the authority and scope for such an approach is provided in Section 8(1) of the Public Accounts Committee Act 1951. Instead of relying on evidence formally collected by written submissions and public inquiry this report has been based on the collective experience of the Committee gained over many years, as well as discussions, not only within the Public Service, but with academics, professional accounting and auditing bodies and leading organisations in the private sector. All of these have been closely involved in developing or establishing effective internal audit or have been addressing some of the more serious problems presently confronting internal audit.

3. This report may be regarded as a focus for some of the contemporary thoughts on Internal Audit and the recent developments being advocated by the Public Service Board. Permanent and Statutory Heads and their Deputies should use this paper as an aid to their positive involvement in the effective use of Internal Audit. It is envisaged that this discussion paper will be one of a number of similar reports by the Committee on various aspects of management improvement within the public sector.

For and on behalf of the Committee.

David M. Connolly
Chairman

M.J. Talberg,
Secretary,
Joint Committee of Public Accounts,
Parliament House,
CANBERRA.

11 February 1981

(v)

INTERNAL AUDIT IN THE AUSTRALIAN PUBLIC SERVICE

T A B L E O F C O N T E N T S

CHAPTER	PAGE
1. INTRODUCTION	1
2. CONCLUSIONS AND SUMMARY OF RECOMMENDATIONS	5
3. HISTORICAL PERSPECTIVE	
Review of Internal Audit Positions : 1967-68	9
Public Accounts Committee Inquiry into Internal Audit : 1971-72	10
Efficiency Review of Internal Audit : 1977	10
4. THE CHARACTERISTICS OF MODERN INTERNAL AUDIT	
Role	11
Independence	12
Proficiency	12
Scope	13
Approach	14
Audit Committees	14
Relationship with External Audit	16
5. ADP AUDITING	
General	17
Systems Auditability and Control Study	20
6. EFFICIENCY REVIEW OF INTERNAL AUDIT : 1977	
Aims and Form of the Review	23
Review Findings	24
Recommendations Arising from the Review	25
7. RECENT DEVELOPMENTS	
The Public Service Board Response	29
Recommendations Implemented by the Board	29
Progress with Other Recommendations	31

(vi)

CHAPTER	PAGE
8. FUTURE DIRECTIONS	
Career Structure and Development	33
Internal Audit and Other Management Advisory Services	35
Organisational Structure	35
Internal Audit Consultancy Bureau	36
APPENDIX	
A Efficiency Review of Internal Audit 1977 - Summary of Major Recommendations	41
B Public Service Board Circular No.1979/8, 30 April 1979	49
C Public Service Board Memorandum 79/2120, 1 June 1979	63
D Public Service Board Circular No. 1980/7, 1 April 1980	69
E Public Service Board Memorandum 79/3667, 21 April 1980	75
F Summary of Chief Internal Auditor Classifications, August 1980	89
G Public Service Board Letter 23 December 1980	93
H IDAC Paper No. 17 - Independence and Internal Audit in the APS	95
I IDAC Paper No. 25 - Quality Assurance for Internal Audit	105
J Supplement to IDAC Paper No. 25 Quality Assurance Checklist Questionnaires	123
K Public Service Board Memorandum 80/9205, 23 December 1980	141
L Bibliography	153

(vii)

CHAPTER 1

INTRODUCTION

1.1 Recently, there has been an increasing awareness of the importance of accountability within organisations. For many years, in both the public and private sectors, policy formulation and the setting of objectives have been emphasised. Now, attention is turning towards the standard of performance and the reliability of information used for decision making which are becoming recognised as being equally as important.

1.2 This change in emphasis has come about because of advancing technology and complex developments in management information and data processing systems. It is now being understood that the use of such systems without adequate inbuilt safeguards can lead to a lack of control. The Committee is most concerned about this danger, particularly as several of its recent inquiries have produced evidence of just such a lack of control. The more complex the system, the greater the requirement that specially designed safeguards are incorporated into it.

1.3 In this evolving situation, it is clear that continued reliance on the external auditor as a primary source of such assurances is no longer appropriate. Day to day transactions which may involve vast amounts of money, must be controlled on a day to day basis. This is not compatible with periodic visits by the external auditor or his approach. The external auditor's objectives are unlikely to be the same of those of management and the methodology he employs is not necessarily designed for preventive auditing, especially in the area of computerised data processing.

1.4 There is a pressing need for effective internal auditing. The application for which it is of the greatest importance is ADP. The expanding use and increasing complexity of systems and the potential magnitude of waste and losses if internal controls are defective or deficient, makes effective internal auditing an indispensable requirement.

1.5 Controls in data processing must be monitored frequently, in some cases continuously, using specialised internal audit routines. Although these audit routines provide greater assurance for the external auditor, the responsibility for their development and implementation properly belongs within individual organisations.

1.6 ADP auditing problems are severe. The installation of audit needs at design and implementation stages of systems development may be difficult technically and costly, but senior management must beware the negative comments of systems designers and take advice on these matters from skilled ADP auditors. Considering the scarcity of such auditors, the need to rationalise their availability and use within the Public Service becomes apparent.

1.7 Apart from the importance of internal auditing to ADP, there is a need for the effective review and appraisal of all operations and verification procedures. Internal auditing must also be concerned with ongoing reviews of overall organisational performance in a manner acceptable to senior management, although not necessarily to line management. It must include assessments, verification and the sponsoring of suggestions for improvement. Its success will rely upon access to senior management, a broad charter for the review of operations, and the technological capability to review and analyse performance. Ultimately it should provide a comprehensive feedback facility to support management's financial and decision making systems. Management may then determine whether or not government policies and the objectives, goals and plans of the organisation are being achieved in the manner intended.

1.8 The Public Service Board has a broad charter to promote efficiency in the Public Service. Upgrading internal audit is just one facet of the Board's efforts to improve standards of administration. In supporting these efforts and seeking the co-operation of permanent and statutory heads, the Committee believes that the position of the internal auditor should be put into perspective.

1.9 Key elements of the auditing process are the auditor's ability to observe and measure and the existence of performance standards (criteria) with which to compare performance. This is made clear from the general definition of auditing which can be applied to internal auditing, financial statement auditing, operational auditing, efficiency auditing, program effectiveness auditing or social auditing:

"An audit can be defined as an attempt at objective comparison of operations performance or results obtained against a specified set of criteria in order to:

1. ascertain the correspondence between the operations performed and the criteria;
2. form a judgement with respect to the degree of this correspondence; and

3. communicate these findings to the proper individuals."

1.10 In financial and compliance auditing these criteria are provided by the Audit Act 1901, Regulations and Directions of the Department of Finance, financial and reporting provisions of enabling legislation of statutory authorities, disclosure standards of the professional accounting bodies, and various verification lists in data processing sections.

1.11 But what of performance standards for operating and administrative efficiency and program effectiveness? They are needed by management and internal auditors; by the Auditor-General under his broader responsibilities; by the Department of the Prime Minister and Cabinet for program effectiveness assessment, and by the Public Service Board for overall evaluation of administrative processes. Where are such standards to be found and how do they evolve?

1.12 If investigation teams and auditors cannot be provided with guidelines for efficiency and effectiveness, then standards need to be developed within organisations by management itself, assisted by operations research and other similar functions. There is no substitute ultimately for management's own technological, scientific, productivity and administrative reviews. These are made possible by policy analysis, optimisation studies and the setting of objectives, work measurement and research and through the objective appraisal of actual performance by the auditor. The auditor neither sets the standards nor performs the operations.

1.13 Claims by some that internal auditing is unnecessary because operations researchers and similar people are employed, are not tenable. Using such people to perform audits would be asking them to evaluate their own success or failure. However, there will always be a need for such specialists to work closely with internal auditors even when the level of internal auditing competence is high.

1.14 The Committee believes that technological change has introduced great difficulties for the measurement of performance and for systems reliability and verification. For this reason, it views the Public Service Board's efforts to achieve effective internal audit as having wide implications involving questions of the setting of standards for efficiency and effectiveness, the role of operations research and the integration of adequate verification processes during development stages of system design.

* Barefield R.M. : Impact of Audit Frequency on the Quality of Internal Controls. Studies in Accounting Research, American Accounting Association 1975.

1.15 This discussion paper looks at some of the problems of internal audit, ranging from its historical background to the work being undertaken at present to increase its effectiveness. The Committee wishes to emphasise that the recommendations it has put forward do not cover all that is needed to bring about effective analysis, review, appraisal, control and verification of public sector functions and activities. It hopes that this paper will stimulate further consideration of the broader dimensions of the problem and suggestions for the development of a balanced approach towards achieving a solution.

1.16 The Committee fully supports the Public Service Board's efforts to upgrade internal audit and seeks enthusiastic co-operation from permanent and statutory heads. We have noted that some of the late developments in 1980 by the Public Service Board accord with our views, we welcome these moves and the relevant papers are included as Appendices G to K of this paper. The Committee will be examining progress made by initiating a review of selected departments and authorities. The Committee believes that this review would be assisted if the Public Service Board arranged for an independent assessment by an outside consultant.

1.17 The efforts given to producing an increasingly effective internal auditing facility in public administration will be rewarding. The Auditor-General of Canada has described internal auditing as:

"...one of the sharpest and most effective tools available to management to ensure that it manages the resources for which it is accountable economically, efficiently and effectively."

* Conspectus of the 100th Annual Report of the Auditor-General of Canada : Resource Management.

CHAPTER 2

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

2.1 Previous attempts to improve internal audit in the Australian Public Service have been generally unsuccessful. It is clear that those failures resulted from insufficient interest on the part of permanent and statutory heads and a lack of support for internal audit by senior management, a situation exacerbated by the low standard of internal audit itself.

2.2 The findings of the 1977 review focused attention on the dismal state of internal audit in the Public Service and stimulated renewed efforts to bring about improvements. The Public Service Board has initiated action designed to upgrade internal audit. Its success will depend entirely on the support given by individual departments and authorities and the steps taken to ensure that the improvements necessary in their own organisations are vigorously pursued.

2.3 It is essential that the heads of departments and authorities cultivate a genuine interest in internal audit and learn to use it effectively. The tendency for many permanent heads to concentrate on policy matters and ignore administrative and financial affairs cannot be condoned, particularly with the emergence of Section 2AB of the Audit Act 1901.

2.4 Officers who are motivated, qualified, experienced and capable must be encouraged to enter internal audit so that it can attain its full potential.

2.5 The Public Accounts Committee is committed to ensuring the necessary improvements in internal audit are brought about. The Committee will use every opportunity to check progress within departments and test the commitment of permanent and statutory heads and management towards effective internal audit. It also plans to initiate a review of internal audit to evaluate progress with the improvement program, within selected departments and authorities during the currency of the current parliament.

2.6 The Committee is keenly interested in ongoing developments in all spheres of internal audit and welcomes any suggestions, information or comments in response to this report.

2.7 The recommendations made do not in themselves provide a solution for the problems faced in upgrading internal audit in departments and authorities, but the Committee considers them necessary to create the conditions which must exist if overall success is to be achieved. For this reason, the Committee has also re-emphasised recommendations which arose following the 1977 review of internal audit in the Public Service.

Audit Committees (page 16)

2.8 All departments and authorities should establish Audit Committees as a high priority.

ADP Auditing (page 18,19,20)

2.9 Departments and authorities should give high priority to examining the various options available to alleviate the lack of internal auditors with ADP skills.

2.10 The Public Service Board should continue to give high priority to the development of general standards for ADP auditing in the Australian Public Service.

2.11 All departments and authorities presently developing ADP systems should immediately seek the advice of the Auditor-General's Office as to the auditability of such systems before they are implemented.

Systems Auditability and Control (SAC) Study (page 22)

2.12 Departments and authorities should study the SAC reports prior to the introduction or upgrading of their ADP audit capability.

Career Structures and Development (page 34,35)

2.13 Permanent heads of departments and heads of authorities should decide upon and pursue with the Public Service Board, the appropriate classification level for the position of chief internal auditor, preferably within the Second Division.

2.14 Departments and authorities should implement their own internal audit training and education programs. They should also support the Public Service Board in its efforts to encourage tertiary institutions and other outside organisations to develop appropriate formal courses of study in auditing.

2.15 A program of staff rotation between the internal audit function and other areas of the organisation should be implemented and exchange of Internal Audit staff between departments should be pursued. Officers being groomed for higher management positions should spend a period at an appropriate level in the internal audit function as part of their overall development.

Internal Audit and Other Management Advisory Services (page 35)

2.16 Departments and authorities should examine the feasibility of bringing the internal audit function into closer association with other management improvement functions, recognising however, the necessity to preserve the independence and objectivity of internal audit.

Organisational Structure (page 36)

2.17 Departments and authorities should review the structure of their internal audit function and consolidate it on a centralised basis.

2.18 Departments and authorities which cannot support an internal audit function should arrange for internal audit support to be provided by an Internal Audit Consultancy Bureau, another department or authority, an outside consultancy service, or by some other means.

Internal Audit Consultancy Bureau (page 37)

2.19 The Public Service Board should review its previous decision and re-examine the requirement to establish an Internal Audit Consultancy Bureau, a similar organisation attached to the Board itself, or supported by the Board but independent from the Auditor-General's Office.

CHAPTER 3

HISTORICAL PERSPECTIVE

3.1 Internal audit in Commonwealth Government departments has developed over the last 40 years. Earlier, systems of internal controls and checks existed to varying degrees in most departments, but in only a few instances had separate internal audit machinery been established.

3.2 Since 1945 successive Auditors-General have referred to the inadequacies of internal audit and the need to develop the function as part of internal control and, as an aid to management. In July 1964, following comment in the Auditor-General's Report for 1962-63 and subsequently in the Committee's 66th Report, all departments were instructed by the Department of Treasury to critically examine tasks being undertaken by internal audit staff and to ensure that sufficient staff were maintained for the proper performance of the audit function.*

Review of Internal Audit Positions: 1967-68

3.3 Two years later, in 1966, following further references to internal audit by the Auditors-General and the Committee, the Public Service Board appointed a Joint Committee to review the functions and duties of some 500 internal audit positions in 21 Commonwealth departments. The Joint Committee concluded that the scope and approach to internal audit varied considerably and found it necessary to define the role of internal audit. It produced the following definition which was adopted by the Public Service Board in 1968.**

"Internal auditing is an independent, post-operative, appraisal function performed within a department as a service to management. It covers the revenue, expenditure, stores, personnel and related operations of a department and also any financial, accounting and supply activities arising from particular functions of a department."

3.4 In July 1968, the Public Service Board notified departments of new work levels and salary classifications and invited them to re-appraise their internal audit functions.

* Treasury Circular 1964/G6, 27 July 1964.

** Public Service Board Circular No. 1968/26, July 1968.

Public Accounts Committee Inquiry into Internal Audit:
1971-72

3.5 Although most departments took the opportunity to re-appraise their internal audit functions and review their organisation, continuing references by the Auditors-General to deficiencies led the Committee to conduct a general inquiry into internal audit in 1971. The results of that inquiry were reported to Parliament in its 139th Report in September 1972.* The Committee noted improvements had occurred in some departments but was disturbed by the use of internal audit staff on other duties.

3.6 In July 1973, the Public Service Board drew the attention of all departments to the Committee's comments and a year later followed up with a survey seeking information on the measures taken to ensure the effective performance of the internal audit function. Nevertheless, criticism by Auditors-General has continued.

Efficiency Review of Internal Audit: 1977

3.7 In the period following the 1968 Public Service Board review, attention drawn to short comings in internal audit arrangements by the Auditor-General, the Committee and bodies such as the Institute of Internal Auditors and the Royal Commission on Australian Government Administration, culminated in the commissioning of a service wide, joint management review of internal audit procedures by the Public Service Board in 1977. This review involved a study of internal audit practices in seven large departments and eight major companies and public authorities in Australia, and included an evaluation of practices adopted overseas. The results were conveyed to the Board in late 1977 and, after circulation of the report to all permanent heads and discussions with the Auditor General, a series of recommendations were put forward in April 1979.** Aspects of this report are discussed in Chapter 6 of this paper.

* Joint Committee of Public Accounts One Hundred and Thirty-ninth Report: Internal Audit. Parliamentary Paper No. 181/1972, Canberra, 1973.

** Public Service Board Circular No. 1979/8, 30 April 1979. See Appendix B.

CHAPTER 4

THE CHARACTERISTICS OF MODERN INTERNAL AUDIT

4.1 Internal auditing has been considerably transformed in recent years. The historic and popular image of the auditor as an accountant armed with a green pen, meticulously checking through thousands of ledger entries searching for errors with which to confront luckless individuals whose books fail to balance, is no longer relevant.

4.2 Modern internal audit is an essential component of the overall internal control procedures of an organisation. Internal control extends to all areas of an organisations operations and has been defined by the American Institute of Certified Public Accountants thus;

Internal control comprises the plan of organization and all of the co-ordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. This definition possibly is broader than the meaning sometimes attributed to the term. It recognises that a "system" of internal control extends beyond those matters which relate directly to the functions of the accounting and financial departments.

4.3 This broad definition may be conveniently summarised by stating that internal control is the means by which management obtains the information, protection, and control for successful operation of a business enterprise. It is the task of Internal Audit to monitor the effectiveness of controls for management keeping it informed as to the reliability and appropriateness of the systems and procedures it employs and the efficiency of its practices, not only for financial matters, but all operations within an organisation.

Role

4.4 Traditionally, the role of internal audit has been seen as providing a wide ranging and useful service to management. The Institute of Internal Auditors defined in its statement of responsibilities on internal auditing in 1971 as:

"...an independent appraisal activity within an organisation for the review of accounting, financial and other operations as a basis for service to management. It is a managerial control which functions by measuring and evaluating the effectiveness of other controls."

* Statement of Responsibilities of the Internal Auditor. Originally issued by the Institute of Internal Auditors Inc. in 1947 and revised in 1957 and 1971.

4.5 The contemporary view, particularly in North America, is that rather than providing a service to management alone, the role of internal audit is to provide a service to the organisation of which management is an integral part. Internal auditing is seen as:

"...an independent appraisal function established within an organisation for the purpose of reviewing the organisation by examining and evaluating activities and communicating audit results. It may be concerned with any activity of the organisation."*

Independence

4.6 It has long been recognised that to be fully effective, internal auditors must be independent. They must be unbiased, objective, and free to carry out their audit function without influence or interference from line management. To do this, they need to have the support of senior management and the co-operation of the elements being audited. Accordingly, the director of internal audit should be responsible to a position in the organisation with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports and effective action on audit recommendations. His responsibilities should be clearly set out in a mandate which visibly demonstrates this support for him. He should also be able to communicate directly with the Permanent Head/Deputy, although in the normal course of an audit his contact would be at the appropriate management level.

4.7 To preserve objectivity and to ensure tasks are conducted without bias, internal auditors should not assume operational responsibilities. This avoids them being required to audit operations which they may have been responsible for implementing.

Proficiency

4.8 To carry out audit tasks properly, internal audit staff must collectively possess the necessary skills and experience. To ensure this, it is most important that appropriate employment procedures and criteria are adopted to obtain suitable staff. All personnel must be involved in training and development programs. Also, audit assignments must be properly supervised to ensure that the prescribed standards of performance are met.

* Exposure Draft of the Standards for the Professional Practice of Internal Auditing. The Internal Auditor, December 1979.

Scope

4.9 The full scope of internal audit encompasses the measurement and evaluation of controls and performance. Such an audit includes an evaluation of the integrity of information systems; compliance with policies, plans, procedures, laws and regulations; economic and efficient use of resources; safeguarding of assets; the adequacy of operating objectives and goals and the effectiveness of results.

4.10 The audit standards of the General Accounting Office of the United States (GAO) distinguish three elements of an audit:

a. Financial and compliance:

to determine whether:

- financial operations are properly conducted;
- the financial reports of an audited entity are presented fairly; and
- the entity has complied with applicable laws and regulations.

b. Economy and efficiency:

to determine whether the entity is managing or utilising its resources in an economical and efficient manner and whether the causes of any inefficiencies or uneconomic practices, including inadequacies in management information systems, administrative procedures, or organisational structure, are identified.

c. Program results:

to determine whether the desired results or benefits are being achieved, whether the objectives established by the legislature or other authorising body are being met, and whether the entity has considered alternatives which might yield desired results at a lower cost.

4.11 Ideally, internal audits should include all of these elements but the scope should always be broad enough to satisfy the needs of potential users of audit reports. The internal auditor should not be prevented from including any of these elements in an audit.

4.12 Overseas, particularly in the United States, Canada and Sweden, internal audit is being encouraged to expand its scope to include all the elements of a full, comprehensive audit.

Approach

4.13 Until quite recently, the approach to internal audit has often been seen as checking large numbers of transactions to verify correctness and propriety and to locate and report errors. Such a limited approach is both inefficient and ineffective.

4.14 Modern internal audit involves a systems-based approach which requires the auditor to gain a complete understanding of the financial, administrative, management or other control systems being operated.

4.15 The system analysis and control evaluation phases of an audit assist the auditor in formulating an hypothesis on how much reliance he is able to place on the system and its controls. If the auditor believes sufficient control mechanisms exist, he conducts compliance testing for consistency and effectiveness, to ascertain whether controls appear to be both sufficient and adequate. If so, he can reduce the detailed testing work required in his substantive evaluation. If not, or if his earlier phase suggested insufficient controls exist, he cannot reduce detailed testing work, since he has no basis for placing reliance on the system and its controls. Hence, the full process of an audit involves detailed analysis to formulate an hypothesis, with the extent of subsequent substantive testing procedures consequent on the results of control testing.

4.16 But it is not sufficient for an auditor to gain an understanding of control systems alone, he has to have a clear understanding of management objectives, goals, and targets followed by identification of the structure and systems implemented by management to achieve these objectives. Through appraisal the auditor then sets about determining whether or not those structures and systems achieve the objectives, with a framework of cost-effectiveness and adequate accounting and operational controls.

Audit Committees

4.17 In the private sector, audit committees are designed to provide an assurance to the Board of Directors and to investors, over and above the formal reports of external auditors, that the management is maintaining adequate financial and other controls. They aim to ensure that internal and external financial reporting is appropriate and that internal and external audit procedures are efficiently carried out.

4.18 Such audit committees are, in effect, sub-committees of the Board of Directors, but to ensure objectivity, usually comprise at least a majority of external, non-executive directors, independent from management, who can offer critical, creative and independent views.

4.19 Although audit committees are not prevalent in the government sector, they can perform an equivalent role by:

- overseeing the organisation's auditing arrangements, and endorsing the internal audit program;
- considering audit reports and findings and ensuring that any corrective or preventative action required is implemented;
- reviewing the adequacy of internal controls and accounting methods;
- reviewing the quality of internal audit operations; and
- maintaining effective liaison with external audit authorities such as the Auditor-General.

4.20 Objectivity may be enhanced by the appointment of external members to the audit committee from other departments or authorities or possibly from outside the Public Service.

4.21 The Committee believes that audit committees should be adopted generally by departments and authorities with an internal audit function. Apart from encouraging adequate internal audit arrangements, improving standards of internal audit performance and liaising with the Auditor-General's Office, these committees provide an excellent means of securing the interest of permanent heads and mobilising support by management. An audit committee would:

- give senior officers responsible for auditable areas of the organisation the opportunity to participate in the development of the internal audit program;
- allow those officers to gain a better understanding of how internal audit will assist their management;
- remove the notion of internal audit 'operating behind their backs' and the risk of consequent lack of co-operation; and,
- tend to make the involvement of the head of the organisation with internal audit more meaningful.

4.22 The chief internal auditor is to remain responsible directly to the head or deputy head of the organisation, and have direct access to him as necessary.

Recommendation:

All departments and authorities should establish an Audit Committee as a high priority. Such a Committee should be appointed by the head of the organisation and chaired by him or his deputy. It should also comprise three or four other members chosen from divisional heads whose operations are subject to audit and who have the experience and approach which will enable the Committee to work effectively.

Relationship with External Audit

4.23 The objectives and responsibilities of the external auditor are quite different to those of the internal auditor. The external auditor has statutory responsibilities to fulfil on behalf of the 'shareholders' whereas the internal auditor serves and is responsible to the organisation of which he is a part.

4.24 Although their objectives differ, the audit coverage and work of external and internal auditors are often similar and scarce auditing resources can be conserved if internal and external audits complement, rather than duplicate one another. In such circumstances, the current practice is for external auditors to place greater reliance on internal audit work provided that it can be shown that such work is carried out in an independent and professional manner. The external auditor evaluates the internal auditor's independence, professionalism and reporting, as well as the audit coverage. Providing they are satisfactory, the need for the external auditor to embark on more than limited testing of internal audit procedures and a sampling of transactions, becomes unnecessary.

4.25 Under Section 45B of the Audit Act, the Auditor General may, at his discretion, dispose with all or any part of the detailed audit of any accounts. In his Report for 1969-70, the Auditor General stated:

"The extent to which statutory discretion is exercised by my Office to dispense with all or part of a detailed audit is influenced in each case by the effectiveness of the system of internal control of which internal audit is an integral part."

4.26 Accordingly, it has long been the policy of the Auditor-General's Office to foster effective internal audit in Commonwealth departments and authorities.

* Report of the Auditor-General, 1969-70. Paragraph 310, page 372.

CHAPTER 5

ADP AUDITING

General

5.1 The objectives of an ADP audit and the standards which apply to its performance are no different to those for a conventional audit. ADP systems are sophisticated and the auditor must be specially trained and highly skilled to be able to evaluate and test them. The auditor must be able to devise appropriate techniques for testing the effective operation of the systems in practice. Generally, this will involve either specially written programs or generalised software packages.

5.2 The Committee has been undertaking a comprehensive inquiry into ADP requirements in the Public Service.* It would appear that the ADP audit capability is small, considering that there are more than 80 medium-scale and large-scale computers in operation in departments alone. The present situation could become worse over the next few years because the demand for ADP audit skills is likely to grow more rapidly than such skills can be acquired in the Service, either by recruitment or training.

5.3 The shortage of ADP auditors, in Australia and overseas generally, represents a major difficulty facing ADP auditing development. With its increasing penetration into most areas of administration, all internal auditors should attain some degree of proficiency and familiarity with ADP practice. To this end, two training programs covering ADP control and audit procedures based on material prepared by the Canadian Institute of Chartered Accountants, have been jointly developed by the Public Service Board and the Auditor-General's Office. These training programs have already been used to train staff of the Auditor-General's Office and are now providing basic training for those internal auditors who will form the nucleus of departmental

* Joint Committee of Public Accounts 174th Report: Use of ADP in the Commonwealth Public Sector - Acquisition of Systems in the Public Service; Canberra 1978, Parliamentary Paper No. 341/1978

* Joint Committee of Public Accounts 175th Report: Use of ADP in the Commonwealth Public Sector - The MANDATA Project; Canberra 1979, Parliamentary Paper No. 218/1979.

* Joint Committee of Public Accounts, 182nd Report: Pharmaceutical Benefits - Chemists' Remuneration; Canberra 1980, Parliamentary Paper No. 323/1980

audit teams examining ADP systems and services.* It is expected that they will provide basic training for 200 personnel in the first year. The Public Accounts Committee supports this approach.

5.4 It will not be sufficient to give all internal auditors some degree of proficiency in ADP auditing and a reasonable familiarity with ADP practice. That is but a minimum first step. Accordingly, these programs will need to be supplemented for auditing of advanced ADP systems. Various options including the presentation of in-service courses and the availability of suitable courses by external bodies and tertiary institutions are currently being examined by the Joint Implementation Committee.**

5.5 There is also an urgent requirement to develop or recruit skilled officers with the advanced ADP knowledge necessary for the examination of larger and more complex systems. To meet the shortage of such people, departments have been advised to explore the possibilities of using properly supervised Computer Systems Officers on internal audit teams, departmental ADP officers on a consultative basis, or the use of external consultants.** The Public Accounts Committee believes that it will also be necessary to 'laterally' recruit suitably skilled persons directly from areas outside the Public Service.

Recommendation:

Departments and authorities should give high priority to examining the various options proposed by the Public Service Board to alleviate the immediate problem of the present lack of internal auditors with ADP skills.

5.6 The wide range of ADP skills needed to permit effective ADP auditing will necessitate a degree of specialisation which may be difficult to develop and retain in individual departments, even large ones. To obtain the most effective results, these highly skilled specialists will most likely have to be brought together in a pool from which they can provide support to internal auditors in departments and authorities with more basic ADP auditing capabilities. This pool may best be located with the Internal Audit Consultancy Bureau discussed in Chapter 8.

* Public Service Board Memorandum 79/3667, 21 April 1980. See Appendix E.

** Public Service Board Circular No. 1980/7, 1 April 1980. See Appendix D.

5.7 ADP auditing should be involved in the whole range of ADP activities, from the acquisition and inventory of hardware and software, through systems analysis, design, programming and operations, to the overall management of facilities and application of systems. Ideally, the scope of such ADP audits should be extended beyond the examination of systems controls to reviews of efficiency and effectiveness. An additional benefit of ADP audits would be that internal auditors could help bridge the communications gap that exists in many organisations, between senior managers and their ADP systems people.

5.8 The formulation of internal audit standards and the development of methodologies applicable to ADP auditing is presently being pursued by the Joint Implementation Committee. ADP Control Guidelines, a pre-requisite to the development of ADP auditing standards, have been issued in draft form.

Recommendation:

The Public Service Board should continue to give high priority to the development of general standards for ADP auditing in the Australian Public Service.

5.9 An issue raised in the Systems Auditability and Control (SAC) study (see paragraph 5.14) was the need to involve internal audit in the system development process to ensure that effective procedures for testing controls and verifying information are built into the ADP system at the design stage.

5.10 This requirement is becoming increasingly important, particularly with the move to on-line systems. Internal Auditors must participate in the system development process to ensure that appropriate audit and control features are designed into new computer based systems. An evaluation of the adequacy of controls after a system is installed determines weaknesses too late in the development process. The cost and time for modifying the system after installation can cause operational delays and may be used to argue against the inclusion of desired controls.

5.11 It may well be that the key to effective internal auditing of complex on-line ADP systems is for highly skilled specialists to preferably develop audit routines at the system design stage, which can be used by internal auditors with more basic ADP skills. These routines may be in-built at design stage or be free standing, the major consideration of the latter being compatibility with the system being designed. Where expertise is unavailable to develop self-made audit routines reference should be made to the suitability of commercially available audit packages. The needs of external auditors should not be overlooked at design stage.

5.12 The Committee believes there are few internal audit personnel in the Public Service who possess the necessary specialised knowledge and skill to adequately specify verification requirements, and ensure the effectiveness of controls in complex ADP systems. This situation is likely to continue for a number of years to come. The Committee also expects that the Auditor-General would wish to take a close interest in the development of such verification systems and procedures but realise that too close an involvement may be prejudicial to his independence and objectivity in subsequent audits. An Internal Audit Consultancy Bureau could provide the medium term answer to both these problems.

5.13 The Committee believes that there is an urgent need for all departments and authorities presently developing ADP systems to commence building in effective management controls. This need is so pressing that, as an immediate stop-gap measure, all departments and authorities developing ADP systems should immediately seek the advice of the Auditor-General's Office as to the acceptability of such systems while they are still in the development or pre-implementation stage.

Recommendation

All departments and authorities presently developing ADP systems should immediately seek the advice of the Auditor-General's Office as to the auditability of such systems before they are implemented.

Systems Auditability and Control (SAC) Study

5.14 The problems associated with auditing ADP systems are not confined to Australia. In 1975, the Institute of Internal Auditors in the U.S.A., which had been concerned with the problems of ADP system auditability and control for some time, commenced a study to compile the best known systems control and audit practices then currently in use. The study was based on a combination of field interviews and mail surveys of business and government organisations in the U.S.A., Canada, Europe and Japan. The results of the study were released in three reports.*

5.15 The SAC study showed that in general:

- although data-processing systems and internal audit techniques had evolved, there had been little co-ordination;

* Systems Auditability and Control Study: Executive Report - A high level overview of the study and the principal findings and conclusion;
Data Processing Audit Practices Report - ADP Audit methodology, tools and techniques; and
Data Processing Control Practices Report - Data processing control methods and practices.

- from the ADP management viewpoint, the internal auditor's mandate and scope were not clear;
- internal auditors had only limited experience, knowledge or tools to cope with the ADP environment; and
- "top" management had not given adequate attention to the potential repercussions of inadequate ADP audit and control procedures.

5.16 In addition, a number of specific conclusions were drawn including:

- internal auditors must participate in the system development process to ensure that appropriate audit and control features are designed into new computer-based information systems, and verification of such controls must occur both before and after installation of those systems;
- there is an important need for ADP audit staff development as few internal audit staff have sufficient ADP knowledge to audit effectively in the ADP environment; and
- new ADP audit tools and techniques are needed as few of the present ones are adequate to the needs of ADP auditors.

5.17 One outcome of the study was the identification of a series of management actions designed to ensure that computer-based information systems would be developed with adequate controls, be auditable and operate in a reliable manner. These are summarised below:

- Ensure that all management realise the importance of internal audit in data processing;
- Issue a clearly defined internal audit mandate that specifies the responsibility of internal audit as it relates to all phases of data processing;
- Clearly define the working relationship among users, internal auditors, and data processing for the development and maintenance of computer-based information systems;
- Encourage the development of new data processing control techniques and internal audit approaches to ensure the reliability of computer-based information systems;
- Require the development of control guidelines;
- Ensure that internal audit participates in the system development process;

- Ensure adequate pre-installation testing of computer-based information systems;
- Ensure that periodic post-installation verification takes place;
- When auditing computer-based information systems, computer service center operations, and system development, ensure that there are reviews of controls, tests to verify the controls, and tests to verify the data;
- Encourage data processing and internal audit to work together to achieve improved system audit and control capabilities;
- Ensure that training programs are developed to provide the needed skills to audit data processing, and also to reflect the internal audit discipline;
- Upgrade the quality and quantity of ADP auditors. As a starting point, use individuals from the internal audit staff with a specific interest in data processing;
- Add data processing personnel to the ADP audit staff for specialised data processing assistance;
- Ensure that data processing, internal audit, and external audit work together to develop required ADP audit tools and techniques; and
- Ensure that assessments of the internal audit function are performed jointly by internal audit and data processing.

5.18 The SAC study is a relevant and important source of information in respect to ADP auditing. It deals with senior management participation, the role of internal audit in ADP, co-operation between internal audit and data processing, training of ADP audit staff, effective and efficient use of ADP audit techniques, audit involvement in the development of new systems and the development of new audit practices. The three SAC reports discuss these matters in some detail and the Public Accounts Committee believes they are an important reference work for those engaged in ADP audit.

Recommendation:

Departments and authorities should closely study the Systems Auditability and Control reports prior to the introduction or upgrading of their ADP audit capability.

CHAPTER 6

EFFICIENCY REVIEW OF INTERNAL AUDIT: 1977

Aims and Form of the Review

6.1 In November 1976 the Public Service Board commissioned Coopers and Lybrand Services, Management Consultants, to undertake a review of the internal audit function in the Australian Public Service. In summary, the terms of reference given to the consultants were to:

- establish the required role of internal audit as a service to departmental management;
- assess the effectiveness of existing internal audit programs and practices;
- recommend modifications to current practices and methodology needed to make internal audit effective in meeting the defined role;
- suggest model working arrangements for the organisation of internal audit in the managerial hierarchy.

6.2 The review was carried out by a team comprising representatives from the Auditor-General's Office, the Public Service Board and Coopers & Lybrand Services. The field work took four months and was conducted in three main phases:

- a survey of internal audit practices in seven nominated departments within the Public Service;
- an examination of audit practice in eight organisations outside the Public Service; and
- an analysis of current overseas internal audit practice with respect to public administration.

6.3 During the course of the review, detailed discussions were held with the Auditor-General on the nature and possible future role and scope of internal audit, and its relationship to external audit. Submissions were received from the Institute of Internal Auditors and the Administrative and Clerical Officers Association.

Review Findings

6.4 Coopers & Lybrand Services presented its report in September 1977,* and recommended changes to the internal audit function throughout the Australian Public Service.

6.5 The report was highly critical of the internal audit function in the Public Service, and in a letter of presentation to the Board, the Consultants' findings were outlined:

"The internal audit function in the Australian Public Service employs in total more than 600 staff with a total salary cost, excluding on-costs, travel and other expenses, in excess of \$7 million per annum. The total cost of the function would be considerably higher. In terms of value for money, we were unable to identify sufficient tangible benefits arising from the present internal audit effort which would justify staffing and expenditure of this magnitude."

6.6 The Consultants concluded that the internal audit function in the Public Service was directed almost wholly to the 'financial and compliance' element of internal audit.

".... management generally regard the satisfactory performance of a financial and compliance auditing role by internal audit as important to provide assurance that accounting procedures and regulations are being followed, particularly in the financial area, where the personal responsibilities of accountable officers under the Audit Act are considerable.

The staff of internal audit understand their role as being to ensure compliance with procedures and regulations and only in isolated instances is any broader role envisaged."

6.7 They observed that service-wide internal auditing standards had not been developed; modern auditing techniques, in general, were not used; a transaction based audit methodology had been adopted in the Public Service; and there had been few serious attempts to analyse the effectiveness of underlying systems.

* Efficiency Review of Internal Audit Report, Coopers and Lybrand Services September, 1977. A summary of the review recommendations is attached at Appendix A.

6.8 They also observed that the standard of audit management was poor, evidenced by low staff morale, experience and skills; a lack of training; inadequate planning, supervision and control; and poor direction. Some departments also had considerable arrears of audit work and few had developed satisfactory reporting systems to management.

6.9 The Consultants found there was little expertise other than of a basic accounting nature, and that there had been a failure generally to audit ADP, costing, and management information systems. Development of technical expertise, audit techniques, and staff motivation had not been helped by the fragmented organisation of internal audit services among departments. Of the 119 audit groups within the Public Service, 85 contained four or fewer staff and only 14 had a staff greater than 10. This situation exacerbated problems of co-ordination, training and standards.

Recommendations Arising from the Review

6.10 The Consultants put forward some 45 separate recommendations* covering the standards, role, scope, approach, methodology, management and organisation of internal audit.

6.11 They recommended that auditing standards should be defined for the Public Service as a whole and that the general role of internal audit should be:

"....to provide management with added assurance as to the reliability of financial and other management information, the protection and efficient utilisation of resources and effectiveness of the department's product."

6.12 A phased expansion of the scope of internal audit was proposed, from the existing basic compliance auditing to compliance and efficiency auditing of financial systems, then all systems and ultimately to include effectiveness reviews.

6.13 It was recommended that a systems-based approach should be adopted and that this approach should be formalised, well documented and standardised throughout the Public Service. The need for the development of a standard approach and methodology for auditing ADP systems was also stressed.

6.14 To strengthen internal audit management the Consultants recommended that:

- senior positions should be upgraded, particularly the position of the chief internal auditor;

* See Appendix A. Summary of Review Recommendations.

- only persons of proven management ability and with experience in modern audit approach and methods should be appointed as chief internal auditor;
- staff should be qualified or seeking qualifications, not necessarily in accountancy;
- experienced auditors should be recruited from outside the Public Service;
- training courses dealing with audit approach and methods, including those for ADP and operational auditing, should be developed and maintained;
- suitable career opportunities should be expanded by encouraging promotion or transfer between internal audit and other areas of the department; and,
- consideration should be given to merging or co-ordinating internal audit and other management review and improvement functions, where this can be done without weakening the independence of internal auditing.

6.15 The Consultants felt that the audit organisation within departments should be centralised, headed by a chief internal auditor reporting to the permanent head or his deputy. Internal audit staff, including regional staff, should report to the chief internal auditor, not to local management. Each department should establish an audit committee, chaired by the permanent head or his deputy and including the chief internal auditor and divisional heads whose operations are subject to audit.

6.16 The formation of an Inter-Departmental Audit Committee was proposed, supported by a permanent secretariat known as the Australian Internal Audit Bureau. It was envisaged that the Inter-Departmental Audit Committee would be responsible for deciding policy regarding the development of internal audit in the Public Service, approving standards and co-ordinating resources between departments.

6.17 The Australian Internal Audit Bureau would comprise experienced auditors on secondment from field work. It would be independent of the Auditor-General's Office but attached to a "suitable department" and given the functions of:

- developing standards for internal audit;

- developing and conducting training courses for all internal auditors;
- researching and developing standard approaches and techniques for internal audit; and
- providing field audit services to departments not large enough to support a viable internal audit group, or with regional offices in remote locations which cannot support adequate internal audit groups, and where there is a need for specialist expertise, such as ADP auditing.

6.18 The Consultants viewed the role of the Internal Audit Bureau as being central to the development and implementation of upgraded audit approaches and methodologies, systems-based auditing, auditing of departmental operations and efficiency audits.

CHAPTER 7
RECENT DEVELOPMENTS

The Public Service Board Response to the 1977 Review

7.1 The first official response to the results of the 1977 Review and the Consultants' recommendations was in May 1979 when the Public Service Board released for general distribution a circular*

"designed to encourage departments and authorities to improve the efficiency of their internal audit systems."

recommending a plan of action based on its consideration of the report.

Recommendations Implemented by the Board

7.2 In the covering press statement, the Chairmen of the Public Service Board, Mr. R.W. Cole, outlined plans to improve the efficiency of internal audit arrangements and announced the establishment of a Joint Implementation Committee chaired by Mr. F.C. Pryor, O.B.E., a consultant to the Board on internal auditing, with representatives from the Board, the Auditor-General's Office and the Department of Finance as members. The purpose of the Joint Implementation Committee was to encourage and facilitate follow-up action endorsed by the Board, in which it was to be assisted by an Inter-Departmental Advisory Committee composed of a number of nominated chief internal auditors. The establishment of these committees represented an alternative solution to creating the 'Australian Internal Audit Bureau' recommended by the Consultants. The Board undertook to provide any supporting staff required by the two committees.

7.3 The general approach recommended by the Public Service Board included:

- " . an education program for all internal auditors;
- . the application of higher auditing standards which the Board has developed with the assistance of the Auditor-General and other authorities;

* Public Service Board Circular No. 1979/8, 30 April, 1979. See Appendix B.

- the development and application of more sophisticated auditing techniques, including in particular the wider use of an audit approach based on evaluation of control systems rather than examination of individual transactions;

- where appropriate, review of organisation and classification arrangements in individual departments and authorities."

7.4 All permanent heads were requested to co-operate by:

- adopting the proposed interim internal auditing standards;
- adopting systems based auditing;
- preparing an internal audit charter;
- strengthening compliance auditing of financial systems;
- extending the scope of internal audit to include non-financial systems and addressing efficiency and effectiveness;
- supporting an education program to be mounted by the Public Service Board; and
- reviewing their internal audit organisations.

7.5 However, it was recognised that permanent heads may have differing views as to:

"the role which should be played by internal audit vis-a-vis other review activities within their departments".

7.6 To meet the immediate needs of departments, a 'Statement of Interim Internal Audit Standards' was prepared by the Public Service Board in consultation with the Auditor-General's Office and the Department of Finance. These Interim Standards were adapted from auditing standards promulgated by the Institute of Internal Auditors, the Australian Society of Accountants, the Institute of Chartered Accountants and the United States General Accounting Office.

7.7 In producing the Interim Standards, the Board emphasised that the extent to which they should be implemented was dependent upon the nature, size and purpose of the department and should be determined by the individual permanent head and clearly set out in the department's internal audit charter.

7.8 Since May 1979, much of the Board's activity has been directed to developing and presenting an education program for management and internal audit staff. The program includes* familiarisation seminars for senior management and managers of auditable areas of departments to gain their interest and support for the internal audit function; and the preparation of training packages and courses for internal audit staff to introduce them to systems-based auditing and raise professional standards. The Auditor-General's Office has been working with the Board in developing these courses and seminars and has also produced a comprehensive 'General Audit Manual', primarily for the use of its own officers, but relevant to the methods, techniques and standards necessary in the internal audit field.

7.9 In June and July 1979, a series of half day seminars for senior managers was conducted in Canberra and attended by over 100 Second Division officers. In May this year, a program of half day seminars for other levels of management commenced and is presently continuing. The first Systems Based Auditing training course was presented in June 1979 and since then a total of 35 courses, attended by some 700 officers, have been conducted in all States and the ACT. While further courses are envisaged, the main emphasis will be on departments themselves providing this training. The Joint Implementation Group is also conducting follow-up seminars with internal auditors in the capital cities to appraise results and discuss developments.

Progress with Other Recommendations

7.10 The Public Service Board has not been convinced of the need to establish an Internal Audit Bureau as recommended in the review report. The Board has pointed out that comments received in respect to the report generally did not favour the concept of an Internal Audit Bureau, the predominant criticism being that it would be 'another external audit', cutting across the responsibilities of permanent heads and not in keeping with the view of internal audit as a service to management.

7.11 The full scope of internal audit in government as defined in the Interim Standards** promulgated by the Board in May 1979, encompasses the first two elements of a total audit, namely 'financial and compliance' and 'economy and efficiency'; but not the third, 'program results'. Ideally, the scope of internal audit should ultimately embrace this third element.

* Public Service Board Memorandum 79/2120, 1 June 1979. See Appendix C.

** General Standards GSI; Attachment A to Public Service Board Circular 1979/8, 30 April 1979. See Appendix B.

7.12 The concept of forming internal audit committees has not been totally accepted although some departments have already established such committees. However, a recently prepared discussion paper on this subject* has recommended that strong audit committees, chaired by the head of the organisation or his deputy, should be established within all departments and authorities capable of supporting a viable internal audit function.

7.13 Although the education program being conducted by the Public Service Board for senior managers and internal audit staff is aimed at improving the proficiency and standards of management, the prime responsibility for strengthening management rests with departments and authorities themselves, by upgrading their internal audit staff and organisational structures. The Public Service Board has indicated that it stands ready to consider whether any changes in staff classifications and establishment are necessary, although at this stage it does not propose to promulgate a new set of position classification standards.

7.14 To date, there has been a measure of support given to the Public Service Board's improvement program with internal audit charters and broad audit plans being developed by some departments and authorities** and the Board has claimed:

"... a significant improvement in internal audit in many organisations".***

7.15 By the end of August 1980, organisational changes affecting internal audit positions in eleven departments had been agreed by the Board and further proposals were being considered.*** The approach departments have been encouraged to take with their organisation proposals is two-tiered; to establish the appropriate classification level for the chief internal auditor and then develop the full organisation. Organisation proposals so far have generally resulted in only a small increase in the classification level of the chief internal auditor; from Class 8/9 to Class 10/11.****

* Discussion Paper on Audit Committees, March 1980 prepared by a working party of the Interdepartmental Advisory Committee on Internal Audit and circulated to all permanent heads under cover of a Public Service Board memorandum of 18 March 1980.

** Report of the Auditor-General, 1979-80 : Internal Audit, pp 156-163

*** Public Service Board Annual Report, 1980 : Internal Audit.

**** See Appendix F : Summary of Chief Internal Auditor Classifications.

CHAPTER 8

FUTURE DIRECTIONS

Career Structures and Development

8.1 If the Consultants' estimate of 600 internal audit staff in the Public Service is correct, then 120-150 internal auditors will need to be recruited or trained each year, merely to maintain the status quo.* Add to this the demands imposed by expanded training programs, new standards and the need for specialist skills and the challenge facing the Board, and the the Public Service becomes apparent.

8.2 It is difficult to see how enough skilled staff can be obtained without recourse to lateral recruitment into the Public Service. This is particularly so for the crucial position of chief internal auditor as officers with the necessary skills and experience are unlikely to be readily found. But whether staff are to be recruited externally or developed from within the Service, conditions will need to be offered to them which are commensurate with their skills and competitive with those offered elsewhere.

8.3 The Public Accounts Committee is disappointed that only ten of the 28 departments and numerous authorities have been able to finalise new classifications for their chief internal auditors. It is not convinced that a classification level of Class 10/11 for the chief internal auditor will attract the calibre of officer necessary to head the new internal audit functions.

8.4 The present classifications for senior internal audit positions, particularly that of the chief internal auditor, must be further upgraded to attract officers with the necessary qualifications, skills, experience and competence. It is also essential to give the chief internal auditor sufficient status within the organisation. Unless this position is at least a Level 1 in the Second Division, the Committee believes that his audit reports and recommendations could be ineffectual. It is recognised that the size and viability of the internal audit function are important considerations, but heads of departments and authorities who appreciate the scope and potential of internal audit and the calibre of officer required for chief internal auditor, should be able to justify such a level.

* Based on Separations, Transfers and a proportion of Promotions of Permanent Third Division Officers - Public Service Board Statistical Year Books, 1978 and 1979.

Recommendation:

Heads of departments and authorities should decide upon and pursue with the Public Service Board the appropriate classification level for the position of chief internal auditor, preferably within the Second Division, which will give him sufficient status to be effective and which will attract officers of the calibre required for this key post.

8.5 The Committee realises that upgrading the classification level of the chief internal auditor will not in its own right guarantee suitable appointments to this key position. Close attention must be given to selecting only skilled, experienced and capable personnel. There is also clearly a need for more education and training to increase the supply of skilled auditors. Departments and authorities must develop their own ongoing education and training programs and steps must be taken to interest tertiary institutions in providing suitable auditing courses, particularly ones dealing with ADP auditing. The Joint Implementation Committee is presently pursuing these matters and departments and authorities should provide all possible support.

Recommendation:

Departments and authorities should develop and implement their own ongoing internal audit training and education programs. They should also support the Public Service Board in its efforts to encourage tertiary institutions and other outside organisations to develop appropriate formal courses of study in auditing.

8.6 The Committee understands that several tertiary institutions will offer internal auditing subjects or courses in 1981 and that the Institute of Internal Auditors plans to offer three courses (Internal Auditing Practice, Operational Auditing and Information Systems Auditing) in late 1980. EDP audit courses are also arranged by the Institute of Chartered Accountants in Australia.

8.7 Staff development programs which allow for the rotation of officers between internal audit and other areas within a organisation give internal audit staff the opportunity to gain a broader experience of other operations and activities, and provide a means of introducing fresh management approaches to internal audit. They also engender a better understanding of the internal audit function in other areas of the organisation. The chief internal auditor should also be eligible for rotation. A period of employment at an appropriate level in the internal audit area should be regarded as highly desirable, if not essential, for an officer's

development prior to advancement to higher management. However, care must be taken to ensure that staff rotation programs do not unduly affect career opportunities within the internal audit function, and that rotations are of sufficient duration to allow a meaningful transfer of knowledge and experience. There would also be advantages in similar arrangements for exchange of officers from other organisations.

Recommendation:

Departmental staff development schemes should include a program of staff rotation between the internal audit function and other areas of the department and exchange of Internal Audit staff between departments should be pursued. Officers being groomed for higher management positions should spend a period at an appropriate level in the internal audit function as part of their overall development.

Internal Audit and Other Management Advisory Services

8.8 Consideration needs to be given to bringing the internal audit function more closely into association with other management advisory services such as Organisation and Methods, Management Review, Industrial Engineering and Value Analysis. As well as providing the opportunity for officers to gain experience in methods of improving efficiency and effectiveness and to observe the problems encountered in departmental operations, it would offer wider career opportunities for internal auditors in other areas of management. However, the internal auditor's responsibility is one of appraisal, review and the sponsoring of constructive recommendations for improvement. It is not his responsibility nor should he be put into the position of having to initiate and implement such recommendations.

Recommendation:

Departments and authorities should examine the feasibility of bringing the internal audit function into closer association with other management improvement functions within the organisation recognising however, the necessity to preserve the independence and objectivity of internal audit.

Organisational Structure

8.9 The Committee believes that generally, the organisational structure most suitable for the internal audit function is a centralised one, independent from normal line management where all internal audit staff including those in regional offices, operate under the central direction of, and report to, the chief internal auditor.

Although regional internal audit staff should be responsive to the needs of local management, it is preferable for them to do so in the context of an overall internal audit program determined by the chief internal auditor. A centralised structure also provides better career opportunities and a greater degree of flexibility in the utilisation of staff.

8.10 The Committee recognises that some departments and authorities are too small or too fragmented to support an internal audit function. In such cases, other arrangements for the provision of an internal audit service will need to be made. Some of the options which should be considered are:

- audit support provided by an Internal Audit Consultancy Bureau;
- audit support provided by another department or authority under an 'umbrella' arrangement; or
- private consultancy arrangements with an outside contractor.

Recommendation:

Departments and authorities should review the structure of their internal audit function to eliminate non-viable units, and consolidate it on a centralised basis. Departments or authorities which cannot support an internal audit function should arrange for internal audit support to be provided by an Internal Audit Consultancy Bureau, another department or authority, an outside consultancy service, or by other appropriate means.

Internal Audit Consultancy Bureau

8.11 The establishment of an Internal Audit Consultancy Bureau could provide a viable medium-term solution for the need to rationalise the use of scarce personnel with the advanced and specialised ADP skills necessary for complex ADP systems and installations. The Bureau could also be used to provide an internal auditing service for those areas of the Public Service where existing internal audit resources are small or fragmented. By including trainees under supervision in audit teams, this service could fulfil a training role. The Bureau could maintain a research capability to introduce improvements in audit techniques in line with world developments and keep under review the state of internal audit throughout the Public Service.

8.12 The Committee is aware of the adverse reactions to the Consultant's proposal for an Internal Audit Bureau. The Committee also recognises that an Internal Audit Consultancy Bureau would fail to meet its objectives unless it had the support of departments and authorities. However, the Bureau envisaged by the Committee would not be just another form of external auditing. It would be a small organisation; a repository for the highly specialised auditing skills and techniques which could not be supportable in individual departments and authorities for some years, or which may not even be attracted to the Public Service without the remuneration and work environment that a Bureau could provide. Such a Bureau could provide departments and authorities with specialised support at their request.

8.13 It has been argued, and would probably be the case, that a Bureau would compete for audit resources which are already scarce, particularly within the Public Service. However, as well as providing a greater chance of attracting auditors from outside the Service, the Bureau should lead to a more rational use of existing scarce auditing resources. Although heads of organisations may not, for some time, be able to rely on the Bureau to meet their individual priorities, they would probably be faced with that situation, through a scarcity of specialist personnel. In such circumstances, the Bureau may be in the best overall position to determine priorities.

8.14 On balance, the Committee favours the establishment of an Internal Audit Consultancy Bureau.

Recommendation:

The Public Service Board should review its previous decision and investigate the need to establish an Internal Audit Consultancy Bureau or similar organisation attached to the Board itself, or supported by the Board; independent from the Auditor-General's Office, but with links with it; which could:

- provide a pool of internal auditors highly skilled in the more specialised audit procedures and techniques, particularly in respect to operational auditing, ADP auditing and ultimately, effectiveness reviews; and who would be available to assist individual departments and authorities without the capacity to develop these resources themselves;

- help spread those specialist skills through the Public Service by staff rotation programs with other departments and authorities;
- participate in the design and implementation of controls in complex ADP systems and the development of general audit application programs;
- provide advice on the development of performance measures and standards;
- assist in the development of more advanced training programs;
- provide an internal audit service for those departments or authorities too small or too fragmented to maintain an internal audit function themselves; and
- maintain a small research capability to keep abreast of advances in audit techniques and keep under review the state of internal audit throughout the Public Service.

APPENDICES TO THE REPORT ON INTERNAL AUDIT IN THE

AUSTRALIAN PUBLIC SERVICE

APPENDIX

A	Efficiency Review of Internal Audit 1977 - Summary of Major Recommendations	41
B	Public Service Board Circular No. 1979/8, 30 April 1979	49
C	Public Service Board Memorandum 79/2120, 1 June 1979	63
D	Public Service Board Circular No. 1980/7, 1 April 1980	69
E	Public Service Board Memorandum 79/3667, 21 April 1980	75
F	Summary of Chief Internal Auditor Classifications, August 1980	89
G	Public Service Board Letter 23 December 1980	93
H	IDAC Paper No. 17 - Independence and Internal Audit in the APS	95
I	IDAC Paper No. 25 - Quality Assurance for Internal Audit	105
J	Supplement to IDAC Paper No. 25 Quality Assurance Checklist Questionnaires	123
K	Public Service Board Memorandum 80/9203, 23 December 1980	141
L	Bibliography	153

EFFICIENCY REVIEW OF INTERNAL AUDIT : 1977

SUMMARY OF MAJOR RECOMMENDATIONS MADE BY THE

CONSULTANTS - COOPERS & LYBRAND SERVICES

Generally Accepted Auditing Standards

1. Auditing standards should be defined for the APS with a view to generally upgrading the audit function.

Role

2. The general role of the internal audit function should enable it to provide management with added assurance as to the reliability of financial and other management information, the protection and efficient utilisation of resources and effectiveness of the department's product.

3. The internal audit role for each department should evolve from the present compliance role through to a comprehensive audit, covering the compliance and efficiency of all departmental operations, through the following principal phases:

Phase I - Compliance and efficiency of financial systems

Internal audit should fill the role of regularly appraising and evaluating financial and financially related systems to provide added assurance to management as to:

- a. financial reliability, protection of assets, compliance with regulations, statutes and other laid down procedures; and
- b. the efficiency of these systems and opportunities for improving cost effectiveness.

Phase II - Compliance and efficiency of all departmental operations

Management should be encouraged to extend the audit role to cover an evaluation of the functioning of the whole system of management controls over operations and resources to ascertain whether they are operating efficiently. The auditor should seek to identify inefficient and wasteful practices and opportunities for management to improve the efficiency of utilisation of departmental resources.

Phase III -

Ultimately, the internal audit role could be extended at the discretion of management to include a review of the effectiveness of the results achieved by the department against objectives, where these have been defined by management and are measurable.

Audit Act

4. The effect of strict personal accountability imposed by the Audit Act should be researched in the light of proposed moves toward efficiency auditing.

Co-ordination with Other Management Improvement Functions

5. As far as possible, when the role of other management improvement functions is of an audit nature, consideration should be given to merging the functions and staff with internal audit.

6. Closer communication and co-ordination should be established between internal audit and the other management review and improvement functions.

Audit Approach and Methodology

Evaluation of internal control

7. A systems-based approach to the audit should be adopted whereby the auditor examines and understands a total system:

- a. to identify and evaluate the controls upon which management relies to ensure that the information produced by the system is valid, complete and accurate and that regulations have been observed;
- b. to identify areas where efficiency and economy might be improved; and
- c. to ensure the security of assets and full accounting for liabilities.

8. The approach should be formalised, well documented and should be standardised throughout the APS.

Evidence and working papers

9. Internal auditors should be required to obtain and document fully all relevant evidence on which audit opinions, judgements, conclusions and recommendations are based. Evidential documentation should include:

- a. flowcharts to document the auditor's understanding of the system;
- b. internal control questionnaires to document the evaluation of the system;
- c. working papers and audit programs to document the work done.

Reporting

10. Reporting standards should be developed requiring:

- a. that written reports should be provided to line management following the conclusion of each audit;
- b. that these reports be issued by the chief internal auditor;
- c. that the reports contain:
 - (i) definition of the objectives and scope of the audit;
 - (ii) comments on significant weaknesses/inefficiencies and recommendations for improvements;
 - (iii) views of auditees;
 - (iv) details of any limitations imposed on the auditor;
- d. that reports be tailored to the needs of management, highlighting major matters and making recommendations for improvement wherever appropriate.

11. Audit reports should go to the head of the branch or office being audited with a copy to the divisional head. In addition, the internal auditor should be required to inform senior management immediately of any major weaknesses or losses discovered and should report to the Secretary or Deputy Secretary half-yearly setting out, with appropriate explanations:

- a. audits achieved against plans;
- b. reasons for any delays in audit completion;
- c. a summary of major findings and recommendations made during the half-year;
- d. a summary of previous major findings and recommendations which have not been actioned.

12. Reports should be strictly confidential to the department and circulated outside the department only with the express authority of the Secretary.

ADP Audit

13. A group of ADP audit specialists should be formed using personnel from both an ADP and an audit background.

14. All auditors should receive ADP audit training.

15. A standard approach and methodology for the audit of ADP systems should be developed. This approach should comprehend the use of special techniques where needed, but should be compatible with the general systems-based audit approach.

Management of the Audit

16. Management of the internal audit function should be strengthened. In some cases experienced audit managers should be recruited from outside the APS or the position of chief internal auditor could be filled by an experienced operations manager, and auditors experienced in modern audit techniques should be recruited to fill key senior audit positions.

17. Standards should be developed to cover:

a. Planning

- (i) the need to obtain adequate coverage;
- (ii) co-ordination with the Auditor-General;
- (iii) the preparation and regular review of adequate audit programs.

b. Supervision and Staffing

- (i) the assignment of appropriate staff;
- (ii) efficient utilisation of staff at both work and supervisory levels;
- (iii) the provision of on the job training and supervision.

Staff

Qualifications

18. Staff should preferably be qualified or actively seeking qualifications.

Training

19. Training courses should be developed for training audit staff in the audit approach and methods to be adopted for internal audit throughout the APS, paying due regard to the audit performance standards laid down.

20. Training courses should be developed for ADP auditing at general and specialist levels and for the audit of operational areas of departments.

21. The training program should be developed and maintained independent of any existing internal audit branch.

Career opportunities

22. Recruitment and promotion policy should be compatible with providing suitable career opportunities for auditors either:

- a. within the audit function (service-wide) for those who see themselves as "career" auditors; or
- b. by providing the opportunity to transfer to other areas of the department.

Leadership

23. To alleviate the shortage of suitable candidates for the positions of chief internal auditor, experienced auditors should be recruited from outside the APS.

Special expertise

24. Departments should consider the skills required to fulfil the defined audit role. Steps should be taken to obtain staff with the appropriate skills, either by recruitment, secondment from another department or external consulting contract.

Organisation of Internal Audit in the APS

25. There is a need for an inter-departmental organisation to co-ordinate the development of the internal audit function throughout the APS.

Inter-departmental co-ordinating committee

26. An inter-departmental co-ordinating committee should be established consisting of a number of chief internal auditors from departments with representatives from the Public Service Board, the Department of Finance and the Auditor-General's Office. The committee should be responsible for deciding policy regarding the development of internal audit in the APS, approving standards and co-ordinating resources between departments.

Internal Audit Bureau

27. A permanent secretariat to the co-ordinating committee should be formed, to be described as the Australian Internal Audit Bureau, comprising experienced auditors on secondment from field work. The Bureau should be an out-ride of a suitable department, and given the function of:-

- a. developing standards for internal audit in the APS;
- b. developing and running training courses for all APS internal auditors;
- c. researching and developing standard approaches and techniques for internal audit in the APS.

28. Additionally, after considering alternative approaches, we recommend the extension of the role of the Bureau to include the provision of field audit services to departments on their request, particularly where the department is not large enough to support a viable internal audit group, or where it has regional offices in remote locations which cannot support an adequate internal audit staff, and where there is a need for specialist expertise (for example, ADP audit) which is beyond the resources of the department.

29. The Bureau should be independent from the Auditor-General's Office.

Departmental organisation

30. All internal audit staff in a department should operate under the central direction of the chief internal auditor and report to him.

31. The chief internal auditor should report to the Secretary or his delegated Deputy Secretary.

32. A departmental audit committee should be formed to review audit plans, reports and performance and to provide liaison with the Auditor-General.

33. The classification of the chief internal auditor position should be reviewed with a view to upgrading the internal audit function and providing greater independence.

34. Model organisational arrangements are proposed and illustrated at appendix S, based on the principles that :

- a. the audit function should be a staff, not line, relationship within a department;

- b. all audit staff in a department should be responsible ultimately to the chief internal auditor even when they are based in a regional office.

Implementation

Internal Audit Bureau - Staff

35. The top management position in the Internal Audit Bureau should be filled by a senior person possessing proven managerial capability and experience within the APS.

36. Senior technical support for the manager should be obtained by the recruitment of auditors experienced in the systems-based approach and desirably in efficiency auditing.

37. A specialist group of ADP auditors should be established in the Bureau.

Inter-departmental co-ordinating committee

38. The inter-departmental co-ordinating committee should be formed as soon as the Internal Audit Bureau has been established.

39. The committee should give priority to the development and implementation of audit standards and the audit approach.

Implementation at the departmental level

40. Departmental audit committees should be formed and charged with considering the relevant recommendations of this report. Each department should be given the opportunity to transfer its internal audit function or parts thereof to the Internal Audit Bureau.

41. The recommendations made relating to the staff and management of the Internal Audit Bureau apply also to the departmental audit function. In addition, the departmental management should consider the suitability of the chief internal auditor to implement the recommendations contained in this report.

Development and Implementation of the Audit Approach

42. The Bureau's skilled resources should be applied to upgrading the audit approach and methods to fulfil the recommended role. This transition should be achieved as follows:-

Phase I - Compliance and efficiency audit of financial and financially related systems

PSB Circular No. 1979/B

INTERNAL AUDIT IN THE AUSTRALIAN PUBLIC SERVICE

PART A - INTRODUCTION

This circular is designed to encourage departments and authorities to improve the efficiency of their internal audit systems.

2. The basis for the current internal audit arrangements is set out in PSB Circular 1968/20 which was issued following a major review of internal audit in 1967/68. A further memorandum (1973/3), stressing the need to maintain adequate staffing and proper standards in this area, was issued at the request of the Auditor-General following an inquiry by the Joint Parliamentary Committee of Public Accounts.

3. In the period since the 1967/68 review attention has been drawn - especially by the Auditor-General - to a number of problems bearing on the effectiveness of the internal audit arrangements. Doubts as to efficiency of the current arrangements have been expressed also by such bodies as the Joint Committee of Public Accounts, the Institute of Internal Auditors Inc., and the Royal Commission of Australian Government Administration.

4. In 1977 the Public Service Board therefore commissioned a service wide joint management review of internal audit procedures. The review included detailed field examination of internal audit practice in seven large departments, an assessment of internal audit practices in eight major companies and public authorities in Australia, and an evaluation of practices adopted overseas in relation to internal audit.

5. The findings of this review, although not applicable in every respect to all departments, confirm the existence of major problems.

6. The review report was circulated to all Permanent Heads and the Board has had the benefit of their comments in its consideration of the report. The Board has been assisted also by discussions with the Auditor-General, with a number of departmental Chief Internal Auditors and with representatives of the Institute of Internal Auditors, Inc.

a. appropriate audit standards, approach and methodology should be developed for the introduction of systems-based auditing;

b. training material should be developed and a training program for staff commenced;

c. audits should be gradually upgraded to the new approach.

Phase II - Compliance and efficiency audit extended to all departmental operations

a. in-depth research should be carried out to determine the most appropriate approach;

b. the detailed approach and methodology should be developed;

c. training material should be developed and a training program for staff commenced;

d. efficiency audits of non-financial operations should be introduced progressively.

Phase III - Audit review of the effectiveness of results achieved

a. the steps to be followed would be similar to those outlined for Phase II above, if management decides that this is an appropriate function for the internal audit team.

Efficiency Auditing

43. A program of research should be undertaken by the Internal Audit Bureau, if necessary with the assistance of outside consultants, to develop an acceptable and effective approach and methodology for conducting efficiency audits.

44. Efficiency auditing should be introduced on a gradual basis using the Internal Audit Bureau to develop the approach, build up expertise acquiring such skills as are needed, and carefully implement this approach on a growing number of assignments. The implementation should be accompanied by appropriate training for audit staff.

45. A management appreciation course in internal audit should be developed for departmental management, to assist in promoting the concepts and methods of modern internal audit as a service to management.

PART B - GENERAL APPROACH

7. The Board seeks the co-operation of Permanent Heads in implementing the following action:

- a. modern internal auditing standards and systems-based audit techniques be developed and applied within the Australian Public Service;
- b. whilst first priority should be given to achieving satisfactory standards in the internal audit of financial and financially-related systems the role and scope of internal auditing ought to be expanded progressively over the next few years to encompass, in appropriate cases, the efficiency and effectiveness of other departmental operations;
- c. and education program for all internal auditors be instituted at an early date;
- d. management control and technical direction of internal audit units, programs, and staff be strengthened;
- e. the Board stands ready to consider whether any consequential changes in staff classifications and establishment are necessary;
- f. the follow-up action in relation to internal audit be monitored by a Joint Implementation Committee which will be supported by an Interdepartmental Advisory Committee.

8. Further details of the proposed follow-up action are given below. It should be emphasised at this point however, that the role and scope of internal audit will naturally vary considerably as between departments and authorities. The Board recognises, for example, that Permanent Heads may have differing views as to the role which should be played by internal audit vis-a-vis other review activities within their departments.

9. Much will depend, in any event, on the nature and size of the operations carried out by the department or authority concerned. In the case of some departments and authorities there may be a case for strengthening their internal audit organisations and activities. In the case of other (and usually smaller) departments and authorities some rationalisation of internal audit activities may prove to be desirable, especially where the volume of such audit work is insufficient to enable an efficient and viable audit unit to be established. Attention is drawn also in Part F to the special problems involved in ADP auditing and, in particular, to the difficulties which stand in the way of establishing units of skilled ADP auditors within individual departments.

PART C - INTERIM INTERNAL AUDIT STANDARDS

10. In consultation with the Auditor-General's Office and the Department of Finance, the Board has prepared a Statement of Interim Internal Auditing Standards. Those standards, which are set out in Attachment A, have been adopted from auditing standards promulgated by the Institute of Internal Auditors in 1978, the Australian Society of Accountants and Institute of Chartered Accountants in Australia in 1977, and the United State General Accounting Office in 1974.

11. These interim standards have been developed to meet immediate needs and the Board proposes to review them in the light of experience, over the next twelve months. In the meantime it is hoped that internal auditors will derive useful guidance from these standards and that departments will encourage widespread discussion and debate concerning possible amendments and improvements.

12. Some references are made in Attachment A to the role and scope of internal auditing and, in particular, to the possibility of internal auditing encompassing non-financial activities (see for example, GS1 and EES4). Such references may not be relevant to the current situation in many departments and authorities. Nor does this statement of interim standards touch on the special problems which arise in respect of ADP auditing.

PART D - SYSTEMS-BASED AUDITING

13. It is clear that the achievement of more satisfactory standards of internal audits will depend, in large part, on internal auditors concentrating their attention on the methods of internal control present in the system rather than on an examination of large numbers of historical transactions. Accordingly, a general description of systems-based auditing is given in Attachment B. This is to be used in conjunction with the interim standards described in Attachment A.

14. The systems-based approach demands of the auditor higher standards of analysis, documentation and appraisal. In return the method offers:

- a more efficient audit system;
- better utilisation of audit resources and of total audit time - typically there is a larger cycle between audits of a particular system because of the added assurance provided by the systems-based approach; and

- greater potential for recognising and introducing systems improvements which should lead, in turn, to better control, security and accuracy of future transactions and greater efficiency in the department's operations.

PART E - EDUCATION PROGRAM

15. In association with the Auditor-General's Office, the Board is developing material for presentation in an internal audit education program which is scheduled to commence in the third quarter of 1979. It is the Board's objective that this education program should reach all officers occupying internal audit positions.

16. The program will cover:

- a. familiarisation seminars for senior managers and Chief Internal Auditors;
- b. technical seminars for Chief Internal Auditors; and
- c. a series of seminars for experienced internal audit staff and more junior audit staff.

17. Further details of the education program will be provided to departments shortly.

PART F - ADP AUDITING

18. The Board's consideration of the review's findings and recommendations in regard to ADP audit indicated that there are many issues which require further investigation and corrective action; but there are significant problems.

19. These problems derive from:

- the shortage of suitable personnel (assessed in terms of training, qualifications and experience);
- the limited availability of adequate training material at more advanced levels;
- the restricted capacity of existing training facilities within the Service.

20. The shortage of the skilled personnel required for work in the ADP audit area represents a major difficulty. This difficulty is not peculiar to the Australian Public Service; it is a problem faced by many other organisations both in Australia and overseas.

21. The Board considers that, with the increasing penetration of ADP into Service administration, all internal auditors should attain some degree of proficiency in ADP auditing and, desirably, a reasonable familiarity with ADP practice. To this end, two training programs, one aimed at internal ADP control procedures and the other at ADP audit procedures, based on material developed by the Canadian Institute of Chartered Accountants, have been established jointly by the Offices of the Board and the Auditor-General. These are already in use and early indications suggest that they represent a useful starting point for ADP audit training.

22. Another initiative which should assist in the development of a longer term solution is the preparation of common standards for the control of computer-based systems. This is being examined by a sub-committee established by the interdepartmental committee on ADP early in 1978.

23. There is a need, however, for the development and/or recruitment of skilled officers possessing the advanced knowledge required for examination of the larger and more complex ADP systems in the Service. The Board is currently considering ways in which this objective can be achieved and the matter will be discussed with the Departments primarily concerned. One possibility which would go some way towards meeting this objective would be to develop additional training programs designed to equip suitable officers, who already have some ADP audit experience, with more advanced knowledge of this area. The review report suggests that there is a case for establishing a group of ADP audit specialists who could provide a service as internal auditors in those departments which require such expertise. Further thought needs to be given, however, to the arrangements which should be made. It is envisaged that this will be one of the first matters to engage the attention of the Joint Implementation Committee which is to be established to facilitate the implementation of improved internal audit arrangements.

PART G - ORGANISATION AND CLASSIFICATION ASPECTS

24. The Board expects each department and authority to review its internal audit arrangements in the light of this Circular and (if such action has not already been taken) prepare a statement defining the purpose, authority and responsibility of the internal audit function within that department or authority. In preparing such a statement due regard should be paid to the audit management standards described in Attachment A; a list of matters which might be covered in the statement is set out in Attachment C.

25. One of the main purposes of such a statement is to give a clear lead to internal auditors as to the task they are expected to perform. The statement would also be a key element in considering the need for changes in staffing, establishment, and working arrangements in the internal audit area.

26. Various other factors will need to be taken into account in assessing the need for any such changes. It will be necessary, for example, to consider carefully the impact on other review activities and audit working arrangements, particularly as they may affect other management advisory functions. As mentioned in paragraph 9, due consideration will need to be given to the nature and size of the internal audit operations in each department or authority. In some instances there may be a case for strengthening internal audit establishments but in other instances - for example, where the volume of the audit work is insufficient to support viable audit units - some pooling of internal audit resources may be necessary.

27. The Board does not propose to promulgate, at this stage, a new set of position classification standards. The current standards for internal audit work provide for five defined work levels classified in the clerical/administrative salary ranges. It is possible that the new methods of working may require the use of other salary ranges but it has been decided not to make any general revision of the classification standards at this stage. The need for the development of guidelines will be kept under review.

PART H - IMPLEMENTATION OF THE ARRANGEMENTS

28. The review report recommended that a permanent secretariat, to be described as the Australian Internal Audit Bureau, should be established with responsibility for the development of standards, training, research and development of internal audit techniques and to provide field audit services on request.

29. The Board is not convinced that it is necessary to establish a Bureau in order to solve the problems which have arisen to date. Moreover, as pointed out, be a number of Permanent Heads, the establishment of a Bureau of this kind could be held to cut across their responsibilities and run counter to the concept of internal auditing.

30. The Board accepts however, that there is a need for some form of interdepartmental machinery to provide a focal point for matters relating to internal auditing and, in particular, to facilitate and encourage the implementation of the approach described in this circular.

31. It is proposed to establish for this purpose a Joint Implementation Committee consisting of representatives of the Board, the Auditor-General's Office, and the Department of Finance. This Committee will be assisted by an Interdepartmental Advisory Committee which it is expected will consist mainly of Chief Internal Auditors nominated by the departments concerned. The Board will provide any supporting staff required by these Committees.

32. The Board will also make available a senior officer to oversee the implementation arrangements, to chair these Committees, and to liaise with Permanent Heads and their senior officers. The Joint Implementation Committee will keep in close touch with the progress being made by departments in implementing these internal audit arrangements and it is envisaged that the Committee will make a progress report to the Board by the middle of next year. The Board will review the matter again at that time.

R.N. McLeod
Secretary

Note: The List and Index of Operative Circulars, etc. should be amended as follows:

Delete all references to PSB Circular 1968/20 and PSB Memorandum 1973/3.

STATEMENT OF INTERIM INTERNAL AUDITING STANDARDS

Note: A general description of Systems-Based Auditing to be used in conjunction with these Standards is at Attachment B.

GENERAL STANDARDS (GS)

- GS1 The full scope of internal audit in government encompasses:
- a. An examination of financial transactions and systems, (and accounting records and financial reports where applicable), including an evaluation of compliance with applicable statutes and regulations.
 - b. A general assessment of the cost effectiveness of administrative activities in accordance with sound administrative principles and practices.
 - c. A review of the efficiency of resources utilisation in terms of (1) management's performance specifications and (2) general criteria for evaluating the efficiency of management information systems, administrative functions, organisational structures, and operational systems.
- GS2 Internal auditors must maintain an independent outlook and must allow nothing to impair their independence to plan, investigate and report with honesty and objectivity.
- GS3 Audits must be performed by or under the control of a person or persons having the technical and perceptive skills possessed by an experienced and competent government internal auditor.
- GS4 Internal auditors must take reasonable care in specifying the evidence required, in gathering and evaluating the evidence, and in reporting findings.
- GS5 Information acquired by an internal auditor in the course of his work must not be used for purposes outside the scope of assessment and formation of an opinion and reporting according to his responsibilities.

EXAMINATION AND EVALUATION STANDARDS (EES).

- EES1 An internal audit plan must be prepared and revised as necessary in the course of an internal audit to cover all material areas under examination.
- EES2 Where work is assigned to assistants, the assisting internal auditors must have sufficient proficiency and training to carry out the tasks. Their work must be carefully supervised and reviewed.
- EES3 A review is to be made of compliance with statutory and regulatory requirements.
- EES4 Internal auditors must systematically evaluate the nature of the organisation's operations and system of internal control to assess the extent it may be relied upon:
- a. to ensure the integrity of accounting and other information;
 - b. to ensure that the organisation's assets are properly safeguarded;
 - c. to ensure compliance with statutory requirements and regulations;
 - d. to promote cost effectiveness in administrative practices, and
 - e. to provide in terms of management's performance specifications or other appropriate criteria, efficient resource utilisation and adherence to government policies.
- EES5 Internal auditors must obtain all evidence considered necessary for effective completion of the audit.
- EES6 Internal auditors must adequately document the internal audit plan, the basis on which the plan has been formulated, and the results and findings of the audit.
- EES7 Internal auditors should follow up to ascertain that appropriate action is taken on reports audit findings.

REPORTING STANDARDS (RS)

- RS1 Prompt reporting is essential to enable timely use to be made of the information by management.
- RS2 Written audit reports are to be submitted to the appropriate managers within the organisation. Copies of the reports should be sent to other officers who may be responsible for taking action on audit findings and recommendations and to other responsible or authorised to receive such reports.
- RS3 Each internal audit report shall:
- be clear, concise and complete.
 - clearly explain the scope and objectives of the audit.
 - present findings and conclusions in an objective fashion relevant to the specific user's needs.
 - include only factual information, and findings and conclusions adequately supported by evidence properly documented in the working papers. Detailed supporting data should be included as necessary to allow for a convincing presentation.
 - included, as applicable, the internal auditor's suggestions for the type of action to be taken and information on underlying causes of non-compliance with statutes, inaccuracy of accounting and other information, waste and deficiencies, and inefficient systems, operations and practices.
 - place emphasis, as applicable on improvement rather than criticism of the past; critical comments should be presented in balanced perspective, recognising any difficulties faced by officers of the organisation.
 - identify and explain issues or questions needing further study and consideration by the internal auditor or others.
 - include recognition of management initiated improvements.
 - include recognition of the views of responsible management officials. These should be obtained at an exit interview and where a contrary view persists, obtained in writing and considered for presentation in the audit report.

- J. state whether any significant pertinent information has been omitted because it is deemed privileged or confidential. The grounds for the omission should also be given.

MANAGEMENT STANDARDS (MS)

- MS1 Senior departmental management should provide a statement of purpose, authority and responsibility for the internal audit function.
- MS2 The chief internal auditor should provide written policies and procedures to guide the internal audit staff.
- MS3 The chief internal auditor should establish and maintain a quality assurance program to evaluate the operations of the internal audit function within the department.

ATTACHMENT B TO PSB
CIRCULAR NO. 1979/8

SYSTEMS BASED AUDIT - A General Description

Note: To be used in conjunction with the Interim Internal Auditing Standards at Attachment A.

The systems based audit concept concentrates audit effort on the methods of internal control present in the system rather than on an examination of large numbers of historical transactions. It is an approach whereby the auditor can examine and understand a total system so as to:

- a. identify and evaluate the internal controls upon which management relies, to ensure that the information produced by the system is valid, complete and accurate and that regulations have been observed;
- b. identify areas where cost effectiveness might be improved; and
- c. ensure the security of assets and full accounting for liabilities.

Audit examinations should be restricted to manageable projects based upon the precepts of systematic or controlled enquiry so that the objectives of audit can be related to objectives of the function or activity under review. The function or activity defined for audit coverage should be seen as a total departmental-wide system or sub-system (eg stores accounting). Thus a typical audit project would involve State/regional audit activity co-ordinated at the central office of the department and would result in a comprehensive internal audit report covering all aspects of the system or sub-system under examination.

A particular audit project would be expected to have the following pattern

- a. a feasibility study which develops a detailed audit plan;
- b. examination of source data including legislative and regulative requirements; previous audit reports, managerial manuals, charts and specifications including performance standards and documentation requirements; and reports by management improvement sections, external consultants and external auditors;

- c. discussion with management to identify the key operations of the function and existing or past problem areas. Use of appropriate methods to identify material transactions and evaluate their cost effectiveness;
- d. systematic evaluation of significant internal control features and objectives of the activity using observation, inquiry, and appropriate audit tools (such as flow charts to determine inter-relationships, questionnaires and check lists for completeness and quality determination; and representative through-puut of transactions for systems testing);
- e. evaluation of the control system's effectiveness in terms of appropriate criteria for regulatory control, financial control and cost effectiveness;
- f. light sample testing of that evaluation by verification of the system on a random and preferably statistical basis of transactions verification;
- g. discussion of the findings with the Chief or Senior Internal Auditor and with management; and
- h. reporting of the findings and conclusions to senior departmental management by the Chief Internal Auditor (or a Senior Internal Auditor).

ATTACHMENT C TO PSB
CIRCULAR NO. 1979/8

STATEMENT OF PURPOSE, AUTHORITY AND RESPONSIBILITY FOR THE
INTERNAL AUDIT FUNCTION

The first management standard for internal audit is:

MS1 Senior departmental management should provide a statement of purpose, authority and responsibility for the internal audit function.

2. It is important that internal audit staff, managers at various levels and departmental staff generally should have a clear understanding of the role and status of internal audit within the department.

3. Matters which might be addressed in the statement would include:

- . the purpose of internal audit within the department;
- . audit methods which are to be adopted in achieving that purpose;
- . the line of organisational responsibility for internal audit in the department;
- . reporting requirements and how reports are to be handled within the department. In this context the appointment of an Audit Committee may be appropriate;
- . the extent to which the Statement of Interim Internal Audit Standards is to apply within the department;
- . the nature of any liaison arrangements with the Auditor-General's Office;
- . internal audit access to the accounts and records of the department;
- . restrictions (if any) on internal audit access to accounts and records of a classified nature or restricted premises of the department; and
- . internal audit access to other offices and premises of the department.

APPENDIX C

Public Service Board Circular 79/2120
1 June 1979

INTERNAL AUDIT IN THE APS - EDUCATION PROGRAM

In Part E of PSB Circular No. 1979/8 of 30 April 1979 it was advised that an internal audit education program is being developed by the Board to cover:

- (a) familiarisation seminars for senior managers and Chief Internal Auditors;
- (b) technical seminars for Chief Internal Auditors; and
- (c) a series of technical seminars for experienced internal audit staff and more junior audit staff.

2. This memorandum provides further details of the education program and seeks an indication through the completion and return of the attached schedule of the number of officers/departments expect to be involved in the various programs.

Familiarisation Seminars for Senior Managers and Chief Internal Auditors

3. The Board proposes to run a two phase series of seminars aimed at the following departmental managers:

- . those in the management line with direct responsibility for the administration of the internal audit function (Phase 1); and
- . other managers whose areas of operational responsibility are already included in, or have potential for inclusion in, the auditable area of the department (Phase 2).

Phase 1 Seminars for Managers with Direct Responsibilities Towards Internal Audit

4. The objectives of the program aimed at those managers with direct responsibilities towards internal audit are:

- . to seek their commitment to better utilisation of internal audit in their department;
- . to demonstrate the changes which are necessary and/or desirable for internal audit in the APS including the establishment of departmental audit committees;

- to explain the Board's attitude to staffing, organisation and classification matters; and
- to outline implementation arrangements proposed over the next twelve months.

5. The phase 1 seminar will be of half day duration and will be presented on several occasions in Canberra and once in Melbourne. It is specifically designed for presentation to officers at the level of Deputy Secretary, First Assistant Secretary and/or Assistant Secretary. It is anticipated that the department's Chief Internal Auditor would also attend.

Phase 2 Seminars for other Second Division Staff and senior managers in the Third Division

6. The objectives of the program aimed at these managers are:

- to demonstrate the manner in which internal audit is expected to serve management and the manner in which management should use that service;
- to explain the changes in method (systems-based auditing) and scope (compliance, efficiency and effectiveness) that are taking place generally in the Service;
- to outline the implementation arrangements proposed over the next 12 months;
- to obtain their commitment to a proper utilisation of internal audit.

7. The seminar, which is of half day duration, could be conducted within the central office of a department if sufficient numbers are nominated (a minimum of 20 officers would be desirable). Such presentations could be tailored to fit the particular requirements of the department and, desirably, some elements of the seminar material will be presented by the department's own staff.

Technical Seminars for Internal Audit Staff

8. Training material now being developed for presentation to internal audit staff includes:

- a training course (Course 1) for Chief Internal Auditors and other internal auditors who are directly involved in the management, control and review of internal audit functions;
- a training course (Course 2) for all other internal audit staff; and
- training packages for on-going training of audit staff.

Course 1 Internal Audit Management Course

9. Course 1 is scheduled to take 8 days and includes the following:

- an overview of the findings and recommendations of the Joint Management Review of internal audit;
- detailed discussions of audit standards, the nature of the audit charter and the role of the internal auditor;
- audit management aspects i.e. audit program development and approval, technical control and direction of audit staff, resource planning and control, audit reports and quality assurance;
- systems based auditing techniques;
- ADP auditing - brief overview;
- human relations aspects relevant to the internal auditor;
- relationships with external auditors and other management advisory services; and
- audit committees.

10. Present plans provide for this course to be presented only in Canberra, Sydney and Melbourne. However, should there be sufficient demand at other locations consideration will be given to further presentations to meet that demand. In completing the attached schedule departments are requested to indicate, first, the numbers in each State expected to attend Course 1 and, second, which of the Canberra, Sydney or Melbourne courses officers would attend if no courses are available at other locations.

Course 2 Internal Audit Field Course

11. Course 2 is scheduled to take 5 days and is similar to Course 1 except that less emphasis is placed on audit management.

12. This course is intended to reach a far greater number of internal auditors than Course 1 with courses presently planned for every State except Tasmania and the Northern Territory. (The need for courses in Tasmania and the Northern Territory will be assessed against the demand indicated by departments.) As it is probable that Course 2 will not be presented to all officers seeking places on the course until mid-1980, departments may wish to include the course within their own training program for presentation by their own staff. If such is the case arrangements could be made to include prospective course leaders in the earlier presentations of Course 1.

Content of Courses

13. The material for presentation in Courses 1 and 2 is being prepared in association with the Auditor-General's Office. To assist in this work an Internal Audit Training Task Force was appointed; this consists of internal audit staff made available by the Departments of Social Security, Defence, Administrative Services, Housing and Construction and the Taxation Office, led by a Principal Project Officer from the Board. The content of the courses will be cleared by the Interdepartmental Advisory Committee and the Joint Implementation Committee.

14. The courses do not cover ADP auditing in any detail; a separate training program is to be developed for this aspect of auditing.

15. Courses 1 and 2 are presently designed to not address the auditing of financial statements. However, each course could be extended by an additional day to include modules on the preparation and use of an audit package to test the validity of financial statements. In completing the attached schedule departments are asked to indicate the number of internal auditors who would benefit from such an extension of the course.

Training Packages

16. The material developed for presentation in Courses 1 and 2 will be made available to departments as training packages for the training of new audit staff. The packages may be used as single topic modules or as part of a more structured training course. However, the packages are not expected to be finalised until early 1980 and further information on their nature and content will be provided at that time.

Tentative Timetable

17. To assist departments in determining the number of staff which they would wish to have included in the training program a tentative timetable for the full program is shown at Attachment A. The dates shown for Phase 1 seminars, presentations of Course 1 and the earlier presentation of Course 2 may vary slightly. Dates for Phase 2 seminars and the later presentation of Course 2 will be determined after the extent of the demand is known.

Staff Numbers

18. It is strongly recommended that Departments be represented by senior staff at the Phase 1 seminars, and that all internal audit staff attend one or other of the technical training courses. Courses 1 and 2 are also open to suitable

officers, including ADP staff, not presently occupying internal audit positions and departments are invited to indicate on the attached schedule the number of such officers who might be nominated for the courses.

19. At this initial stage departments are asked to provide the Board with broad planning data on the number of staff likely to be involved in the various parts of the education program. It would be appreciated if completed schedules could be forward to reach the Board (Attention Mr J. MacGregor) by 13 June 1979. Difficulties in meeting this requirement and other enquiries relating to the matters covered by this memorandum might be referred to Mr MacGregor who is the Executive Officer of the Joint Implementation Committee (telephone (062)708403).

J. MacGregor
A/g Assistant Commissioner
Management Systems and
Efficiency Division

PHASE 1 SEMINARS (HALF-DAY)	PHASE 2 SEMINARS (HALF-DAY)	COURSE 1 AUDIT MANAGEMENT (8 DAYS)	COURSE 2 AUDIT METHODS (5 DAYS)
Canberra 1 26.6.79		Canberra 1 17-26.7.79	
Canberra 2 4.7.79		Melbourne 14-23.8.79	Canberra 1 6-10.8.79
Melbourne 11.7.79		Sydney 14-23.8.79	Melbourne 1&2 1-5.10.79
Canberra 3 18.7.79		Canberra 2 10-19.9.79	Canberra 2 8-12.10.79
		Canberra 3 11-20.9.79	Sydney 1&2 15-19.10.79
			Brisbane 1 29.10-2.11.79
			Adelaide 1 29.10-2.11.79
			Perth 5-9.11.79
			Dates for further courses at above locations to be determined.
		Presentations to commence in September 1979. Dates and locations to be determined.	

PSB Circular No. 1980/7
1 April 1980

INTERNAL AUDIT OF ADP SYSTEMS AND SERVICES IN THE AUSTRALIAN PUBLIC SERVICE

PART A - INTRODUCTION

The purpose of this Circular is to advise departments and statutory authorities of an action program to improve the Service's capability for the internal audit of ADP systems and services. The program calls for complementary action by departments and authorities.

2. PSB Circular 1979/8 of 30 April 1979 outlined a number of initiatives to improve the efficiency of internal auditing. Central to those initiatives was a training program on the methodology of systems-based auditing which was seen as a necessary prerequisite to a program to improve the Service's capability to audit its ADP systems and services.

3. As foreshadowed in the earlier circular the Joint Implementation and Interdepartmental Advisory Committees on Internal Audit have now recommended that a series of further steps be taken to improve the internal audit of ADP systems and services. The long-term objective underlying this development program, which has been endorsed by the Board, is that all internal auditors in the Australian Public Service should be capable of involvement in the audit of ADP systems and services. The program envisages:

- the provision of basic training in ADP auditing for the main body of internal auditors;
- the development of standards and methodologies relevant to the internal audit of ADP systems and services;
- the development of other education and training activities;
- steps to secure the services of ADP audit specialists; and
- the provision of pilot ADP audit projects to complement the training programs and assist departments to carry out urgent ADP auditing activities.

4. The nature of the audit task and the use of audit teams to undertake that task are discussed in Attachment A.

PART B - EDUCATION

5. The Board has endorsed a training program for 1980 which will provide basic training to those internal auditors who are to form the nucleus of departmental audit teams examining ADP systems and services. The training envelope, which will require the involvement of each participant for approximately 6 weeks, includes 2 formal courses based on the Canadian Institute of Chartered Accountants (CICA) courses on 'Computer Controls' and 'Computer Auditing', and supervised projects in an operational environment.

6. Further details of the basic training program will be advised by separate memorandum. That memorandum will also seek details of audits included in the current annual audit plans of departments or authorities which could be undertaken by groups of course members as supervised projects.

7. In developing ADP audit specialists, the basic training program will need to be supplemented by further training or education in the auditing of advanced ADP systems. To that end several options will be examined and reported upon to the Board by the Joint Implementation Committee. These include:

- the presentation of in-Service courses, probably on a user-pays basis;
- the identification of suitable short courses presented by various external bodies; and
- discussions with tertiary institutions aimed at identifying or introducing appropriate courses or subjects to meet the longer term needs of the Service.

PART C - OTHER ASPECTS OF THE DEVELOPMENT PROGRAM

8. Other aspects of the development program endorsed by the Board include:

- (a) the formulation of internal audit standards applicable to the audit of ADP systems and services;
- (b) the development of an audit management methodology relating particularly to the use of audit teams;
- (c) identification, evaluation and possible pooling of computer-assisted audit techniques;
- (d) a limited number of pilot ADP audit projects with a view to testing methodologies, complementing the training program with case studies, and assisting some departments to carry out urgent ADP auditing activities; and

- (e) identification of the role and responsibilities of ADP audit specialists and development of the related organisation and recruitment requirements.

9. In relation to item (e), the term ADP AUDIT SPECIALIST is used in this circular to identify those auditors who also possess a high degree of competence in computing. There is an acute shortage of such people both in the public and private sectors. Avenues which might be explored by departments and authorities to meet this shortage include:

- the recruitment, promotion or transfer of Computer Systems Officers without audit skills who would work in audit teams led by internal auditors experienced in systems-based techniques;
- a staffing policy which provides for the short or long-term transfer or secondment of Computer Systems Officers to the internal audit unit, perhaps to work on a single audit project or group of projects;
- arrangements which require specified officers within departmental ADP groups to provide or arrange support to the internal audit unit on a short-term consultative basis in respect of specific tasks within an ADP audit project; and
- hiring of consultants to carry out auditing services requiring special expertise.

10. As indicated in discussions with departments and authorities, the Board has adopted a flexible approach to organisational arrangements for internal audit groups. That flexibility will be maintained in relation to proposals to improve the capability of such units to audit ADP systems and services.

PART D - COMPLEMENTARY ACTION

11. The total program recommended by the Joint Implementation Committee represents a major task, which in the face of the urgent need to improve the Service's capability to audit its ADP systems and services, must be completed within a reasonable period. The Interdepartmental Committees will be giving urgent attention to these matters and the Board will be seeking the active support of departments and authorities in the following ways:

- the release of some staff to join the development group for a period of approximately 6 months. This group will be located within the Board's Management Systems and Efficiency Division;

- the release of other staff for short periods to assist the development group with selected tasks and/or to supervise training projects;
- rigorous selection of those officers nominated to participate in the basic training program and, particularly of those nominated for more advanced training; and
- co-operation in nominating and helping to organise suitable ADP audit projects for inclusion in the training program.

R.M. McLeod
Secretary

GENERAL APPROACH TO THE INTERNAL AUDIT OF ADP SYSTEMS AND SERVICES

In PSB Circular No. 1979/8 it was emphasised that the purpose, authority and responsibility of the internal audit function within each department and authority are matters for decision by the department or authority. A similar approach should be adopted to decisions concerning the internal audit of ADP systems and services.

2. The internal audit of computer operations is usually a continuing process extending over a period of some years. In the initial audit, there is a need to be satisfied that adequate controls are incorporated in the systems design; that the programs and operating procedures that go to make up the total systems are faithful to the design; and that controls are in place and operating. Beyond that initial examination, there is usually a monitoring phase or series of audits in which auditors are concerned with the efficacy of transactions processed by, or data held within, the system. The monitoring phase includes the identification and examination of systems changes which have occurred since the previous audit.

3. In this circular the term 'ADP AUDIT' is avoided in favour of the more embracing term AUDIT OF ADP SYSTEMS AND SERVICES which is used to cover all internal auditing activities associated with ADP matters including not only the current operations or applications of ADP systems but also ADP management and support services.

4. Within each audit of an ADP systems or service there exists a wide range of audit tasks which require varying levels of audit competence and technical skill. In more such audits a team approach will be the most efficient and cost effective. The conglomerate skills of the senior members of such teams will need to include a high level of competence in the application of systems-based auditing methodologies, experience in the use of ADP auditing techniques and a high level of skill in the technical aspects of computing.

5. The composition of the team will tend to vary from one audit to another. The nature of the task and the composition of the audit team will reflect:

- (a) the purpose and scope of the audit;
- (b) the degree of complexity of the ADP system;
- (c) the degree of technical content of the various parts of the ADP system; and
- (d) whether the audit is of an initial or monitoring nature.



OFFICE OF THE PUBLIC SERVICE BOARD

Kings Avenue, Canberra, A.C.T. 2600

Tel: 73 0411

Reference: 79/3667

21 April 1980

To All Departments and Statutory Authorities
Staffed Under the Public Service Act

INTERNAL AUDIT OF ADP SYSTEMS AND SERVICES: TRAINING PROGRAM

PSB Circular 1980/7 of 1 April 1980 provided details of the action program endorsed by the Board to improve the Service's capability for the internal audit of ADP systems and services. The purpose of this memorandum is to provide some further details of the basic training arrangements and to seek from departments and authorities information concerning the personnel and the audit projects they wish to nominate for the training program.

2. The progress of the action program will be monitored by the Joint Implementation Committee and the Interdepartmental Advisory Committee on internal auditing. The program itself will be carried out by the Internal Audit Implementation Group located in the Management Systems and Efficiency Division of the Board. This group will include a number of internal audit personnel who are being made available by departments on a temporary basis to assist in the development and administration of the program.

Objectives of the Basic Program

3. The main objective of the basic training program is to provide internal auditors and other staff who might be attached to internal audit teams with:

- (i) a working knowledge of computer controls;
- (ii) an understanding of the principles and basic methodology of auditing ADP systems and services; and
- (iii) some practical experience through participation in a supervised audit project.

It is envisaged that these audit projects will also assist departments and authorities in respect of their current auditing.

activities. Such projects may enable some departments, for example, to introduce the auditing of ADP systems and services into their annual audit plans or to improve the range and effectiveness of their auditing activities in this area.

4. As indicated in the Circular the long-term objective underlying the total development program is that all internal auditors in the Service, currently about 650, should be capable of involvement in ADP audits. However, the number of places available in the current twelve-month program will be in the order of 200. It will therefore be necessary to confine the current program to those officers judged by their organisation to be key personnel in carrying through the organisation's audit of ADP systems and services.

The Training Envelope

5. The basic training envelope is built around two courses developed by the Canadian Institute of Chartered Accountants (CICA) and reflects recent experience of the Auditor-General's Office in conducting a similar training program. The complete envelope, which requires the involvement of participants for a period of six weeks, is comprised of:

- . Computer Controls Course (CICA I) : 4 days
(see synopsis at Attachment A)
- . Computer Auditing Course (CICA II) : 6 days
(see synopsis at Attachment B)
- . A supervised audit project in an operational environment : 4 weeks

6. The provision of practical experience through participation in an audit project immediately following the formal courses is essential. Indeed it can be regarded as the most important element in the training exercise. As it is intended that no more than four auditors be included in audit teams undertaking projects, it will be necessary to develop a large bank of potential projects. The nature and format of such projects are described in Attachment C.

7. The arrangements which will apply to these projects are:

- (a) departments and authorities are now asked to nominate possible projects using the Project Nomination Form at Attachment D;

.../3

- (b) members of the Internal Audit Implementation Group will, as necessary, discuss details of the project with the nominated contact officer of the sponsoring department;
- (c) projects to be associated with each training course will be selected by the Implementation Group having regard to such factors as the location and appropriateness of the project in relation to the training program. Any constraints or priorities identified by the sponsor will also be taken into account;
- (d) the personnel to be allocated to each project will be selected in consultation with the sponsoring organisation. (It is envisaged that such personnel would normally be drawn from several departments or authorities. However, other arrangements will be made if the sponsor indicates that staff external to the organisation should not be involved.);
- (e) team leaders for each project will be briefed on methodology by the Implementation Group. (Wherever possible, the team leader would be an officer of the sponsoring organisation - the role of the team leader is discussed in Attachment C.);
- (f) members of the Implementation Group will consult with the team leader during the project;
- (g) the audit is to be performed on behalf of the sponsoring organisation and audit findings, working papers and the audit report will be confidential to that organisation; and
- (h) each team will be expected to submit to the Implementation Group a report on matters relating to the methodology employed in the audit. That report will be cleared with the sponsoring organisation by the team leader before submission.

Training Timetable

8. The initial courses in the training program are scheduled as follows:

- . Canberra : 26.5.80 to 6.6.80 plus 9.6.80 to 4.7.80 for projects

.../4

- . Sydney : 17.6.80 to 27.6.80 plus 30.6.80 to 25.7.80 for projects
- . Melbourne : 17.6.80 to 27.6.80 plus 30.6.80 to 25.7.80 for projects.

9. Nominations for places on those courses should be forwarded, using the pro-forma at Attachment E, to reach the Implementation Group by 7 May for the Canberra course and 28 May for those in Sydney and Melbourne.

Identification of Training Workload

10. Additional courses will be presented to meet the demand represented by departments and authorities, within the overall program target of 200 places. To this end we seek the return of Attachment F (Overall Training Requirements) by 2 May 1980. The statistics provided should include those to be nominated for the initial courses in Canberra, Sydney and Melbourne.

11. Some officers will have already attended CICA I courses conducted by the Board and a number of departments. Others may have attended courses based on both CICA packages which have been conducted by other organisations. In such cases the officers may participate in those parts of the training envelope not previously attended.

In Summary

12. Departments and authorities are asked to submit:

- (a) details of suitable projects on the Project Nomination Form at Attachment D. (There is no closing date for such nominations although some projects will need to be identified by 2 May.);
- (b) nominations for places on the initial courses in Canberra by 7 May and Sydney and Melbourne by 28 May - Attachment E; and
- (c) statistics on overall training requirements - Attachment F - by 2 May.

.../5

Enquiries

13. Enquiries regarding these arrangements may be directed to Mr John MacGregor (062) 708873 or Mr Graham Bashford (062) 708871.


F.C. Pryor
Chairman
Joint Implementation Committee
21 April 1980

COMPUTER CONTROLS - Course Synopsis

The course, presented by the Public Service Board is based on the 'Computer Controls' training package developed by the Canadian Institute of Chartered Accountants (CICA). That package, in turn, is based upon the CICA publication 'Computer Control Guidelines', Toronto, Canada 1970, a copy of which will be loaned to participants as pre-course reading.

Length of Course

Four days of about 7 hours each. There is also pre-reading and some evening preparation.

Course Objectives

- . To provide internal auditors with a working knowledge of computer controls
- . To facilitate the evaluation of internal controls in all areas affected by the introduction of computer processing.

Course Pre-requisites

- . Course participants should be familiar with the concepts of computer processing. For those who have not been closely associated with computers useful texts which might be consulted are:
 - 'How it Works : The Computer', A Ladybird Book - very basic, but useful:
 - 'Computers and Common Sense', Roger Hunt and John Shelley, Prentice-Hall, 1977, 3rd edition - basic, readable, relevant and comprehensive:
- . Pre-reading of 'Computer Control Guidelines'
 - particularly the introduction and chapters 1, 2 and 3.

Format and Presentation

The course involves the use of synchronised slide/cassette audio visual lectures, quizzes, case studies and discussion.

There are five major segments:

(i) Pre-Installation Controls

- . to ensure that a computer is ordered only if it is likely to produce greater benefits than other processing alternatives

2.

- . to ensure selection of suitable facilities and services
- . to ensure that a pre-installation plan is prepared against which results and progress can be measured.

(ii) Organisational Controls

- . to provide effective organisational control over the concentration of functions in the ADP Group
- . to ensure that management exercises effective control over deployment of computer resources
- . to consider the question of achieving adequate division of duties in the mini-computer environment.

(iii) Development Controls

- . to ensure that an application is converted to the computer only where it is cost-effective or will provide the least cost basis if a project is to be undertaken under Government direction or where a continuing service must be provided.
- . to ensure the development of effective systems and programs
- . to ensure that systems and programs are effectively maintained.

(iv) Operations Controls

- . to prevent or detect accidental errors occurring during processing by the ADP Branch
- . to prevent or detect fraudulent manipulation of data during processing by the ADP Branch and to prevent misuse of classified information
- . to provide security against accidental destruction of records and to ensure continuous operation.

(v) Processing Controls

- . to ensure the completeness of data processed by the computer
- . to ensure the accuracy of data processed by the computer

3.

- . to ensure that all data processed by the computer is authorised
- . to ensure the adequacy of management trails.

Internal Audit Implementation Group
Public Service Board
Canberra
April 1980

COMPUTER AUDIT - Course Synopsis

The course presented by the Public Service Board is based on the 'Computer Audit' training package developed by the Canadian Institute of Chartered Accountants (CICA). That package, in turn, is based upon the CICA publication 'Computer Audit Guidelines', Toronto, Canada 1975, a copy of which will be loaned to participants as pre-course reading.

Length of Course

2. Six days of about 7 hours each. There is also pre-reading and some evening preparation.

General Objectives

- 3.
- . To show the auditor when and how to adopt and supplement his auditing procedures to cope with a computer environment.
 - . To guide the auditor in the beneficial use of the computer for auditing purposes.
 - . To demonstrate the need for and the role of computer auditing specialists.

Specific Objectives

- 4.
- . To demonstrate that fundamental auditing objectives remain unchanged but that conventional approaches and techniques may become inefficient, ineffective or impossible by the introduction of computer processing; and to show thereby the advantages to the auditor and to the user for auditor involvement in the computerisation process.
 - . To provide a familiarity with the means of assessing the adequacy of internal control for audit purposes, testing it for compliance and performing extended tests where the system and records involve a computer.
 - . To demonstrate the systems, programs or hardware changes which should be of audit concern and to review the audit responsibilities related to conversion activities.

- . To review the audit procedures suited to computer-assisted techniques and to indicate the standards of audit control required for computer-assisted auditing.
- . To provide an awareness of the many significant, non-technical implications of using a computer.

Course Prerequisites

- 5.
- . CICA Computer Controls course.
 - . Pre-reading of CICA 'Computer Audit Guidelines'.
 - . Auditing experience or an understanding of the systems-based auditing approach. (For those participants without auditing experience the Board will provide pre-course notes on systems-based methodology.)

Format and Presentation

6. The course involves the use of video lectures, quizzes, discussion and case studies. Subjects addressed include:
- . Impact of the computer on the audit.
 - . Audit framework.
 - . Control evaluation guide.
 - . Review and evaluation of computer environment controls.
 - . Introduction to documentation of computer application.
 - . Documentation of visible input and output phases.
 - . Documentation of internal computer processing phases.
 - . Documentation of applications - conclusion.
 - . Evaluation of processing controls.
 - . Overall evaluation of internal controls.

- . Introduction to verification
- . Compliance verification - processing controls.
- . Compliance verification - computer environment.
- . Compliance verification - programmed procedures.
- . Analysis of control deficiencies and compliance deviations.
- . Introduction to Computer-Assisted Audit Techniques (CAAT).
- . Data testing CAAT.
- . System testing CAAT.
- . Problem solving CAAT.
- . Audit control over CAAT.
- . Compensating audit procedures.
- . Accounting implications.
- . Legal implications.
- . Outside data centres.
- . Systems under development.
- . Advanced systems.

Internal Audit Implementation Group
Public Service Board
Canberra
April 1980

ADP AUDIT TRAINING PROGRAM

SPECIFICATION ON NATURE OF TRAINING PROJECTS

Introduction

The purpose of the projects is to provide those that have attended the CICA I and II courses with the opportunity to undertake, in an operational environment, an audit in which theories and procedures demonstrated in the courses can be applied in practice. The project should also serve to advance the organisation's annual audit plan.

Nature of Projects

2. While the CICA courses cover many matters which are common to all types of computer processing, there is, to some extent, a concentration on those systems of a batch processing nature. Thus it is unlikely that, in the early stages of the training program, the trainees would be capable of addressing complex systems such as data base systems. (The need for projects of a more complex nature is expected to arise in the later months of 1980.)
3. Projects may be nominated in respect of both financial and non-financial ADP systems and could be located in any capital city. However, at this stage of development of the Service's capability, audit objectives can be expected to concentrate on aspects of compliance rather than efficiency of ADP systems. In this context the term 'compliance' is used in a broad sense and its meaning might best be appreciated by scanning the matters listed in Attachments A and B.
4. Although in some instances four trainees may be allocated to each project, projects should be formulated on the basis that three auditors will be available for four weeks. Allowing for familiarisation, consultation with members of the training team and the team leader, effective audit time will be in the order of nine man-weeks.
5. Ideally from a training viewpoint, projects would require an audit covering all aspects of a small scale ADP system. However, as this may not meet the organisation's priorities or needs, an approach which could be considered by organisations formulating projects concerned with large or dispersed ADP systems, would be to develop a series of inter-related projects, e.g.:
 - two or more projects undertaken at the same time or in sequence could concentrate on relatively independent aspects of the system;

.../2

- 2 -

- findings of early audits could be taken as the starting point for subsequent projects; or
- in respect of centralised systems with satellite processing a series of projects could cover aspects of the central processing and the processing in State capitals.

Role of the Team Leader

6. Wherever possible, the team leader for each project should be an officer of the sponsoring organisation experienced in systems-based auditing and/or computing with an appreciation of the organisational and equipment environment in which the system operates. Should such an officer not be available, possible alternative arrangements will be explored between the Internal Audit Implementation Group and the organisation.
7. The role of the team leader is to:
 - arrange appropriate accommodation;
 - explain the environment of the system to the audit team;
 - provide system documentation as appropriate;
 - facilitate the interface between the audit team, the auditee and other officers of the organisation;
 - be available for consultation during the audit;
 - attend the exit interview; and
 - supervise the preparation and submission of the methodology report by the audit team.
8. The team leader should not take part in the conduct of the audit other than as indicated above.

Preparation of Project Nomination Form

9. Some aspects of the Project Nomination Form at Attachment D require explanation:
 1. Sequence No. : Where more than one project is, or may be, nominated by the organisation the sequential numbering of forms by the organisation will facilitate future discussion.

.../3

6. Constraints : Any constraints which the organisation sees as applicable to the audit or the personnel involved should be clearly stated here - see also paragraph 6(d) of the covering memorandum.
7. Inter-relationships
: See paragraph 5 above.

Internal Audit Implementation Group
Public Service Board
Canberra
April 1980

SUMMARY OF CHIEF INTERNAL AUDITOR CLASSIFICATIONS

Following the joint management review of internal audit operations and the issue in April 1979 of the Public Service Board's circular requesting all departments to review their internal audit arrangements, internal audit establishments have been strengthened in a number of departments. During 1979/80 the Public Service Board agreed to organisation changes affecting internal audit positions in ten departments. For the most part these changes took the form of upward classifications of Chief Internal Auditor positions. It is expected that a number of departments will be submitting further reorganisation proposals after these in-charge positions have been filled and plans for the further development of internal audit activities have been formulated.

Details of changes in the classification of Chief Internal Audit positions are given below:

<u>Department or Organisation</u>	<u>Previous Classification</u>	<u>New Classification</u>	<u>Size of Internal Audit Establishment</u>
Social Security	Class 9	Level 1	103
Business & Consumer Affairs	Class 9	Class 11	27
Housing and Construction	Class 9	Class 11	35
Taxation Office	Class 10	Class 11	94
Productivity	Class 9*	Class 11*	45
Aboriginal Affairs	Class 9	Class 10	14
Education	Class 8	Class 10	18
Employment & Youth Affairs	Class 7	Class 10	22
Health	Class 8	Class 10	20
Primary Industry	Class 8	Class 10	15
Science and the Environment	Class 8	Class 10	8

*This position has not been reclassified, but the Department has been authorised (without prejudice) to advertise it at the Class 11 level.

As at the end of August 1980 the Public Service Board had under consideration proposals from six departments in respect of their internal audit establishments. These were Attorney General's Department, Department of Capital Territory, the Department of Defence, the Department of Finance, the Department of Foreign Affairs, and the Department of Housing and Construction. In addition, the Department of Administrative Services is in the process of developing a new organisation proposal.

Details of departments which have proposed but not yet obtained new classifications for the Chief Internal Auditor position as shown below:

<u>Department or Organisation</u>	<u>Present Classification</u>	<u>Size of Internal Audit Establishment</u>
Defence	Class 11	180
Administrative Services*	Class 9	23
Finance	Class 9	7
Foreign Affairs	Class 9	16
Capital Territory	Class 9	20
Attorney-General's	Class 8	19

* Organisation proposal still being developed.

The following departments or organisations with internal audit establishments consisting of three or more positions have not submitted reorganisation proposals to the Board during the past two years:

<u>Department or Organisation</u>	<u>Classification of Chief Internal Auditor</u>	<u>Size of Internal Audit Establishment</u>
Veterans' Affairs	Class 9	45
Transport	Class 9	27
Defence Service Homes	Class 9	24
Immigration & Ethnic Affairs	Class 7	7
Australian Bureau of Statistics	Class 7	5
National Development and Energy	Class 7	5
Home Affairs	Class 8	3

All of the departments listed above have had contact with the Board's officers concerning the upgrading of their internal audit units and have progressed towards the adoption of a systems-based audit methodology. It is known that several of these departments are preparing recommendations for presentation to the Board.

Source: Internal Audit Implementation Group, Public Service Board, September 1980.



Public Service Board

KINGS AVENUE, CANBERRA A.C.T. 2600

TELEPHONE 73-0411

23 December 1980

Dear

I would like to draw your attention to several developments in the current program to improve the quality of internal auditing.

On the training side our first objective has been to ensure that all internal auditors have some knowledge and appreciation of systems-based auditing. This objective has now been virtually achieved; since May of last year approximately 750 persons have participated in our systems-based auditing courses.

Following the Board's announcement last April of a program to improve the internal auditing of ADP systems we introduced a course aimed at providing internal auditors with a basic knowledge of ADP auditing. With valuable assistance from a number of departments this course has now been given to 142 internal auditors; in addition, 35 ADP audit projects - most of which could not otherwise have been undertaken - have been completed in conjunction with this training course.

An advanced ADP audit course is now being prepared and the Board has secured for this purpose the services of Dr Brian Garner, Professor of Computing at Deakin University. Details of this course will be made available shortly.


There is undoubtedly a serious lack of expertise within the Service in respect of ADP auditing and the need to take urgent remedial action has been stressed not only by the Auditor-General and the Public Service Board but also by Parliamentary bodies such as the Public Accounts Committee. I need hardly add that our training efforts in this area call for the continued co-operation and active support of all the departments and authorities concerned.

I am enclosing for your information two IDAC Papers (Nos. 17 and 25) which the Interdepartmental Committee agreed should be circulated to all interested departments and authorities. It is hoped that Paper No. 17 - which discusses the subject of internal audit independence - will promote better understanding of this subject and stimulate departments to review the adequacy of their current arrangements for safeguarding the quality and objectivity of their internal audit work. The other Paper entitled 'Quality Assurance

for Internal Audit' is designed to assist Audit Committees (or departmental management) to keep the quality and utility of the internal audit function under review; it is also designed to help Chief Internal Auditors and the internal audit field staff maintain the quality and efficiency of their day-to-day auditing operations.

Also enclosed for your information is a copy of a memorandum requesting all departments to furnish certain information regarding their internal audit operations. This information will enable us to make an assessment of the progress achieved to date and of the main problems still requiring remedial action.

Yours sincerely


F.C. Pryor
Chairman
Joint Implementation Committee
on Internal Audit

IDAC Paper No. 17

APPENDIX H

Independence and Internal Audit
in the Australian Public Service

Independence and Internal Audit
in the Australian Public Service

Contents

1. Introduction
2. The meaning of Independence
 - 2.1 Independence and the Internal Auditing Standards
 - 2.2) Internal Audit Independence
 - 2.3) and the role of management
3. The need for Independence
 - 3.1) Independence and other factors
 - 3.2) affecting high quality auditing
 - 3.3)
 - 3.4 Examples of impairments to the objectivity, incisiveness and rigour of internal audits
4. Independence in perspective
 - 4.1 Independence not an end in itself
 - 4.2 Need for some reliance on auditee
 - 4.3 Nature and purpose of audit a relevant consideration
 - 4.4 Audit involvement in systems design
 - 4.5 Independence and the provision of advice and recommendations
 - 4.6) Other factors affecting objectivity
 - 4.7) and balanced judgement
5. Safeguarding Objectivity
 - 5.1 Need for objectivity and constructiveness
 - 5.2) Nature of steps recommended to
 - 5.3) secure and maintain internal
 - 5.4) audit objectivity.

INDEPENDENCE AND INTERNAL AUDIT IN THE
AUSTRALIAN PUBLIC SERVICE

1. INTRODUCTION

1.1 This paper discusses the concept of independence as it applies to internal auditing in the Australian Public Service. It seeks to clarify the degree and kind of independence which is relevant to internal auditing and the serious nature of the problems which can arise if an appropriate degree of independence is not maintained.

1.2 At the same time the paper suggests that internal audit independence should not be treated as a separate goal and that the degree of independence which is desirable in particular situations needs to be assessed in terms of the contribution it may make to the production of objective and high quality audits. In this connection it is argued that complete independence on the part of the internal auditor is not always conducive to the production of quality audits - and may indeed be counter-productive in some circumstances; objectivity, rather than independence as such, is seen as the prime consideration. The paper concludes with a section outlining the main steps which organisations might take to promote and safeguard the objectivity of internal audit work.

1.3 The paper does not set out to provide answers to meet all situations. Nevertheless it is hoped that it will promote a better understanding of the subject and stimulate departments and authorities to review the adequacy of their current arrangements for safeguarding the quality and objectivity of their internal audit work. It is hoped that the paper will help internal auditors to clarify their own ideas on the subject and encourage them to achieve the high degree of audit proficiency and objectivity canvassed in this paper. The paper is being circulated to all departments and organisations staffed under the Public Service Act.

2. THE MEANING OF INDEPENDENCE

2.1 The need for the auditor to be independent of the auditee is often stressed and there is also widespread acceptance of the need for auditors to adopt an independent outlook. These perceptions of the concept of independence

are reflected in the Public Service Board's statement of internal auditing standards where it is asserted that:

'Internal auditors must maintain an independent outlook and must allow nothing to impair their independence to plan, investigate and report with honesty and objectivity.' (GS2)

2.2 It is worth noting at the outset that the cultivation by internal auditors of an independent outlook and the preservation of their independence from the auditees does not imply that they should be left entirely free to determine the nature and scale of their auditing activities. Internal audit is a departmental function and the Permanent Head (or higher management) needs to determine how that function is to be carried out. In particular, internal audit is essentially an aid to management and the higher management in each organisation needs to determine the charter under which internal audit is to operate and decide upon the form and nature of the audits which the unit should carry out.

2.3 At the same time - and especially because of its own interest in receiving audit reports of maximum assistance to it - the higher management has an obvious interest in promoting the conditions necessary for high quality internal audits. Accordingly it is clearly in the interests of higher management to ensure that, within the general terms of reference laid down for it, internal audit maintains an independent approach in its auditing operations and enjoys an appropriate degree of independence in its dealings with the auditees.

3. THE NEED FOR INDEPENDENCE

3.1 The basic purpose of internal audit is the provision of information for management purposes. High quality information is relevant, organised and precise. An audit generating such information must necessarily be incisive, rigorous and objective.

3.2 Many factors can affect an internal auditor's ability to conduct an audit which provides high quality information. Perhaps the most significant are internal auditor competence and audit approach. An audit will also be affected by the relationships between the auditor and auditee and between the auditor and the organisation or system audited.

3.3 Independence is traditionally seen as a precondition for the conduct of quality audits. An internal audit is more likely to be incisive, rigorous and objective if the auditor is in a position where he is neither unduly influenced nor constrained by his association with the auditee or system audited. The auditor's attitudes, likewise, should be similarly detached and he should strive to protect the integrity of his work by maintaining a properly 'independent outlook'.

3.4 There is no doubt that internal auditor effectiveness can be jeopardised by the relationship between the auditor and auditee or system audited. Objectivity, rigour and incisiveness may be impaired in various ways by aspects of this relationship. The following are indicative examples:

objectivity can be impaired where

- an internal auditor or internal audit unit is responsible to the auditee, or where the auditee has the right or capacity to discipline the internal auditor;
- an internal auditor is required to audit a system of his own design or operation, or transactions which he himself has generated.
- the internal auditor maintains close personal ties with an auditee.

incisiveness can be impaired where

- an internal auditor is allowed access only to information provided by the auditee or is restrained from obtaining information on his own initiative;
- an internal auditor is unable to report to sufficiently senior management - and hence might temper his report to secure acceptance of it by line management;

rigour can be impaired where

- an internal audit unit is unduly swayed by a perceived need for consensus or compromise;

- an internal auditor is denied sufficient technical information on alternative procedures.

3.5 These examples illustrate the magnitude and diversity of the problems which can result from a lack of independence. They also illustrate the point that different types of dependency may be involved; while some are serious and inbuilt, others can be reduced by management directed organisational change.

4. INDEPENDENCE IN PERSPECTIVE

4.1 At the same time it should be borne in mind that the independence of the internal auditor should not be regarded as a goal in itself, that independence is only one of the conditions which can be regarded as an aid to quality audits and that a variety of factors may need to be taken into account in judging the form and degree of independence deemed to be required in any audit. These factors are discussed in more detail below. It is also worth noting that, in some cases, audit impairments resulting from restrictions on an auditor's independence may need to be discounted to the extent that such restrictions are connected with other conditions which enhance the audit's value.

4.2 Some reliance upon the auditee and the system audited is inherent in quality audits. It is from these that most usable information is obtained and by them is partly organised. Full access to the information requires assistance from the auditee; understanding the information's significance requires understanding the system, which requires sufficient acquaintance with it. In consequence, there are dangers in internal auditors taking the need for independence to mean scrupulously maintaining distance from auditees and systems. Good working relationships and a degree of first-glance acceptance of system principles (assuming these principles are then examined in the light of practice and audit theory) need not be discouraged.

4.3 The nature and purpose of the audit is one important factor which may affect the form and degree of independence deemed to be required. For example, in respect of financial compliance auditing - especially where matters of financial integrity are involved - there will normally be a very strong case for conducting the audit on a complete 'arms-length' basis between auditor and auditee. If, on the other hand,

an audit is concerned with assessing the efficiency of an organisation's operations the success of such an audit may depend on the establishment of close working relationships and active collaboration and co-operation between auditor and auditee.

4.4 The nature of the material or system which is being audited may also be a relevant factor in assessing the degree of independence which is called for. Reference has already been made (paragraph 3.4 above) to the fact that the effectiveness and objectivity of an audit can be impaired if an internal auditor is required to audit a system of his own design and operation. However, there may be occasions - for example when complex ADP equipment and systems are being planned and established - when internal audit advice concerning such systems should be sought and provided at the planning stage rather than at a later stage when it may be impracticable or unduly costly to give effect to audit recommendations.

4.5 It is part of an internal auditor's function to provide the auditee as manager with objective information about the operations being managed. Considerations of 'independence' should not lead an internal auditor to artificially restrict the provision of advice of this kind. If it is possible for the auditor to provide the auditee with useful information without greatly compromising the position of either, it should be given at least upon completing an audit. In any case, if the auditor keeps too great a distance from the auditee during the audit, the auditee may not accept the auditor's views as constructive or well-grounded. Alternatively, if the auditor refuses to make recommendations entirely, auditees may regard the audit function as merely critical and largely irrelevant. More generally, full assistance to management may require effective communication with management and a willingness to consider what alternative suggestions for controls and systems may result from an audit's conclusions.

4.6 The distinction between the notion 'independent outlook' and circumstantial forms of independence should always be borne in mind. An internal auditor may be involved in some restrictions arising from his association with an auditee or system audited, but still maintain an individual and independent viewpoint. The auditor's outlook may be

influenced by his relationships with auditees and systems audited but it will be governed essentially by his character and values and by the auditing knowledge and experience which he brings to bear.

4.7 An auditor's objectivity can be impaired also by factors unrelated to his association with the auditee. His outlook may be distinct from (or even contrary to) the auditee's perspective of the rationale of the system audited and yet not be truly objective. An internal auditor must be wary of preconceived ideas deriving from other contexts and viewpoints in conducting each audit. This does not mean that the internal auditor should have no ideas when entering an audit project. Rather, he should have a sufficiently deep and rigorous knowledge of control systems and audit requirements to enable him to weigh and correct his own mistaken notions as well as those held by others.

5. SAFEGUARDING OBJECTIVITY

5.1 The independence of internal auditors is worth having, not for its own sake, but for the benefits it can bring in terms of the objectivity and constructiveness in internal audit work. Steps to safeguard the independence of internal auditors can be regarded as steps to safeguard objectivity while retaining constructiveness.

5.2 In most organisations a special effort needs to be made to secure and maintain such benefits. The normal defences of internal audit objectivity should include:-

- routine application of the appropriate means of verification - for example, by checking auditee information against standards, evidence from third sources and such other information as the auditor may advise;
- rotation of internal audit personnel where there is a danger of prejudicial ties developing between auditors and auditees and systems;
- continued support for internal audit by senior management and maintenance of access to senior management - preferably through an audit committee system; and
- regular review of the internal audit function, and the quality of the audit product.

5.3 Two other powerful defences for objectivity are also needed to safeguard the quality of the internal audit process overall and enhance internal audit assistance to management. They are:

- separation of the internal auditor from the auditee's authority, both formally and in practice, so that the auditee is effectively unable to restrain the auditor from any expression of judgement or legitimate search for information; and
- development of a high degree of internal auditor proficiency; the internal auditor should not only be competent to collect information and to analyse and report with insight and confidence but should also be seen to be competent and impartial by auditees and by higher management. The auditor's special authority stems in large part from recognition both of his technical expertise and his objectivity.

5.4 The internal audit training courses currently being conducted under the auspices of the Public Service Board will help to achieve these aims. But much depends also on the efforts made by internal auditors themselves - for example, through active membership of relevant professional bodies - to improve their own proficiency and standing.

APPENDIX I

QUALITY ASSURANCE FOR INTERNAL AUDIT

- . Introduction
- . Section 1: Outline of Proposed Programs
- . Section 2: Improving the Quality of Internal Audit.

- Supplementary Section : Quality Assurance Checklist
Questionnaires (Published separately)

Interdepartmental Advisory Committee on Internal Audit,
December, 1980

QUALITY ASSURANCE FOR INTERNAL AUDIT

TABLE OF CONTENTS

	Paragraph	Page
Introduction		1
Section 1 : Outline of Proposed Programs	1.1	1
Section 2 : Improving the Quality of Internal Auditing		4
A. Role and Responsibilities	2.1	4
B. Organisation Arrangements	3.1	5
C. Personnel	4.1	7
D. Management	5.1	10
E. Indicators of Performance	6.1	15
<u>The Supplement (Published Separately)</u>		
Quality Assurance Checklist Questionnaires:		
For the Audit Committee and/or Senior Management	Appendix A	
For the Chief Internal Auditor	Appendix B	
For the Senior Regional Internal Auditor	Appendix C	
For the Field Auditor:		
Pre-audit	Appendix D	
Audit Progress	Appendix E	
Post-audit	Appendix F	

ACKNOWLEDGEMENT

This paper, and the accompanying Supplement, was drafted initially by the Internal Audit Implementation Group. Acknowledgement is made to the various auditors, senior auditors, chief internal auditors, and others, without whose advice (and comments on earlier drafts) this paper could not have been produced.

QUALITY ASSURANCE FOR INTERNAL AUDIT

INTRODUCTION

Quality assurance is the process whereby an organisation examines and keeps under review the quality, relevance, and cost-effectiveness of its operations. A quality assurance program for internal audit may be likened to a deliberate and regular audit of the efficiency and effectiveness of the internal audit function.

This paper is designed to encourage and assist departments to adopt quality assurance programs. It is being circulated to all departments and organisations staffed under the Public Service Act. The proposals and recommendations put forward in this paper should not be regarded as mandatory but it is hoped that they will provide useful guidance for the formulation of quality assurance programs geared to the individual needs of each organisation.

The paper consists of:

- (1) a relatively brief section outlining the general approach which might be adopted and the main elements of the quality assurance programs which we recommend;
- (2) a more discursive section discussing some aspects of the quality assurance programs in more detail and suggesting various ways in which the quality of internal audit work might be improved; and
- (3) a supplementary section - published separately - containing a series of 'check-list' questionnaires which might assist departments and organisations to develop and operate quality assurance programs.

SECTION 1. OUTLINE OF PROPOSED PROGRAMS

1.1 In its Circular No 1979/8 of 30 April 1979 proposing certain measures to improve the efficiency of departments' internal audit system, the Public Service Board included in its interim internal auditing standards a provision that:

'The chief internal auditor should establish and maintain a quality assurance program to evaluate the operations of the internal audit function within the department.' (MS3)

1.2 It is suggested in this paper that quality assurance programs will be most effective if they also involve action at levels both above and below the chief internal auditor. In particular it is recommended that:

- (a) the Audit Committee - and/or the higher management of the organisation - should make a general evaluation each year of the internal audit function and of its value to the organisation;
- (b) more specific and detailed quality assurance reviews should be carried out on an ongoing basis within the internal audit unit itself by the chief internal auditor and (where relevant) his senior regional auditors; and

- (c) the internal audit field staff should also be involved in the exercise - especially in respect of those elements of quality assurance programs which relate to the quality and efficiency of their day-to-day, auditing operations.

1.3 Especially in current circumstances it is highly desirable that higher management - preferably via an Audit Committee - should evaluate an organisation's internal audit operations each year. In many instances the role and coverage of internal audit may not be firmly established and it may be necessary to review the way in which it is developing and the role which it should play vis-a-vis other internal and external review arrangements. Moreover, in most organisations a substantial and growing investment is being made in the development of internal auditing and higher management would be wise to satisfy itself each year not only that the function is properly organised, managed, and staffed but that it is providing the kind of service and assistance which best meets the organisation's needs.

1.4 In appraising any departmental function - and the internal audit function is no exception - there are certain basic aspects to be taken into account. In this paper - and in the more detailed questionnaire contained in Appendix A - it is suggested that such appraisals be carried out under the following heads:

A. The role and scope of the function. The main questions here are whether an authoritative charter or similar policy statement defining the role and scope has been issued and whether any changes should be made in the charter or in the nature of the auditing activities so as to keep them fully in line with the organisation's needs.

B. Organisation arrangements. Key matters under this head include the independence of internal auditors, the status and role of the chief internal auditor, the role of the audit committee and the viability of internal audit units.

C. Personnel. Higher management needs to be satisfied that the personnel are capable of achieving the organisation's goals, that a coherent staff policy is being followed and that adequate steps are being taken to develop the requisite skills.

D. Audit Management and Methodology. Questions under this head relate to such matters as strategic and annual audit plans, relationships between plans and performance, the encouragement of modern audit methodology and arrangements for the supervision, review and follow-up of audit reports.

E. Indicators of Performance. The prime indicators are the quality of the product - ie the quality of the internal audit reports - and the value of the product to the organisation.

1.5 Appendix A of the Supplement to this paper contains an indicative list of the questions which might be asked for purposes of an annual evaluation of the internal audit function by the Audit Committee or by the higher management of an organisation. It will be noted that this questionnaire lists about six questions under each of the above heads.

1.6 We see a need for this annual general evaluation of the internal audit function to be supported by a more detailed quality assurance program within the internal audit unit itself. Reports on this program would be submitted to the Audit Committee by the Chief Internal Auditor. A checklist questionnaire to guide the chief internal auditor is contained in Appendix B of the Supplement. (In large organisations with regional offices the chief internal auditor would be assisted by his senior regional internal auditors, for whom a similar questionnaire is included at Appendix C.) The chief internal auditor will also have a vital interest in most of the questions listed in Appendix A for consideration by the Audit Committee but we have not thought it necessary to repeat those questions. The content of Appendix B illustrates the point that, in his reviews, the chief internal auditor will be particularly concerned with such aspects as personnel, audit management and methodology, and the quality of audit reports.

1.7 For the field auditors - on whose performance the quality of an organisation's internal audit ultimately depends - we have included in Appendices D, E and F a series of checklist questions relating to the auditing process itself. In particular these questions may help to remind the field staff of the action which needs to be taken at the pre-audit, mid-audit, and post-audit stages if audit work of high quality is to be produced.

Section 2: Improving the Quality of Internal Auditing

2.0 This Section discusses some aspects of the quality assurance programs in more detail and suggests various ways in which the quality of internal audit work might be improved.

A. Role and Responsibilities

2.1 A clear statement of the role and responsibilities of the internal audit unit is essential to any quality assurance program. The responsibilities, particularly, will be seen as indicating the general objectives of departmental internal audit. Characteristically, this statement will already exist in the form of the departmental internal audit charter. It should not, however, be taken for granted. In particular the chief internal auditor should ensure that the charter itself is still relevant to departmental needs and objectives, and consistent with current developments in internal audit.

2.2 One particular concern of the chief internal auditor will be the quality of the relationship between the internal audit unit and line management. If the relationship is to be a productive one - an aid to management - internal audit reports must give more than purely factual data; recommendations should be included, as well as some commitment to provide management further advice and assistance when management implement the recommendations. Depending on local practice, and the work commitments of the organisation's other management advisory services, this assistance may need to be limited to comment on the viability, and auditability, of the systems proposed to overcome the problems brought to notice. An audit report which does not contain constructive suggestions or recommendations may be of little value to line management and could be of less than acceptable quality. Regardless, however, of whether or not an internal audit report contains recommendations it should always give credit where it is due; an auditor's appraisal function is not confined to drawing attention to deficiencies.

2.3 The chief internal auditor also has responsibilities to his or her staff. The nature of these responsibilities are discussed elsewhere in this paper, under Personnel. How these responsibilities are discharged will often depend on the nature of the chief internal auditor's control of his or her staff, and how this control is exercised. Departmental policies concerning the Central Office relationship with State and Regional Offices should be reviewed if audit staff in these latter offices are not responsible to the chief internal auditor.

2.4 A quality assurance program of the kind discussed in more detail below will need to be both ongoing and periodic in nature. It will be ongoing in the sense that the conscious application of the approach documented in the suggested checklist questionnaire contained in Appendices D and E and F of the Supplement require a continuous oversight and follow-up of general aspects of the internal audit operation. And it will be periodic in the sense that special reviews of internal audit performance may need to be conducted by the chief internal auditor to support or supplement the annual evaluation of the internal audit function by the organisation's audit committee.

B. Organisation Arrangements

3.1 The quality of a department's internal audit operations depends in part on the organisation arrangements made for the internal audit unit within the department. These arrangements will involve both the 'position' of the internal audit unit within the hierarchy, as well as the structure of the unit itself.

3.2 Reference has already been made to the need to review certain key aspects of the organisational arrangements in the course of the annual evaluation conducted by the Audit Committee. These include such aspects as the status of the internal audit unit (and of its chief), the need for the unit to be independent, and the need to pay due regard to the viability and cost-effectiveness of the internal audit organisation itself.

3.3 For certain purposes an internal audit unit needs to be part of a departmental hierarchy in the same way as other departmental units - eg, for purposes of the 'house-keeping' arrangements necessary for the day-to-day requirements of the internal audit staff. These must be clearly distinguished from reporting arrangements though it is sometimes the case that both arrangements may overlap. For example, copies or summaries of some or all internal audit reports may be submitted to a management advisory service officer, who may also be the person nominally responsible for the resource requirements and working arrangements of the staff which comprise the internal audit unit. Arrangements such as this can affect the objectivity of reports produced by the internal auditors. This may be particularly important in the case of internal auditors out-posted to regional offices. These auditors are necessarily under more pressure to consider both 'house-keeping' arrangements and reporting arrangements as a localized responsibility and operate accordingly. This can prejudice the quality of internal audit services.

3.4 The structure of the internal audit unit is also important. Many departments will be large enough to justify the inclusion of systems specialists, accounting specialists and ADP auditing specialists in the structuring of their internal audit unit. Others will need to consider different approaches.

3.5 It is worth stressing here that internal audit does not necessarily always require audit staff 'internal' to the organisation. Accepting this allows a wide variety of options to be considered in the structuring of the internal audit unit itself, and provides a useful degree of flexibility in the structuring of audit teams for specific audit tasks. For example, internal audit of an ADP system might involve setting up a team comprised of an internal auditor from within the department and an ADP specialist from another organisation. Another audit could involve a team comprised of an internal auditor from within the department, and a chemist or engineer from another section of the department, or even another department.

3.6 The need for assistance like this should be noted, and allowed for, in the annual program. Obviously, there are many variations possible - and practicable - both in the multi-disciplinary make-up of the audit teams, and in the skills and departmental 'origins' of any solo auditors used. The success of these arrangements, and indeed of any existing or proposed organisational arrangements, must also depend, in large measure, on the rapport established between the chief internal auditor and other staff.

3.7 Geographic dispersal of internal auditors can affect internal audit standards in a variety of ways, especially if the auditors are outposted in small groups. The subject of non-viable audit units has been covered in a report by a 'Joint working party of the Interdepartmental Advisory Committee on Internal Audit'. The paper, titled 'Discussion Paper on the Viability of Small Internal Audit Units' found that, as a general rule, the quality of both staff, and internal audit operations, suffered if internal audit units were comprised of less than three internal auditors. The reasons for this were explored in the paper, and recommendations made concerning a variety of alternative methods of providing a viable audit service. It is recommended reading for audit committees and chief internal auditors.

3.8 Geographic dispersal can affect the chief internal auditor's quality of audit work because of the outposted auditor's identification with the local organisation. More centralised internal audit arrangements, such as those discussed in the viable audit paper mentioned above, should be explored if the chief internal auditor has reason to believe that regional, or other remote departmental offices are not being given the internal audit service they require for this or any other reason.

3.9 The possible use of internal auditors from other departments through joint-servicing or 'umbrella' arrangements may also be worth exploring, particularly where a small department having few, or no internal auditors, has a number of offices at a variety of locations throughout Australia. Quite often, arrangements such as these are the only way in which an internal audit service - as distinct from an external audit - can be provided. Various joint-servicing arrangements for internal audit are canvassed in Appendix B(2) of the discussion paper on the viability of small internal audit units.

C. Personnel

4.1 An audit is only as good as the auditors performing it. And an auditor is generally only good and interested in his or her work if the internal audit tasks allow for, and indeed demand, significant personal growth.

4.2 The manner, and rate of development of this growth can be influenced very considerably by the chief internal auditor. This is an important responsibility, dealing, as it does, with both the needs and future career patterns of the staff under the chief internal auditor's control, and the needs and future development requirements of the organisation concerned. It seems reasonable, then, that the chief internal auditor should give early attention to:

- (a) the current skills (both technical and attitudinal) of the internal audit staff;
- (b) the skills which will be required by internal audit staff to complete the audits listed in the current strategic plan in a practised and proficient manner.

4.3 The assessment of current skills will obviously be relevant to a proper consideration of the personal development needs of the staff. The second assessment will be important both in relating current staff skills to current and projected departmental needs, and in providing the chief internal auditor with an appreciation of the skills and attitudes he might especially look for in staff selection. Diplomas, degrees and certificates are obvious and useful guides here even though many of the skills and attitudes useful in internal audit may not be entirely dependent on tertiary qualifications. Personnel selection standards, and guidelines issued by the professional bodies, or canvassed in the literature, may also prove useful.

4.4 Technological developments (particularly in computer technology) as well as changes in departmental responsibilities can lead to substantial changes in the nature of an organisation's auditing needs, and hence the capabilities the audit staff required. Problems of this kind often take some time to resolve and it may be necessary, at least in the short term, to look outside the department's own audit staff resources for the auditing services required.

4.5 Staff turnover can cause problems in any organisation. Whilst it is inevitable - and indeed desirable - that internal auditors should seek promotion elsewhere if the organisation does not have the career structure, or variety of work, to suit their interests and abilities, it is neither productive nor desirable that departments which can provide the career structure and variety of work should lose efficient staff because of personnel management policies which make insufficient allowance for personal growth. Policies which will help staff to develop can include job rotation both within the internal audit unit, and between the unit and other areas of the organisation; participation, under guidance, in team audits; limited acting in a variety of jobs, and real interest in the development of his or her staff on the part of the chief internal auditor.

4.6 More formal training, where required, can be explored after individual needs, and departmental requirements, are documented. These need not necessarily clash. Departmental goals can be stated broadly enough, without losing precision or the interests of individual developmental needs. Elements of the departmental training program for internal auditors could be considered in relation to the following objectives:

- internal auditors should be knowledgeable about the diversity and inter-relationship of departmental functions. This background training capability may already exist as part of some induction package, either in the internal audit unit, or elsewhere in the department;
- internal auditors should become proficient in new audit techniques and related developments. 'In-house' training, or programs conducted in conjunction with other departments, or the Public Service Board, as well as seminars and short courses conducted by the professional, accounting and auditing bodies, and other organisations. Independent assessment of the usefulness of other 'outside' seminars or short courses is advisable, before commitments are made;
- internal auditors should be encouraged to improve their technical proficiency and expertise with appropriate tertiary or academic study;
- senior internal auditors with management potential should be considered for general management courses where the need is apparent.

Again, the chief internal auditor should also consider his or her own development needs in relation to these points. Consideration might also be given to the use of graduate Research Officers and Administrative Trainees in internal audit work.

4.7 Most individual needs can be catered for within this framework. Moreover, departmental policies in relation to the granting of leave for study purposes can do much to facilitate this training process, and encourage individual staff. Encouragement and in some cases endorsement of close association with selected professional bodies can also be mutually beneficial. Some of these bodies have developed a particular interest in catering for the needs of internal auditors in the Public Service. This should be encouraged, as appropriate, at official levels.

4.8 Internal auditors appreciate concerned counselling; this not only allows the chief, or senior internal auditor to effectively 'lead' the internal audit unit in the manner expected, but helps to assure internal audit staff that, if their work is carried out well, it will have the endorsement and backing of the chief, or senior internal auditor. In addition to counselling, the chief internal auditor's interest in his or her staff could also extend to the development and maintenance of a 'Staff Training and Interest Profile', in which academic achievements, attendance at seminars and short courses, as well as specialised audit interests can be noted. A simple card system will generally suffice, and might also serve as the basis for the chief internal auditor's staff appraisal records.

4.9 The development and maintenance of an internal audit library, or at least the arrangements for access to a library with a good internal audit collection, might also be considered. This library should not only contain current accounting and auditing texts and periodicals, but literature on related fields as well as departmental operations. The needs of out-posted audit groups should be remembered; these can be covered by lists, or photocopies, of various journal articles (selected in conjunction with the training and interest profiles) and various departmental publications.

4.10 The foregoing suggestions are not comprehensive. Chief internal auditors with any experience will have already considered most of them as well as some which have not been mentioned. Any chief (or senior) internal auditor who explores and develops a comprehensive set of personnel management policies is more likely to be able to offer the services required to satisfy management demands, to recruit and hold capable audit staff - and guarantee the quality of the internal audit unit's work.

D. Management

5.1 The chief internal auditor is a manager. As a manager, he will be concerned with the allocation of audit resources to satisfy the requirements of some previously compiled and agreed framework in which demands on these resources will be listed and priorities allocated. This framework will usually be agreed upon each year by the Audit Committee or the higher management of the department after considering basic questions of the kind listed in Part D of Appendix A, in the Supplement. The results of this annual evaluation will be also reflected in the annual audit plan.

5.2 Effective audit administration may be said to be based on sound pre-audit analysis, and on an emphasis on audit for need, not audit by schedule. Pre-audit analysis necessarily starts with the delineation of manageable audit tasks. Ideally, these should be subject to some rigorous selection procedure before being listed in the annual and strategic audit plans - this ensures that the audits are done on the basis of objective need. Annual and strategic plans are - or should be - regularly reviewed, and revised. Audit tasks which are included, and which may have been selected on the basis of some 'cyclical' review schedule, should be reassessed using needs-based criteria, such as those discussed in the next paragraph. This pre-audit analysis will be useful in preliminary planning for the audit of ADP systems, and systems-based audits generally, besides providing most of the groundwork for the setting of specific audit objectives.

5.3 Selection of tasks, and the allocation of priorities by the use of an objective technique - or, at least a technique which attempts some objective ranking of competing tasks - is not restricted to internal audit; many fields of endeavour use this approach in handling demands placed on scarce resources. Internal auditors, however, will be concerned with particular criteria, such as risk (hazarding the organisation's resources with a probability of some loss); exposure (leaving resources unprotected - but not necessarily at risk); essentiality (depth of, and time since, previous audit); materiality (budget appropriation for programmed activity) and judgement (balanced assessment of the factors mentioned), as well as other considerations of concern to the higher management of the department. This approach is documented, as a technique, in Figure 1.

5.4 The approach outlined in Figure 1 should not be used by itself; it is an aid to decision-making, aimed at clarifying and crystallising management thinking. The expansion in recent years in the nature and number of areas which are considered auditable also means, however, that in some cases no strategic plan (of 3 year duration) can cover all the areas to be audited. This places added importance on proper selection of audit tasks, and emphasises the usefulness of techniques such as that presented. Having decided, on whatever basis, the various audit priorities, surveys may be done in the areas concerned. They may also be usefully done in conjunction with priority allocation, or form the basis of a familiarisation program for a new chief internal auditor. Such programs can be significant in establishing - or improving - relations with management. These surveys may also be useful in establishing the reporting arrangements, as well as the audit base (ie the objectives of the audit, the methodology and technique).

Figure 1 : Internal-Audit Project Selection and Priorities

Client : Branch/Division.....

Program/Activity/Function.....Date.....

Internal Audit Project Selection and Priorities

Instructions : For each competing audit project, consider the factors in (A), (B) and (C). Make your assessment, and transfer it to the summary section below:

(A) RISK, and EXPOSURE

	RISK					
	Low	1	2	3	4	5 High
E	1	2	3	4	5	6
X	2	3	4	5	6	7
P	3	4	5	6	7	8
O	4	5	6	7	8	9
S	5	6	7	8	9	10
U	6	7	8	9	10	
R	7	8	9	10		
E	8	9	10			
	9	10				
	10					

(B) ESSENTIALITY

		Depth of Previous Audit				
		Efficiency	Full SBA	Concise Audit	Survey	Nil
Time	1	2	3	4	5	6
Elapsed	2	3	4	5	6	7
Since	3	4	5	6	7	8
Previous	4	5	6	7	8	9
Audit	5	6	7	8	9	10
(Yrs)						

(C) MATERIALITY

PROGRAM BUDGET FOR CURRENT YEAR	Tick	Weight
500,000		1
\$0.5M-1M		2
\$1M-2M		3
\$2M-5M		4
\$5M-10M		5
\$10-20M		6
\$20-30M		7
\$30-50M		8
\$50-100M		9
\$100M		10

Summary

A. Risk and Exposure	_____
B. Essentiality	_____
C. Materiality	_____
TOTAL	_____

Judgement : Considering this total, and comparing it with those for other audit projects, I judge this client as requiring

Year (tick box or boxes)

	1	2	3
No audit at all			
Survey			
Concise Audit			
Full systems audit			

Comments

.....

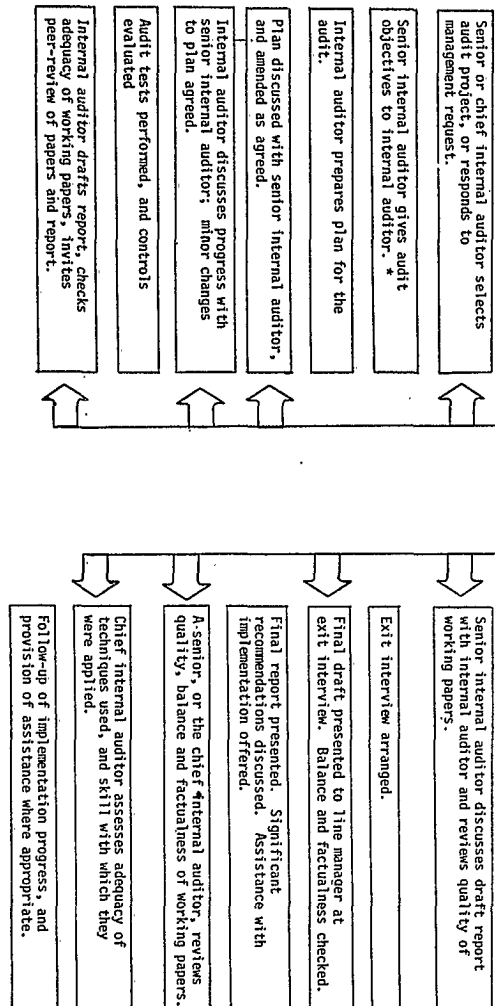
.....

Signature.....

Position.....

Date.....

Figure 2 : Quality Assurance and Internal Audit Administration



* Depending on circumstances, this could also include scope, technique, evaluation criteria, and guidelines for stopping the audit, if warranted

5.5 Significant savings can be made if auditors are withdrawn from areas where a preliminary audit shows no appreciable problems; the audit resources may be used to better effect elsewhere.

5.6 Close monitoring of audits in progress for a comparison of what is being achieved to what was expected should be the standard procedure, both as a check on the adequacy of working papers, and the accuracy of pre-audit analysis. This monitoring process, which is outlined in Figure 2, below, will also allow the field auditor and the chief internal auditor, to ask whether or not each audit in progress should proceed, or be stopped.

5.7 Quality Assurance checklist questionnaires have been developed for field auditors to cover those points noted on the sides of the diagram in Figure 2. Three questionnaires, dealing with pre-audit operations, audit progress, and post-audit operations, are presented as indicative examples in Appendices D, E and F of the Supplement. None of these checklists attempts to be comprehensive; no checklists could be. They do, however, attempt to provide a reasonable survey of the type of questions which should be asked, and in roughly the sequence they would need to be asked. Irrelevant questions may simply be ignored, or marked not applicable; relevant questions should be answered, and the answers used as a guide for action by the field auditor, or senior internal auditor, to improve the quality of the audit being performed. Other questions may be included to cover particular organisational needs.

5.8 A variation on this checklist questionnaire approach, has already been used successfully at the workplace itself by field auditors. Referred to as Action Packages, they are essentially internal audit kits, which contain broad guidelines on the general questions which need to be asked about system recording, control analysis, verification, assessment of evidence, as well as review of audit working papers, and organisation of report material. Whilst the packages do take time to prepare, they do allow subsequent audits in the areas for which they are written to be completed more quickly, and with quality assurance built in to the audit process.

5.9 Because action packages are useful tools in the interpretation of audit plans, the arrangement of working papers, and the exercise of quality control; they are also of value in satisfying the interim internal audit standard EES 4, 5 and 6. They can also be helpful to internal auditors in the provision of checklists of key controls for subsequent compliance audits, and identifying essential controls. With internal auditors using systems-based methods, action packages provide the documentation required for adoption of specific audit plans, and the logic and evidence required for an audit opinion. These packages can be particularly valuable training and time-saving aids in those areas of the department where, for any of the variety of reasons mentioned above, internal audits are frequently done. Copies may also be forwarded to regional offices with outposted internal auditors, and given to, or exchanged for additional packages with, other departments. These other departments might also wish to consider participating in a peer-review program: a visit (which could last up to one week) by their chief internal auditor to informally assess audit administration and practices - preferably on a reciprocal basis. This can be very rewarding for both parties, and organisations. Not only are the standards of the host organisation assessed, but the chief internal auditor's own departmental standards are measured - usually tacitly - against those of the host organisation.

5.10 Peer-review, and checklist questionnaires are two quality assurance techniques extensively used by private management consultants with a name to maintain, who cannot afford to overlook anything. Any internal audit unit will have a name to maintain if it conducts its administration, and operations, with the attention to resource management outlined in this chapter, and the sensitivity to audit needs suggested by the questions listed in the checklists contained in the Supplement. One of these checklists covers an inductive range of questions which a chief internal auditor might wish to ask, both of himself and his staff, in the annual review of the internal audit unit's operations. At the same time, the chief and senior internal auditors will have improved the value of internal audit to management, improved the cost-effectiveness of audits, and ensured better use of a scarce resource - auditors.

E. Indicators of Performance

6.1 As indicated in the Supplement (Appendix A Section E) various indicators of performance are relevant to a quality assurance program. One, prompt reporting, is essential to enable timely use to be made by management of the information contained in the reports. These reports should be submitted to appropriate managers within the organisation, and will include those officers who may be responsible for taking action on audit findings and recommendations.

6.2 This process will be influenced by a variety of factors, including:

- the quantity of internal audit reports produced;
- the geographic dispersal of internal auditors;
- whether or not an audit committee is operating in the department; and
- the use of internal auditors from other departments, or organisations.

6.3 Before dealing with these factors, however, it may be useful to touch briefly on the essential characteristics of an internal audit report. Quality assurance here, by the chief internal auditor, can ensure that reports:

- start with a clear statement of the objectives of the particular audit;
- have perspective, putting defects in proper relation to the operation of the audited area;
- give minor deficiencies less space than major deficiencies;
- provide balance, by giving credit where it is due;
- show a logical flow of ideas, and make use of flow charts, organisation charts and diagrams, where appropriate;
- deal accurately with both facts and emphases;
- are discussed, in final draft, with the auditees; and
- contain recommendations.

6.4 The final report should not, then, contain any surprises for line management. Here, chief internal auditors might consider using the 'joint-statement' approach. This involves the preparation of a brief (generally one-page) summary of the key findings and recommendations, and the signing of this statement by both the auditor and the manager involved. This consultative-style of quality assurance will certainly ensure that the image of internal audit as an aid to management is maintained, and could improve the probability of audit recommendations being implemented, besides providing a basis for subsequent follow-up discussions.

6.5 The quantity of internal audit reports produced will have significant bearing on reporting arrangements. Large departments, generating large quantities of reports will clearly need to adopt different procedures to those required by a small department producing very few reports. Large quantities of reports may be dealt with by providing brief, summary reports, to senior management. The summary reports may even be limited to exception reporting only, with more detailed reports and recommendations going to line management. This 'editing' process is best done by either the chief, or senior internal auditor, with the different type of report required by the permanent head, line management, and the audit committee being agreed to by discussion. The usefulness of charts and diagrams conveying information should be exploited where appropriate, and synopses provided for the more technical reports.

6.6 Effective internal auditing depends also on its relations with management. Any internal audit unit starts with a defined relationship with management and how this relationship is maintained (and improved, if necessary) depends on the efforts made by both parties. For the chief internal auditor, this effort will be judged by the quality of the internal audit product. For management, it will be judged by their readiness to ask internal audit to diagnose problems, recommend practical solutions and advise on their implementation. Quality assurance for relations with management must therefore be concerned with the manner in which the internal audit is conducted, the content and manner in which the report is presented, and the commitment of the internal audit unit to advise on the implementation of report recommendations. If this quality assurance is good it is inevitable that the relationship will be good, and that management will actively seek internal audit assistance, and provide the chief internal auditor with feedback (both formal and informal) on internal audit performance.

6.7 We might add a few supplementary observations, such as the importance of personal visits by the chief internal auditor; of the provision of timely advice of commencement dates for audits; of the need for field auditors to keep in touch with management during audits and to seek their opinion on system functioning and operational problems, and of the usefulness of 'exit' interviews, and 'joint-statements', after the completion of audit field work.

6.8 The development of such practices is more likely to lead to requests from management to return - either to help implement audit recommendations, or to do further audits. Managements which make requests like this - and especially requests for audits - are indicating their confidence in the internal audit product. Moreover, the particular value of requests for audits is that they indicate to the chief internal auditor that management is also saying that they have a problem, and that they are hoping for useful audit recommendations which might provide a solution. Ideally, a turning point will come when audit reports are so competently done, recommendations so generally accepted and implemented that requests from management for audits become too numerous to be met, and a strict priority system needs to be instituted. When this happens, a chief internal auditor can be reasonably confident of the quality of the internal audit work. That quality must then be maintained.

APPENDIX J

QUALITY ASSURANCE CHECKLIST QUESTIONNAIRES

S U P P L E M E N T

To the Paper

on

Quality Assurance for Internal Audit

SUPPLEMENT TO THE PAPER ON
QUALITY ASSURANCE FOR INTERNAL AUDIT

This Supplement contains the checklist questionnaires referred to in the main text of the paper. The purpose of these checklists is to facilitate the maintenance of a quality assurance program for the internal audit unit of your organisation. The format and degree of detail addressed in each list has been tailored to suit the level at which the lists are expected to be used. Broad, general policy questions are included in the Checklist designed for use by Audit Committees. Questions relating to other aspects of the role of audit committees were listed in Appendix B to the Discussion Paper on Audit Committees issued in March 1980.

Questions, concerned with administrative and operational detail, designed for periodic use by both the chief, and senior regional internal auditors, are also provided.

Quality assurance at the workplace itself is catered for with three sets of questionnaires dealing with the three main stages of any audit; before, during and after the event. Space is provided for working-paper referencing, and details of action required, or planned, on the questions raised.

Regardless, however, of the level for which the questions are planned, they all remain indicative examples only of the sort of questions which might be asked.

Checklist Questionnaires for Ongoing and Periodic Quality Assurance Review

For the Audit Committee	Appendix A	Page 2
For the Chief Internal Auditor	Appendix B	Page 4
For the Senior Internal Auditor	Appendix C	Page 7
For the Field Auditor		
Pre-audit	Appendix D	Page 9
Audit progress	Appendix E	Page 12
Post-Audit	Appendix F	Page 16

Interdepartmental Advisory Committee on Internal Audit
December 1980

Appendix A

QUALITY ASSURANCE FOR INTERNAL AUDIT
CHECKLIST FOR USE BY THE AUDIT COMMITTEE
OR SENIOR MANAGEMENT

A. Role and Scope of the Function

- (i) Has an authoritative internal audit charter or similar policy statement been issued defining the role, scope, and authority of the internal audit function
- (ii) Is the primary thrust of the internal audit unit's activities in line with management expectations and with the principal needs of the department
- (iii) Should there be any change in emphasis or priorities as between the various kinds of internal auditing being undertaken (financial auditing, compliance auditing, efficiency auditing, etc.)
- (iv) Is there any duplication of responsibilities as between internal auditing and other internal or external review activities (including external auditing) and is there scope for developing more effective working relationships between them
- (v) Have appropriate arrangements been made to keep the role and scope of internal auditing in line with the department's needs.

B. Organisation Arrangements

- (i) Is the status of the internal audit unit consistent with the nature of its responsibilities
- (ii) Does the internal audit function have the full support of the higher management of the department and does the chief internal auditor have the right of access to the chief executive officer
- (iii) Is the internal audit unit quite independent of those areas of the department whose activities come within its charter of operations
- (iv) Does the chief internal auditor have functional responsibility for all internal audit activities including those carried out in regional offices
- (v) Is the Audit Committee satisfied that all parts of the internal audit organisation are viable and cost-effective.

C. Personnel

- (i) Is a coherent and clearly articulated policy being followed in respect of the staffing of the internal audit unit and in providing adequate opportunities for career advancement
- (ii) Is the chief internal auditor a capable manager who enjoys the support and confidence both of his own staff and of the higher management of the department

- (iii) In terms of both quantity and quality are the existing staff capable of achieving the organisation's goals
- (iv) Is the mixture of skills and experience in the internal audit unit consistent with the nature of the auditing work which is required
- (v) Are adequate steps being taken (by training programs, etc) to develop the requisite auditing skills especially in respect of the auditing of ADP systems
- (vi) Is staff morale high and do the internal auditors enjoy the respect and co-operation of other personnel in the department.

D. Audit Management and Methodology

- (i) Have comprehensive audit plans been formulated providing for internal audit coverage within a reasonable period of all audit areas for which the unit is responsible
- (ii) Do these involve both annual and strategic audit plans and are those plans up-to-date in the light of the latest assessment of the role and scope of the internal audit function
- (iii) Is there reasonable correlation between the work planned and the work completed during the past year
- (iv) Has an internal audit manual to guide the staff on audit policies and procedures been issued and does it reflect modern auditing developments
- (v) Is there adequate supervision, review, and follow up of all audit reports
- (vi) Are other auditing services readily sought by the department in cases where it would be uneconomic or beyond the capability of the department to carry out such auditing from its own staff resources
- (vii) Is the annual evaluation of the internal audit function by the Audit Committee supplemented by an in-house quality assurance program organised by the chief internal auditor

E. Some Indicators of Performance

- (i) Are the internal audit reports timely, concise and understandable
- (ii) Do the reports contain, where appropriate, constructive recommendations on substantive matters
- (iii) Are audit reports and recommendations considered promptly and have they resulted in significant savings or other benefits to the department during the past year
- (iv) Is there any other information which might help the Audit Committee to evaluate the performance of the internal audit unit and the cost-effectiveness of its operations.

QUALITY ASSURANCE FOR INTERNAL AUDIT

CHECKLIST FOR USE BY CHIEF INTERNAL AUDITOR*

A. Role and Scope of the Function

- (i) Has the audit charter been reviewed, and if necessary, rewritten, to reflect internal audit needs?
- (ii) Does the audit committee require, or expect a written assessment from the chief internal auditor of internal audit activities for the year?
- (iii) Has management's attention been drawn to existing or potential problems relating to the interpretation (in Central Office or Regional operational areas) of enabling legislation or ordinances, or instructions regarding the legislation or ordinances?
- (iv) Have the management advisory services review staff been advised of any aspect of departmental operation which, whilst not significant for audit report mention, may have significant implications unless attended to?
 - forms design, and forms control
 - work simplification
 - potential bottlenecks
 - outdated procedures
 - staff development (particularly for supervisors)

B. Organisation Arrangements

- (i) Have alternative arrangements been considered for the provision of internal audit services where non-viable groups of internal auditors (less than three) are out-posted to areas of regional operation?
- (ii) Has a review of the documentation concerning the organisation, and structure of the organisation been conducted?
- (iii) If yes, has management attention been drawn to any significant changes in the workload, or work value, of any positions?

C. Personnel

- (i) Are there any particular aspects of internal audit staffing or operation which need to be brought to the attention of the audit committee, or other senior management?

* Note: The Chief Internal Auditor will also be concerned with most of the questions contained in the Audit Committee checklist.

- (ii) Has an assessment been made of the adequacy of internal audit staff numbers to handle current and projected audit commitments?
- (iii) Has an assessment been made of the variety of audit skills to be looked for in recruiting new audit staff?
- (iv) Have estimates been submitted for Service-organised training programs for internal auditors?
- (v) Are staff appraisal, and counselling procedures adequate?
- (vi) Do the chief internal auditor and senior internal auditor need to participate in any special training development program?
- (vii) Is the organisation taking adequate steps to build up, maintain, or arrange for the outside provision of, ADP audit expertise?

D. Audit Management and Methodology

- (i) Have the annual and strategic audit plans been brought up to date, and assessed for appropriateness and completeness?
- (ii) Have selection criteria been developed for both central and regional internal audit which, by assessing risk, exposure, assets and throughput, allows emphasis to be placed on audit by need and not audit by schedule?
- (iii) Has an internal audit manual been established, and is it reasonably current? If not, have other organisations been approached for the loan of models?
- (iv) Have arrangements been made to ensure that the internal audit section is advised promptly of any significant changes in the organisation's systems and procedures?
- (v) Has due consideration been given to the security of the organisation's assets, including information, in the audit projects conducted?
- (vi) Has adequate provision been made for the internal audit needs of overseas posts, if any?
- (vii) Have sufficient travel funds been requested for internal audit staff to adequately service regional and other offices?
- (viii) Has a review been made of the relevance and adequacy of the various professional journals relating to internal audit to which the department subscribes?
- (ix) Have relevant and useful books, other monographs and reports been purchased for, or added to, either the internal audit unit or the library?

E. Some Indicators of Performance

- (i) Have all Regional Operations checklist questionnaires been reviewed, and action taken, or arranged, to correct apparent deficiencies?

- (ii) Has management been given adequate opportunity to comment on the usefulness of audit performance and reporting?
- (iii) If not, has a review been made of the adequacy of all sources and systems of feedback on audit performance, and audit reporting?
- (iv) Is it feasible to conduct a survey of the cost-effectiveness of the internal audit operation?
- (v) Has a review been made of the extent of the internal audit section's compliance with the Public Service Board's Interim Internal Audit Standards?

APPENDIX C

QUALITY ASSURANCE FOR INTERNAL AUDIT CHECKLIST FOR USE BY SENIOR REGIONAL INTERNAL AUDITOR*

A. Role and Scope of the Function

- (i) Does the central audit committee or regional audit committee require, or expect, a written assessment from the senior internal auditor of internal audit activities for the year?
- (ii) Has central office attention been drawn to existing or potential problems relating to the interpretation (in Central Office or Regional operational areas) of enabling legislation or ordinances, or instructions regarding the legislation or ordinances?
- (iii) Have the regional or central management advisory services review staff been advised of any aspect of departmental operation which, whilst not significant for audit report mention, may have significant implications unless attended to?
 - forms design, and forms control
 - work simplification
 - potential bottlenecks
 - outdated procedures
 - staff development (particularly for supervisors)
- (iv) Have the internal audit requirements of regional out-riding organisations been adequately satisfied?

B. Organisation Arrangements

- (i) Has a review of the documentation concerning the organisation, and structure of the organisation been conducted?
- (ii) If yes, has the attention of management, and the chief internal auditor, been drawn to any significant changes in the workload, or work value, of any positions?

C. Personnel

- (i) Are there any particular aspects of internal audit staffing or operation which need to be brought to the attention of the audit committee, or other senior management?
- (ii) Has an assessment been made of the adequacy of regional audit staff numbers to handle current and projected regional audit operations?

* Note: The Senior Regional Internal Auditor will also be concerned with many of the questions contained in the Audit Committee checklist.

- (iii) Has an assessment been made of the variety of audit skills to be looked for in recruiting new audit staff?

- (iv) Have estimates been submitted for training programs for internal auditors?

- (v) Are staff appraisal, and counselling procedures adequate?

- (vi) Does the senior internal auditor need to participate in any special training development program?

D. Audit Management and Methodology

- (i) Have the annual and strategic audit plans been brought up to date, and assessed for appropriateness and completeness?
- (ii) Have arrangements been made to ensure that the internal audit section is advised promptly of any significant changes in the organisation's systems and procedures?
- (iii) Has due consideration been given to the security of departmental assets including information, in the audit project conducted?
- (iv) Have sufficient travel funds been requested for internal audit staff to adequately service offices in the region?
- (v) Do the criteria used in the selection of audit projects (such as risk, exposure, assets and throughput) need revision?

E. Some Indicators of Performance

- (i) Have the quality assurance checklist questionnaires for Field Staff (pre-audit, audit progress, and post-audit) been reviewed and appropriate action taken to correct any deficiencies?
- (ii) Has regional management been given adequate opportunity to comment on the usefulness of audit performance and reporting?
- (iii) If not, has a review been made of the adequacy of all sources and systems of feedback on audit performance, and audit reporting?
- (iv) Is it feasible to conduct a survey of the cost-effectiveness of the internal audit operation?
- (v) Has a review been made of the extent of the internal audit unit's compliance with the Public Service Board's Interim Internal Audit Standards?

FIELD AUDITORS' QUALITY ASSURANCE : PRE-AUDIT CHECKLIST

Prepared by	Reviewed by	Page
Date	Date	1 of 3

Field auditors should use this checklist before starting any audit. All questions should be answered, and action taken, or arranged, such as would improve the quality of the proposed audit.

1. Have the projects contained in the current annual (or medium-term) plan been divided into manageable audit tasks?
.....
2. Is the proposed audit a manageable audit task?
.....
3. Why is the audit being done?
.....
4. Has the proposed audit selected having regard to criteria such as risk, exposure etc.?
.....
5. If the proposed audit has a lower priority than any other audit in the current annual plan, have reasons been advanced and approval obtained, to do the proposed audit?
If no, give details
.....
6. Has a pilot survey been done, or planned, on the proposed audit?
If not, should the audit be restricted to this?
.....
7. Has an audit plan been developed defining the scope and methodology, of the proposed audit?
.....
8. Has a realistic estimate of the resource requirements for this audit (staff numbers, time) been made?
.....
9. Have the differing skills and qualifications of audit field staff been considered in allocating field auditors to the proposed audit?
.....
10. Is it necessary, and practicable to send selected audit staff for training in specific skills before they commence the proposed audit? If yes, give details
.....
.....
11. Has management of the area to be audited been given adequate notice of the proposed audit?
.....

[illegible]

FIELD AUDITORS' QUALITY ASSURANCE : PRE-AUDIT CHECKLIST

Prepared by	Reviewed by	Page
Date	Date	2 of 3

12. Has management been advised of the scope and proposed duration of the audit?
13. Have the views of management been taken into account?
14. Have previous audit reports, including external audit reports, and any relevant management advisory service reports on the area to be audited been reviewed? If yes, issues/areas brought to notice
.....
.....
15. Is the audit committee aware that the proposed audit is scheduled to be done? If not, has notice been prepared?
16. Are any other review staff, including external audit staff, scheduled to undertake any projects in the area of the proposed audit before, during, or immediately after period scheduled for the audit?
17. Has an action package been developed in this or a related organisation, which could be used in the audit?
18. Is systems-based methodology to be used on this audit? If no, give reasons
.....
19. Does the nature of the project suggest that there could be benefit in using an inter-disciplinary team, made up of some staff from outside the internal audit unit, or even the organisation?
20. If the project is an ADP audit, has adequate provision been made for control evaluation guide sheets, and associated documentation?
21. Has the audit committee given any direction relevant to the conduct of the proposed audit?
22. Could the proposed audit benefit from, or involve the use of, internal audit staff from another organisation?

[illegible]

FIELD AUDITORS' QUALITY ASSURANCE : AUDIT PROGRESS CHECKLIST

Prepared by	Reviewed by	Page
Date	Date	4 of 4

ANSWER				File or Working Paper Reference
Yes	No	N/A	Initial	
d				

FIELD AUDITORS' QUALITY ASSURANCE : POST-AUDIT CHECKLIST

Prepared by	Reviewed by	Page
Date	Date	1 of 2

		ANSWER			File or Working Paper Reference
		Yes	No	U/A	
1.	Have the pre-audit checklist and the audit progress been reviewed, and actioned, as appropriate?				
2.	Has the chief, or senior internal auditor reviewed the final report? If not, have arrangements been made for this?				
3.	Have the working papers been reviewed for quality, balance and factualness?				
4.	Were there any significant changes to the scope of the audit? If yes, give details				
5.	Do these changes justify revision of the current annual audit plan for future audits in the area involved, or elsewhere in the department? If yes, is follow-up action warranted?				
6.	Were the techniques used in the audit appropriate to the task?				
7.	Were the techniques used in the audit adequately applied?				
8.	Did the audit reveal any significant findings? If yes, has management response to these findings been obtained and documented?				
9.	Would any of the field auditors involved in the audit benefit from training in audit techniques which could have been applied to the task?				
10.	Have arrangements been made to distribute copies of the final report, or summaries or abstracts of the final report, to the chief internal auditor, the audit committee, and other relevant departmental managers?				
11.	Have arrangements been made to review, at a later date, the progress of implementation of significant recommendations?				

FIELD AUDITORS' QUALITY ASSURANCE : POST-AUDIT CHECKLIST

Prepared by	Reviewed by	Page
Date	Date	2 of 2

APPENDIX K

Reference: 80/2905

23 December 1980

All Departments and Statutory Authorities staffed
under the Public Service Act

INTERNAL AUDIT IN THE AUSTRALIAN PUBLIC SERVICE

The main purpose of this memorandum is to seek information from each department and authority concerning their internal audit operations.

2. This information will assist the Joint Implementation Committee in reviewing the progress achieved to date in respect of internal auditing and in assessing the efficacy of the training and other development programs which have been sponsored by the Board and supported by the departments.

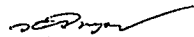
3. The need to carry out reviews of this nature for the information of the Board and of the departments was foreshadowed in April 1979 when the Board announced a series of measures to improve the efficiency of internal audit in the Australian Public Service (see PSB Circular 1979/8). The reviews we have carried out since that time have been confined mainly to particular aspects such as the results of the systems-based audit training program. With the completion of that training program and the launching (with considerable departmental assistance) of the program to improve the internal audit of ADP systems we have entered a new phase of development and it is timely, therefore, to take stock of the progress made to date and of the main problems still requiring remedial action.

4. The information we are seeking is listed in questionnaire form, in Attachment A. This questionnaire is designed to simplify the collection and collation of the material and to avoid the need for any significant research effort. The questions fall into the same 5 categories which (as suggested in our paper on "Quality Assurance for Internal Audit") might be employed by departments when making their own more detailed evaluations of the quality of their internal audit operations.

12. If no significant recommendations were made in the final report which relate to management improvement, then, subject to an assessment of potential risk and exposure in the area audited, has deferral of subsequent audits of the area listed in the current annual or strategic plans been considered?
13. If the audit ran significantly longer than the time budgeted for it, have the reasons for the overrun been established, and action taken to prevent, or limit similar overruns on other projects?
14. Was the audit team restricted in any way in its conduct of the audit?
15. Were these restrictions mentioned in the final report?
16. Would it be practicable, and beneficial, to send copies of the final report to other regional officers of the department where similar audits are conducted?
17. Is a copy of the final report filed in a library of audit reports?
18. Has management been assured of assistance from the internal audit unit in the implementation of any recommendations contained in the report?

[illegible]

5. I would be grateful if this information could be provided as soon as possible and in any event no later than Friday 20 February 1981. The replies should be endorsed by senior management in each organisation and any comments or suggestions would be welcome. We would be glad to make available to interested respondents an analysis of the material produced by the survey.


F.C. Pryor
Chairman
Joint Implementation Committee
on Internal Audit

INTERNAL AUDIT IN THE AUSTRALIAN PUBLIC SERVICE

DEPARTMENT/ORGANISATION
DATE CONTACT OFFICER
PHONE

Please return the completed questionnaire by 20 February 1981 to the Chairman, Joint Implementation Committee on Internal Audit, Public Service Board, Canberra ACT. Enquiries concerning the questionnaire may be directed to Mr Timoshenko Aslanides (717231) or Mr Graham Bashford (717397).

UNLESS OTHERWISE NOTED, QUESTIONS IN THIS SURVEY CONCERN THE CALENDAR YEAR 1980.

A. Role and Scope of the Function

A (1) Audit Charter

(a) Does your department have an audit charter?

YES

NO

(b) Has the charter been reviewed and approved by the Permanent Head within the last two years?

YES

NO

(c) If yes, were any changes made?

YES

NO

(d) Has a copy been forwarded to the Public Service Board?

YES

NO

(e) If no, please attach a copy to this questionnaire, or forward it separately to the Internal Audit Implementation Group.

ATTACHED

TO BE
FORWARDED

A (2) Nature of Auditing Activities

Please indicate (as a proportion of audit time) the extent to which your internal audit activities involve:

	1979 %	1980 %
(a) Financial and compliance (GS1a)	—	—
Cost-effectiveness (GS1b)	—	—
Efficiency (GS1c)	—	—
	<u>100</u>	<u>100</u>
(b) Financial auditing	—	—
Non-financial auditing	—	—
	<u>100</u>	<u>100</u>
(c) Systems-based auditing	—	—
Transactions-based auditing	—	—
	<u>100</u>	<u>100</u>

A (3) ADP Auditing

Does the efficient performance of your internal audit function over the next two years call for:

(a) Basic knowledge of ADP auditing	YES	NO
(b) ADP auditing at an advanced level	YES	NO
(c) More knowledge than currently available to your organisation	YES	NO

A (4) ADP Systems

Which is your most advanced or difficult system from the ADP auditing standpoint? (Brief details only.)

.....

A (5) Other Activities

(a) Has your internal audit group been involved in reviews or other activities beyond those specified in the internal audit charter?	YES	NO
(b) If yes, please indicate the nature of such activities:		
.....		
.....		
.....		

B. Organisation Arrangements

B (1) Audit Committee

(a) Does your organisation at present have, or intend to establish, an audit committee?

Have		Intend to Establish	
YES	NO	YES	NO

(b) If yes, please tick frequency of the actual or proposed meetings per year

6 or more	5	4	3	2
-----------	---	---	---	---

and (c) Composition of Committee Please tick (indicating numbers where appropriate)

Permanent Head	
Deputy Secretary	
External Members	
First Assistant Secretaries	
Assistant Secretaries	
Other Staff	
Chief Internal Auditor:	
- as participating member	
- as executive support only	

B (2) Chief Internal Auditor

- (a) To whom is the Chief Internal Auditor directly responsible?

Audit Committee	<input type="checkbox"/>	First Assistant Secretary*	<input type="checkbox"/>
	()
Permanent Head	<input type="checkbox"/>	Assistant Secretary*	<input type="checkbox"/>
	()
Deputy Secretary	<input type="checkbox"/>	Director*	<input type="checkbox"/>
	()

* Please indicate relevant designation.

- (b) If not directly responsible to him does the Chief Internal Auditor have the right of direct access to the Permanent Head/Chief Executive? ☐ YES ☐ NO
- (c) Please outline any other significant relationships between senior management and internal audit:

- (d) (i) Is control of all the internal audit activities centralised under the Chief Internal Auditor? ☐ YES ☐ NO
- (ii) If not, are changes in this arrangement anticipated? ☐ YES ☐ NO

B (3) Viability of Audit Units

Having regard to the issues raised in the IDAC discussion paper on viable audit units:

- (a) Does the organisation have any internal audit units of less than three auditors? ☐ YES ☐ NO
- (b) If yes, are any changes contemplated? ☐ YES ☐ NO

C. Personnel

C (1) Number of Staff

Please indicate the number of internal audit staff, as follows

	<u>2.1.80</u>	<u>31.12.80</u>
(a) Internal audit establishment at	_____ and	_____
(b) Actual staff	_____ and	_____
(c) Number of staff who left the Internal Audit Section during 1980	_____	_____

C (2) Training of Staff

What number and proportion of internal audit staff, as at 31 December 1980

- (a) Have completed or are studying for tertiary qualifications in any discipline
- | | |
|--------|-------|
| Number | % |
| _____ | _____ |
- (b) Have received systems-based audit training
- | | |
|--------|-------|
| Number | % |
| _____ | _____ |
- (c) Have received basic ADP audit training
- | | |
|--------|-------|
| Number | % |
| _____ | _____ |
- (d) Require basic ADP audit training
- | | |
|--------|-------|
| Number | % |
| _____ | _____ |
- (e) Require advanced ADP audit training
- | | |
|--------|-------|
| Number | % |
| _____ | _____ |

D. Audit Management and Methodology

D (1) Audit Plans

- (a) Are strategic and annual audit plans adopted?

Strategic Plans

YES	NO
-----	----

Annual Plans

YES	NO
-----	----

- (b) What is the term of your strategic plan?

Years			
4	3	2	1

- (c) Please tick the frequency with which these plans are reviewed and updated

Strategic Plans

<input type="checkbox"/>	Yearly
<input type="checkbox"/>	Six-monthly
<input type="checkbox"/>	Quarterly

Annual Plans

<input type="checkbox"/>	Six-monthly
<input type="checkbox"/>	Quarterly
<input type="checkbox"/>	Monthly

D (2) Audit Plans and Performance

- (a) Was there a reasonable correlation in 1980 between audit plans and actual performance?

YES	NO
-----	----

- (b) If not, please outline reasons

.....

D (3) Internal Audit Manual

Has a manual been issued as a guide to staff?

YES	NO
-----	----

D (4) Audit Reports

Please indicate by a series of ticks in the table below the normal distribution of reports on specific internal audits:

Distribution	Full Report	Summary Report	Relative Frequency
Permanent Head/ Chief Executive Officer			Always
			Sometimes
			Rarely
Deputy Secretary			Always
			Sometimes
			Rarely
(First) Assistant Secretary (Management Services)			Always
			Sometimes
			Rarely
Heads of Regional or State Offices			Always
			Sometimes
			Rarely
Line Managers			Always
			Sometimes
			Rarely

Please indicate any other standard arrangements not covered by the above reply:

.....

E. Indicators of Performance

E (1) Miscellaneous Indicators of Progress

Please indicate by a tick your assessment of any developments between December 1979 and December 1980 in the following aspects of internal audit operations:

	Worse	Same	Better	Much Better
(a) General relationship with line management				
(b) Readiness of line management to seek internal audit services				
(c) Acceptance by line management of internal audit recommendations				
(d) Quality of Internal Audit Reports				
(e) Usefulness and relevance of internal audit report recommendations				
(f) Relationship with the Auditor-General's Office				
(g) Quality of staff applying for internal audit positions in the organisation				
(h) Preparedness of audit staff to experiment with new audit techniques				

E (2) Quality Assurance Program

Has a quality assurance program been established?

YES

NO

E (3) Other Matters

Please indicate below if there are any other problems or comments relating to the efficiency of internal audit arrangements which you would like to bring to our notice:

.....
.....
.....
.....
.....
.....
.....
.....

BIBLIOGRAPHY

- AUDITOR-GENERAL'S OFFICE Report of the Auditor-General 1979-80 - 2.25.14 Internal Audit. Australian Government Publishing Service, Canberra, 1980
- AUDITOR-GENERAL OF CANADA 1978 Report of the Auditor-General. Supply and Services Canada, Ottawa, Canada, 1978
- AUDITOR-GENERAL OF CANADA Conspectus of the 100th Annual Report of the Auditor-General of Canada to the House of Commons. Supply and Services Canada, Ottawa, Canada, 1978
- CONNOLLY, DAVID M. "Internal Audit - The Poor Relation of the Public Service", Australian Journal of Public Administration, Vol. 39, No. 1, March 1980, pp. 30-36
- COOPERS AND LYBRAND SERVICES Efficiency Review of Internal Audit. Internal working document, Public Service Board, Canberra, September 1977
- CRAIK, D.R. STEELE The Responsibilities of the Internal Audit Manager and His Staff. Seminar paper, Australian Society of Accountants - ACT Division, Canberra, April 1979
- GILCHRIST, R.R. Productivity and the Internal Auditor. Conference paper, IIA 5th South Pacific Regional Conference, Melbourne, March 1979
- GOODWIN, JOHN Audit Committees - Boon or Barrier. Conference paper, IIA 5th South Pacific Regional Conference, Melbourne, March 1979
- HAMILTON, B.R. The Effect of the Recent Review on Standards and Approach. Seminar paper, Australian Society of Accountants - ACT Division, Canberra, April 1979
- HODGES, R.H. Evaluation and Assessment of Internal Audit. Conference paper, IIA 5th South Pacific Regional Conference, Melbourne, March 1979
- HULME, K.G. Systems Auditability and Control. Conference paper, IIA 5th South Pacific Regional Conference, Melbourne, March 1979
- HURLEY, R.E. What Top Management Expects of Internal Audit. Seminar paper, Institute of Internal Auditors, Melbourne 1980

INTERDEPARTMENTAL ADVISORY COMMITTEE ON INTERNAL AUDIT.
Audit Committees. A discussion paper, Public Service Board, Canberra, March 1980

INTERDEPARTMENTAL ADVISORY COMMITTEE ON INTERNAL AUDIT.
Viability of Small Internal Audit Units. A discussion paper, Public Service Board, Canberra, November 1979

INSTITUTE OF CHARTERED ACCOUNTANTS OF AUSTRALIA AND THE AUSTRALIAN SOCIETY OF ACCOUNTANTS. Statement of Auditing Practice - CP2 : Internal Audit as it Affects the External Auditor. Australian Accountant V.47 Jan/Feb 1977 : Supplement

INSTITUTE OF INTERNAL AUDITORS INC. Standards for the Professional Practice of Internal Auditing. IIA, Altamonte Springs, Florida, 1978

JOINT COMMITTEE OF PUBLIC ACCOUNTS. 139th Report - Internal Audit. Commonwealth Government Printing Office, Canberra, 1973

MOORE, R.F. The Systems Based Approach. Seminar paper, Australian Society of Accountants - ACT Division, Canberra, April 1979

MURPHY, T.C. The Potential of Internal Auditors in Government. Seminar paper, Australian Society of Accountants - ACT Division, Canberra, April 1979

PUBLIC SERVICE BOARD. Public Service Board Annual Report 1980 - Internal Audit. Australian Government Publishing Service, Canberra, 1980

SPENCER, H.L. ADP Auditing Requirements. Seminar paper, Australian Society of Accountants - ACT Division, Canberra, April 1979

STANFORD RESEARCH INSTITUTE. Systems Auditability and Control Study. Institute of Internal Auditors Inc. Altamonte Springs, Florida, 1977

STRIDE, R.W. EDP Audit in the Future. Conference paper, IIA 5th South Pacific Regional Conference, Melbourne, March 1979

VICKERY, L.J. Development of the EDP Audit Function. Conference paper, IIA 5th South Pacific Regional Conference, Melbourne, March 1979

WINDMILL, A.D. Our Standards, Another Milestone. Conference paper, IIA 5th South Pacific Conference, Melbourne, March 1979

WINDMILL, A.D. What Internal Audit Expects of Top Management. Seminar paper, Institute of Internal Auditors, Melbourne 1980